

FILE COPY

JOINT COMMITTEE ON
GOVERNMENT AND FINANCE

Materials Distributed

February 10, 2009

January 13, 2009

3:00 - 4:00 p.m.

Joint Committee on Government and Finance

Senate

Tomblin, Chair
Chafin
Helmick
Kessler
Sharpe (absent)
Caruth
Deem

House

Thompson, Chair
Caputo
DeLong
Webster
White
Armstead
Border

President Tomblin, Cochair, presided.

1. Approval of Minutes

Upon motion by Speaker Thompson, properly adopted, the minutes of the December 9, 2008, meeting were approved.

2. Committee Reports/Requests

Legislative Oversight Commission on Health and Human Resources Accountability - Nancy Tyler

Upon motion by Speaker Thompson, properly adopted, the hotel expense reimbursement request for James N. Boudier, MPA, is approved.

Equal Pay Commission - Delegate Mahan

Upon motion by Speaker Thompson, properly adopted, the expense reimbursement request for Dr. Alkaldry in the amount up to \$500, is approved.

3. Select Committee D

Dr. Kenneth Thorpe made a presentation to the Committee on making health insurance less expensive in the state, improving the quality of health care delivered in the state and improving access to health care services for the uninsured.

4. Lottery Commission, General Revenue Fund and Unemployment Compensation Trust Fund

Distributed to members of the Committee were the following: Lottery Commission reports for the month ended November 30, 2008; General Revenue Fund report for the month ended December 31, 2008; and the Unemployment Compensation Trust Fund report as of October 31, 2008. Distributed with each of the reports were an analysis and a summary of the reports.

4. PEIA, BRIM and CHIP Reports

The following monthly PEIA reports were distributed: Monthly Management Report and Prescription Drug Report for December 2008. Robert Ferguson, Jr., Cabinet Secretary, Department of Administration, reported that prescription claims are up 8.4% compared to last year. Ted Cheatham, Director of PEIA, said the generic fill rate was about 71%, which is exceptional and is only 18% of pharmacy claim dollars. Specialty drugs are 10% of the drug spend and it will be growing closer to 16% in the next year or two.

The following BRIM reports were distributed: An unaudited balance sheet and unaudited income statement for the period ending November 30, 2008. Secretary Ferguson said there was an \$11 million paper loss on investments and there are no unfunded liabilities.

The following reports from CHIP were distributed: A report of enrollment for December 2008 and financial statements for period ending November 30, 2008. Secretary Ferguson said enrollment is down compared to this time last year and there are no significant financial changes.

5. **Leasing Report, Department of Administration**

Secretary Ferguson said there were five new contracts from November 14 through the end of December and 24 straight renewals.

6. **Department of Health and Human Resources (DHHR) Monthly Reports**

A Medicaid report dated January 2009 was distributed. Martha Walker, Cabinet Secretary, DHHR, said the MRDD waiver has hit the wall on their ability to continue to serve more people in this waiver. Secretary Walker said they are at a point now where the courts are going to have to give a little bit because they can not continue to keep up with the demand.

7. **Pharmaceutical Cost Management Council**

A Pharmaceutical Cost Management Council report was distributed. Shana Phares, Governor's Pharmaceutical Advocate and Chair of the Pharmaceutical Cost Management Council, said the statute limits the release of information concerning payments to providers to aggregate information. In order to release specific information the underlying statute would need to be changed.

8. **Investment Management Board**

A Investment Management Board report dated November 30, 2008, was distributed. Craig Slaughter, Executive Director, said we are seeing a little bit of a thawing in the credit markets which is very good for our portfolio.

9. **Workers' Compensation**

A Workers' Compensation report dated January 13, 2009, was distributed. Bill Kenny, Deputy Insurance Commissioner, said the financial information for Workers' Comp is positive from a standpoint that more revenues are being received than are being expended.

10. **Board of Treasury Investments Report Distribution**

A Board of Treasury Investments Report dated November 2008 was distributed.

11. **Other Business**

Upon motion of Speaker Thompson, properly adopted, Delegates and Senators who are not returning but will attend the February interim meetings to complete their work will be paid their expenses only and not compensation.

12. Scheduled Interim Dates

February 8 - 10, 2009

The meeting was adjourned.

WEST VIRGINIA LEGISLATURE
Office of the Legislative Auditor

*Budget Division
Building 1, Room 314-West Wing
1900 Kanawha Blvd. East
Charleston, WV 25305-0590*



304-347-4870

February 5, 2009

Executive Summary of Lottery, Unemployment, General Revenue and State Road Fund Reports to Joint Committee

Lottery Commission as of December 31, 2008 :

Appears to be in good condition. Gross profit for July - December 2008 (FY 2009) was - 0.21% lower than for July - December 2007 (FY 2008).

General Revenue Fund as of January 31, 2009:

Collections were at 101.28 % of the yearly estimate as of January 31, 2009.

State Road Fund as of January 31, 2009:

Fund collections were at 98.98 % of the yearly estimate.

Unemployment Compensation Trust as of December 31, 2008:

Regular benefits paid in July - December 2008 were \$ 9.8 million more than in July - December 2007. Total revenues for July- December 2008 were \$ 24.9 million more than in July - December 2007. Trust fund ending balance on December 31, 2008 was \$ 231,768,020.62.

Joint Committee on Government and Finance

WEST VIRGINIA LEGISLATURE
Office of the Legislative Auditor

*Budget Division
Building 1, Room 314-West Wing
1900 Kanawha Blvd. East
Charleston, WV 25305-0590*



. 304-347-4870

MEMORANDUM

To: Honorable Senate President Tomblin
Honorable House of Delegates Speaker Thompson
Honorable Members of the Joint Committee on Government and
Finance

From: Ellen Clark, CPA *EC*
Director Budget Division
Legislative Auditor's Office

Date: February 5, 2009

Re: Review of West Virginia Lottery Financial Information
As of December 31, 2008 (FY 2009)

We performed an analysis of the Statement of Revenues, Expenses and Retained Earnings for the months of July - December 2008 (FY 2009) from monthly unaudited financial reports furnished to our office by the West Virginia Lottery Commission. The results are as follows:

Lottery Revenues:

Gross lottery revenues are receipts from on-line games, instant games, table games and video lottery. These gross receipts totaled \$ 732,740,000.00 for July - December 2008. Table games accounted for \$16,530,000.00 of this total. These gross receipts were \$ 748,557,000.00 for the same months of the preceding fiscal year, 2007-2008. Gross lottery revenue is down by 2.11% from the preceding fiscal year. This number does not include commission and prize deductions. Gross profit (Gross revenues minus commissions and prize costs) for July - December 2008 was

Lottery

Joint Committee on Government and Finance

Lottery continued

\$317,472,000.00; for the previous July - December 2007 it was \$318,147,000.00. Expressed as a percentage, gross profit is - 0.21% lower for fiscal year 2009 than for fiscal year 2008.

Operating Income:

Operating income was \$ 306,108,000.00 for July - December 2008. For July 2007 - December 2007 it was \$ 307,637,000.00. This was a decrease of 0.50%. After additions and subtractions of non-operating income and expenses, distributions to the state were \$300,754,000.00 for July - December 2008.

Operating Transfers to the State of West Virginia:

A total of \$300,754,000.00 has been accrued to the state of West Virginia for fiscal year 2008-2009. This is on an accrual basis and may not correspond to the actual cash transfers made during the same time period. (Amounts owed to the different accounts according to the Lottery Act are calculated monthly and accrued to the state; actual cash transfers are often made based upon actual cash flow needs of the day-to-day operation of the lottery.)

A schedule of cash transfers follows:

Bureau of Senior Services	\$ 55,119,000.00
Department of Education	\$ 32,980,000.00
Library Commission	\$ 10,827,000.00
Higher Education-Central Office	\$ 10,355,000.00
Tourism	\$ 7,460,000.00
Department of Natural Resources	\$ 3,273,000.00
Division of Culture and History	\$ 5,511,000.00

Lottery

Lottery continued

Department of Education and Arts	\$ 1,137,000.00
State Building Commission	\$ 6,000,000.00
School Building Authority	\$ 10,800,000.00
<u>SUBTOTAL BUDGETARY TRANSFERS</u>	\$143,462,000.00

Excess Lottery Fund

General Purpose Fund	56,819,000.00
Economic Development Fund	11,400,000.00
Excess Lottery Surplus	0
Education Improvement Fund	27,000,000.00
WV Infrastructure Council Fund	0
Higher Education Improvement Fund	6,000,000.00
State Park Improvement Fund	0
Refundable Credit	374,000.00
School Building Authority	4,253,000.00
TOTAL EXCESS LOTTERY FUND	\$105,846,000.00

Veterans Instant Ticket Fund 405,000.00

Table Games State Debt Reduction Fund 8,249,000.00

RACETRACK VIDEO LOTTERY TRANSFERS:	
Tourism Promotion Fund 1.375%	\$5,329,000.00

Lottery

Lottery continued

Development Office Promo Fund	\$1,454,000.00
Research Challenge Fund .5%	\$1,938,000.00
Capitol Renovation and Improvement Fund .6875%	\$2,665,000.00
Parking Garage Fund .0625%	\$242,000.00
Parking Garage Fund 1%	\$500,000.00
Cultural Facilities and Cap. Resources Fund .5%	\$1,500,000.00
Capitol Dome & Cap. Improvements Fund .5%	\$1,876,000.00
Workers Compensation Debt Reduction Fund 7%	\$11,000,000.00
SUBTOTAL VIDEO LOTTERY TRANSFERS:	\$26,504,000.00
TOTAL TRANSFERS	*\$284,466,000.00

* CASH BASIS

Total Accrued last FY 2008:	166,967,000.00
Total Cash Distributions July-June :	284,466,000.00
Applied to FY 2008:	166,967,000.00
Total Applied to FY 2009	117,499,000.00
Accrued for FY 2009 as of December 31	183,255,000.00

Lottery



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Joe Manchin III
Governor

John C. Musgrave
Director

MEMORANDUM

TO: Joint Committee on Government and Finance
 FROM: John C. Musgrave, Director *John C. Musgrave*
by John Meyer
 RE: Monthly Report on Lottery Operations
 Month Ending December 31, 2008
 DATE: January 16, 2009

This report of the Lottery operations is provided pursuant to the State Lottery Act.

Financial statements of the Lottery for the month ending December 31, 2008 are attached. Lottery revenue, which includes on-line, instant, video lottery sales and table games, was \$113,553,404 for the month of December.

Transfers of lottery revenue totaling \$45,101,311 made for the month of December to the designated state agencies per Senate Bill 150, Veterans Instant Ticket Fund, Racetrack Video Lottery Act (§29-22A-10), and the Racetrack Table Games Act (§29-22C-27). The amount transferred to each agency is shown in Note 9 on pages 15 and 16 of the attached financial statements.

The number of traditional and limited retailers active as of December 31, 2008 was 1,603 and 1,640 respectively.

A listing of the names and amounts of prize winners has been provided to the Clerk of the Senate, the Clerk of the House and Legislative Services.

If any member of the Committee has questions concerning the Lottery, please call me. Also if any members of the Legislature wish to visit the Lottery offices, I would be pleased to show them our facilities and discuss the Lottery with them.

JCM/rd
Attachment

pc: Honorable Joe Manchin III
 Virgil T. Helton, Cabinet Secretary – Dept. of Revenue
 John Perdue, Treasurer
 Glen B. Gainer III, Auditor
 Members of the West Virginia Lottery Commission



WEST VIRGINIA LOTTERY

STATE OF WEST VIRGINIA

**FINANCIAL STATEMENTS
-UNAUDITED-**

December 31, 2008

WEST VIRGINIA LOTTERY

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**WEST VIRGINIA LOTTERY
BALANCE SHEETS
(In Thousands)
-Unaudited-**

ASSETS	December 31, 2008	June 30, 2008
Current Assets:		
Cash and cash equivalents	\$ 192,220	\$ 180,463
Accounts receivable	28,906	36,846
Inventory	352	300
Current portion of investments held in trust	-	10
Other assets	<u>2,697</u>	<u>2,593</u>
Total Current Assets	<u>224,175</u>	<u>220,214</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	58,942	58,487
Investments held in trust, less current portion	-	126
Capital assets	17,458	17,598
Less accumulated depreciation and amortization	<u>(13,339)</u>	<u>(12,347)</u>
Net Capital Assets	<u>4,219</u>	<u>5,251</u>
Total Noncurrent Assets	<u>63,161</u>	<u>63,864</u>
Total Assets	<u>\$ 287,336</u>	<u>\$ 284,078</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accrued nonoperating distributions to the State of West Virginia	\$ 183,255	\$ 166,967
Estimated prize claims	11,997	12,967
Accounts payable	829	2,693
Other accrued liabilities	26,315	36,837
Current portion of deferred jackpot prize obligations	-	129
Total Current Liabilities	<u>222,396</u>	<u>219,593</u>
Deferred jackpot prize obligations, less current portion	-	-
Total Liabilities	<u>222,396</u>	<u>219,593</u>
Net Assets:		
Invested in capital assets	4,219	5,251
Unrestricted assets (deficit)	(3,719)	(4,751)
Unrestricted assets- Committed (see note 11)	5,498	5,498
Restricted assets (see note 10)	<u>58,942</u>	<u>58,487</u>
Total Net Assets	<u>64,940</u>	<u>64,485</u>
Total Liabilities and Net Assets	<u>\$ 287,336</u>	<u>\$ 284,078</u>

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA LOTTERY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE SIX MONTH PERIOD ENDED DECEMBER 31, 2008

(In Thousands)

-Unaudited-

	CURRENT MONTH		YEAR TO DATE	
	2008	2007	2008	2007
Lottery revenues				
On-line games	\$ 6,500	\$ 5,875	\$ 40,448	\$ 43,009
Instant games	11,124	8,570	58,039	53,502
Racetrack video lottery	59,534	69,228	416,743	451,006
Limited video lottery	33,533	33,968	200,980	199,267
Table games	2,860	1,101	16,530	1,773
	<u>113,553</u>	<u>118,742</u>	<u>732,740</u>	<u>748,557</u>
Less commissions				
On-line games	455	411	2,831	3,011
Instant games	778	600	4,063	3,745
Racetrack video lottery	32,626	38,074	240,453	259,514
Limited video lottery	16,432	17,976	98,480	101,600
Table games	1,123	433	6,503	697
	<u>51,416</u>	<u>57,494</u>	<u>352,330</u>	<u>368,568</u>
Less on-line prizes	3,409	2,825	20,400	21,458
Less instant prizes	7,706	5,887	38,881	36,938
Less ticket costs	156	125	781	788
Less vendor fees and costs	516	322	2,876	2,658
	<u>11,787</u>	<u>9,159</u>	<u>62,938</u>	<u>61,842</u>
Gross profit	<u>50,350</u>	<u>52,089</u>	<u>317,472</u>	<u>318,147</u>
Administrative expenses				
Advertising and promotions	740	980	3,271	5,373
Wages and related benefits	719	594	4,409	3,247
Telecommunications	43	67	899	1,093
Contractual and professional	305	321	2,839	1,799
Rental	61	55	369	325
Depreciation and amortization	166	37	992	247
Other administrative expenses	55	119	525	819
	<u>2,089</u>	<u>2,173</u>	<u>13,304</u>	<u>12,903</u>
Other Operating Income	<u>71</u>	<u>113</u>	<u>1,940</u>	<u>2,393</u>
Operating Income	<u>48,332</u>	<u>50,029</u>	<u>306,108</u>	<u>307,637</u>
Nonoperating income (expense)				
Investment income	221	908	2,248	5,835
Nonoperating income - OPEB	-	-	-	-
Interest expense	-	(1)	(1)	(7)
Distributions to municipalities and counties	(637)	(666)	(3,939)	(3,906)
Distributions to racetracks-capital reinvestment	(1,297)	(1,473)	(3,207)	(3,880)
Distributions to the State of West Virginia	(46,542)	(48,666)	(300,754)	(304,981)
	<u>(48,215)</u>	<u>(49,898)</u>	<u>(303,653)</u>	<u>(306,939)</u>
Net income	<u>57</u>	<u>131</u>	<u>453</u>	<u>698</u>
Net assets, beginning of period	<u>64,883</u>	<u>44,056</u>	<u>64,485</u>	<u>43,489</u>
Net assets, end of period	<u>\$ 64,940</u>	<u>\$ 44,187</u>	<u>\$ 64,940</u>	<u>\$ 44,187</u>

The accompanying notes are an integral part of these financial statements.

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WEST VIRGINIA LOTTERY
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTH PERIOD ENDED DECEMBER 31, 2008

(In Thousands)
 -Unaudited-

	2008	2007
Cash flows from operating activities:		
Cash received from customers and other sources	\$ 742,619	\$ 743,931
Cash payments for:		
Personnel costs	(4,409)	(3,247)
Suppliers	(12,182)	(9,810)
Other operating costs	(412,179)	(425,197)
Cash provided by operating activities	<u>313,849</u>	<u>305,677</u>
Cash flows from noncapital financing activities:		
Nonoperating distributions to the State of West Virginia	(284,466)	(287,721)
Distributions to municipalities and counties	(3,939)	(3,879)
Distributions to racetrack from racetrack cap. reinv. fund	(15,370)	(4,070)
Deferred jackpot prize obligations and related interest paid	(1)	(8)
Cash used in noncapital financing activities	<u>(303,776)</u>	<u>(295,678)</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	<u>(245)</u>	-
Cash flows from investing activities:		
Maturities of investments held in trust	137	182
Investment earnings received	<u>2,248</u>	<u>5,829</u>
Cash provided by investing activities	<u>2,385</u>	<u>6,011</u>
Increase (decrease) in cash and cash equivalents	12,213	16,010
Cash and cash equivalents - beginning of period	<u>238,949</u>	<u>234,489</u>
Cash and cash equivalents - end of period	<u>\$ 251,162</u>	<u>\$ 250,499</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 306,108	\$ 307,637
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	992	247
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	7,939	(7,019)
(Increase) decrease in inventory	(52)	(113)
(Increase) decrease in other assets	(101)	(428)
Increase (decrease) in estimated prize claims	(970)	(1,379)
Increase (decrease) in accounts payable	(1,864)	(33)
Increase (decrease) in other accrued liabilities	1,797	6,765
Cash provided by operating activities	<u>\$ 313,849</u>	<u>\$ 305,677</u>

The accompanying notes are an integral part of these financial statements.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 1 - LEGISLATIVE ENACTMENT

The West Virginia Lottery (Lottery) was established by the State Lottery Act (Act) passed April 13, 1985, which created a special fund in the State Treasury designated as the "State Lottery Fund." The purpose of the Act was to establish and implement a state-operated lottery under the supervision of a state lottery commission (Commission) and a director. The Commission, consisting of seven members and the Director are appointed by the Governor. Under the Act, the Commission has certain powers and the duty to establish rules for conducting games, to select the type and number of gaming systems or games and to enter into contracts and agreements, and to do all acts necessary or incidental to the performance of its duties and exercise of its power and duty to operate the Lottery in a highly efficient manner. The Act provides that a minimum annual average of 45% of the gross amount received from each lottery shall be allocated for prizes and also provides for certain limitations on expenses necessary for operation and administration of the Lottery. To the extent available, remaining net profits are to be distributed to the State of West Virginia. As the State is able to impose its will over the Lottery, the Lottery is considered a component unit of the State and its financial statements are presented in the comprehensive annual financial report of the State as a blended proprietary fund component unit.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of the Lottery is presented below.

BASIS OF PRESENTATION – The West Virginia Lottery is a component unit of the State of West Virginia, and is accounted for as a proprietary fund special purpose government engaged in business type activities. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," and with accounting principles generally accepted in the United States of America, the financial statements are prepared on the accrual basis of accounting which requires recognition of revenue when earned and expenses when incurred. As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*," the Lottery has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after December 31, 1989 unless the GASB specifically adopts such FASB statements or interpretations.

The Lottery is included in the State's basic financial statements as a proprietary fund and business type activity using the accrual basic of accounting. Because of the Lottery's presentation in these financial statements as a special purpose government engaged in business type activities, there may be differences in presentation of amounts reported in these financial statements and the basic financial statements of the State as a result of major fund determination.

USE OF ESTIMATES – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and develop assumptions that affect the amounts reported in the financial statements and related notes to financial statements. Actual results could differ from management's estimates.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LOTTERY GAME OPERATIONS – The West Virginia Lottery derives its revenues from four basic types of lottery games: instant, on-line, video type games, and table games. The Lottery develops multiple game themes and prize structures to comply with its enabling legislation, including aggregate annual minimum prize provisions. All bonded retailers and agents comprised principally of grocery and convenience stores serve as the primary distribution channel for instant and on-line lottery sales to the general public.

The Lottery has contracted with a private vendor to manufacture, distribute, and provide data processing support for instant and on-line games. Under the terms of the agreements, the Lottery pays a percentage of gross revenues or gross profits for the processing and manufacture of the games.

Revenue from instant games is recognized when game tickets are sold to the retailers, and the related prize expense is recorded based on the specific game prize structure. Instant ticket sales and related prizes do not include the value of free plays issued for the purpose of increasing the odds of winning a prize.

Sales of on-line lottery tickets are made by licensed agents to the public with the use of computerized terminals. On-line games include POWERBALL®, a multi-state "jackpot" game; HOT LOTTO®, a multi-state "lotto" game; Cash25 "lotto" game; Daily 3 and 4 "numbers" games; and Travel, a daily "keno" game. Revenue is recognized when the agent sells the tickets to the public. Prize expense is recognized on the basis of actual drawing results.

Commissions are paid to instant game retailers and on-line agents at the rate of seven percent of gross sales. A portion of the commission not to exceed one and one quarter percent of gross sales may be paid from unclaimed prize moneys. The amount paid from unclaimed prize moneys is credited against prize costs. In addition, retailers and agents are paid limited bonus incentives that include prize shares on winning tickets they sold and a ticket cashing bonus on winning tickets they cash. On a weekly basis, retailers and agents must remit amounts due to the Lottery. Retailers may not be able to order additional instant tickets if payment has not been made for the previous billing period, while an agent's on-line terminal may be rendered inactive if payment is not received each week. No one retailer or agent accounts for a significant amount of the Lottery's sales or accounts receivable. Historically credit losses have been nominal and no allowance for doubtful accounts receivable is considered necessary.

Racetrack video lottery is a self-activated video version of lottery games. The board-operated games allow a player to place bets for the chance to be awarded credits which can either be redeemed for cash or be replayed as additional bets. The coin operated games allow a player to use coins, currency, or tokens to place bets for the chance to receive coin or token awards which may be redeemed for cash or used for replay in the coin operated games. The racetrack video lottery games' prize structures are designed to award prizes, or credits, at a stipulated rate of total bets played, and prize expense is netted against total video credits played. The Lottery recognizes as racetrack video lottery revenue "gross terminal income" equivalent to all wagers, net of related prizes. Amounts required by statute to be paid to the private and local government entities are reported as commissions. Racetrack video lottery legislation has established specific requirements for racetrack video lottery and imposed certain restrictions limiting the licensing for operation of racetrack video lottery games to horse and dog

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

racetracks in West Virginia, subject to local county elections permitting the same. The legislation further stipulates the distribution of revenues from racetrack video lottery games, and requires any licensed racetrack to be responsible for acquiring the necessary equipment and bearing the risk associated with the costs of operating and marketing the games.

Limited video lottery is also a self-activated video version of lottery games, which were first placed in operation in December 2001, located in limited licensed retailer areas restricted for adult amusement. The games allow a player to use currency to place bets for the chance to receive free games or vouchers which may be redeemed for cash. The limited video lottery games' prize structures are designed to award prizes, at a stipulated rate of total bets played, and prize expense is netted against total video credits played. The Lottery recognizes as limited video lottery revenue "gross terminal income" equivalent to all wagers, net of related prizes. Amounts required by statute to be paid to private entities are reported as commissions. Limited video lottery permit holders are statutorily responsible for acquiring equipment and bearing the risk associated with the costs of operating the games.

Table games are lotteries as each game involves consideration, the possibility of a prize, and their outcome is determined predominantly by chance, which the common law of West Virginia has long held are the three essential elements of a lottery. Table games are the exclusive intangible intellectual property of the state of West Virginia. Table games legislation has established specific requirements for table games and imposed certain restrictions limiting the licensing for operation of table games to horse and dog racetracks in West Virginia, subject to local county elections permitting the same. Each racetrack licensed as an agent of the Lottery Commission to operate West Virginia table games shall have written rules of play for each table game it operates which must be approved by the Commission. All wagers and pay-offs of winning wagers shall be made according to those rules of play. For the privilege of holding a table games license, there is levied a privilege tax of thirty-five percent of each licensee's adjusted gross receipts for the operation of West Virginia Lottery table games. Amounts required by statute to be paid to private and local government entities are reported as commissions. The legislation further stipulates the distribution of revenues from West Virginia table games, and requires any licensed racetrack to be responsible for acquiring the necessary equipment and bearing the risk associated with the costs of operating and marketing the games.

CASH AND CASH EQUIVALENTS - Cash and cash equivalents primarily consist of interest-earning deposits with the West Virginia Board of Treasury Investments (BTI) and are recorded at fair value.

INVENTORY - Inventory consists of instant game tickets available for sale to approved Lottery retailers and are carried at cost.

OTHER ASSETS - Other assets consist primarily of deposits restricted for payment of certain Multi-State Lottery Association activities.

CAPITAL ASSETS - The Lottery leases, under a cancelable operating lease, its office and warehouse facilities. The Lottery also leases various office equipment under agreements considered to be

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

cancelable operating leases. Rental expense for the six months ended December 31, 2008 and December 31, 2007 approximated \$369,330 and \$324,672 respectively.

The Lottery has adopted a policy of capitalizing assets with individual amounts exceeding \$25,000. These assets include leasehold improvements, contributed and purchased equipment, comprised principally of technology property, office furnishings and equipment necessary to administer lottery games, are carried at cost. Depreciation is computed by the straight-line method using three to ten year lives.

COMPENSATED ABSENCES – The Lottery has accrued \$371,165 and \$298,548 of vacation and \$0 and \$467,954 of sick leave at June 30, 2008 and 2007, respectively, for estimated obligations that may arise in connection with compensated absences for vacation and sick leave at the current rate of employee pay. Employees fully vest in all earned but unused vacation. In accordance with State personnel policies, employees hired prior to July 1, 2001, vest in unused sick leave only upon retirement, at which time such unused leave can be converted into employer paid premiums for post-retirement health care coverage or additional periods of credited service for purposes of determining retirement benefits. For employees hired prior to July 1, 1988, the Lottery pays 100% of the post-retirement health care premium. The Lottery pays 50% of the premium for employees hired after June 30, 1988 through July 1, 2001. The estimated obligation for sick leave is based on historical retirement rates and current health care premiums applicable to employee hire dates. Employees hired after June 30, 2001 do not vest in unused sick leave upon retirement. As of June 30, 2008 sick leave obligations are included in the OPEB(Other Postemployment Benefits) liability in Note 15.

NET ASSETS – Net assets are presented as restricted, unrestricted and invested in capital assets which represents the net book value of all property and equipment of the Lottery.

OPERATING REVENUES AND EXPENSES – Operating revenues and expenses for proprietary funds such as the Lottery are revenues and expenses that result from providing services and producing and delivering goods and/or services. Operating revenues for the Lottery are derived from providing various types of lottery games. Operating expenses include commissions, prize costs, other direct costs of providing lottery games, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 3 - CASH AND CASH EQUIVALENTS

At December 31, 2008 the carrying amounts of deposits (overdraft) with financial institutions were (\$6) thousand with a bank balance (overdraft) of \$38 thousand. Of this balance \$100 thousand was covered by federal depository insurance with the remaining balance collateralized with securities held by the State of West Virginia's agent in the State's name.

A summary of the amount on deposit with the West Virginia Board of Treasury Investments (BTI) is as follows (in thousands):

WEST VIRGINIA LOTTERY
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NOTE 3 - CASH AND CASH EQUIVALENTS (continued)

	<u>December 31, 2008</u>	<u>June 30, 2008</u>
Amount on deposit with the BTI	<u>\$251,168</u>	<u>\$239,002</u>

The deposits with the BTI are part of the State of West Virginia's consolidated investment cash liquidity pool and are not separately identifiable as to specific types of securities. Investment income is pro-rated to the Lottery at rates specified by the BTI based on the balance of the deposits maintained in relation to the total deposits of all state agencies participating in the pool. Such funds are available to the Lottery with overnight notice.

NOTE 4 - CAPITAL ASSETS

A summary of capital asset activity for the period ended December 31, 2008 is as follows (in thousands):

Capital Assets:

	<u>Historical Cost At June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Historical Cost At December 31, 2008</u>
Construction in Progress	\$ 285	\$ -	\$ (285)	\$ -
Improvements	1,120	-	-	1,120
Equipment	16,193	245	-	16,438
	<u>\$ 17,598</u>	<u>\$ 245</u>	<u>\$ (285)</u>	<u>\$ 17,558</u>

**Accumulated
Depreciation:**

	<u>Historical Cost At June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Historical Cost At December 31, 2008</u>
Improvements	\$ 1,002	\$ 38	\$ -	\$ 1,040
Equipment	11,345	954	-	12,299
	<u>\$ 12,347</u>	<u>\$ 992</u>	<u>\$ -</u>	<u>\$ 13,339</u>

NOTE 5 - PARTICIPATION IN THE MULTI-STATE LOTTERY

The Lottery is a member of the Multi-State Lottery (MUSL), which operates the semi-weekly POWERBALL® jackpot lotto game and HOT LOTTO® game, on behalf of participating state lotteries. Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the total prize pool less the amount of prizes won in each state. Lesser prizes are paid directly to the winners by each member lottery. The prize pool for POWERBALL®, and HOT LOTTO® is 50% of each drawing period's sales, with minimum jackpot levels. Revenues derived from the Lottery's participation in the MUSL POWERBALL® jackpot game for the month and year-to-date periods ended December 31, 2008 were \$3,694,658 and \$23,951,254

WEST VIRGINIA LOTTERY
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NOTE 5 - PARTICIPATION IN THE MULTI-STATE LOTTERY (continued)

while related prize costs for the same periods were \$1,883,626 and \$12,073,440. Revenues derived from the Lottery's participation in the HOT LOTTO® game for the month and year-to-date periods ended December 31, 2008 were \$350,780 and \$2,373,604 while related prize costs for the same periods were \$177,949 and \$1,191,430.

MUSL places 2% of each POWERBALL® drawing period's sales in separate prize reserve funds that serve as a contingency reserve to protect the respective MUSL Product Groups from unforeseen prize liabilities. Currently, the MUSL Board of Directors has placed a \$75,000,000 limit on the POWERBALL® Prize Reserve Fund and a \$25,000,000 limit on the Set Prize Reserve Fund. These funds can only be used at the discretion of the respective MUSL Product Group. Once the prize reserve funds exceed the designated limit, the excess becomes part of that particular prize pool. Prize reserve fund monies are refundable to MUSL Product Group members if the MUSL disbands or, after one year, if a member leaves the MUSL. At December 31, 2008 the POWERBALL® prize reserve fund had a balance of \$98,651,992 of which the Lottery's share was \$2,346,850. The Lottery has charged amounts placed into the prize reserve funds to prize costs as the related sales have occurred.

NOTE 6 - RACETRACK VIDEO LOTTERY

The Racetrack Video Lottery legislation stipulates the distribution of racetrack video lottery revenues. This legislation has been amended since inception to restate revenue distribution based on revenue benchmarks. Initially, four percent (4%) of gross terminal revenue is allocated for lottery administrative costs. Sixty-six percent (66%) of net terminal revenue (gross less 4%) is allocated in lieu of commissions to: the racetracks (47%); other private entities associated with the racing industry (17%); and the local county and municipal governments (2%). The remaining revenues (34%) of net terminal revenue is allocated for distribution to State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in the Note 9 titled "Nonoperating Distributions to the State of West Virginia."

The first benchmark occurs when the current year net terminal revenue meets the fiscal year 1999 net terminal revenue. The counties and incorporated municipalities split 50/50 the two percent (2%) net terminal revenue.

The second benchmark occurs when the current year gross terminal revenue meets the fiscal year 2001 gross terminal revenue. The four percent (4%) is no longer allocated for lottery administrative costs; instead the State receives this for distribution as specified by legislation or the State budget.

The final benchmark occurs when the current year net terminal revenue meets the fiscal year 2001 net terminal revenue. At this point a 10% surcharge is applied to net terminal revenue, with 58% of the surcharge allocated for distribution to the State as specified by legislation or the State budget, and 42% of the surcharge allocated to separate capital reinvestment funds for each licensed racetrack. After deduction of the surcharge, 55% of net terminal revenue is allocated in lieu of commissions to: the racetracks (42%); other private entities associated with the racing industry (11%); and the local county and incorporated municipality governments (2%). The remaining net terminal revenue (45%) is

WEST VIRGINIA LOTTERY
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NOTE 6 - RACETRACK VIDEO LOTTERY (continued)

allocated for distribution to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in Note 9. Amounts from the capital reinvestment fund may be distributed to each racetrack if qualifying expenditures are made within the statutory timeframe; otherwise amounts accumulated in the fund revert to the state excess lottery revenue fund.

The WV Lottery, along with the Rhode Island and Delaware lotteries, participate in Multi-Jurisdictional Wide Area Progressive (MWAP) video games. This allows each of the lotteries to offer a higher progressive jackpot than they could generate alone. MUSL manages the progressive games and charges each participant a MWAP contribution fee of 4% of the amount wagered. A summary of racetrack video lottery revenues for the month ended December 31, 2008 and year-to-date follows (in thousands):

	<u>Current</u> <u>2008</u>	<u>Month</u> <u>2007</u>	<u>Year- to -Date</u> <u>2008</u>	<u>2007</u>
Total credits played	\$ 616,919	\$ 712,494	\$ 4,283,504	\$ 4,707,500
Credits (prizes) won	(357,084)	(642,975)	(3,864,472)	(4,254,636)
MWAP Contributions	(301)	(291)	(2,289)	(1,858)
Gross terminal income	59,534	69,228	416,743	451,006
Administrative costs	(1,095)	(1,307)	(13,322)	(14,024)
Net Terminal Income	58,439	67,921	403,421	436,982
Less distribution to agents	(32,626)	(38,074)	(240,453)	(259,514)
Racetrack video lottery revenues	<u>\$ 25,813</u>	<u>\$ 29,847</u>	<u>\$162,968</u>	<u>\$ 177,468</u>

A summary of video lottery revenues paid or accrued for certain state funds to conform with the legislation follows (in thousands):

	<u>December 31, 2008</u>	<u>Year-to Date</u>
State Lottery Fund	\$ 7,882	\$97,120
State Excess Lottery Revenue Fund	14,472	35,945
Capital Reinvestment Fund	1,297	3,207
Tourism Promotion Fund 1.375%	743	5,396
Development Office Promotion Fund .375 %	203	1,471
Research Challenge Fund .5 %	270	1,963
Capitol Renovation & Improvement Fund .6875 %	372	2,697
Parking Garage Fund .0625 %	34	245
Parking Garage Fund 1 %	-	500
Cultural Facilities & Capitol Resources Fund .5 %	58	1,500
Capitol Dome & Capitol Improvements Fund .5 %	482	1,924
Worker's Compensation Debt Reduction Fund 7 %	-	11,000
Total nonoperating distributions	<u>\$25,813</u>	<u>\$ 162,968</u>

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 - LIMITED VIDEO LOTTERY

Limited video lottery legislation passed in 2001 has established specific requirements imposing certain restrictions limiting the licensing for the operation of limited video lottery games to 9,000 terminals placed in licensed retailers. These licensed retailers must hold a qualifying permit for the sale and consumption on premises of alcohol or non-intoxicating beer. The Lottery has been charged with the administration, monitoring and regulation of these machines. The legislation further stipulates the distribution of revenues from the limited video lottery games, and requires any licensees to comply with all related rules and regulations of the Lottery in order to continue its retailer status. The Limited Video Lottery legislation stipulates that 2% of gross terminal income be deposited into the state lottery fund for administrative costs. Then, the state share percentage of gross profit is to be transferred to the State Excess Lottery Revenue Fund. Such percentage is between 30 and 50 percent and is subject to change on a quarterly basis. Two percent is distributed to counties and incorporated municipalities in the manner prescribed by the statute. The remaining amount of gross profit is paid to retailers and/or operators as prescribed in the Act, and is recorded as limited video lottery commissions in the financial statements. Municipal and county distributions are accounted for as nonoperating expenses. A summary of limited video lottery revenues for the month ended December 31, 2008 and year-to-date follows (in thousands):

	<u>Current</u> <u>2008</u>	<u>Month</u> <u>2007</u>	<u>Year- to -Date</u> <u>2008</u>	<u>2007</u>
Total credits played	\$403,570	\$410,803	\$2,441,305	\$2,416,444
Credits (prizes) won	(370,035)	(376,837)	(2,240,325)	(2,217,177)
Gross terminal income	<u>333,535</u>	<u>333,968</u>	<u>200,980</u>	<u>\$199,267</u>
Administrative costs	(671)	(679)	(4,020)	(3,985)
Gross Profit	<u>32,864</u>	<u>33,289</u>	<u>\$196,960</u>	<u>\$195,282</u>
Commissions	(16,432)	(17,976)	(98,480)	(101,600)
Municipalities and Counties	(657)	(666)	(3,939)	(3,906)
Limited video lottery revenues	<u>\$15,775</u>	<u>\$14,647</u>	<u>\$94,541</u>	<u>\$89,776</u>

NOTE 8 - TABLE GAMES

Table Games legislation passed in 2007 per House Bill 2718. Table games include blackjack, roulette, craps, and various types of poker. Each racetrack licensee is subject to a privilege tax of thirty five percent (35%) of adjusted gross receipts which will be deposited weekly into the Racetrack Table Games Fund.

From the gross amounts deposited into the Racetrack Table Games Fund, the Commission, on a monthly basis shall:

Retain 3% of the adjusted gross receipts for administrative expenses of which at least \$100,000 and not more than \$500,000 annually will be transferred to the Compulsive Gambling Treatment Fund. Transfer two and one-half percent of adjusted gross receipts from all thoroughbred racetracks with West Virginia

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 – TABLE GAMES (continued)

Lottery table games to the special funds established by each thoroughbred racetrack table games licensee for the payment of regular racetrack purses to be divided equally among each licensee and transfer two and one-half percent of adjusted gross receipts from all greyhound racetracks with West Virginia Lottery table games to the special funds established by each greyhound racetrack table games licensee for the payment of regular racetrack purses to be divided equally among each licensee. Transfer two percent of the adjusted gross receipts from all licensed racetracks to the Thoroughbred Development Fund and the Greyhound Breeding Development Fund to be divided pro rata among the development funds. Transfer one percent of the adjusted gross receipts from each licensed racetrack to the county commissions of the counties where racetracks with West Virginia Lottery table games are located to be divided pro rata among the counties. Transfer two percent of the adjusted gross receipts from each licensed racetrack to the governing bodies of municipalities within counties where racetracks with West Virginia Lottery table games are located as prescribed by statute. And transfer one-half of one percent of the adjusted gross receipts to the governing bodies of municipalities in which a racetrack table games licensee is located to be divided equally among the municipalities. The Commission will distribute the remaining amounts, hereinafter referred to as the net amounts in the Racetrack Table Games Funds as follows:

- 1) Transfer four percent into a special fund to be established by the Racing Commission to be used for payment into the pension plan for all employees of each licensed racing association;
- 2) Transfer ten percent, to be divided and paid in equal shares, to each county commission in the state where table games are not located;
- 3) Transfer ten percent, to be divided and paid in equal shares, to the governing bodies of each municipality in the state where table games are not located; and
- 4) Transfer seventy-six percent to the State Debt Reduction Fund.

The cash transferred to the State Debt Reduction Fund in the current month is included in Note 9- Nonoperating Distributions to the State of West Virginia. The table games adjusted gross receipts for the month and year-to-date periods ended December 31, 2008 were \$8,170,072 and \$47,227,948, respectively. The following table shows the month and year -to- date totals of the privilege tax and the accrued distributions (in thousands) to be transferred in the subsequent month:

	<u>Month</u>	<u>YTD</u>
Table Games Privilege Tax	\$ 2,860	\$16,530
Interest on Table Games Fund	2	19
Administrative Costs	<u>(245)</u>	<u>(1,417)</u>
Total Available for Distribution	2,617	15,132
<u>Less Distributions:</u>		
Racetrack Purse Funds	204	1,180
Thoroughbred & Greyhound Development Funds	163	944
Racing Commission Pension Plan	79	455
Municipalities/Counties	<u>679</u>	<u>3,924</u>
Total Distributions	1,125	6,503
State Debt Reduction Fund	<u>\$ 1,492</u>	<u>\$8,629</u>

WEST VIRGINIA LOTTERY
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NOTE 9- NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA

The Lottery periodically distributes surplus funds, exclusive of amounts incurred and derived from limited video lottery and a portion of racetrack video lottery funds, to the State of West Virginia in accordance with the legislation. For the year ending June 30, 2009 the State Legislature budgeted \$168,151,542 of estimated profits of the Lottery for distributions to designated special revenue accounts of the State of West Virginia. With regard to the State Lottery Fund, legislation stipulates that debt service payments be given a priority over all other transfers in instances where estimated profits are not sufficient to provide for payment of all appropriated distributions. Debt service payments of \$1,800,000 and \$1,000,000 per month for the first ten months of each fiscal year currently have such priority. Transfers made pursuant to the State Excess Lottery Revenue Fund have similar requirements; currently payments are \$2,900,000 per month for the first ten months of each fiscal year, with \$1,000,000 of this amount beginning September 2004. In addition, Legislation provides that, if in any month, there is a shortage of funds in the State Excess Lottery Revenue Fund to make debt service payments, the necessary amount shall be transferred from the State Lottery Fund to cover such shortfall, after the State Lottery Fund debt service payments have been made. Repayments to the State Lottery Fund are required to be made in subsequent months as funds become available. During the month ended December 31, 2008 the Lottery made such distributions and accrued additional distributions of \$42,888,152. The Lottery is a non-appropriated state agency and therefore does not have a budget adopted by the Legislature. Since the enactment of the Racetrack Video Lottery Act, the Lottery is also statutorily required to distribute income from racetrack video lottery operations as described in Note 6. As of December 31, 2008 the Lottery accrued additional distributions relating to racetrack video lottery operations of \$944,547.

Note 7 describes the Limited Video Lottery Act and the statutory distributions required to be made from limited video lottery operations. Note 8 describes the Table Games Act and the statutory distributions required to be made from table games operations.

A summary of the cash distributions made to certain state agencies to conform to the legislation follows (in thousands):

<u>BUDGETARY DISTRIBUTIONS</u>	<u>December 31, 2008</u>	<u>Year-to-Date</u>
<u>State Lottery Fund:</u>		
Bureau of Senior Services	\$ 3,311	\$ 55,119
Department of Education	1,981	32,980
Library Commission	651	10,827
Higher Education-Policy Commission	622	10,355
Tourism	448	7,460
Natural Resources	197	3,273
Division of Culture & History	331	5,511
Department of Education & Arts	68	1,137
Building Commission	1,000	6,000
School Building Authority	1,800	10,800
Total State Lottery Fund	\$ 10,409	\$ 143,462

WEST VIRGINIA LOTTERY
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NOTE 9- NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA
(continued)

State Excess Lottery Revenue Fund:

Economic Development Fund	\$ 1,900	\$ 11,400
Higher Education Improvement Fund	1,000	6,000
General Purpose Account	27,692	56,819
Higher Education Improvement Fund	-	27,000
State Park Improvement Fund	-	-
School Building Authority	709	4,253
Refundable Credit	-	374
Excess Lottery Surplus	-	-
West Va. Infrastructure Council	-	-
Total State Excess Lottery Revenue Fund	<u>\$ 31,301</u>	<u>\$ 105,846</u>

Total Budgetary distributions:	<u>\$ 41,710</u>	<u>\$ 249,308</u>
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Veterans Instant Ticket Fund	\$ 32	\$ 405
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Other Racetrack Video Lottery distributions:

Tourism Promotion Fund 1.375%	\$ 636	\$ 5,329
Development Office Promotion Fund .375%	174	1,454
Research Challenge Fund .5%	232	1,938
Capitol Renovation & Improvement Fund .6875%	319	2,665
Parking Garage Fund .0625 %	29	242
Parking Garage Fund 1 %	-	500
Cultural Facilities & Cap. Resources Fund .5%	138	1,500
Capitol Dome & Cap. Improvements Fund .5%	326	1,876
Workers Compensation Debt Reduction Fund 7%	-	11,000
Total	<u>\$ 1,854</u>	<u>\$ 26,504</u>

Table Games State Debt Reduction Fund	\$ 1,505	8,249
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Total nonoperating distributions to the State of West Virginia (cash basis)	\$ 45,101	\$ 284,466
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Accrued nonoperating distributions, beginning	(181,814)	(166,967)
Accrued nonoperating distributions, end	<u>183,255</u>	<u>183,255</u>

Total nonoperating distributions to the State of West Virginia	<u>\$ 46,542</u>	<u>\$ 300,754</u>
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WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
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NOTE 10 – RESTRICTED NET ASSETS

On June 14, 2006, House Bill 106 was enacted by the West Virginia State Legislature to set aside unexpended administrative expenses of the Lottery up to the limits for such expenses established by the enabling legislation of traditional, racetrack video lottery, and limited video lottery games in an amount not to exceed \$20,000,000 beginning in fiscal year 2006 and each year through fiscal year 2012. These assets are to be set aside for the design and construction of a building for the use of the Lottery and certain other State of West Virginia governmental entities. The lottery contributed \$16,305,938 to the fund for fiscal year 2008 plus related interest of \$1,354,095.

NOTE 11 – COMMITMENTS

The Lottery Commission has set aside funds as unrestricted net assets for the acquisition of future assets. As of June 30, 2008, a balance of \$5,497,770 is available for this purpose.

NOTE 12 - DEFERRED JACKPOT OBLIGATIONS AND INVESTMENTS HELD IN TRUST

Prior to becoming a member of the Multi-State Lottery in 1988, the prize structure of certain games operated solely by the Lottery included jackpot prizes. The Lottery, at its discretion, could choose to award such prizes in the form of either a lump sum payment or in equal installments over a period of 10 or 20 years, through December 31, 2008, the Lottery has awarded twenty-one deferred jackpot prizes totaling approximately \$28,868,786. Deferred prize awards were recognized as prize liabilities equivalent to the present value of future prize payments discounted at interest rates for government securities in effect on the date prizes were won. The imputed interest portion of the deferred prize is calculated using the effective interest method at rates ranging from 7.11% to 9.13%.

A summary of the present value of the remaining obligations for deferred jackpot prize awards follows (in thousands):

	<u>December 31, 2008</u>	<u>June 30, 2008</u>
Present value of deferred prize award obligations:		
Discounted obligations outstanding	\$ -	\$ 120
Imputed interest accrued	—	— <u>9</u>
	-	129
Less current portion of discounted obligations and accrued interest	—	— <u>(129)</u>
Long-term portion of deferred prize award obligations	<u>\$ -</u>	<u>\$ —</u>

WEST VIRGINIA LOTTERY
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NOTE 12 - DEFERRED JACKPOT OBLIGATIONS AND INVESTMENTS HELD IN TRUST
(continued)

Cash payments on deferred prize obligations for the year are as follows (in thousands):

<u>Year Ended</u>	<u>Original Discounted Obligations Outstanding</u>	<u>Imputed Interest</u>	<u>Total</u>
June 30, 2009*	<u>120</u>	<u>10</u>	<u>130</u>
	<u>\$ 120</u>	<u>\$ 10</u>	<u>\$ 130</u>

*Paid 8/15/2008

The Lottery has purchased long-term investments consisting principally of zero coupon government securities to fund deferred jackpot prize award obligations. Such investments are maintained in a separate trust fund administered by the West Virginia Board Of Treasury Investments on behalf of the Lottery and the jackpot prize winners, with investment maturities approximating deferred prize obligation installment due dates. Investments are carried at fair value determined by quoted market prices for the specific obligation or for similar obligations. Changes in fair value are included as part of investment income. In accordance with Statement No. 3 of the Government Accounting Standards Board, these investments are classified as to level of risk in Category 1, which includes investments that are insured or registered, or for which the securities are held by the State or its agent in the State's name.

NOTE 13 - RETIREMENT BENEFITS

All full-time Lottery employees are eligible to participate in the State of West Virginia Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit public employee retirement system. The PERS is one of several plans administered by the West Virginia Consolidated Public Retirement (CPRB) under the direction of its Board of Trustees, which consists of the Governor, State Auditor, State Treasurer, Secretary of the Department of Administration, and nine members appointed by the Governor. CPRB prepares separately issued financial statements covering all retirement systems it administers, which can be obtained from Consolidated Public Retirement Board, Building 5, Room 1000, State Capitol Complex, Charleston, West Virginia 25305-0720.

Employees who retire at or after age sixty with five or more years of contributory service or who retire at or after age fifty-five and have completed twenty-five years of credited service with age and credited service equal to eighty or greater are eligible for retirement benefits as established by State statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's average annual salary from the highest 36 consecutive months within the last 10 years of employment, multiplied by the number of years of the employee's credited service at the time of retirement.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
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NOTE 13 - RETIREMENT BENEFITS (continued)

Covered employees are required to contribute 4.5% of their salary to the PERS. The Lottery is required to contribute 10.5% of covered employees' salaries to the PERS. The required employee and employer contribution percentages have been established and changed from time to time by action of the State Legislature. The required contributions are not actuarially determined; however, actuarial valuations are performed to assist the Legislature in determining appropriate contributions. The Lottery and employee contributions, for the period ending December 31, 2008 are as follows (in thousands):

	<u>December 31, 2008</u>	<u>Year-to Date</u>
Lottery contributions	\$56	\$330
Employee contributions	24	145
Total contributions	<u>\$80</u>	<u>\$475</u>

NOTE 14 - RISK MANAGEMENT

The Lottery is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Lottery participates in several risk management programs administered by the State of West Virginia. Each of these risk pools have issued separate audited financial reports on their operations. Those reports include the required supplementary information concerning the reconciliation of claims liabilities by type of contract and ten-year claim development information. Complete financial statements of the individual insurance enterprise funds can be obtained directly from their respective administrative offices.

WEST VIRGINIA WORKERS' COMPENSATION COMMISSION (WCC)

The State of West Virginia operated an exclusive state-managed workers' compensation insurance program (WCC) prior to December 31, 2005. A framework for the privatization of workers' compensation insurance in West Virginia was established with the passage of Senate Bill 1004 and the WCC trust fund was terminated effective December 31, 2005. A privatized business entity, BrickStreet Administrative Services (BAS), was established and became the administrator of the WCC Old Fund, beginning January 1, 2006, and thereafter for seven years, and will have all administrative and adjudicatory authority previously vested in the WCC trust fund in administering old law liabilities and otherwise processing and deciding old law claims. BAS will be paid a monthly administrative fee and rated premium to provide a prompt and equitable system for compensation for injury sustained in the course of and growing out of employment. The monthly administrative fee for the West Virginia Lottery has been set at a level consistent with prior year payments and the new rate or premium will be established on an experience rated basis. The West Virginia Lottery is required to participate in the new BrickStreet Administrative Services (BAS) experience rated pool, which is expected to be rate adjusted on a quarterly basis.

PUBLIC EMPLOYEES' INSURANCE AGENCY (PELA)

The Lottery participates in the Public Employees' Insurance Agency which provides an employee benefit insurance program to employees. PELA was established by the State of West Virginia for State

WEST VIRGINIA LOTTERY
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NOTE 14 - RISK MANAGEMENT (continued)

agencies, institutions of higher education, Boards of Education and component units of the State. In addition, local governmental entities and certain charitable and public service organizations may request to be covered by PEIA. PEIA provides a base employee benefit insurance program which includes hospital, surgical, major medical, prescription drug and basic life and accidental death. Underwriting and rate setting policies are established by PEIA. The cost of all coverage as determined by PEIA shall be paid by the participants. Premiums are established by PEIA and are paid monthly, and are dependent upon, among other things, coverage required, number of dependents, state vs. non state employees and active employees vs. retired employees and level of compensation. Coverage under these programs is limited to \$1 million lifetime for health and \$10,000 of life insurance coverage.

The PEIA risk pool retains all risks for the health and prescription features of its indemnity plan. PEIA has fully transferred the risks of coverage to the Managed Care Organization (MCO) Plan to the plan provider, and has transferred the risks of the life insurance coverage to a third party insurer. PEIA presently charges equivalent premiums for participants in either the indemnity plan or the MCO Plan. Altogether, PEIA insures approximately 205,000 individuals, including participants and dependents.

BOARD OF RISK AND INSURANCE MANAGEMENT (BRIM)

The Lottery participates in the West Virginia Board of Risk and Insurance Management (BRIM), a common risk pool currently operating as a common risk management and insurance program for all State agencies, component units, and other local governmental agencies who wish to participate. The Lottery pays an annual premium to BRIM for its general insurance coverage. Fund underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM shall be paid by the participants. The BRIM risk pool retains the risk of the first \$1 million per property event and purchases excess insurance on losses above that level. Excess coverage, through an outside insurer under this program is limited to \$200 million per event, subject to limits on certain property. BRIM has \$1 million per occurrence coverage maximum on all third-party liability claims.

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The GASB has issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," and Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (OPEB). The State nor the Lottery has previously reported in its financial statements costs associated with future participation of retirees in health benefit plans. The GASB statements are based on the premise that the "costs" of employee services should be reported during the periods when the services are rendered. Beginning with fiscal year ending June 30, 2008, the State will implement accounting and financial reporting requirements as an employer under GASB Statement No. 45. The financial statements will report OPEB funded status and funding progress and any "premium subsidy" resulting from the pooling of retiree participants with active employees in the health benefit plans. For "employer" OPEB reporting the State will report "expense" on an accrual basis in the amount of the "annual required contribution" and a "liability" for the amount of the "annual required contribution" that was not actually paid.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS (continued)

Funds have not been set aside to pay future costs of retirees, but the Legislature in response to the GASB statements, has made statutory changes to create the West Virginia Retiree Health Benefit Trust Fund (RHBT), an irrevocable trust fund, in which employer contributions for future retiree health costs may be accumulated and invested, and which is expected to facilitate the separate financial reporting of OPEB. The legislation requires the RHBT to determine through an actuarial study, as prescribed by GASB No. 43, the ARC(Annual Required Contribution) which shall be sufficient to maintain the RHBT in an actuarially sound manner. The ARC shall be allocated to respective employers including the Lottery who are required by law to remit at least the minimum annual premium component of the ARC. Revenues collected by RHBT shall be used to fund current OPEB healthcare claims and administrative expenses with residue funds held in trust for future OPEB costs. The Annual Required Contribution rate is \$461.06 per employee per month. In fiscal year 2008, the Lottery paid premiums of \$98,625 and the State of West Virginia, through its General Revenue Fund on the Lottery's behalf, has paid \$472,247 towards the Annual Required Contribution. As of June 30, 2008 the Lottery carried a liability of \$10,073 on its balance sheet for OPEB.

NOTE 16 - NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) issued Statement No. 50, Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27, in 2007. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to the financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 27, Accounting for Pensions by State and Local Governmental Employers, to conform with requirements of Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement is effective for periods beginning after June 15, 2007, and management has not yet determined what impact, if any, it will have on the financial statements.

WEST VIRGINIA LEGISLATURE
Office of the Legislative Auditor

*Budget Division
Building 1, Room 314-West Wing
1900 Kanawha Blvd. East
Charleston, WV 25305-0590*



, 304-347-4870

Memorandum

To: Honorable Senate President Tomblin
Honorable House of Delegates Speaker Thompson
Honorable Members of the Joint Committee on Government and
Finance

From: Ellen Clark, C.P.A. *EC*
Director Budget Division
Legislative Auditor's Office

Date: February 5, 2009

Re: Status of General Revenue Fund January 31, 2009

We have reviewed the cash revenue flows of the West Virginia general revenue fund for the months of July - January of fiscal year 2008-2009. The status of the fund collections are as follows:

The net collections were **101.28%** of the estimate for the fiscal year. **The amount ABOVE estimate was \$ 28 million for the year.**

Personal Income Tax collections were \$ 20.3 million over the estimate for the fiscal year.

Severance tax collections were \$ 36 million over the estimate for the fiscal year.

Corporate income and business franchise collections were \$ 9.3 million below the estimate for the year.

Gen Rev /State Road *Joint Committee on Government and Finance*

State Road Fund

The state road fund was collected at 98.98% of the estimate for the months of July - January 2009. The entire fund was \$ 3.6 million below the estimate for the year.

Rainy Day and Personal Income Tax Reserve

Revenue Shortfall Reserve Fund A(Rainy Day Fund) had a cash balance of \$ \$250,839,721.46 as of January 31, 2009.

Balance July 1, 2008	289,801,853.25
Cash flow loan to General Revenue on July 1, 2008. To be repaid 90 days. This is a normal occurrence in July due to cash flow demands; will be repaid in September. Repaid September 26, 2008.	- 58,000,000.00 +58,000,000.00
Revenues July 1, 2007-June 30,2008 (Surplus from FY 2008 transferred in August 2008.)	17,638,764.23
Earnings	- 56,600,896.02-
Balance January 31, 2009	250,839,721.46

Revenue Shortfall Reserve Fund B (Tobacco Settlement Monies) had a cash balance of \$ 216,978,244.06 as of January 31, 2009.

Balance July 1, 2008	291,275,042.97
Earnings	-74,296,798.91-
Balance January 31, 2009	216,978,244.06

The Special Income Tax Reserve Fund had a cash balance of \$45,019,318.96 as of January 31, 2009.

Balance July 1, 2008	45,019,318.96
Revenues July 2008-June 2009	-0-
Balance January 31, 2009	45,019,318.96

MOTOR FUEL EXCISE TAX SHORTFALL RESERVE FUND

Motor Fuel Excise Tax Shortfall Reserve Fund had a cash balance of \$ 27,319,224.03 on January 31, 2009. This fund was created by HB 218 during the June 2008 special session to act as a reserve fund when the highways motor fuel excise tax fails to meet monthly revenue estimates.

Balance July 1, 2008 Appropriated by supplemental SB 2019, June 2008	\$ 40,000,000.00
Transfers out to Highways Fund	- 12,680,775.97-
Balance January 31, 2009	27,319,224.03

Monthly Revenue Estimates
as of January 30, 2009, WVFIMS

	MONTH ESTIMATES	NET MONTH COLLECTIONS	UNDER ESTIMATES VS ACTUAL COLLECTIONS	YTD ESTIMATES	NET YTD COLLECTIONS	YEARLY OVER UNDER ESTIMATES VS ACTUAL COLLECTIONS
Personal Income Tax	152,300,000	116,829,017	-35,470,983	797,200,000	817,500,037	20,300,037
Consumer Sales Tax & Use Tax	122,000,000	118,764,978	-3,235,022	723,500,000	696,492,688	-27,007,312
Severance Tax	31,300,000	25,937,702	-5,362,298	218,700,000	255,218,272	36,518,272
Corp Income /Business Franchise	5,500,000	-2,689,730	-8,189,730	139,000,000	129,695,111	-9,304,889
Business and Occupation	11,800,000	8,890,066	-2,909,934	78,000,000	79,999,901	1,999,901
HB 102 - Lottery Transfers	0	8,180,930	8,180,930	65,000,000	65,000,000	0
Cigarette Tax	8,900,000	8,638,992	-261,008	62,000,000	64,993,251	2,993,251
Insurance Tax	100,000	127,042	27,042	49,800,000	50,503,640	703,640
Interest Income	2,400,000	4,386,919	1,986,919	13,800,000	19,429,100	5,629,100
Departmental Collections	3,590,000	4,958,035	1,368,035	11,390,000	10,256,412	-1,133,588
Property Transfer Tax	1,110,000	747,289	-362,711	8,230,000	5,709,648	-2,520,352
Liquor Profit Transfers	2,250,000	14,671	-2,235,329	9,320,000	7,458,869	-1,861,131
Beer Tax and Licenses	570,000	1,023,950	453,950	4,690,000	5,136,365	446,365
Property Tax	150,000	167,073	17,073	3,280,000	3,469,989	189,989
Smokeless Tobacco Tax	430,000	427,243	-2,757	3,190,000	3,314,504	124,504
Miscellaneous Transfers	0	0	0	1,600,000	129,636	-1,470,364
Refundable Credit Reim LTY	820,000	0	-820,000	1,630,000	373,667	-1,256,333
Business Franchise Fees	30,000	42,899	12,899	730,000	656,451	-73,549
Miscellaneous Receipts	81,000	134,052	53,052	542,000	3,810,336	3,268,336
Racing Fees	122,000	0	-122,000	552,000	274,214	-277,786
Charter Tax	0	24,314	24,314	100,000	234,669	134,669
Telecommunications Tax	0	13,735	13,735	0	179,770	179,770
Estate and Inheritance Tax	0	0	0	0	-31,884	-31,884
Video Lottery Transfers	0	31,671	31,671	0	546,304	546,304
Special Revenue Transfer	0	0	0	0	0	0
Cash Flow Transfer	0	0	0	0	0	0
TOTALS	343,453,000	296,650,849	-46,802,151	2,192,254,000	2,220,350,949	28,096,949
Minus Cash Flow Transfer	0	0	0	0	0	0
Percent of Estimates		86.37%				
TOTALS	343,453,000	296,650,849	-46,802,151	2,192,254,000	2,220,350,949	28,096,949
Percent of Estimates					101.28%	
Collections this day		19,092,952				

Prepared by Legislative Auditor's Office, Budget Division

	MONTH ESTIMATES	NET MONTH COLLECTIONS	MONTHLY OVER UNDER ESTIMATES VS ACTUAL COLLECTIONS	YTD ESTIMATES	NET YTD COLLECTIONS	YEARLY OVER UNDER ESTIMATES VS ACTUAL COLLECTIONS
Gasoline & Motor Carrier Rd Tax	31,000,000	26,516,150	-4,483,850	215,900,000	216,228,605	328,605
Privilege Tax	12,435,000	10,577,479	-1,857,521	96,878,000	90,595,022	-6,282,978
Licenses & Registration	6,171,000	6,412,646	241,646	45,262,000	47,443,297	2,181,297
Highway Litter Control	116,000	111,130	-4,870	854,000	962,384	108,384
TOTALS	49,722,000	43,617,406	-6,104,594	358,894,000	355,229,309	-3,664,691

Percent of Estimates

87.72%

98.98%

Collections this day

18,006,730

**MOTOR FUEL EXCISE TAX SHORTFALL RESERVE FUND
 CASH BALANCE WITH TREASURER
 AS OF January 1, 2009: \$27,319,224.03**

REVENUE SHORTFALL RESERVE FUND A AS OF January 1, 2009 : \$245,951,856.08

REVENUE SHORTFALL RESERVE FUND B AS OF January 1, 2009: \$ 202,299,586.98

PERSONAL INCOME TAX REFUND RESERVE FUND AS OF January 1, 2009: \$45,019,318.96

Prepared by Legislative Auditor's Office, Budget Division

WEST VIRGINIA LEGISLATURE
Office of the Legislative Auditor

*Budget Division
Building 1, Room 314-West Wing
1900 Kanawha Blvd. East
Charleston, WV 25305-0590*



, 304-347-4870

To: Honorable Senate President Tomblin
Honorable House of Delegates Speaker Thompson
Honorable Members of the Joint Committee on Government
and Finance

From: Ellen Clark, C.P.A. *EC*
Director Budget Division
Legislative Auditor's Office

Date: February 7, 2009

Re: West Virginia Unemployment Compensation Trust Fund

We have reviewed the December 31, 2008 monthly report of the Unemployment Compensation Trust Fund we received from WorkForce West Virginia. December 2008 is the sixth month of fiscal year 2008-2009.

For the fiscal year 2008-2009, the trust fund cash flow was as follows:

Trust Fund Beginning Cash Balance 7-1-2008	\$251,821,729.58
Receipts July 1, 2007 thru June 30, 2009	\$82,247,925.29
Disbursements July 1, 2007 thru June 30, 2009	\$102,301,634.25
Balance December 31, 2008	\$231,768,020.62

ITEMS OF NOTE:

Regular benefits paid for July - December 2008 were \$9.8 million more than in July - December 2007.

Unemployment *Joint Committee on Government and Finance*

Total disbursements were \$ 31.6 million more than the same months of the preceding fiscal year.

Receipts in July - December were \$ 24.9 million more than in July - December 2007. Overall ending trust fund balance was \$ 12 million less as of December 31, 2008 than on December 31, 2007.

West Virginia's unemployment rate for the month of December 2008 was 4.4 percent. National unadjusted employment rate was 7.1%.

Seasonally adjusted unemployment rates were 4.9 percent for West Virginia and 7.2% percent nationally.

Since December 2007 employment has decreased by 3,100, with gains in the following areas: 1,200 in educational and health services, 2,500 in natural resources and mining, 1,000 in government, and 700 in leisure and hospitality. Declines included 2,200 in manufacturing, 2,400 in construction, 3,000 in trade, transportation and utilities, 500 in financial activities, 100 in other services and 300 in information.

Unemployment

**MONTHLY STATUS REPORT FOR THE JOINT COMMITTEE ON GOVERNMENT AND FINANCE
FOR THREE MONTHS STARTING OCTOBER 2007 AND OCTOBER 2008**

	OCTOBER 07	NOVEMBER 07	DECEMBER 07	OCTOBER 08	NOVEMBER 08	DECEMBER 08	THREE MONTH TOTAL VARIANCE *
Balance Forward	<u>\$267,723,100.41</u>	<u>\$264,084,321.13</u>	<u>\$262,672,284.33</u>	<u>\$250,357,861.67</u>	<u>\$248,422,765.62</u>	<u>\$249,853,801.23</u>	<u>(\$16,845,577.45)</u>
Add Receipts:							
1. Bond Assessment	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2. Regular Contributions:	\$7,853,681.96	\$11,368,414.10	\$470,488.51	\$8,410,393.17	\$12,709,009.00	\$415,370.01	\$1,842,189.61
3. Federal Extended Benefits (EUC08)	\$0.00	\$0.00	\$0.00	\$3,255,099.00	\$2,226,457.00	\$5,142,010.00	\$10,623,563.00
4. Emergency Unemployment Funds (TEUC)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
5. TEUC Unemployment Funds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
6. UCFE (Federal Agencies)	\$0.00	\$0.00	\$0.00	\$60,000.00	\$62,758.00	\$99,000.00	\$221,758.00
7. Reduced Tax Credits	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
8. Read Act Funds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
9. Treasury Interest Credits	\$0.00	\$0.00	\$3,076,635.02	\$0.00	\$0.00	\$2,688,199.02	(\$188,436.00)
10. UCX (Military Agencies)	\$0.00	\$0.00	\$0.00	\$252,000.00	\$270,345.00	\$344,000.00	\$866,345.00
Total Monthly Receipts	<u>\$7,853,681.96</u>	<u>\$11,368,414.10</u>	<u>\$3,547,121.53</u>	<u>\$11,977,489.17</u>	<u>\$15,268,569.00</u>	<u>\$8,888,579.03</u>	<u>\$13,366,419.61</u>
Less Disbursements:							
Debt Bond Repayment	(Retired)	(Retired)	(Retired)	(Retired)	(Retired)	(Retired)	(Retired)
Regular Benefits:	\$11,168,816.58	\$12,474,827.02	11,804,509.41	\$10,466,866.88	\$10,933,341.80	\$21,472,394.64	\$7,424,470.29
Federal Extended Benefits (EUC08)	\$0.00	\$0.00	0.00	\$3,113,489.00	\$2,495,908.00	\$5,064,800.00	\$10,673,997.00
Emergency Benefits (TEUC)	(\$700.00)	(\$810.00)	(560.00)	(\$815.00)	(\$433.00)	(\$781.18)	\$60.82
UCFE (Federal Workers) Benefits	\$69,152.58	\$64,114.12	101,806.98	\$84,290.16	\$77,159.98	\$97,400.08	\$3,776.54
UCX (Military Workers) Benefits	\$255,192.08	\$242,119.78	269,414.12	\$268,534.10	\$331,856.61	\$340,426.10	\$174,090.85
Read Act Funds	\$0.00	\$0.00	256,898.09	\$0.00	\$0.00	\$0.00	(\$256,898.09)
Other Adjustments	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Monthly Disbursements	<u>\$11,492,481.24</u>	<u>\$12,780,450.80</u>	<u>\$12,432,056.60</u>	<u>\$13,912,585.12</u>	<u>\$13,837,833.39</u>	<u>\$26,974,059.64</u>	<u>\$18,019,509.41</u>
Trust Fund Balance	<u>\$264,084,321.13</u>	<u>\$262,672,284.33</u>	<u>\$243,787,349.26</u>	<u>\$248,422,765.62</u>	<u>\$249,853,801.23</u>	<u>\$231,768,020.62</u>	<u>(\$20,499,667.26)</u>

* Three month total variance column is the difference between the sum of the previous year's three months data for each category and the current year's three months data. The purpose of the report is to show significant changes in receipts, disbursements, or balances.



WEST VIRGINIA
DEPARTMENT OF TRANSPORTATION
1900 Kanawha Boulevard East • Building Five • Room 109
Charleston, West Virginia 25305-0440 • 304/558-0444

Joe Manchin III
Governor

February 4, 2009

The Honorable Earl Ray Tomblin, President
West Virginia Senate
1900 Kanawha Boulevard East
Building 1 – Room 227-M
Charleston, West Virginia 24305

The Honorable Richard Thompson, Speaker
West Virginia House of Delegates
1900 Kanawha Boulevard East
Building 1 – Room 234-M
Charleston, West Virginia 24305

Joint Committee on Government and Finance
West Virginia Legislature
1900 Kanawha Boulevard East
Building 1 – Room 465-M
Charleston, West Virginia 24305

Dear President Tomblin, Speaker Thompson, and Committee Members:

During the June 2008 special legislative session, H.B. 218 was passed. That legislation included the addition of §11-14C-48: Motor Fuel Excise Tax Shortfall State Road Fund support payment. Among the section's provisions is a requirement that the Commissioner of Highways submit a monthly report to the Joint Committee on Government and Finance regarding the financial status of the State Road Fund. This report reflects activity during January 2009.

1. Registration Fees rebounded from their failure to meet estimates for the past two months and were \$242,000 (3.9%) higher than forecasted. For the year, Registration Fees are \$2,181,000 (4.82%) above estimates.
2. Sales (Privilege) Tax collections continued to spiral downward, missing estimates by \$1,858,000 (14.9%). While the year-to-date collections are only 6.5% below

**The Honorable Earl Ray Tomblin
The Honorable Richard Thompson
Joint Committee on Government and Finance
Page 2**

estimates, the gap between estimated and actual collections is growing monthly, and a recovery is not expected in FY2009.

3. Officially, Motor Fuel Tax revenues were \$4,484,000 below estimates. That amount is misleading, however, because the receipts were impacted by January's "calendar effect", which occurs when a month ends on a non-work day. An additional \$11,249,000 in EFT and check deposits was received on February 2nd. When January receipts are adjusted accordingly, revenues were actually \$2,821,000 above estimates for the month. (See attached *Status of FY2009 Tax Revenues* reports)
4. Through January 2009, Motor Fuel Tax revenues were officially \$329,000 above estimates; however, the adjusted receipts generated a year-to-date excess of \$11,577,000. No transfer from the Motor Fuel Excise Tax Shortfall Reserve Fund is needed.
5. Adjusted year-to-date revenues are \$7,583,000 above estimates. Although Sales (Privilege) Tax has failed to meet projections, Motor Fuel Tax and Registration Fee collections have been able to offset that shortage so far.

If you have any questions regarding this report, please contact me at 558-0444.

Sincerely,



Paul A. Mattox, Jr., P.E.
Secretary of Transportation/
Commissioner of Highways

PAM:Tt

Attachment

cc: CB, CH, CR, BB

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION: DIVISION OF HIGHWAYS
STATUS OF FY2009 TAX REVENUES
 MONTH OF JANUARY 2009
 (In thousands)

FISCAL YEAR 2009: ESTIMATE VS. ACTUAL

COLLECTIONS: FY2009 VERSUS FY2008

	FY2009	FY2009	FY2009 ACTUAL OVER - (UNDER)		FY2008	FY2009 ACTUAL OVER - (UNDER)	
	GOVERNOR'S ESTIMATE	ACTUAL COLLECTIONS	FY2008 ESTIMATE AMOUNT	PERCENT	ACTUAL COLLECTIONS	FY2008 ACTUAL AMOUNT	PERCENT
MOTOR FUEL							
MONTH OF JANUARY 2009	\$31,000	\$26,516	(\$4,484)	-14.46%	\$52,557	(\$26,041)	-49.55%
SEVEN MONTHS TO DATE	215,900	216,229	329	0.15%	243,490	(27,261)	-11.20%
REGISTRATION							
MONTH OF JANUARY 2009	\$6,171	\$6,413	\$242	3.92%	\$5,307	\$1,106	20.84%
SEVEN MONTHS TO DATE	45,262	47,443	2,181	4.82%	44,098	3,345	7.58%
PRIVILEGE TAX							
MONTH OF JANUARY 2009	\$12,435	\$10,577	(\$1,858)	-14.94%	\$13,377	(\$2,800)	-20.93%
SEVEN MONTHS TO DATE	96,878	90,595	(6,283)	-6.49%	99,500	(8,905)	-8.95%
HIGHWAY LITTER FEES							
MONTH OF JANUARY 2009	\$116	\$111	(\$5)	-4.31%	\$131	(\$20)	-15.27%
SEVEN MONTHS TO DATE	854	962	108	12.65%	934	28	3.00%
TOTAL DEDICATED TAX							
MONTH OF JANUARY 2009	\$49,722	\$43,617	(\$6,105)	-12.28%	\$71,372	(\$27,755)	-38.89%
SEVEN MONTHS TO DATE	\$358,894	\$355,229	(\$3,665)	-1.02%	\$388,022	(\$32,793)	-8.45%

FY2009 ESTIMATE VS. FY2008 ACTUAL COLLECTIONS

	FY2009	FY2008	FY2009 ESTIMATE OVER - (UNDER)	
	ESTIMATE	ACTUAL	FY2008 ACTUAL AMOUNT	PERCENT
MOTOR FUEL	\$380,000	\$404,223	(\$24,223)	-6.37%
REGISTRATION	90,003	86,396	3,607	4.01%
PRIVILEGE TAX	166,413	169,463	(3,050)	-1.83%
HIGHWAY LITTER FEES	1,699	1,878	(179)	-10.54%
TOTAL	\$638,115	\$661,960	(\$23,845)	-3.74%



Prescription Drug Report

DECEMBER 2008

WV PEIA - Monthly Trend

Plan Demographic	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	2008 - 2008 Fiscal	2007 - 2008 Fiscal	% Change
Total Drug Cost	\$11,877,286	\$12,301,400	\$12,879,160	\$13,418,342	\$12,558,834	\$14,048,016	\$77,082,724	\$72,728,000	5.99%
Amount Paid By Plan Sponsor	\$7,159,089	\$9,273,265	\$10,128,740	\$10,824,841	\$10,217,804	\$11,500,871	\$59,104,389	\$54,114,271	9.22%
Amount Paid by Members	\$4,718,217	\$3,027,822	\$2,750,421	\$2,593,702	\$2,341,030	\$2,547,145	\$17,978,335	\$18,611,789	-3.40%
Total Claims	188,827	192,765	205,173	212,917	200,880	223,887	1,222,249	1,150,663	6.22%
Average Eligible Member	157,501	157,868	158,843	159,282	159,875	160,408	158,931	154,848	2.77%
Average # of Rx's Per Member Per Month	1.19	1.22	1.29	1.34	1.28	1.40	1.28	1.24	3.36%
Plan Paid Per Member Per Month (PMPM)	\$45.45	\$58.82	\$63.77	\$67.95	\$63.91	\$71.70	\$61.98	\$58.32	6.28%
Average Eligible Enrollees	72,418	72,325	73,131	73,381	73,595	73,849	73,146	71,526	2.27%
Average # of Rx's Per Enrollee Per Month	2.58	2.68	2.81	2.90	2.73	3.03	2.78	2.88	3.87%
Plan Paid Per Enrollee Per Month (PEPM)	\$98.86	\$127.86	\$138.50	\$147.65	\$138.84	\$155.79	\$134.87	\$126.08	6.80%
Rx Cost Share									
Avg Claim Cost to Plan	\$38.34	\$48.11	\$49.37	\$50.84	\$50.82	\$51.37	\$48.34	\$47.03	2.82%
Avg Member Cost/Claim	\$25.29	\$15.71	\$13.41	\$12.18	\$11.67	\$11.38	\$14.71	\$16.17	-9.08%
Percent member Cost Share	39.7%	24.6%	21.4%	19.3%	18.8%	18.1%	23.3%	25.6%	-8.86%
Average Ingredient Costs									
Single Source (no generics available)	\$173.20	\$171.94	\$173.87	\$175.25	\$174.63	\$177.20	\$174.41	\$153.43	13.68%
Multi-Source Brand (generics available)	\$50.08	\$38.75	\$42.43	\$42.77	\$46.98	\$50.17	\$45.47	\$37.51	21.24%
Generic Drugs	\$19.23	\$19.61	\$19.15	\$19.17	\$19.08	\$19.21	\$19.24	\$20.32	-5.34%
Brand/Generic Dispensing Rates									
Single Source (no generics)	27.56%	27.85%	27.03%	26.8%	28.78%	26.37%	27.08%	30.79%	-12.12%
Multi-Source Brand % (generics available)	1.03%	0.96%	0.96%	1.0%	0.96%	0.98%	0.97%	1.03%	-5.70%
Generic Drug	71.41%	71.19%	72.02%	72.1%	72.26%	72.65%	71.97%	68.18%	5.56%
Generics Dispensed when available	98.58%	98.87%	98.89%	98.7%	98.88%	98.87%	98.87%	98.51%	0.16%
Percent of Plan Cost for Single Source	85.83%	81.60%	80.57%	79.9%	79.48%	78.93%	80.74%	80.18%	0.70%
Retail Pharmacy Program									
Avg Day Supply	32.5	33.3	32.8	32.3	32.3	32.3	32.8	32.3	0.88%
Avg Plan Cost/Day Supply	\$1.18	\$1.43	\$1.48	\$1.56	\$1.58	\$1.58	\$1.47	\$1.44	2.15%
Avg Claim Cost to Plan	\$37.87	\$47.76	\$48.98	\$50.47	\$50.48	\$51.00	\$47.97	\$46.56	3.05%
Avg Member Cost / Claim	\$25.12	\$15.58	\$13.32	\$12.11	\$11.59	\$11.31	\$14.62	\$16.07	-9.03%
Percent Member Cost Share	38.88%	24.60%	21.38%	19.3%	18.68%	18.15%	23.35%	25.66%	-8.98%
Special Maint Netwk (% of claims filled)	10.97%	11.97%	11.91%	11.4%	11.58%	11.58%	11.57%	11.44%	1.08%
Other Maint (% of claims filled)	0.83%	0.59%	0.58%	0.8%	0.57%	0.82%	0.60%	0.58%	2.77%
Avg Days Supply for Maint Netwks	87.5	87.4	87.5	87.4	87.5	87.6	87.5	87.6	-0.12%
Total # Claims Fills 1-34 Days Supply	161,988	165,364	178,282	183,932	172,921	192,758	1,053,246	998,691	5.67%
Total # Claims Fills 35-60 Day Supply	1,254	1,436	1,454	1,525	1,400	1,528	8,997	7,674	12.03%
Total # Claims Fills 61-90 Day Supply	21,873	24,207	25,762	25,598	24,583	27,709	149,732	135,787	10.27%
Total # Claims Fills 91+ Day Supply	4	5	2	2	2	2	17	35	-51.43%
Mail Service Program									
Avg Days Supply	76.0	73.8	72.4	71.6	71.5	70.7	72.8	71.7	1.30%
Avg Plan Cost/Days Supply	\$1.14	\$1.11	\$1.33	\$1.29	\$1.38	\$1.34	\$1.28	\$1.38	-7.75%
Avg Cost to Plan	\$88.96	\$86.36	\$96.56	\$92.27	\$98.74	\$95.15	\$92.70	\$99.20	-8.55%
Avg Member Cost/Claim	\$39.77	\$29.49	\$24.30	\$20.68	\$19.64	\$19.40	\$25.36	\$27.92	-9.19%
Percent Member Cost Share	31.40%	25.45%	20.11%	18.3%	18.59%	18.94%	21.48%	21.97%	2.22%
Total # Claims Fills 1-34 Days Supply	397	459	473	547	530	584	2,990	3,232	-7.46%
Total # Claims Fills 35-60 Days Supply	5	5	3	5	1	5	28	27	3.70%
Total # Claims Fills 61-90 Days Supply	1,308	1,288	1,197	1,305	1,243	1,300	7,639	7,217	5.85%
Total # Claims Fills 91+ Day Supply	0	0	0	0	0	0	0	0	0.00%
Formulary Program									
S/S Formulary Drugs (% by claim)	22.61%	22.92%	22.21%	22.2%	22.21%	21.87%	22.32%	22.84%	2.74%
S/S Non-Formulary Drugs (% by claim)	4.95%	4.92%	4.82%	4.8%	4.57%	4.50%	4.75%	7.85%	-38.53%
M/S Drugs (% by claim)	1.03%	0.96%	0.96%	1.0%	0.96%	0.98%	0.97%	1.03%	-5.70%
Generic Drugs (% by Claim)	71.41%	71.19%	72.02%	72.1%	72.26%	72.65%	71.97%	68.18%	5.56%
S/S Formulary Drugs (% by \$)	78.20%	74.16%	72.72%	72.3%	71.90%	71.33%	73.13%	68.91%	8.13%
S/S Non-Formulary Drugs (% by \$)	7.73%	7.44%	7.85%	7.5%	7.55%	7.60%	7.61%	11.27%	-32.47%
M/S Drugs (% by \$)	0.59%	0.26%	0.30%	0.3%	0.37%	0.43%	0.37%	0.25%	49.78%
Generic Drugs (% by \$)	13.48%	16.13%	19.13%	19.8%	20.17%	20.83%	18.89%	19.57%	-3.51%
Specialty Drugs									
Total Drug Cost	\$1,374,104	\$1,220,428	\$1,363,475	\$1,430,939	\$1,274,697	\$1,488,241	\$8,151,885	\$8,677,942	22.07%
Amount Paid by Plan Sponsor	\$1,311,458	\$1,184,513	\$1,329,292	\$1,395,019	\$1,242,114	\$1,451,456	\$7,913,853	\$6,481,309	22.48%
Amount Paid by Members	\$62,646	\$35,916	\$34,183	\$35,920	\$32,583	\$36,785	\$238,032	\$216,633	9.88%
Total Claims	720	66	873	724	659	742	4,181	3,801	10.00%
Avg # of Rx's per Member per Month	0.00	0.00	0.00	0.005	0.004	0.005	0.004	0.004	7.03%
Plan Paid Per Member Per Month (PMPM)	\$8.33	\$7.51	\$8.37	\$8.78	\$7.77	\$9.05	\$8.30	\$6.98	19.18%
Avg Claim Cost to Plan	\$1,821.47	\$1,788.80	\$1,975.17	\$1,926.82	\$1,884.85	\$1,956.14	\$1,892.81	\$1,698.90	11.35%
Avg Claim Cost to Member	\$87.01	\$54.17	\$50.79	\$49.61	\$49.44	\$49.58	\$56.93	\$56.99	-0.11%
Percent of Member Cost Share	4.56%	2.94%	2.51%	2.51%	2.56%	2.47%	2.92%	3.24%	-9.99%
Percent of Overall Drug Spend	11.57%	9.92%	10.59%	10.68%	10.15%	10.59%	10.58%	9.18%	15.17%



Key Performance Indicators

Primary Indicators

WVA - WV Public Employees Ins

Current Period: 12/2008 - 12/2008
Previous Period: 12/2007 - 12/2007

	Current Period	Previous Period	% Change
Overall Performance			
Plan Cost PMPM	\$71.82	\$64.08	12.1 %
Average Mbrs/Month	160,408	156,474	2.5 %
Average Subs/Month	73,849	72,260	2.2 %
Rx Measures			
Average Plan Cost/Rx	\$51.38	\$49.79	3.2 %
Average Mbr Contrib/Rx	\$11.38	\$12.35	-7.8 %
Average Ing Cost/Rx	\$61.19	\$60.44	1.2 %
% Plan Cost	81.9 %	80.1 %	2.2 %
% Member Contribution	18.1 %	19.9 %	-8.7 %
Rx Sources			
% Mail Rxs	0.8 %	0.9 %	-2.5 %
% Retail Rxs	99.2 %	99.1 %	0.1 %
% Member Submit Rxs	0.0 %	0.0 %	-90.7 %
Rx Types			
Avg SSB Plan Cost/Rx	\$153.73	\$131.69	16.7 %
Avg MSB Plan Cost/Rx	\$22.84	\$10.51	117.4 %
Avg GEN Plan Cost/Rx	\$14.61	\$15.54	-6.0 %
% Single-Source Brand Rxs	26.4 %	29.5 %	-10.7 %
% Multi-Source Brand Rxs	1.0 %	1.0 %	-2.8 %
% Generic Rxs	72.6 %	69.5 %	4.6 %
% Formulary Rxs	94.1 %	91.5 %	2.9 %
% Generic Conversion	98.7 %	98.6 %	0.1 %
Period Totals			
Total Plan Cost	\$11,520,014.11	\$10,026,773.30	14.9 %
Total Member Contribution	\$2,552,411.54	\$2,487,179.96	2.6 %
Total Rx Count	224,203	201,389	11.3 %
Total Admin Fee	\$20.00	\$1,585.50	-98.7 %
Total UC Savings	\$9,103,347.03	\$8,024,036.76	13.5 %

Key Performance Indicators

Comprehensive Indicators

WVA - WV Public Employees Ins



Current Period: 12/2008 - 12/2008
Previous Period: 12/2007 - 12/2007

	Current Period	Previous Period	% Change
Rx Sources			
% Mail Rxs	0.8 %	0.9 %	-2.5 %
% Retail Rxs	99.2 %	99.1 %	0.1 %
% Member Submit Rxs	0.0 %	0.0 %	-90.7 %
Rx Types			
Avg SSB Plan Cost/Rx	\$153.73	\$131.69	16.7 %
Avg Retail SSB Plan Cost/Rx	\$153.06	\$130.96	16.9 %
Avg Mail SSB Plan Cost/Rx	\$215.55	\$203.22	6.1 %
Avg MSB Plan Cost/Rx	\$22.84	\$10.51	117.4 %
Avg Retail MSB Plan Cost/Rx	\$22.41	\$10.56	112.3 %
Avg Mail MSB Plan Cost/Rx	\$52.86	\$0.00	0.0 %
Avg GEN Plan Cost/Rx	\$14.61	\$15.54	-6.0 %
Avg Retail GEN Plan Cost/Rx	\$14.46	\$15.32	-5.6 %
Avg Mail GEN Plan Cost/Rx	\$33.51	\$42.67	-21.5 %
% Single-Source Brand Rxs	26.4 %	29.5 %	-10.7 %
% Multi-Source Brand Rxs	1.0 %	1.0 %	-2.8 %
% Generic Rxs	72.6 %	69.5 %	4.6 %
% Retail Single-Source Brand	26.3 %	29.5 %	-10.7 %
% Retail Multi-Source Brand	1.0 %	1.0 %	-3.7 %
% Retail Generic	72.7 %	69.5 %	4.6 %
% Mail Single-Source Brand	33.7 %	34.7 %	-3.0 %
% Mail Multi-Source Brand	1.6 %	0.6 %	185.7 %
% Mail Generic	64.7 %	64.7 %	-0.1 %
% Formulary Rxs	94.1 %	91.5 %	2.9 %
% Retail Formulary Rxs	94.1 %	91.5 %	2.9 %
% Mail Formulary Rxs	92.7 %	90.5 %	2.5 %
% DAW Rxs	0.6 %	0.6 %	-11.2 %
% Retail DAW Rxs	0.6 %	0.6 %	-10.7 %
% Mail DAW Rxs	1.1 %	1.7 %	-33.3 %
% Generic Conversion	98.7 %	98.6 %	0.1 %
% Retail GEN Conversion	98.7 %	98.6 %	0.1 %
% Mail GEN Conversion	97.5 %	99.1 %	-1.6 %
Period Totals			
Total Plan Cost	\$11,520,014.11	\$10,026,773.30	14.9 %
Retail Plan Cost	\$11,340,361.57	\$9,855,979.29	15.1 %
Mail Plan Cost	\$179,652.54	\$170,794.01	5.2 %
Total Member Contribution	\$2,552,411.54	\$2,487,179.96	2.6 %

Key Performance Indicators
 Comprehensive Indicators
 WVA - WV Public Employees Ins



Current Period: 12/2008 - 12/2008
 Previous Period: 12/2007 - 12/2007

	Current Period	Previous Period	
Retail Member Contrib	\$2,515,765.72	\$2,451,391.21	2.6 %
Mail Member Contrib	\$36,646.82	\$35,788.75	2.4 %
Total Rx Count	224,203	201,389	11.3 %
Retail Rx Count	222,307	199,572	11.4 %
Member Submit Rxs	8	77	-89.6 %
Mail Rx Count	1,888	1,740	8.5 %
Total Admin Fee	\$20.00	\$1,585.50	-98.7 %
Total UC Savings	\$9,103,347.03	\$8,024,036.76	13.5 %
Total Lost Savings	\$14,708.81	\$10,064.55	46.1 %

Demographics

Average Age	38.9	38.7	0.3 %
% Male Members	46.5 %	46.5 %	0.0 %
% Female Members	53.5 %	53.5 %	-0.0 %

Graphs based on Current Period: 12/2008 - 12/2008

Claim Source by Rx Count



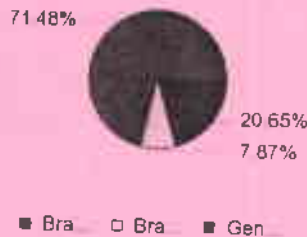
Drug Type by Plan Cost



Formulary Status by Rx Count



Drug Formulary Status by Plan Cost



Cost Share Distribution by Claim Source



Utilization Report by Population Level

WVA - WV Public Employees Ins

Prescriptions Filled From 12/2008 - 12/2008



Reporting Level 2	Avg Mbr Count	Avg Util Mbr/Moth	Rx Count	Plan Cost	Member Contr/Rx	Plan Cost/Rx	Mail % Rxs	Gen % Rxs	Form % Rxs	Gen Conv %	PMPM Plan Cost
COBRA (COBRA)	370	215	775	\$65,622	\$12.44	\$84.67	0.8 %	68.5 %	93.3 %	98.5 %	\$177.36
NON STATE AGENCIES (02)	18,290	8,086	24,284	\$1,143,323	\$10.76	\$47.08	0.7 %	74.4 %	94.7 %	99.0 %	\$62.51
NON STATE AGENCIES PLAN B (02B)	2,301	887	2,483	\$85,662	\$12.02	\$34.50	0.7 %	78.5 %	94.6 %	99.3 %	\$37.23
NON STATE RETIREES (08)	1,254	825	3,276	\$176,292	\$10.84	\$53.81	1.6 %	71.8 %	94.7 %	98.6 %	\$140.58
NON STATE RETIREES 60 (0860)	19	14	58	\$3,340	\$3.42	\$57.58	0.0 %	74.1 %	91.4 %	97.7 %	\$175.77
STATE AGENCIES (01)	120,265	53,830	156,796	\$8,072,692	\$11.40	\$51.49	0.8 %	72.5 %	93.9 %	98.7 %	\$67.12
STATE AGENCIES (01B)	3,822	1,023	2,289	\$88,368	\$14.32	\$38.61	1.7 %	76.8 %	93.9 %	98.9 %	\$23.12
STATE RETIREES (07)	13,998	9,296	33,928	\$1,871,160	\$11.59	\$55.15	1.2 %	71.3 %	94.4 %	98.5 %	\$133.67
STATE RETIREES ASST 60 (0760)	89	62	314	\$13,557	\$5.05	\$43.17	2.5 %	78.7 %	95.5 %	99.6 %	\$152.32
Grand Total	160,408		224,203	\$11,520,014	\$11.38	\$51.38	0.8 %	72.6 %	94.1 %	98.7 %	\$71.82



Monthly Management Report

TOTAL CLAIMS

DECEMBER 2008

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
MONTHLY MANAGEMENT REPORT - TOTAL CLAIMS
DECEMBER 2008

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Reporting Category	Type of Service	Current		12 Months Prior		Current Fiscal Yr PEIA Payments	Previous Fiscal Yr PEIA Payments
		Current Period PEIA Payments	Rolling Avg PEIA Payments	12 Months Prior PEIA Payments	Rolling Avg PEIA Payments		
INPATIENT HOSPITAL FACILITY	BEHAVIORAL	196,970.77	157,072.49	162,277.62	160,666.65	1,064,941.60	905,239.70
	MATERNITY	134,784.86	157,604.58	156,905.36	150,441.20	854,504.66	924,446.28
	MEDICAL AND SURGICAL	5,169,738.86	6,146,312.35	5,547,281.42	5,397,263.35	34,363,727.10	34,080,066.59
	NEONATAL COMPLICATIONS	49,831.67	47,471.11	31,583.20	75,968.98	352,392.94	282,898.95
***** sum		5,551,326.16	6,508,460.54	5,898,047.60	5,784,340.18	36,635,566.30	36,192,651.52
OUTPATIENT HOSPITAL FACILITY	BEHAVIORAL	34,224.01	38,905.56	24,328.38	34,909.97	231,670.07	196,402.19
	DIALYSIS	91,333.98	128,486.83	131,714.85	146,918.71	617,042.56	813,127.49
	EMERGENCY ROOM	438,282.71	455,999.80	403,174.08	411,659.89	2,564,837.68	2,492,641.83
	MATERNITY	57,359.74	45,138.68	56,364.71	43,312.95	257,436.83	256,080.40
	MEDICAL AND SURGICAL	7,105,226.55	7,516,461.13	6,948,024.39	6,791,673.84	42,465,485.93	41,890,869.50
***** sum		7,726,426.99	8,184,991.99	7,563,806.41	7,428,475.37	46,136,473.07	45,649,121.41
PHARMACY	PRESCRIPTION DRUGS	9,727,685.17	9,977,846.86	8,903,737.87	10,040,605.04	57,786,522.67	53,546,170.17
***** sum		9,727,685.17	9,977,846.86	8,903,737.87	10,040,605.04	57,786,522.67	53,546,170.17
PROFESSIONAL SERVICES	ADVANCED IMAGING	464,369.60	501,379.25	346,351.68	494,485.31	2,840,904.10	2,824,155.77
	AMBULANCE	133,296.91	184,482.88	137,781.70	175,045.72	1,045,946.92	1,071,846.74
	ANESTHESIA	517,588.02	662,435.91	590,675.61	652,527.52	3,832,190.82	4,082,576.04
	BEHAVIORAL	335,194.53	315,997.39	297,233.13	320,861.23	1,730,748.09	1,738,951.59
	CARDIOVASCULAR MEDICINE	316,605.26	369,543.14	265,818.90	357,676.46	2,037,927.02	1,944,870.61
	CERVICAL CANCER SCREENING	17,518.05	19,889.89	23,456.06	22,376.02	116,010.13	138,103.77
	DIALYSIS	2,473.64	4,743.47	1,984.15	6,219.39	24,860.88	25,877.99
	DME	340,499.53	365,013.33	345,311.84	341,760.94	2,043,853.57	2,190,516.60

SOURCE: ACORDIA NATIONAL AND EXPRESS SCRIPTS PAID CLAIMS TAPES
NOTE: CLAIMS LISTED ARE ON A PAID BASIS
NOTE: DOES NOT INCLUDE REBATES, PHARMACY ADMINISTRATIVE FEES, OR RECOVERIES

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
 MONTHLY MANAGEMENT REPORT - TOTAL CLAIMS
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Reporting Category	Type of Service	Current Period Current Period PEIA Payments	Current Rolling Avg PEIA Payments	12 Months Prior 12 Months Prior PEIA Payments	12 Months Prior Rolling Avg PEIA Payments	Current Fiscal Yr Current Fiscal Yr PEIA Payments	Previous Fiscal Yr Previous Fiscal Yr PEIA Payments
PROFESSIONAL SERVICES	EVALUATION AND MANAGEMENT	4,348,936.71	4,360,146.18	3,518,613.37	4,222,176.02	25,592,526.26	24,583,265.58
	IMMUNIZATION	398,578.75	277,493.73	343,524.10	325,189.27	1,916,203.84	2,155,094.90
	INJECTION	669,434.23	731,976.47	605,667.43	688,261.51	4,350,278.46	4,067,879.24
	LAB AND PATHOLOGY	589,127.94	652,803.22	542,697.39	631,585.55	3,499,571.13	3,402,808.30
	MAMMOGRAPHY	79,139.20	81,705.56	79,887.94	98,869.44	503,649.05	626,880.06
	OTHER	421,006.83	424,041.55	354,811.70	378,016.44	2,733,653.82	2,464,428.28
	OTHER IMAGING	683,964.64	776,640.61	752,739.63	801,194.59	4,150,994.13	4,826,690.89
	OTHER MEDICINE	504,075.16	691,296.63	454,140.17	656,535.77	3,838,230.84	4,089,191.97
	PHYSICAL MEDICINE	541,099.72	568,808.02	466,822.76	548,431.66	3,191,419.64	3,185,540.83
	PROSTATE CANCER SCREENING	12,726.88	15,212.75	19,143.89	15,516.63	85,722.43	87,572.92
	SURGICAL	2,114,865.58	2,418,187.35	1,922,368.22	2,398,809.68	13,578,618.41	14,003,318.79
***** sum		12,490,501.18	13,421,797.32	11,069,029.67	13,137,739.94	77,113,309.54	77,509,570.87
sum		35,495,939.50	38,093,096.70	33,434,621.55	36,391,160.53	217,671,871.58	212,897,513.97

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SOURCE: ACORDIA NATIONAL AND EXPRESS SCRIPTS PAID CLAIMS TAPES
 NOTE: CLAIMS LISTED ARE ON A PAID BASIS
 NOTE: DOES NOT INCLUDE REBATES, PHARMACY ADMINISTRATIVE FEES, OR RECOVERIES

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Monthly Management Report

PER CAPITA CLAIMS

DECEMBER 2008

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
 MONTHLY MANAGEMENT REPORT - PER CAPITA CLAIMS
 DECEMBER 2008

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Reporting Category	Type of Service	Current	Current	12 Months Prior	12 Months Prior	Current Fiscal Yr	Previous Fiscal Yr
		Current Period PEIA Payments	Rolling Avg PEIA Payments	12 Months Prior PEIA Payments	Rolling Avg PEIA Payments	PEIA Payments	PEIA Payments
INPATIENT HOSPITAL FACILITY	BEHAVIORAL	1,2470	1,0547	1,0636	1,1174	6,8030	5,9938
	MATERNITY	8533	1,0602	1,0284	1,0457	5,4587	6,1209
	MEDICAL AND SURGICAL	32,7279	41,3240	16,3570	37,5074	219,5211	225,6502
	NEONATAL COMPLICATIONS	3155	3184	2070	5302	2,2511	1,8731
	***** sum		35,1437	43,7573	38,6560	40,2006	234,0340
OUTPATIENT HOSPITAL FACILITY	BEHAVIORAL	.2167	.2614	.1594	.2427	1,4799	1,3004
	DIALYSIS	.5782	.8648	.8633	1,0222	3,9418	5,3839
	EMERGENCY ROOM	2,7746	3,0648	2,6437	2,8614	16,3846	16,5042
	MATERNITY	.3631	.3035	.3694	.3012	1,6445	1,6956
	MEDICAL AND SURGICAL	44,9809	50,5290	45,5375	47,2071	271,2765	277,3670
***** sum		48,9135	55,0236	49,5734	51,6346	294,7274	302,2510
PHARMACY	PRESCRIPTION DRUGS	61,5828	67,0635	58,3553	69,8551	169,1498	354,5388
***** sum		61,5828	67,0635	58,3553	69,8551	169,1498	354,5388
PROFESSIONAL SERVICES	ADVANCED IMAGING	2,9398	3,3699	2,2700	3,4379	18,1482	18,6992
	AMBULANCE	.8439	1,2398	.9030	1,2168	6,6817	7,0969
	ANESTHESIA	3,2767	4,4519	3,8713	4,5346	24,4807	27,0315
	BEHAVIORAL	2,1220	2,1247	1,9481	2,2321	11,0563	11,5139
	CARDIOVASCULAR MEDICINE	2,0043	2,4844	1,7422	2,4876	13,0186	12,8773
	CERVICAL CANCER SCREENING	1,109	.1337	.1537	.1556	.7411	.9144
	DIALYSIS	.0157	.0319	.0130	.0434	.1588	.1713
	DME	2,1556	2,4543	2,2632	2,3746	13,0565	14,5038

SOURCE: ACORDIA NATIONAL AND EXPRESS SCRIPTS PAID CLAIMS TAPES
 NOTE: CLAIMS LISTED ARE ON A PAID BASIS
 NOTE: DOES NOT INCLUDE REBATES, PHARMACY ADMINISTRATIVE FEES, OR RECOVERIES

WEST VIRGINIA PUBLIC EMPLOYEE INSURANCE AGENCY
 MONTHLY MANAGEMENT REPORT - PER CAPITA CLAIMS
 DECEMBER 2008

Page: 2

Reporting Category	Type of Service	Current Period Current Period PEIA Payments	Current Rolling Avg PEIA Payments	12 Months Prior 12 Months Prior PEIA Payments	12 Months Prior Rolling Avg PEIA Payments	Current Fiscal Yr Current Fiscal Yr PEIA Payments	Previous Fiscal Yr Previous Fiscal Yr PEIA Payments
PROFESSIONAL SERVICES	EVALUATION AND MANAGEMENT	27.5317	29.3038	23.0611	29.3537	163.4893	162.7702
	IMMUNIZATION	2.5233	1.8634	2.2515	2.2584	12.2410	14.2693
	INJECTION	4.2380	4.9172	3.9696	4.7854	27.7903	26.9342
	LAB AND PATHOLOGY	3.7296	4.3895	3.5569	4.4074	22.3558	22.5306
	MAMMOGRAPHY	.5010	.5491	.5236	.6871	3.2174	4.1507
	OTHER	2.6653	2.8480	2.3254	2.6258	17.4630	16.3174
	OTHER IMAGING	4.3300	5.2230	4.9335	5.5697	26.5172	31.9584
	OTHER MEDICINE	3.1911	4.6463	2.9764	4.5639	24.5192	27.0753
	PHYSICAL MEDICINE	3.4255	3.8232	3.0596	3.8125	20.3873	21.0920
	PROSTATE CANCER SCREENING	.0806	.1023	.1255	.1080	5476	5798
	SURGICAL	13.3885	16.2571	12.5992	16.6768	86.7424	92.7185
***** sum		79.0733	90.2135	72.5467	91.3312	492.6125	513.2048
sum		224.7133	256.0579	219.1313	253.0216	1,390.5236	1,409.6326

SOURCE: ACORDIA NATIONAL AND EXPRESS SCRIPTS PAID CLAIMS TAPES
 NOTE: CLAIMS LISTED ARE ON A PAID BASIS
 NOTE: DOES NOT INCLUDE REBATES, PHARMACY ADMINISTRATIVE FEES, OR RECOVERIES

29 rows selected

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Monthly Management Report

PER CAPITA UTILIZATION

DECEMBER 2008

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
 MONTHLY MANAGEMENT REPORT - PER CAPITA UTILIZATION
 DECEMBER 2008

Page: 1

Reporting Category	Type of Service	Current Period Encounters	12 Months Prior Encounters	Current Fiscal Yr Encounters	Previous Fiscal Yr Encounters
INPATIENT HOSPITAL FACILITY	BEHAVIORAL	.0007	.0004	.0033	.0032
	MATERNITY	.0009	.0007	.0043	.0051
	MEDICAL AND SURGICAL	.0087	.0076	.0446	.0503
	NEONATAL COMPLICATIONS	.0001	.0003	.0016	.0019

sum		.0105	.0091	.0538	.0605
OUTPATIENT HOSPITAL FACILITY	BEHAVIORAL	.0026	.0023	.0162	.0161
	DIALYSIS	.0031	.0032	.0159	.0186
	EMERGENCY ROOM	.0203	.0230	.1320	.1459
	MATERNITY	.0019	.0026	.0121	.0130
	MEDICAL AND SURGICAL	.1822	.1931	1 1538	1.2614

sum		.2102	.2242	1 3300	1.4550
PHARMACY	PRESCRIPTION DRUGS	.8238	.8150	5 2627	5.2310

sum		.8238	.8150	5 2627	5.2310
PROFESSIONAL SERVICES	ADVANCED IMAGING	.0209	.0163	.1304	.1324
	AMBULANCE	.0026	.0036	.0199	.0254
	ANESTHESIA	.0149	.0164	.1099	.1184
	BEHAVIORAL	.0379	.0347	.2245	.2359
	CARDIOVASCULAR MEDICINE	.0302	.0262	.1953	.1929
	CERVICAL CANCER SCREENING	.0044	.0063	.0302	.0414
	DIALYSIS	.0003	.0003	.0014	.0025
	DME	.0241	.0211	.1332	.1455
	EVALUATION AND MANAGEMENT	.4643	.4031	2.7582	2.8378
	IMMUNIZATION	.0810	.0617	.2736	.2726

SOURCE: ACORDIA NATIONAL AND EXPRESS SCRIPTS PAID CLAIMS TAPES
 NOTE: CLAIMS LISTED ARE ON A PAID BASIS

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WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
 MONTHLY MANAGEMENT REPORT - PER CAPITA UTILIZATION
 DECEMBER 2008

Page: 2

Reporting Category	Type of Service	Current Period Encounters	12 Months Prior Encounters	Current Fiscal Yr Encounters	Previous Fiscal Yr Encounters
PROFESSIONAL SERVICES	INJECTION	.0257	.0218	.1523	.1554
	LAB AND PATHOLOGY	.1469	.1388	.9117	1.0002
	MAMMOGRAPHY	.0165	.0143	.1043	.1108
	OTHER	.0464	.0381	.2388	.2301
	OTHER IMAGING	.0844	.0754	.5380	.5679
	OTHER MEDICINE	.0702	.0613	.4388	.4617
	PHYSICAL MEDICINE	.0890	.0821	.5964	.6378
	PROSTATE CANCER SCREENING	.0051	.0067	.0367	.0382
	SURGICAL	.0719	.0601	.4638	.4750

sum		1.2367	1.0882	7.3574	7.6818
sum		2.2812	2.1364	14.0039	14.4283

SOURCE: ACORDIA NATIONAL AND EXPRESS SCRIPTS PAID CLAIMS TAPES
 NOTE: CLAIMS LISTED ARE ON A PAID BASIS

29 rows selected.

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**West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET**

DRAFT

	December 31	
	(in thousands)	
	2008	2007
ASSETS		
Short Term Assets		
Cash and Equivalents	\$ 16,699	\$ 33,775
Advance Deposit with Carrier/Trustee	183,008	139,216
Receivables - Net	4,595	2,180
Prepaid Insurance	3,068	3,197
Total Short Term Assets	207,370	178,368
Long Term Assets		
Investments	94,007	111,995
Total Long Term Assets	94,007	111,995
TOTAL ASSETS	301,377	290,363
LIABILITIES		
Short Term Liabilities		
Accounts payable	5,219	743
Claims Payable	577	345
OPEB Liability	35	-
Agents Commissions Payable	811	992
Unearned Revenue	8,276	9,642
Current Estimated Claim Reserve	48,212	53,299
Total Short Term Liabilities	63,130	65,021
Long Term Liabilities		
Compensated Absences	52	200
Estimated Noncurrent Claim Reserve	116,668	109,806
Total Long Term Liabilities	116,720	110,006
TOTAL LIABILITIES	179,850	175,027
Prior Year Net Assets	127,630	97,547
Current Year Earnings	(6,103)	17,789
TOTAL NET ASSETS	121,527	115,336
TOTAL LIABILITIES AND RETAINED EARNINGS	\$ 301,377	\$ 290,363

DRAFT - Unaudited - Management Purposes Only

West Virginia Board of Risk and Insurance Management
UNAUDITED INCOME STATEMENT
 For the six months ending

DRAFT

	December 31 (in thousands)	
	2008	2007
Operating Revenues		
Premium Revenues	\$ 31,704	\$ 37,309
Less - Excess Insurance	(3,068)	(3,197)
Total Operating Revenues	28,636	34,112
Operating Expenses		
Claims Expense	24,495	22,695
Property & MS Claims Expense	3,823	1,416
Personal Services	654	675
Operating Expenses	1,628	1,660
Total Operating Expenses	30,600	26,446
Operating Income (Loss)	(1,964)	7,666
Nonoperating Revenues		
Court Fees	16	17
Investment Income	(4,155)	10,106
Total Nonoperating Revenues	(4,139)	10,123
Net Income (Loss)	(6,103)	17,789

DRAFT - Unaudited - Management Purposes Only

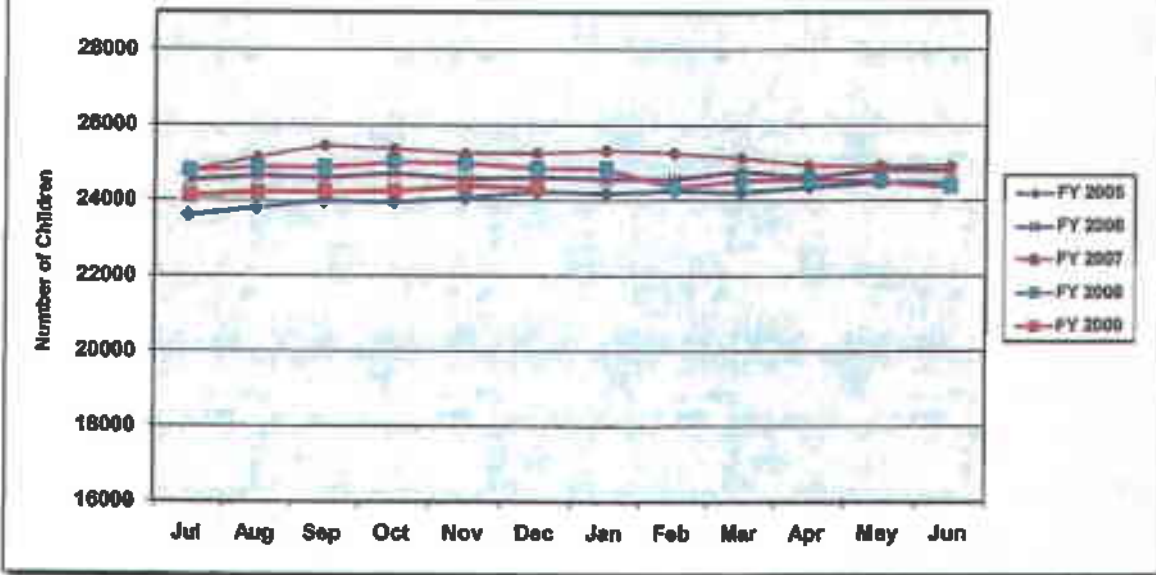


**West Virginia
Children's Health Insurance Program
1018 Kanawha Boulevard East
Suite 209
Charleston, WV 25301
Phone: 304-558-2732
Toll-Free: 1-877-WVA CHIP
Fax: 304-558-2741
www.wvchip.org**

**Joint Committee on
Government and Finance
Report**

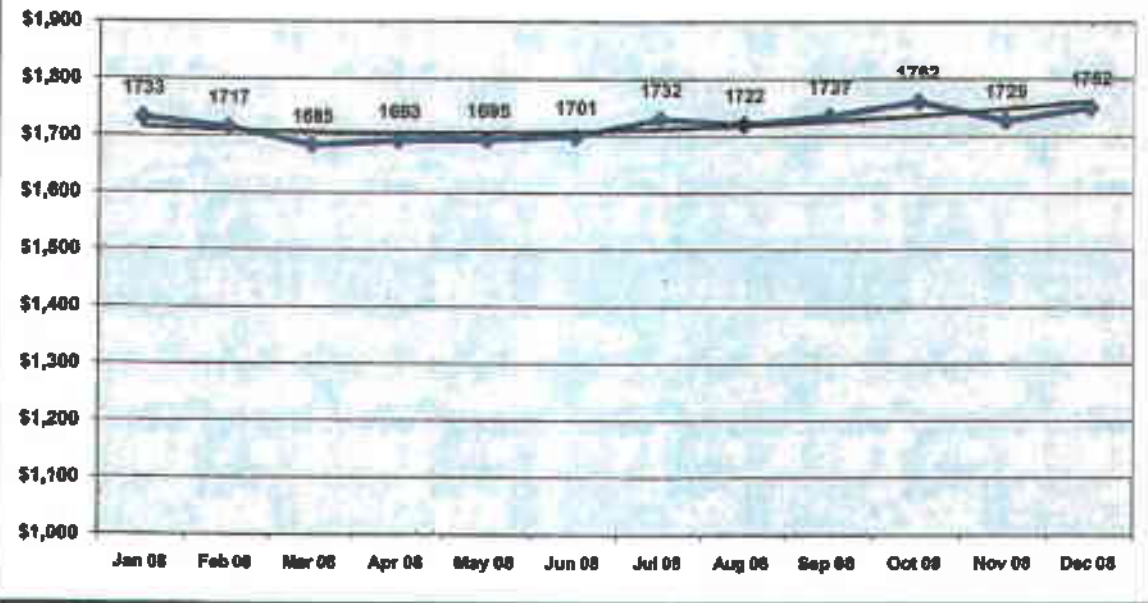
February 2009

WV CHIP Enrollment



January Enrollment = 24,354

Annualized Health Care Expenditures (Cost per Child)



**West Virginia Children's Health Insurance Program
Comparative Balance Sheet
December 2008 and 2007
(Accrual Basis)**

	December 31, 2008	December 31, 2007	Variance	
Assets:				
Cash & Cash Equivalents	\$8,059,528	\$5,721,673	\$2,337,855	41%
Due From Federal Government	\$2,729,180	\$2,608,851	\$120,329	5%
Due From Other Funds	\$614,993	\$573,451	\$41,542	7%
Accrued Interest Receivable	\$8,315	\$21,026	(\$12,711)	-60%
Fixed Assets, at Historical Cost	<u>\$70,829</u>	<u>\$61,569</u>	<u>\$9,260</u>	<u>15%</u>
Total Assets	<u>\$11,482,845</u>	<u>\$8,986,570</u>	<u>\$2,496,275</u>	<u>28%</u>
Liabilities:				
Due to Other Funds	\$144,173	\$382,302	(\$238,129)	-62%
Deferred Revenue	\$2,423,303	\$1,332,162	\$1,091,141	82%
Unpaid Insurance Claims Liability	<u>\$3,200,000</u>	<u>\$2,800,000</u>	<u>\$400,000</u>	<u>14%</u>
Total Liabilities	<u>\$5,767,476</u>	<u>\$4,514,464</u>	<u>\$1,253,012</u>	<u>28%</u>
Fund Equity	<u>\$5,715,369</u>	<u>\$4,472,106</u>	<u>\$1,243,263</u>	<u>28%</u>
Total Liabilities and Fund Equity	<u>\$11,482,845</u>	<u>\$8,986,570</u>	<u>\$2,496,275</u>	<u>28%</u>

PRELIMINARY FINANCIAL STATEMENTS

Unaudited - For Management Purposes Only - Unaudited

West Virginia Children's Health Insurance Program
Comparative Statement of Revenues, Expenditures and Changes in Fund Balances
For the Six Months Ending December 31, 2008 and December 31, 2007
(Modified Accrual Basis)

	December 31, 2008	December 31, 2007	Variance	
Revenues:				
Federal Grants	17,700,629	17,003,699	696,930	4%
State Appropriations	4,608,109	4,606,978	1,131	0%
Premium Revenues	55,492	34,712	20,780	60%
Investment Earnings	<u>86,620</u>	<u>129,419</u>	<u>(42,799)</u>	-33%
Total Operating Revenues	<u>22,450,851</u>	<u>21,774,808</u>	<u>676,043</u>	<u>3%</u>
Operating Expenditures:				
Claims:				
Outpatient Services	5,433,169	5,084,244	348,925	7%
Physicians & Surgical	4,664,679	4,175,680	488,999	12%
Prescribed Drugs	3,818,219	3,831,102	(12,883)	0%
Dental	2,475,918	2,513,558	(37,640)	-1%
Inpatient Hospital Services	1,850,208	1,912,130	(61,922)	-3%
Durable & Disposable Med. Equip.	616,363	523,730	92,633	18%
Outpatient Mental Health	599,003	550,482	48,521	9%
Vision	328,623	314,061	14,562	5%
Inpatient Mental Health	311,547	260,956	50,591	19%
Therapy	193,743	184,944	8,799	5%
Medical Transportation	145,029	134,603	10,426	8%
Other Services	41,426	39,988	1,438	4%
Less: Collections*	<u>(384,056)</u>	<u>(320,743)</u>	<u>(63,313)</u>	<u>20%</u>
Total Claims	<u>20,093,871</u>	<u>19,204,735</u>	<u>889,136</u>	<u>5%</u>
General and Admin Expenses:				
Salaries and Benefits	247,972	250,845	(2,873)	-1%
Program Administration	1,073,262	1,063,782	9,480	1%
Eligibility	159,392	172,093	(12,701)	-7%
Outreach & Health Promotion	66,973	35,316	31,657	90%
Current	<u>71,378</u>	<u>61,049</u>	<u>10,329</u>	<u>17%</u>
Total Administrative	<u>1,618,977</u>	<u>1,583,085</u>	<u>35,892</u>	<u>2%</u>
Total Expenditures	<u>21,712,848</u>	<u>20,787,820</u>	<u>925,028</u>	<u>4%</u>
Excess of Revenues				
Over (Under) Expenditures	738,003	986,988	(248,985)	-25%
Fund Equity, Beginning	<u>4,977,366</u>	<u>3,485,118</u>	<u>1,492,248</u>	<u>43%</u>
Fund Equity, Ending	<u>5,715,369</u>	<u>4,472,108</u>	<u>1,243,261</u>	<u>28%</u>

* Collections are primarily drug rebates and subrogation

PRELIMINARY FINANCIAL STATEMENTS

Unaudited - For Management Purposes Only - Unaudited

**West Virginia Children's Health Insurance Program
 Budget to Actual Statement
 State Fiscal Year 2009
 For the Six Months Ended December 31, 2008**

	<u>Budgeted for Year</u>	<u>Year to Date Budgeted Amt</u>	<u>Year to Date Actual Amt</u>	<u>Year to Date Variance*</u>		<u>Monthly Budgeted Amt</u>	<u>Dec-08</u>	<u>Nov-08</u>	<u>Oct-08</u>
Projected Cost	\$42,533,167	\$21,266,584	\$20,520,330	\$746,254	4%	\$3,544,431	\$3,861,081	\$2,626,269	\$4,674,673
Premiums	136,290	68,145	55,492	\$12,653	-19%	11,358	10,835	6,994	10,229
Subrogation & Rebates	<u>539,625</u>	<u>269,813</u>	<u>384,386</u>	<u>(114,574)</u>	<u>42%</u>	<u>44,969</u>	<u>32,919</u>	<u>45,116</u>	<u>69,624</u>
Net Benefit Cost	41,857,252	\$20,928,626	\$20,108,509	\$820,117	4%	3,488,104	3,828,162	2,581,153	4,605,049
Salaries & Benefits	\$515,486	\$257,743	\$247,973	\$9,770	4%	\$42,957	\$41,225	\$40,876	\$40,849
Program Administration	2,080,170	1,040,085	1,037,242	2,843	0%	173,348	283,252	168,682	165,148
Eligibility	318,670	159,335	162,993	(3,658)	-2%	26,556	78,821	0	0
Outreach	81,895	40,948	64,443	(23,496)	-57%	6,825	15,806	15,500	1,171
Current Expense	<u>140,400</u>	<u>70,200</u>	<u>64,836</u>	<u>5,364</u>	<u>8%</u>	<u>11,700</u>	<u>12,043</u>	<u>10,994</u>	<u>19,024</u>
Total Admin Cost	\$3,136,622	\$1,568,311	\$1,577,487	(\$9,176)	-1%	\$261,385	\$431,147	\$236,052	\$226,192
Total Program Cost	<u>\$44,993,874</u>	<u>\$22,496,937</u>	<u>\$21,685,996</u>	<u>\$810,941</u>	<u>4%</u>	<u>\$3,749,489</u>	<u>\$4,259,309</u>	<u>\$2,817,205</u>	<u>\$4,831,241</u>
Federal Share 81.98%	36,485,532	\$18,242,766	\$17,734,121	508,645	3%	3,040,461	3,476,022	2,299,121	3,942,776
State Share 18.02%	<u>8,508,342</u>	<u>\$4,254,171</u>	<u>\$3,951,875</u>	<u>302,296</u>	<u>7%</u>	<u>709,028</u>	<u>783,287</u>	<u>518,084</u>	<u>888,465</u>
Total Program Cost **	<u>\$44,993,874</u>	<u>\$22,496,937</u>	<u>\$21,685,996</u>	<u>\$810,941</u>	<u>4%</u>	<u>\$3,749,489</u>	<u>\$4,259,309</u>	<u>\$2,817,205</u>	<u>\$4,831,241</u>

* Positive percentages Indicate favorable variances

** Budgeted Year Based on CCRC Actuary 6/30/2008 Report.

Unaudited - Cash Basis For Management Purposes Only - Unaudited

WV CHIP Enrollment Report

ATTACHMENT 1

January 2009

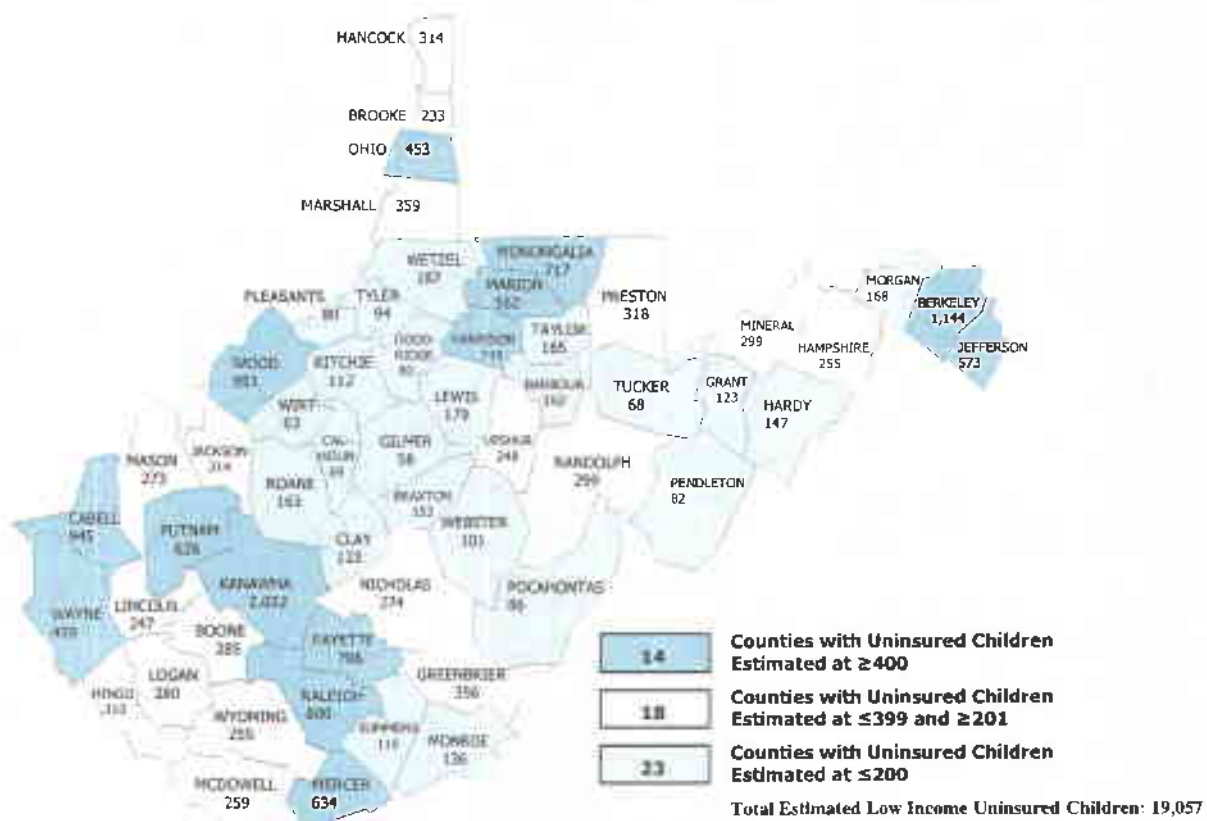
County Ranking	County Pop. 2005 Est. (0-18 Yrs)	Total CHIP Enrollment Jan-09	Total Medicaid Enrollment Jan-09	Total CHIP/Medicaid Enrollment	CHIP/Medicaid Enrollment % of Population	2007	2007
						Est Uninsured 5%	# Children Uninsured Ranking*
Kanawha	40,647	2,131	16,480	18,611	45.8%	2,032	1
Berkeley	22,882	1,215	6,239	7,454	32.6%	1,144	2
Wood	19,063	1,139	7,503	8,642	45.3%	953	3
Cabell	18,900	993	7,909	8,902	47.1%	945	4
Raleigh	15,992	1,213	6,891	8,104	50.7%	800	5
Harrison	14,973	946	5,680	6,626	44.3%	749	6
Monongalia	14,346	713	4,029	4,742	33.1%	717	7
Mercer	12,687	1,075	6,574	7,649	60.3%	634	8
Putnam	12,522	675	3,016	3,691	29.5%	626	9
Jefferson	11,465	380	2,333	2,713	23.7%	573	10
Marion	11,245	735	4,128	4,863	43.2%	562	11
Fayette	9,692	887	4,543	5,430	56.0%	485	12
Wayne	9,176	568	4,088	4,656	50.7%	459	13
Ohio	9,068	518	2,904	3,422	37.7%	453	14
Logan	7,610	528	3,800	4,328	56.9%	380	15
Marshall	7,176	386	2,642	3,028	42.2%	359	16
Greenbrier	7,110	577	2,735	3,312	46.6%	356	17
Preston	6,354	505	2,253	2,758	43.4%	318	18
Jackson	6,277	365	2,483	2,848	45.4%	314	19
Hancock	6,270	368	2,222	2,590	41.3%	314	20
Mingo	6,204	387	3,125	3,512	56.6%	310	21
Mineral	5,973	289	1,944	2,233	37.4%	299	22
Randolph	5,971	455	2,433	2,888	48.4%	299	23
Boone	5,706	299	2,508	2,807	49.2%	285	24
Nicholas	5,478	412	2,500	2,912	53.2%	274	25
Mason	5,461	308	2,557	2,865	52.5%	273	26
McDowell	5,170	391	3,224	3,615	69.9%	259	27
Hampshire	5,110	268	1,891	2,159	42.3%	255	28
Wyoming	5,092	439	2,535	2,974	58.4%	255	29
Upshur	4,956	406	2,192	2,598	52.4%	248	30
Lincoln	4,945	431	2,512	2,943	59.5%	247	31
Brooke	4,658	297	1,434	1,731	37.2%	233	32
Wetzel	3,732	221	1,580	1,801	48.3%	187	33
Lewis	3,577	297	1,708	2,005	56.0%	179	34
Morgan	3,365	241	1,148	1,389	41.3%	168	35
Taylor	3,307	219	1,323	1,542	46.6%	165	36
Roane	3,266	271	1,575	1,846	56.5%	163	37
Barbour	3,248	262	1,498	1,760	54.8%	162	38
Braxton	3,044	206	1,552	1,758	57.7%	152	39
Hardy	2,950	178	1,084	1,262	42.8%	147	40
Monroe	2,728	200	985	1,185	43.4%	136	41
Grant	2,463	138	937	1,075	43.6%	123	42
Clay	2,454	165	1,369	1,534	62.5%	123	43
Summers	2,322	213	1,101	1,314	56.6%	116	44
Ritchie	2,234	145	867	1,012	45.3%	112	45
Webster	2,020	182	1,095	1,277	63.2%	101	46
Tyler	1,887	118	777	895	47.4%	94	47
Pocahontas	1,717	149	673	822	47.9%	86	48

WV CHIP Enrollment Report

January 2009

ATTACHMENT 1

County Ranking	County Pop. 2005 Est. (0-18 Yrs)	Total CHIP Enrollment Jan-09	Total Medicaid Enrollment Jan-09	Total CHIP/Medicaid Enrollment	CHIP/Medicaid Enrollment % of Population	2007 Est. Uninsured 5%	2007 # Children Uninsured Ranking*
Pendleton	1,632	113	418	531	32.5%	82	49
Doddridge	1,607	131	672	803	50.0%	80	50
Pleasants	1,593	96	494	590	37.0%	80	51
Calhoun	1,389	131	796	927	66.8%	69	52
Tucker	1,354	163	480	643	47.5%	68	53
Wirt	1,268	106	550	656	51.7%	63	54
Gilmer	1,154	90	538	628	54.4%	58	55
Totals	382,490	24,354	150,527	174,881	45.7%	19,125	



Note 1: The most recent estimate for uninsured children statewide from the US Census Current Population Survey is 8%. CHIP uses a 5% estimate to reflect the percentage of uninsured children for outreach purposes who could qualify for CHIP or Medicaid. It should be noted that even this five percent extrapolation to the county level could vary significantly from county to county depending on the availability of employee sponsored insurance. However, it remains our best gross estimate of the remaining uninsured children.

Note 2: Since it has been estimated that 7 of 10 uninsured children qualify or may have qualified for CHIP or Medicaid in the past, WVCHIP asserts that a 5% uninsured estimate is a more realistic target number for outreach.

**Legislative Oversight Commission on
Health and Human Resources Accountability**

FEBRUARY 2009

Department of Administration

**State Children's Health Insurance Program
UPDATE**



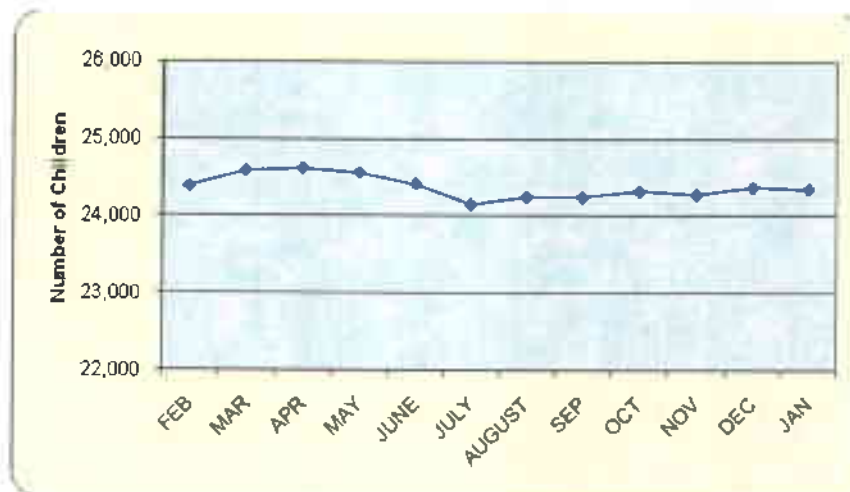
WV CHILDREN'S HEALTH INSURANCE AGENCY

REPORT FOR FEBRUARY 2009

I. Enrollment on January 30, 2009: 24,354

See Attachment 1 for enrollment by county.

Current 12-Month Enrollment Period: February 2009 through January 2009



Enrollee Totals: November 2008 to January 2009

Month	Total	I Year	Total
November	1,390	Average	1,755
December	1,258	High	2,097
January	1,426	Low	1,412

New Enrollee (Never Before on CHIP) Totals: November 2008 to January 2009

Month	Total	I Year	Total
November	526	Average	694
December	524	High	837
January	550	Low	550

II. Re-enrollment for 3 Month Period: October 2008 to December 2008

Total Forms Mailed		Enrolled within Notice Period		Reopened Cases After Closure		Final Closures	
Month	Total	#	%	#	%	#	%
October	1,867	1,066	57%	176	9%	590	32%
November	1,472	824	56%	124	8%	488	33%
December	1,675	979	58%	102	6%	567	34%

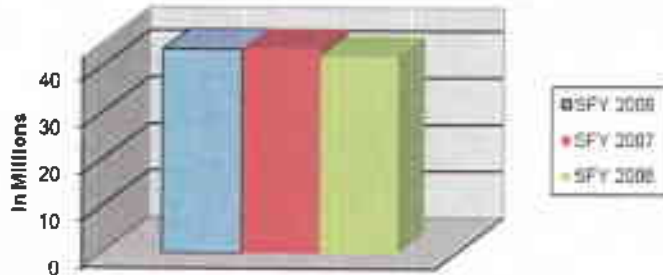
III. Financial Activity

Please see this month's financial statement at Attachment 2.

The average annualized claims cost per child for the month ended December 2008 was \$1,892.

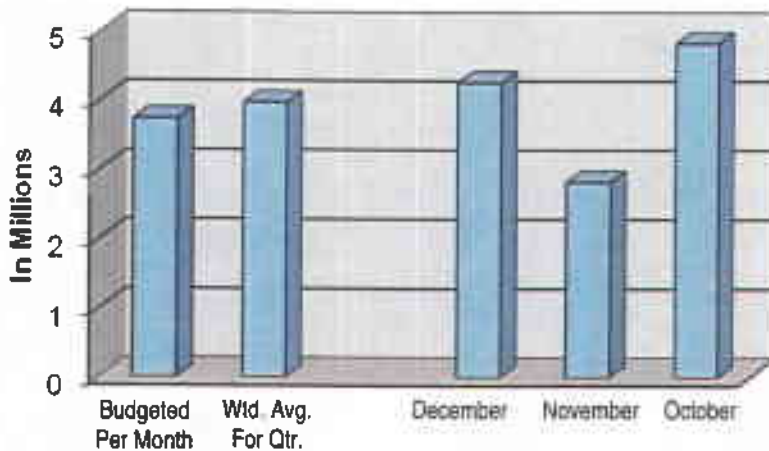
Annual Expenditures for a 3 Year Period: SFY 2006 – SFY 2008

	SFY 2008	FFP% 2008	SFY 2007	FFP% 2007	SFY 2006	FFP% 2006
Federal	35,626,232	81.98	35,472,537	80.97	34,247,276	81.09
State	7,947,861	18.02	8,336,944	19.03	7,986,385	18.91
Total Costs	43,574,093	100.00	43,809,481	100.00	42,233,661	100.00



Monthly Budgeted and Current 3 Month Period: October 2008 – December 2008

	Budgeted Per Month	Wtd. Avg. For Qtr.	Actual		
			December 2008	November 2008	October 2008
Federal	3,028,695	3,239,306	3,476,022	2,299,121	3,942,776
State	706,285	729,945	783,287	518,084	888,465
Total	3,734,980	3,969,252	4,259,309	2,817,205	4,831,241



IV. Other Highlights

- ◆ Now that CHIP has been reauthorized by Congress and signed into law last week by the President, Congressional Research Services estimates that WVCHIP will receive \$43.3 million in federal funds as an annual allotment under the new formula for distribution of CHIP federal funds.
- ◆ This represents a 73% increase above the \$25.0 million that the State was to receive under the old formula. The old formula would have led to a shortfall in SFY 2010 had there been no additional appropriation and formula change. The new formula also allows for an annual medical inflation adjustment.
- ◆ Funding under the Act will be made available for the next four and a half years.
- ◆ Current projections show the program will require \$37.6 million in federal funds by the end of this fiscal year; this will grow to \$40.3 million in the next fiscal year once expansion to 250% FPL has been in effect for a full twelve month period.

WV CHIP Enrollment Report

ATTACHMENT 1

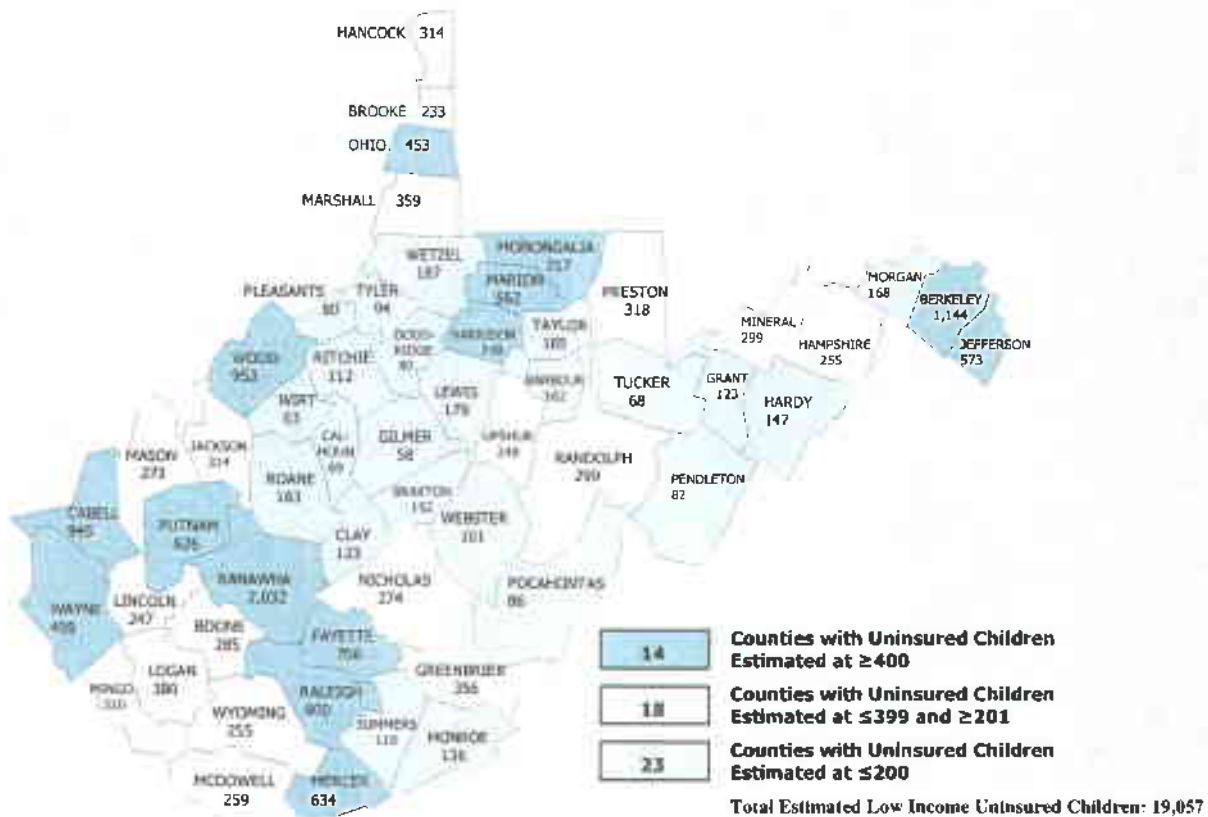
January 2009

County Ranking	County Pop. 2005 Est. (0-18 Yrs)	Total CHIP Enrollment Jan-09	Total Medicaid Enrollment Jan-09	Total CHIP/Medicaid Enrollment	CHIP/Medicaid Enrollment % of Population	2007 Est Uninsured 5%	2007 # Children Uninsured Ranking*
Kanawha	40,647	2,131	16,480	18,611	45.8%	2,032	1
Berkeley	22,882	1,215	6,239	7,454	32.6%	1,144	2
Wood	19,063	1,139	7,503	8,642	45.3%	953	3
Cabell	18,900	993	7,909	8,902	47.1%	945	4
Raleigh	15,992	1,213	6,891	8,104	50.7%	800	5
Harrison	14,973	946	5,680	6,626	44.3%	749	6
Monongalia	14,346	713	4,029	4,742	33.1%	717	7
Mercer	12,687	1,075	6,574	7,649	60.3%	634	8
Putnam	12,522	675	3,016	3,691	29.5%	626	9
Jefferson	11,455	380	2,333	2,713	23.7%	573	10
Marion	11,245	735	4,128	4,863	43.2%	562	11
Fayette	9,692	887	4,543	5,430	56.0%	485	12
Wayne	9,176	568	4,088	4,656	50.7%	459	13
Ohio	9,068	518	2,904	3,422	37.7%	453	14
Logan	7,610	528	3,800	4,328	56.9%	380	15
Marshall	7,176	386	2,642	3,028	42.2%	359	16
Greenbrier	7,110	577	2,735	3,312	46.6%	356	17
Preston	6,354	505	2,253	2,758	43.4%	318	18
Jackson	6,277	365	2,483	2,848	45.4%	314	19
Hancock	6,270	368	2,222	2,590	41.3%	314	20
Mingo	6,204	387	3,125	3,512	56.6%	310	21
Mineral	5,973	289	1,944	2,233	37.4%	299	22
Randolph	5,971	455	2,433	2,888	48.4%	299	23
Boone	5,706	299	2,508	2,807	49.2%	285	24
Nicholas	5,478	412	2,500	2,912	53.2%	274	25
Mason	5,461	308	2,557	2,865	52.5%	273	26
McDowell	5,170	391	3,224	3,615	69.9%	259	27
Hampshire	5,110	268	1,891	2,159	42.3%	255	28
Wyoming	5,092	439	2,535	2,974	58.4%	255	29
Upshur	4,956	406	2,192	2,598	52.4%	248	30
Lincoln	4,945	431	2,512	2,943	59.5%	247	31
Brooke	4,658	297	1,434	1,731	37.2%	233	32
Wetzel	3,732	221	1,580	1,801	48.3%	187	33
Lewis	3,577	297	1,708	2,005	56.0%	179	34
Morgan	3,365	241	1,148	1,389	41.3%	168	35
Taylor	3,307	219	1,323	1,542	46.6%	165	36
Roane	3,266	271	1,575	1,846	56.5%	163	37
Barbour	3,248	282	1,498	1,780	54.8%	162	38
Braxton	3,044	206	1,552	1,758	57.7%	152	39
Hardy	2,950	178	1,084	1,262	42.8%	147	40
Monroe	2,728	200	985	1,185	43.4%	136	41
Grant	2,463	138	937	1,075	43.6%	123	42
Clay	2,454	165	1,369	1,534	62.5%	123	43
Summers	2,322	213	1,101	1,314	56.6%	116	44
Ritchie	2,234	145	867	1,012	45.3%	112	45
Webster	2,020	182	1,095	1,277	63.2%	101	46
Tyler	1,887	118	777	895	47.4%	94	47
Pocahontas	1,717	149	673	822	47.9%	86	48

WV CHIP Enrollment Report

January 2009

County Ranking	County Pop. 2005 Est. (0-18 Yrs)	Total CHIP Enrollment Jan-09	Total Medicaid Enrollment Jan-09	Total CHIP/Medicaid Enrollment	CHIP/Medicaid Enrollment % of Population	2007 Est. Uninsured 5%	2007 # Children Uninsured Ranking*
Pendleton	1,632	113	418	531	32.5%	82	49
Doddridge	1,607	131	672	803	50.0%	80	50
Pleasants	1,593	96	494	590	37.0%	80	51
Calhoun	1,389	131	796	927	66.8%	69	52
Tucker	1,354	163	480	643	47.5%	68	53
Wirt	1,268	106	550	656	51.7%	63	54
Gilmer	1,154	90	538	628	54.4%	58	55
Totals	382,490	24,354	150,527	174,881	45.7%	19,125	



Note 1: The most recent estimate for uninsured children statewide from the US Census Current Population Survey is 8%. CHIP uses a 5% estimate to reflect the percentage of uninsured children for outreach purposes who could qualify for CHIP or Medicaid. It should be noted that even this five percent extrapolation to the county level could vary significantly from county to county depending on the availability of employee sponsored insurance. However, it remains our best gross estimate of the remaining uninsured children.

Note 2: Since it has been estimated that 7 of 10 uninsured children qualify or may have qualified for CHIP or Medicaid in the past, WVCHIP asserts that a 5% uninsured estimate is a more realistic target number for outreach.

West Virginia Children's Health Insurance Program
Comparative Statement of Revenues, Expenditures and Changes in Fund Balances
For the Six Months Ending December 31, 2008 and December 31, 2007
(Modified Accrual Basis)

	December 31, 2008	December 31, 2007	Variance	
Revenues:				
Federal Grants	17,700,629	17,003,699	696,930	4%
State Appropriations	4,608,109	4,606,978	1,131	0%
Premium Revenues	55,492	34,712	20,780	60%
Investment Earnings	<u>86,620</u>	<u>129,419</u>	<u>(42,799)</u>	-33%
Total Operating Revenues	<u>22,450,851</u>	<u>21,774,808</u>	<u>676,043</u>	<u>3%</u>
Operating Expenditures:				
Claims:				
Outpatient Services	5,433,169	5,084,244	348,925	7%
Physicians & Surgical	4,664,679	4,175,680	488,999	12%
Prescribed Drugs	3,818,219	3,831,102	(12,883)	0%
Dental	2,475,918	2,513,558	(37,640)	-1%
Inpatient Hospital Services	1,850,208	1,912,130	(61,922)	-3%
Durable & Disposable Med. Equip.	616,363	523,730	92,633	18%
Outpatient Mental Health	599,003	550,482	48,521	9%
Vision	328,623	314,061	14,562	5%
Inpatient Mental Health	311,547	260,956	50,591	19%
Therapy	193,743	184,944	8,799	5%
Medical Transportation	145,029	134,603	10,426	8%
Other Services	41,426	39,988	1,438	4%
Less: Collections*	<u>(384,056)</u>	<u>(320,743)</u>	<u>(63,313)</u>	<u>20%</u>
Total Claims	<u>20,093,871</u>	<u>19,204,735</u>	<u>889,136</u>	<u>5%</u>
General and Admin Expenses:				
Salaries and Benefits	247,972	250,845	(2,873)	-1%
Program Administration	1,073,262	1,063,782	9,480	1%
Eligibility	159,392	172,093	(12,701)	-7%
Outreach & Health Promotion	66,973	35,316	31,657	90%
Current	<u>71,378</u>	<u>61,049</u>	<u>10,329</u>	<u>17%</u>
Total Administrative	<u>1,618,977</u>	<u>1,583,085</u>	<u>35,892</u>	<u>2%</u>
Total Expenditures	<u>21,712,848</u>	<u>20,787,820</u>	<u>925,028</u>	<u>4%</u>
Excess of Revenues				
Over (Under) Expenditures	738,003	986,988	(248,985)	-25%
Fund Equity, Beginning	<u>4,977,366</u>	<u>3,485,118</u>	<u>1,492,248</u>	<u>43%</u>
Fund Equity, Ending	<u>5,715,369</u>	<u>4,472,106</u>	<u>1,243,263</u>	<u>28%</u>

* Collections are primarily drug rebates and subrogation

PRELIMINARY FINANCIAL STATEMENTS

Unaudited - For Management Purposes Only - Unaudited

**West Virginia Children's Health Insurance Program
Comparative Balance Sheet
December 2008 and 2007
(Accrual Basis)**

	December 31, 2008	December 31, 2007	Variance	
Assets:				
Cash & Cash Equivalents	\$8,059,528	\$5,721,673	\$2,337,855	41%
Due From Federal Government	\$2,729,180	\$2,608,851	\$120,329	5%
Due From Other Funds	\$614,993	\$573,451	\$41,542	7%
Accrued Interest Receivable	\$8,315	\$21,026	(\$12,711)	-60%
Fixed Assets, at Historical Cost	<u>\$70,829</u>	<u>\$61,569</u>	<u>\$9,260</u>	<u>15%</u>
Total Assets	<u>\$11,482,845</u>	<u>\$8,986,570</u>	<u>\$2,496,275</u>	<u>28%</u>
Liabilities:				
Due to Other Funds	\$144,173	\$382,302	(\$238,129)	-62%
Deferred Revenue	\$2,423,303	\$1,332,162	\$1,091,141	82%
Unpaid Insurance Claims Liability	<u>\$3,200,000</u>	<u>\$2,800,000</u>	<u>\$400,000</u>	<u>14%</u>
Total Liabilities	<u>\$5,767,476</u>	<u>\$4,514,464</u>	<u>\$1,253,012</u>	<u>28%</u>
Fund Equity	<u>\$5,715,369</u>	<u>\$4,472,106</u>	<u>\$1,243,263</u>	<u>28%</u>
Total Liabilities and Fund Equity	<u>\$11,482,845</u>	<u>\$8,986,570</u>	<u>\$2,496,275</u>	<u>28%</u>

PRELIMINARY FINANCIAL STATEMENTS

Unaudited - For Management Purposes Only - Unaudited

West Virginia Children's Health Insurance Program
WVFIMS Fund 2154
For the Month Ended December 31, 2008
(Accrual Basis)

Investment Account

Funds Invested	\$7,871,641
Interest Earned	<u>86,620</u>
Total	<u>\$7,958,261</u>

Unaudited - For Management Purposes Only - Unaudited

Department of Administration Leasing Report
For The Period of January 1, 2009 through January 30, 2009

NEW CONTRACT OF LEASE

INSURANCE COMMISSION

INS-026 New contract of lease for 5 years containing 6,238 square feet of office space at the PSF rate of \$13.50, full service, with S.A.A.C. LLC, in the City of Charleston, Kanawha County.

STRAIGHT RENEWALS

ATTORNEY GENERALS OFFICE

AGO-013 Renewal for 1 year containing 4,000 square feet of storage space at the PSF rate of \$3.00, electrical service only, with First Charleston Corporation, LLC, in the City of Charleston, Kanawha County.

BOARD OF FUNERAL EXAMINERS

EMB-001 Renewal for 1 year containing 973 square feet of office space at the PSF rate of \$11.08, janitorial services and snow removal only, with Kanawha Investment Company, in the City of Charleston, Kanawha County.

DEPARTMENT OF ENVIRONMENTAL PROTECTION

DEP-173 Renewal for 3 years containing 100 square feet of storage space at the PSF rate of \$7.20, with Bridgeport Storage, LLC, in the City of Clarksburg, Harrison County.

DEP-165 Renewal for 3 years containing 100 square feet of storage space at the PSF rate of \$6.00, with Lakeside Self Storage, in the City of Elk Garden, Mineral County.

DEP-164 Renewal for 3 years containing 100 square feet of storage space at the PSF rate of \$6.60, with Peaslee's Service Center, in the City of Kingwood, Preston County.

DEPARTMENT OF HEALTH AND HUMAN RESOURCES

HHR-178 Renewal for 4 years containing 3,325 square feet of office space at the PSF rate of \$7.95, with Steve Lorenze Jr. and Ginger L. Lorenze, in the City of Morgantown, Monongalia County.

CONTINUATION OF STRAIGHT RENEWALS

HHR-152 Renewal for 1 year containing 2,878 square feet of office space at the PSF rate of \$6.50, full service including janitorial, with the County Commission of Jefferson County, in the City of Kearneysville, Jefferson County.

HHR-101 Renewal for 1 year containing 6,560 square feet of office space at the PSF rate of \$5.85, full service with the exception of janitorial services and snow removal, with Philippi Municipal Building Commission, in the City of Philippi, Barbour County.

DIVISION OF HIGHWAYS

HWY-023 Renewal for 1 year containing 80 square feet of office space at the PSF rate of \$45.00, full service with the exception of telephone service, with West Virginia University Research Corporation, in the City of Morgantown, Monongalia County.

DIVISION OF VETERANS AFFAIRS

VET-007 Renewal for 1 year containing 739 square feet of office space at the PSF rate of \$1.62, full service, with the County Commission of Mercer County, in the City of Princeton, Mercer County.

FAIRMONT STATE UNIVERSITY

FSC-027 Renewal for 1 year containing 422 square feet of office space at the PSF rate of \$10.50, full service, with the Upshur County Development Authority, in the City of Buckhannon, Upshur County.

FSC-025 Renewal for 1 year containing 200 square feet of storage space at the PSF rate of \$7.14, full service, with K & K Storage, in the City of Fairmont, Marion County.

NEW RIVER COMMUNITY AND TECHNICAL COLLEGE

NRC-012 Renewal on a month-to-month basis containing 2,240 square feet of classroom space at the PSF rate of \$6.43, with Fairview Land Holdings, in the City of Caldwell, Greenbrier County.

SOUTHERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

SWV-014 Renewal for 7 months containing 39,000 square feet of office space at the PSF rate of \$0.92, full service with the exception of gas and electrical service, with Hill Realty, Inc., in the City of Logan, Logan County.

CONTINUATION OF STRAIGHT RENEWALS

WEST VIRGINIA DEPARTMENT OF AGRICULTURE

AGR-047 Renewal for 3 years containing 502 square feet of office space at the PSF rate of \$11.95, full service, with Human Resource Development and Employment, Inc., in the City of Hinton, Summers County.

WEST VIRGINIA STATE COMMUNITY AND TECHNICAL COLLEGE

WVS-002 Renewal for 1 year containing 2,360 square feet of office space at the PSF rate of \$10.00, full service, with WVSU R&D Corporation, in the City of Institute, Kanawha County.

WORKFORCE WEST VIRGINIA

WWV-014 Renewal for 1 year containing 3,836 square feet of office space at the PSF rate of \$12.52, full service, with Region 1 WORK4WV, in the City of Princeton, Mercer County.

WWV-006 Renewal for 10 months containing 300 square feet of office space at the PSF rate of \$12.00, full service, with South Western Region 2 Workforce Investment Board, in the City of Williamson, Mingo County.

RENEWAL/RENT INCREASE

AUDITORS OFFICE

SAO-008 Renewal for 4 years containing 19,443 square feet of office space, with an increase from \$3.50 per square foot to \$6.50 per square foot, full service including janitorial, with Grandeotto, Inc., in the City of Clarksburg, Harrison County.

RENEWAL AND INCREASING SQUARE FOOTAGE/RENT

DEPARTMENT OF HEALTH AND HUMAN RESOURCES

HHR-156 Renewal for 1 year and increasing square footage by 200 square feet of storage space for a total of 1,000 square feet and increasing rent from \$134.00 per month (\$2.01 annual per square foot rate) to \$167.50 per month (\$2.01 annual per square foot rate), with Burdette Realty Improvement, Inc., in the City of Charleston, Kanawha County.

INCREASING SQUARE FOOTAGE/RENT

WORKFORCE WEST VIRGINIA

WWV-001 Increasing square footage by 200 square feet of office space for a total of 500 square feet and increasing rent from \$300.00 per month (\$12.00 annual per square foot rate) to \$500.00 per month (\$12.00 annual per square foot rate), full service, with South Western WV Region 2 Workforce Investment Board, Inc., in the City of Hurricane, Putnam County.

DECREASING SQUARE FOOTAGE

DIVISION OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT

OES-015 Decreasing square footage by 4,000 square feet for a total of 9,000 square feet of office space at the PSF rate of \$4.89, with O.V. Smith and Sons of Big Chimney, Inc., in the City of Big Chlmney, Kanawha County.

Joint Committee on Government and Finance

February 2009

Department of Health and Human Resources

MEDICAID REPORT

November 2008 Data

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES
 BUREAU FOR MEDICAL SERVICES
 EXPENDITURES BY PROVIDER TYPE
 SFY2008

MONTH OF NOVEMBER 2008	ACTUALS	TOTAL	ESTIMATE	ACTUALS	ACTUALS	PROJECTED
	SFY2008	SFY2008	Current Month Nov-08	Current Month Nov-08	Year To-Date Thru 11/30/08	12/01/08 Thru 06/30/09
EXPENDITURES:						
Inpatient Hospital Services	224,743,080	233,875,834	13,238,304	14,058,308	87,185,183	138,480,481
Inpatient Hospital Services - DSH Adjustment Payments	58,888,017	57,752,400	14,438,100	13,578,885	27,149,280	30,803,110
Mental Health Facilities	44,424,899	47,803,433	3,885,888	4,011,184	20,378,087	27,227,338
Mental Health Facilities - DSH Adjustment Payments	18,768,880	18,774,000	4,883,600	4,707,733	9,364,846	9,419,056
Nursing Facility Services	431,721,537	481,013,785	38,445,475	38,835,888	183,488,888	287,547,927
Intermediate Care Facilities - Public Providers	-	-	-	-	-	-
Intermediate Care Facilities - Private Providers	68,148,889	83,050,810	5,203,874	6,409,411	25,372,663	37,878,147
Physicians Services ***	122,768,471	125,182,823	8,884,844	10,218,483	58,010,680	87,151,943
Outpatient Hospital Services	104,888,483	111,471,388	8,580,884	8,830,488	48,669,723	62,801,842
Prescribed Drugs	337,816,180	363,800,438	27,278,224	28,226,289	144,233,888	209,388,480
Drug Rebate Offset - National Agreement	(107,877,904)	(102,168,200)	(1,800,283)	(1,231,378)	(54,418,482)	(47,748,708)
Drug Rebate Offset - State Sidebar Agreement	(28,028,517)	(31,823,800)	(464,378)	(782,898)	(2,878,831)	(28,044,689)
Dental Services ***	37,877,318	42,380,562	3,283,784	3,826,881	18,474,178	25,808,384
Other Practitioners Services	28,888,342	28,888,748	2,240,848	1,683,782	9,684,168	20,208,683
Clinic Services	38,381,528	34,754,833	2,875,878	2,581,224	15,888,270	19,066,682
Lab & Radiological Services	8,222,288	9,200,885	712,718	832,168	4,087,092	5,113,783
Home Health Services	28,870,378	31,860,050	2,471,782	2,178,547	13,815,871	18,034,378
Hysterectomies/Sterilizations	815,828	820,128	40,048	888	215,438	303,681
Pregnancy Terminations	-	-	-	-	-	-
EPSDT Services	2,418,032	2,843,119	228,492	182,613	885,781	1,947,338
Rural Health Clinic Services	8,710,171	7,433,056	873,318	738,408	3,113,747	4,318,308
Medicare Health Insurance Payments - Part A Premiums	17,124,183	18,871,400	1,888,860	1,438,376	7,185,187	11,818,213
Medicare Health Insurance Payments - Part B Premiums	87,860,223	75,481,100	8,288,428	6,878,097	28,370,773	46,080,327
120% - 134% Of Poverty	4,004,182	-	-	388,010	1,888,040	(1,888,040)
135% - 178% Of Poverty	-	-	-	-	-	-
Coinsurance And Deductibles	-	-	-	-	-	-
Medicaid Health Insurance Payments: Managed Care Organizations (MCO)	267,813,367	267,842,700	22,328,688	23,529,288	120,175,107	147,787,683
Medicaid Health Insurance Payments: Group Health Plan Payments	336,288	485,200	35,784	-	128,402	338,788
Home & Community-Based Services (MR/DD)	218,374,534	260,704,840	20,054,248	18,825,089	88,411,108	164,283,532
Home & Community-Based Services (Aged/Disabled)	65,832,681	88,588,233	8,812,018	8,588,871	31,802,373	68,783,680
Community Supported Living Services	-	-	-	-	-	-
Programs Of All-Inclusive Care Elderly	-	-	-	-	-	-
Personal Care Services	37,798,605	42,173,550	3,244,224	3,112,448	15,807,588	26,288,042
Targeted Case Management Services	8,438,816	7,817,608	803,832	338,038	1,808,681	6,009,027
Primary Care Case Management Services	718,208	810,500	82,348	82,880	275,745	834,755
Hospice Benefits	12,383,108	13,480,400	1,035,416	1,215,288	5,788,264	7,872,108
Emergency Services Undocumented Aliens	-	-	-	-	-	-
Federally Qualified Health Center	17,475,447	18,888,888	1,808,784	1,977,848	7,480,884	12,108,112
Other Care Services	121,772,850	137,481,167	10,808,882	10,087,820	54,788,815	82,712,352
Less: Recoupments	-	-	-	(75,277)	(280,739)	280,739
NET EXPENDITURES:	2,238,331,734	2,429,523,252	208,608,450	211,765,486	1,002,848,888	1,428,878,288

MONTH OF NOVEMBER 2008	ACTUALS	TOTAL	ESTIMATE	ACTUALS	ACTUALS	PROJECTED
	SFY2008	SFY2008	Current Month Nov-08	Current Month Nov-08	Year To-Date Thru 11/30/08	12/01/08 Thru 09/30/09
Collections: Third Party Liability (line 8A on CMS-64)	(4,588,459)				(868,714)	868,714
Collections: Probate (line 8B on CMS-64)	(178,773)				(8,403)	8,403
Collections: Identified through Fraud & Abuse Effort (line 8C on CMS-64)	(198,810)				(12,317)	12,317
Collections: Other (line 8D on CMS-64)	(4,108,827)				(1,268,763)	1,268,763
NET EXPENDITURES and CMS-64 ADJUSTMENTS:	2,229,261,268	2,428,823,262	208,808,450	211,788,488	1,000,460,788	1,428,062,483
Plus: Medicaid Part D Expenditures	28,322,509	28,968,800	2,305,268	2,448,074	12,121,324	17,847,178
Plus: State Only Medicaid Expenditures	4,078,889	3,834,896	278,607	423,585	1,987,666	1,887,329
TOTAL MEDICAID EXPENDITURES	2,282,682,843	\$2,483,128,647	211,180,325	\$214,638,188	\$1,014,549,669	\$1,448,678,988
Plus: Reimbursables ⁽¹⁾	3,830,907	4,042,671	310,876	284,492	1,645,938	2,396,739
TOTAL EXPENDITURES	\$2,286,493,690	\$2,487,169,318	211,501,300	\$214,928,547	\$1,016,198,697	\$1,450,973,721

(1) This amount will revert to State Only if not reimbursed.

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES
 BUREAU FOR MEDICAL SERVICES
 MEDICAID CASH REPORT
 SFY2008

5 Months Actuals 7 Months Remaining

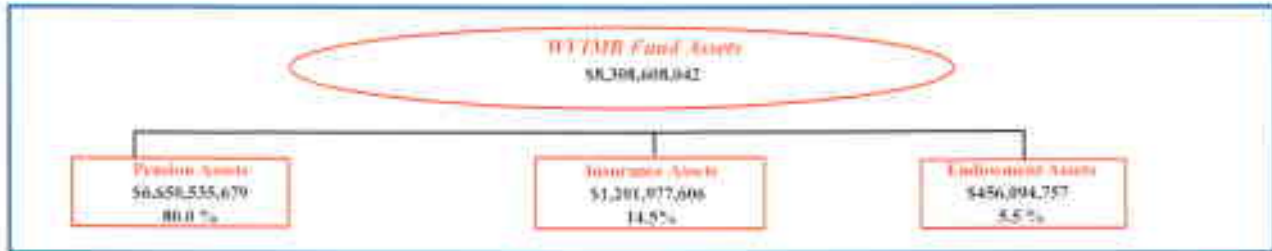
MONTH OF NOVEMBER 2008	ACTUALS	ACTUALS	ACTUALS	PROJECTED	TOTAL
	SFY2008	Current Month Ended 11/30/08	Year-To-Date Thru 11/30/08	12/1/2008 Thru 06/30/09	SFY2009
REVENUE SOURCES					
Beg. Bal. (5084/1020 prior mth)	26,493,079	3,959,087	\$34,833,056		\$34,833,056
MATCHING FUNDS					
General Revenue (0403/189)	393,705,687	32,871,750	140,484,638	253,221,049	393,705,687
Rural Hospitals Under 150 Beds (0403/840)	2,596,001	216,333	1,081,887	1,514,333	2,596,000
Tertiary Funding (0403/647)	4,856,000	404,667	2,023,334	2,832,666	4,856,000
Lottery Waiver (Less 550,000) (6405/539)	23,272,578		13,460,000	9,822,578	23,372,578
Lottery Transfer (5405/871)	10,300,000		5,600,000	4,800,000	10,300,000
Trust Fund Appropriation (5185/189)	14,337,873	10,019,207	14,710,767	15,846,837	30,556,594
Provider Tax (5090/189)	171,383,668	13,211,696	66,011,696	99,648,409	165,660,004
Certified Match	19,347,784	1,067,625	8,838,455	14,367,543	23,205,998
Reimbursables - Amount Reimbursed	3,721,481	196,745	1,626,378	2,416,293	4,042,671
Other Revenue (MWIN, Escheated Warrants, etc.) 5084/4010 & 4015	301,164	38,668	168,012	(168,012)	0
CMS - 64 Adjustments	(5,968,538)		2,000,569	-2,000,569	0
TOTAL MATCHING FUNDS	684,346,748	\$61,986,577	\$290,826,460	\$402,402,128	\$693,226,587
FEDERAL FUNDS	1,630,763,428	155,989,449	729,514,961	\$1,089,769,881	\$1,799,274,841
TOTAL REVENUE SOURCES	2,295,130,176	\$217,975,026	\$1,020,341,420	\$1,472,162,008	\$2,492,603,428
TOTAL EXPENDITURES:					
Provider Payments	2,266,483,550	\$214,826,847	\$1,016,186,697	\$1,450,973,721	\$2,467,169,318
TOTAL	28,646,628	\$3,046,379	\$4,146,824		\$26,334,111

Note: FMAP (08' - 74.26% applicable July - Sept. 2008) (09' - 73.73% applicable Oct. 2008 - June 2009)
 (1) This amount will revert to State Only if not reimbursed.

Calendar Year 2008 Net Asset Value Progression
All amounts in (000's)
WVIMB

Balance 1/1/2008	\$ 10,356,476
CY 2008 Contributions	9,782,266
CY 2008 Withdrawals	<u>(8,858,708)</u>
Net Contributions	923,558
Net decrease from operations	(2,984,832)
Balance 12/31/2008	<u>\$ 8,295,202</u>

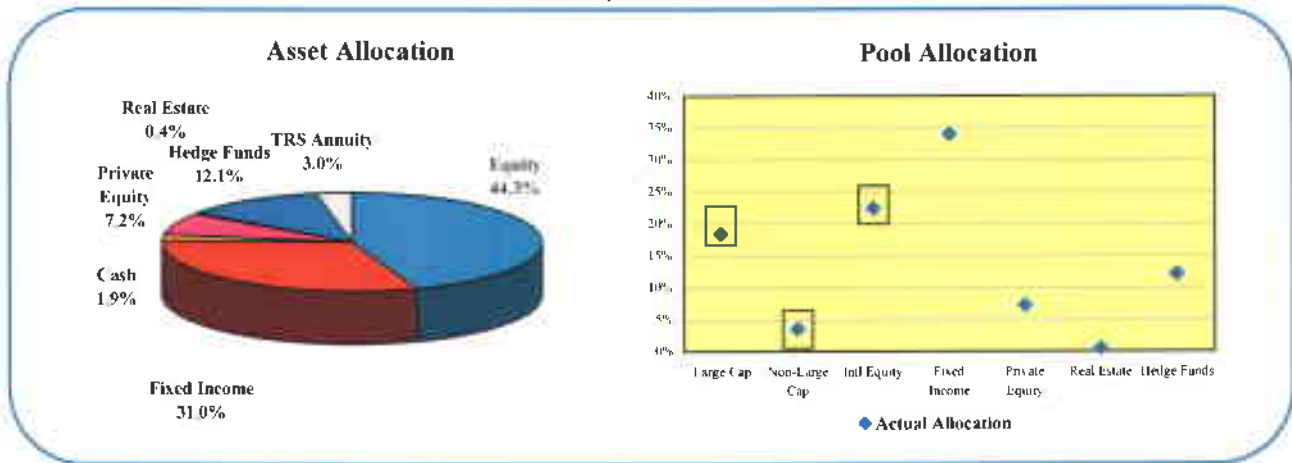
West Virginia Investment Management Board
Periods Ending December 31, 2008



Assets	Asset Values	Month Investment Earnings	Month						
			Month	Qtr	YFD	1 Year	3 Years	5 Years	10 Years
Participant Plans¹									
<u>Pension Assets</u>									
Public Employees' Retirement System	\$2,977,091,673	\$101,092,509	3.5%	(14.3)%	(28.3)%	(28.3)%	(4.6)%	0.9%	2.8%
Teachers' Retirement System	3,110,469,661	96,740,536	3.3%	(14.4)%	(29.1)%	(29.1)%	(5.1)%	0.6%	2.6%
Teachers' Employers Cont. Collection A/C	27,098,238	20,973	0.1%	0.3%	2.4%	2.4%	N/A	N/A	N/A
EMS Retirement System	13,407,903	449,576	3.5%	(14.0)%	N/A	N/A	N/A	N/A	N/A
Public Safety Retirement System	340,595,268	11,463,359	3.5%	(14.4)%	(28.4)%	(28.4)%	(4.7)%	0.9%	2.8%
Judges' Retirement System	78,736,261	2,574,931	3.5%	(14.3)%	(28.2)%	(28.2)%	(4.7)%	0.9%	2.7%
State Police Retirement System	33,960,141	1,146,148	3.5%	(14.1)%	(27.9)%	(27.9)%	(4.5)%	0.9%	2.7%
Deputy Sheriffs' Retirement System	69,176,534	2,355,338	3.5%	(14.2)%	(28.1)%	(28.1)%	(4.6)%	0.9%	2.9%
<u>Insurance Assets</u>									
Workers' Compensation Old Fund	605,030,822	13,661,908	2.3%	(10.7)%	(20.3)%	(20.3)%	(3.0)%	N/A	N/A
Workers' Comp. Self-Insured Guaranty Risk Pool	5,951,836	5,043	0.1%	0.3%	2.4%	2.4%	4.3%	N/A	N/A
Workers' Comp. Uninsured Employers Fund	8,275,364	7,014	0.1%	0.3%	2.4%	2.4%	4.3%	N/A	N/A
Pneumoconiosis	207,576,217	4,574,696	2.3%	(9.8)%	(18.5)%	(18.5)%	(2.3)%	N/A	N/A
Board of Risk & Insurance Mgmt.	94,007,017	2,732,105	3.0%	(6.6)%	(16.1)%	(16.1)%	(1.3)%	N/A	N/A
Public Employees' Insurance Agency	103,168,770	2,403,184	2.4%	(9.0)%	(17.1)%	(17.1)%	(1.9)%	N/A	N/A
WV Retiree Health Benefit Trust Fund	177,967,580	6,024,330	3.5%	(4.6)%	N/A	N/A	N/A	N/A	N/A
<u>Endowment Assets</u>									
Wildlife Fund	27,013,067	919,575	3.5%	(13.9)%	(28.0)%	(28.0)%	(4.7)%	0.9%	3.8%
Prepaid Tuition Trust	66,489,376	2,848,585	4.5%	(12.9)%	(27.0)%	(27.0)%	(4.2)%	1.2%	N/A
Prepaid Tuition Trust Escrow	3,292,177	77,167	2.5%	(4.6)%	(10.4)%	(10.4)%	(0.1)%	1.6%	N/A
Revenue Shortfall Reserve Fund	150,357,487	4,790,246	3.3%	(14.8)%	(28.8)%	(28.8)%	N/A	N/A	N/A
Revenue Shortfall Reserve Fund - Part B	208,942,650	6,645,629	3.3%	(14.9)%	(29.2)%	(29.2)%	N/A	N/A	N/A

¹Returns are net of manager fees and expenses. Returns shorter than 1 year are unannualized.

WVIMB Investment Pools
Periods Ending December 31, 2008



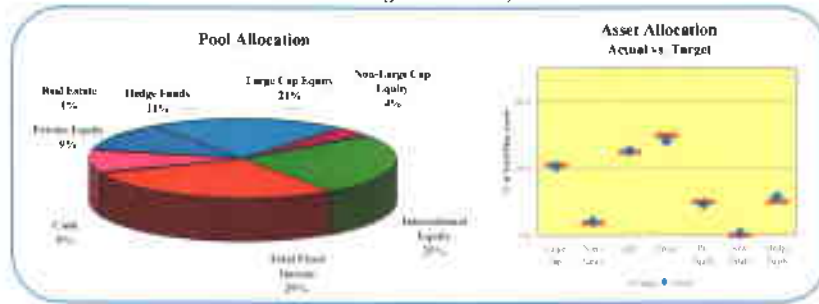
Investment Pools	Asset Values (000's)	Index Returns (Blue)			Actual Returns (Black)		
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Large Cap Equity							
Large Cap S&P 500	\$1,533,532	2.1 % 1.1 %	(21.9)% (21.9)%	(37.3)% (37.0)%	(37.3)% (37.0)%	(8.8)% (8.4)%	(1.9)% (2.2)%
Non-Large Cap Equity							
Total Non-Large Cap Russell 2500	\$292,853	3.7 % 5.4 %	(24.1)% (26.2)%	(35.6)% (36.8)%	(35.6)% (36.8)%	(8.8)% (9.4)%	0.1 % (1.0)%
Total Domestic Equity Russell 3000	\$1,826,385	2.3 % 1.9 %	(22.3)% (22.8)%	(36.6)% (37.3)%	(36.6)% (37.3)%	(8.7)% (8.6)%	(1.1)% (1.9)%
International Equity							
Total International MSCI All Country World Free EX US	\$1,860,011	8.2 % 5.7 %	(17.8)% (22.3)%	(40.7)% (45.2)%	(40.7)% (45.2)%	(5.8)% (6.6)%	3.0 % 3.0 %
Total Global Equity Global Index ¹	\$3,686,396	5.2 % 3.8 %	(20.2)% (22.5)%	(38.9)% (41.3)%	(38.9)% (41.3)%	(8.1)% (9.0)%	0.0 % (0.8)%
Fixed Income							
Total Fixed Income Fixed Income Index ²	\$2,576,431	2.8 % 3.8 %	(7.3)% 2.7 %	(12.9)% 2.9 %	(12.9)% 2.9 %	(1.1)% 4.7 %	1.2 % 4.2 %
TRS Annuity	\$248,973	N/A	N/A	N/A	N/A	N/A	N/A
Cash							
Short Term Salomon 90 Day T-Bill + 15 bps	\$154,711	0.1 % 0.1 %	0.3 % 0.3 %	2.4 % 2.0 %	2.4 % 2.0 %	4.3 % 3.9 %	3.5 % 3.3 %
Private Equity ³	\$599,618	N/A	N/A	N/A	N/A	N/A	N/A
Real Estate ³	\$37,402	N/A	N/A	N/A	N/A	N/A	N/A
Hedge Funds	\$1,009,107	(1.2)%	(8.1)%	N/A	N/A	N/A	N/A
Total Investment Pools	\$8,312,638						

¹Policy is 50% R3000 and 50% MSCI ACW Free FX US as of April 2008. Prior periods were 40% S&P 500, 30% R2500, 30% MSCI ACW Free FX US.

²Policy is 100% LB Universal as of April 2008. Prior periods were the LB Aggregate.

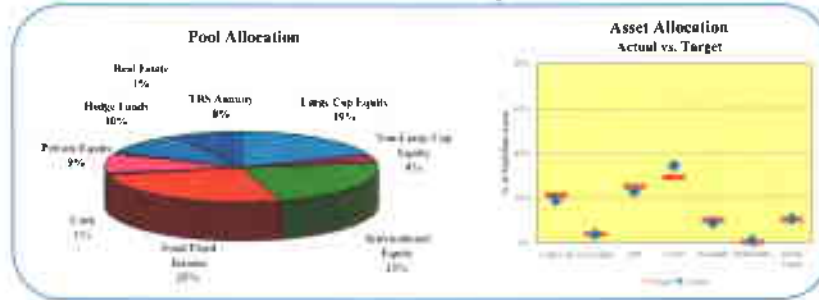
³Time-weighted returns for these pools are meaningless until the programs have matured, generally, after five years.

Public Employees' Retirement System
Periods Ending December 31, 2008



Investment Pools	Asset Values (000's)	Index Returns (Blue)			Actual Returns (Black)		
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Large Cap Equity S&P 500	\$612,640	2.1%	(21.9)%	(33.3)%	(37.3)%	(8.8)%	(1.9)%
Non-Large Cap Equity Russell 2500	\$123,246	3.7%	(31.1)%	(35.6)%	(35.6)%	(8.8)%	0.1%
Domestic Equity	\$735,885	2.3%	(22.8)%	(36.7)%	(36.7)%	(8.6)%	(1.1)%
International Equity MSCI All Country World Free EX US	\$752,593	8.2%	(17.8)%	(40.6)%	(40.6)%	(5.8)%	2.9%
Global Equity	\$1,488,479	5.2%	(20.1)%	(38.9)%	(38.9)%	(8.0)%	0.0%
Total Fixed Income Fixed Income Index	\$844,498	2.7%	(7.8)%	(13.4)%	(13.4)%	(1.3)%	1.0%
Cash Salomon 90 Day T-Bill + 15 bps	\$13,317	0.1%	0.1%	2.4%	2.4%	4.3%	3.5%
Private Equity Real Estate	\$277,298 \$17,608	N/A	N/A	N/A	N/A	N/A	N/A
Hedge Funds	\$735,893	(1.2)%	(8.1)%	N/A	N/A	N/A	N/A
Total Public Employees Fund	\$2,977,192	3.5%	(16.7)%	(28.3)%	(28.3)%	(4.6)%	0.9%

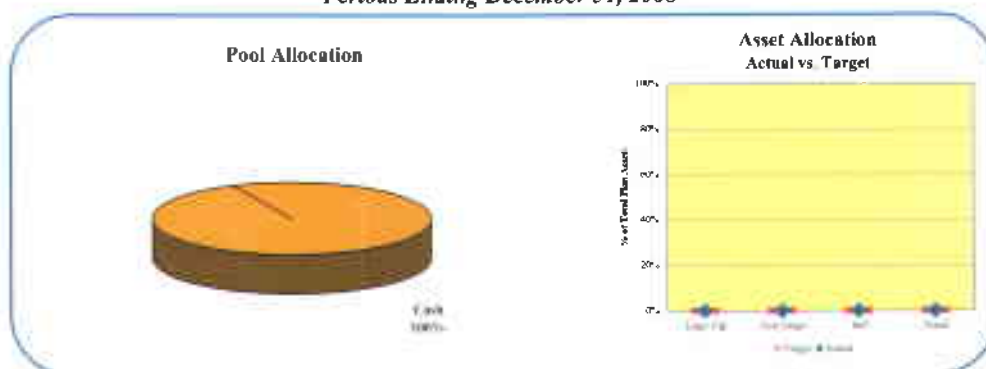
Teachers' Retirement System



Investment Pools	Asset Values (000's)	Index Returns (Blue)			Actual Returns (Black)		
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Large Cap Equity S&P 500	\$590,508	2.1%	(21.9)%	(33.3)%	(37.3)%	(8.8)%	(1.9)%
Non-Large Cap Equity Russell 2500	\$111,673	3.7%	(31.1)%	(35.6)%	(35.6)%	(8.8)%	0.1%
Domestic Equity	\$702,180	2.3%	(22.4)%	(36.6)%	(36.6)%	(8.7)%	(1.1)%
International Equity MSCI All Country World Free EX US	\$708,207	8.2%	(17.8)%	(40.9)%	(40.9)%	(5.9)%	2.8%
Global Equity	\$1,410,387	5.2%	(20.2)%	(39.2)%	(39.2)%	(8.3)%	(0.2)%
Total Fixed Income Fixed Income Index	\$818,534	2.7%	(7.7)%	(13.6)%	(13.6)%	(1.3)%	1.0%
ERS Annuity Cash Salomon 90 Day T-Bill + 15 bps	\$248,966 \$21,769	N/A 0.1%	N/A 0.1%	N/A 2.4%	N/A 2.4%	N/A 4.3%	N/A 3.5%
Private Equity Real Estate Hedge Funds	\$272,127 \$16,373 \$322,314	N/A N/A (1.2)%	N/A N/A (8.1)%	N/A N/A N/A	N/A N/A N/A	N/A N/A N/A	N/A N/A N/A
Total Teachers' Retirement Fund	\$5,110,470	3.3%	(14.4)%	(29.1)%	(29.1)%	(5.1)%	0.6%

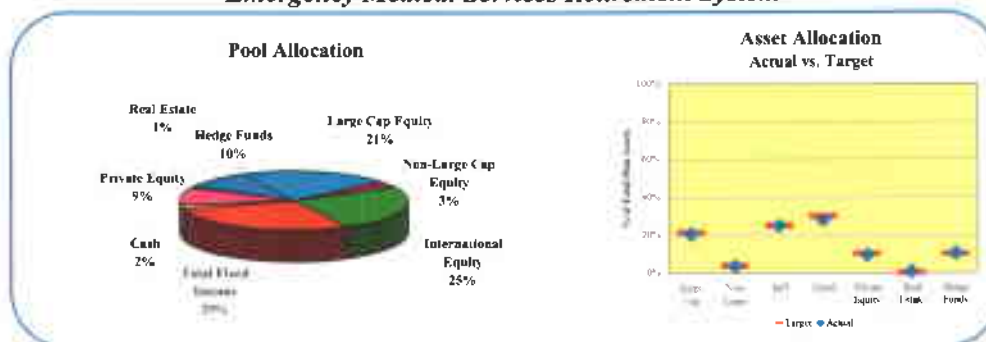
Returns are net of manager fees and expenses. Returns shorter than 1 year are unannualized.

Teachers' Employers Cont. Collection A/C
Periods Ending December 31, 2008



Investment Pools	Asset Values (000's)	Index Returns (Blue)			Actual Returns (Black)		
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Cash	\$27,098	0.1%	0.3%	2.4%	2.4%	N/A	N/A
Salomon 90 Day T-Bill + 15 bps		0.1%	0.3%	2.0%	2.0%	3.9%	3.3%
Total Teachers' Employers	\$27,098	0.1%	0.3%	2.4%	2.4%	N/A	N/A

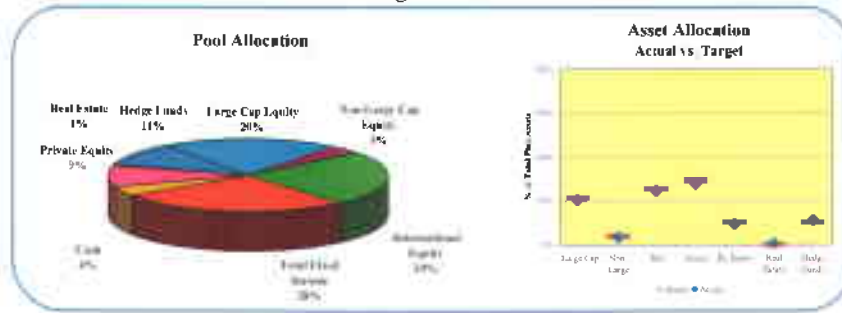
Emergency Medical Services Retirement System



Investment Pools	(000's)	Month	Qtr	YTD	1 Year	3 Years	5 Years
Large Cap Equity S&P 500	\$2,761	2.1%	(21.9)%	N/A	N/A	N/A	N/A
		1.1%	(21.9)%	(37.0)%	(37.0)%	(8.4)%	(2.2)%
Non-Large Cap Equity Russell 2500	\$466	3.7%	(24.1)%	N/A	N/A	N/A	N/A
		5.4%	(26.2)%	(36.8)%	(36.8)%	(9.4)%	(1.0)%
Domestic Equity	\$3,227	2.3%	(22.3)%	N/A	N/A	N/A	N/A
International Equity MSCI All Country World Free EX US	\$3,354	8.1%	(17.9)%	N/A	N/A	N/A	N/A
		5.7%	(22.3)%	(45.2)%	(45.2)%	(6.6)%	3.0%
Global Equity	\$6,581	5.2%	(20.1)%	N/A	N/A	N/A	N/A
Total Fixed Income Fixed Income Index	\$3,785	2.7%	(7.7)%	N/A	N/A	N/A	N/A
		3.8%	2.7%	2.9%	2.9%	4.7%	4.2%
Cash Salomon 90 Day T-Bill + 15 bps	\$330	0.1%	0.3%	N/A	N/A	N/A	N/A
		0.1%	0.3%	2.0%	2.0%	3.9%	3.3%
Private Equity	\$1,257	N/A	N/A	N/A	N/A	N/A	N/A
Real Estate	\$77	N/A	N/A	N/A	N/A	N/A	N/A
Hedge Funds	\$1,377	(1.2)%	(8.1)%	N/A	N/A	N/A	N/A
Total EMS Retirement System	\$13,408	3.5%	(14.0)%	N/A	N/A	N/A	N/A

Returns are net of manager fees and expenses. Returns shorter than 1 year are unannualized.

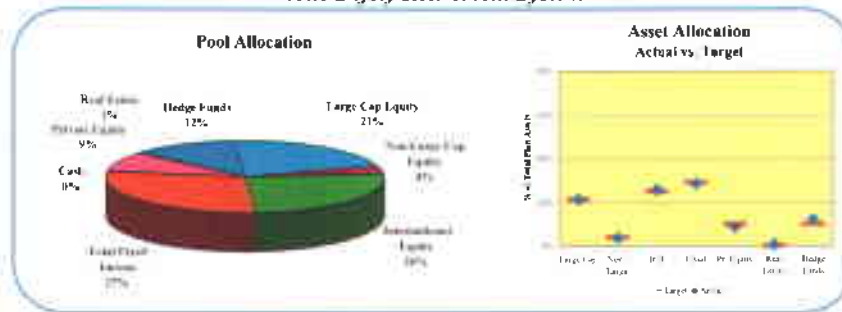
Judges' Retirement System
Periods Ending December 31, 2008



Investment Pools

	Asset Values (\$MM)	Index Returns (Blue)			Actual Returns (Black)		
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Large Cap Equity <i>S&P 500</i>	\$16,026	2.1%	(21.9)%	(37.3)%	(37.3)%	(8.8)%	(1.9)%
Non-Large Cap Equity <i>Russell 2500</i>	\$2,688	3.7%	(14.1)%	(35.6)%	(35.6)%	(8.8)%	0.1%
Domestic Equity	\$18,713	2.3%	(22.0)%	(36.5)%	(36.5)%	(8.7)%	(1.1)%
International Equity <i>MSCI All Country World Free EX US</i>	\$19,237	8.2%	(10.8)%	(40.7)%	(40.7)%	(5.8)%	2.9%
Global Equity	\$37,950	5.2%	(28.1)%	(38.8)%	(38.8)%	(8.1)%	(0.0)%
Total Fixed Income <i>Fixed Income Index</i>	\$21,346	2.7%	(7.8)%	(13.4)%	(13.4)%	(1.3)%	1.0%
Cash <i>Sullivan 90 Day T-Bill + 15bps</i>	\$3,242	0.1%	0.3%	2.4%	2.4%	4.3%	3.5%
Private Equity	\$7,241	N/A	N/A	N/A	N/A	N/A	N/A
Real Estate	\$452	N/A	N/A	N/A	N/A	N/A	N/A
Hedge Funds	\$8,405	(1.2)%	(8.1)%	N/A	N/A	N/A	N/A
Total Judges' Pension Fund	\$78,736	3.5%	(14.3)%	(28.2)%	(28.2)%	(4.7)%	0.9%

Public Safety Retirement System

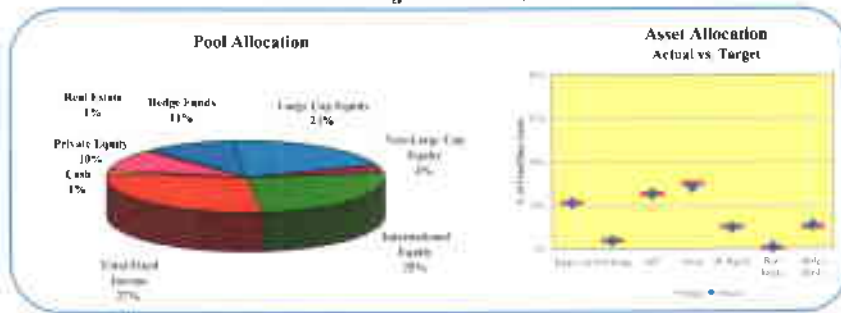


Investment Pools

	Asset Values (\$MM)	Index Returns (Blue)			Actual Returns (Black)		
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Large Cap Equity <i>S&P 500</i>	\$72,141	2.1%	(21.9)%	(37.3)%	(37.3)%	(8.8)%	(1.9)%
Non-Large Cap Equity <i>Russell 2500</i>	\$12,139	3.7%	(14.1)%	(35.6)%	(35.6)%	(8.8)%	0.1%
Domestic Equity	\$84,280	2.3%	(22.0)%	(36.5)%	(36.5)%	(8.7)%	(1.1)%
International Equity <i>MSCI All Country World Free EX US</i>	\$86,900	8.2%	(10.8)%	(40.7)%	(40.7)%	(5.7)%	3.1%
Global Equity	\$171,180	5.2%	(28.2)%	(38.8)%	(38.8)%	(8.1)%	(0.0)%
Total Fixed Income <i>Fixed Income Index</i>	\$96,526	2.7%	(7.8)%	(13.4)%	(13.4)%	(1.2)%	1.0%
Cash <i>Sullivan 90 Day T-Bill + 15bps</i>	\$711	0.1%	0.3%	2.4%	2.4%	4.3%	3.5%
Private Equity	\$29,169	N/A	N/A	N/A	N/A	N/A	N/A
Real Estate	\$2,054	N/A	N/A	N/A	N/A	N/A	N/A
Hedge Funds	\$40,954	(1.2)%	(8.1)%	N/A	N/A	N/A	N/A
Total Public Safety System	\$340,595	3.5%	(14.4)%	(28.4)%	(28.4)%	(4.7)%	0.9%

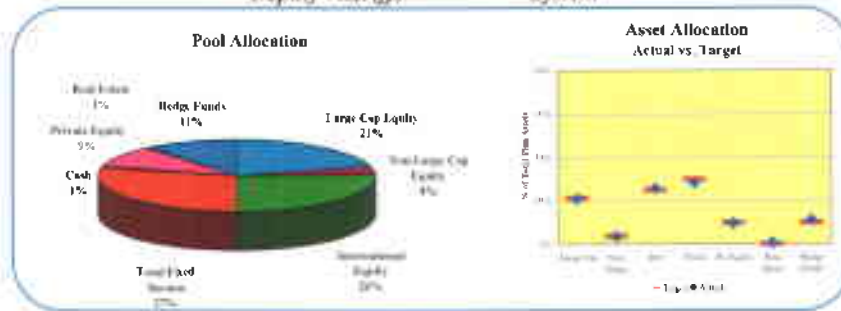
Returns are net of manager fees and expenses. Returns shorter than 1 year are unannualized.

State Police Retirement System
Periods Ending December 31, 2008



Investment Pools	Asset Values (000's)	Index Returns (Blue)		Actual Returns (Black)			
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Large Cap Equity S&P 500	\$7,084	2.1%	(21.9)%	(37.3)%	(37.3)%	(8.8)%	(1.9)%
Non-Large Cap Equity Russell 2500	\$1,190	3.7%	(24.1)%	(35.6)%	(35.6)%	(8.8)%	0.1%
Domestic Equity	\$8,274	2.3%	(22.3)%	(36.5)%	(36.5)%	(8.7)%	(1.1)%
International Equity MSCI All Country World Free EX US	\$8,526	8.1%	(17.8)%	(40.7)%	(40.7)%	(5.8)%	2.9%
Global Equity	\$16,800	5.2%	(20.2)%	(38.7)%	(38.7)%	(6.1)%	(0.0)%
Total Fixed Income Fixed Income Index	\$9,636	2.7%	(7.7)%	(13.3)%	(13.3)%	(1.2)%	1.0%
Cash Salomon 90 Day T-Bill + 15 bps	\$464	0.1%	0.3%	2.4%	2.4%	4.3%	3.5%
Private Equity	\$3,255	N/A	N/A	N/A	N/A	N/A	N/A
Real Estate	\$209	N/A	N/A	N/A	N/A	N/A	N/A
Hedge Funds	\$3,596	(1.2)%	(8.1)%	N/A	N/A	N/A	N/A
Total State Police Pension Fund	\$33,960	3.5%	(14.1)%	(27.9)%	(27.9)%	(4.5)%	0.9%

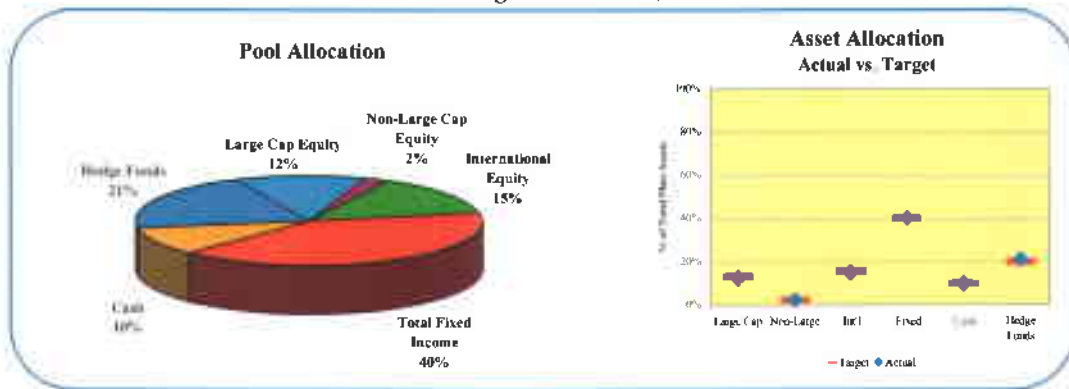
Deputy Sheriff's Retirement System



Investment Pools	Asset Values (000's)	Index Returns (Blue)		Actual Returns (Black)			
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Large Cap Equity S&P 500	\$14,384	2.1%	(21.9)%	(37.3)%	(37.3)%	(8.8)%	(1.9)%
Non-Large Cap Equity Russell 2500	\$2,440	3.7%	(24.1)%	(35.6)%	(35.6)%	(8.8)%	0.1%
Domestic Equity	\$16,824	2.3%	(22.3)%	(36.5)%	(36.5)%	(8.7)%	(1.1)%
International Equity MSCI All Country World Free EX US	\$17,705	8.1%	(17.8)%	(40.7)%	(40.7)%	(5.7)%	2.9%
Global Equity	\$34,529	5.2%	(20.2)%	(38.7)%	(38.7)%	(6.1)%	(0.0)%
Total Fixed Income Fixed Income Index	\$19,608	2.7%	(7.7)%	(13.3)%	(13.3)%	(1.2)%	1.0%
Cash Salomon 90 Day T-Bill + 15 bps	\$539	0.1%	0.3%	2.4%	2.4%	4.3%	3.5%
Private Equity	\$6,549	N/A	N/A	N/A	N/A	N/A	N/A
Real Estate	\$396	N/A	N/A	N/A	N/A	N/A	N/A
Hedge Funds	\$7,554	(1.2)%	(8.1)%	N/A	N/A	N/A	N/A
Total Deputy Sheriff's Fund	\$69,177	3.5%	(14.2)%	(28.1)%	(28.1)%	(4.6)%	0.9%

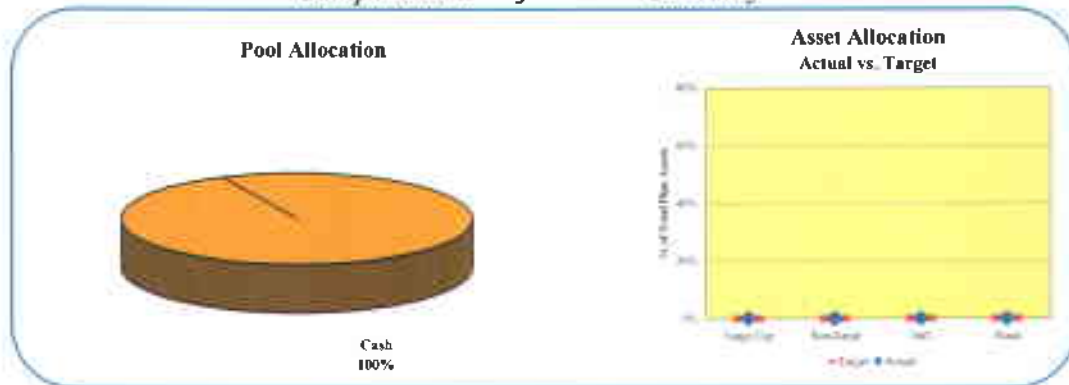
Returns are net of manager fees and expenses. Returns shorter than 1 year are annualized.

Workers' Compensation Old Fund
Periods Ending December 31, 2008



Investment Pools	Asset Values (000's)	Index Returns (Blue)			Actual Returns (Black)		
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Large Cap Equity <i>S&P 500</i>	\$74,070	2.1%	(21.9)%	(37.3)%	(37.3)%	(8.8)%	N/A
Non-Large Cap Equity <i>Russell 2500</i>	\$13,032	3.7%	(24.1)%	(35.6)%	(35.6)%	(8.8)%	N/A
Domestic Equity	\$87,101	2.3%	(22.3)%	(36.1)%	(36.1)%	(8.1)%	N/A
International Equity <i>MSCI All Country World Free EX US</i>	\$88,133	8.2%	(17.7)%	(40.8)%	(40.8)%	(5.8)%	N/A
Global Equity	\$175,234	5.2%	(20.1)%	(38.2)%	(38.2)%	(7.4)%	N/A
Total Fixed Income <i>Fixed Income Index</i>	\$242,981	2.8%	(8.0)%	(13.5)%	(13.5)%	(1.3)%	N/A
Cash <i>Salomon 90 Day T-Bill + 15 bps</i>	\$60,187	0.1%	0.3%	2.4%	2.4%	4.3%	N/A
Hedge Funds	\$126,629	(1.2)%	(8.1)%	N/A	N/A	N/A	N/A
Total Workers' Comp. Old Fund	\$605,031	2.3%	(10.7)%	(20.3)%	(20.3)%	(3.0)%	N/A

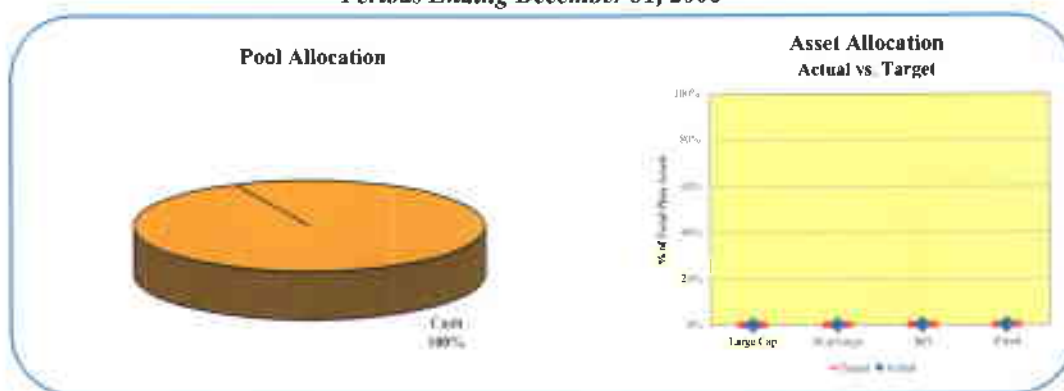
Workers' Compensation Self-Insured Guaranty Risk Pool



Investment Pools	Asset Values (000's)	Index Returns (Blue)			Actual Returns (Black)		
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Cash <i>Salomon 90 Day T-Bill + 15 bps</i>	\$5,952	0.1%	0.3%	2.4%	2.4%	4.3%	N/A
Total Workers' Comp. Self-Insured	\$5,952	0.1%	0.3%	2.4%	2.4%	4.3%	N/A

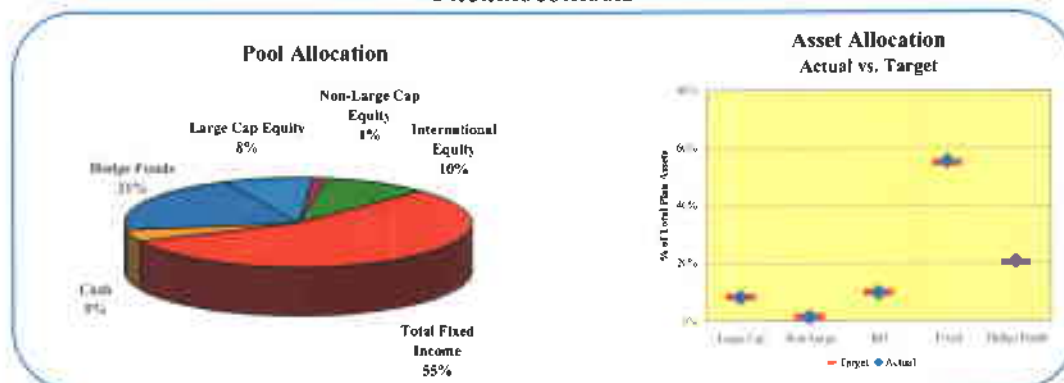
Returns are net of manager fees and expenses. Returns shorter than 1 year are unannualized.

Workers' Compensation Uninsured Employers Fund
Periods Ending December 31, 2008



Investment Pools	Asset Values (000's)	Index Returns (Blue)			Actual Returns (Black)		
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Cash	\$8,275	0.1%	0.3%	2.4%	2.4%	4.3%	N/A
Salomon 90 Day T-Bill + 15 bps		0.1%	0.3%	2.0%	2.0%	3.9%	3.3%
Total Workers' Comp. Uninsured	\$8,275	0.1%	0.3%	2.4%	2.4%	4.3%	N/A

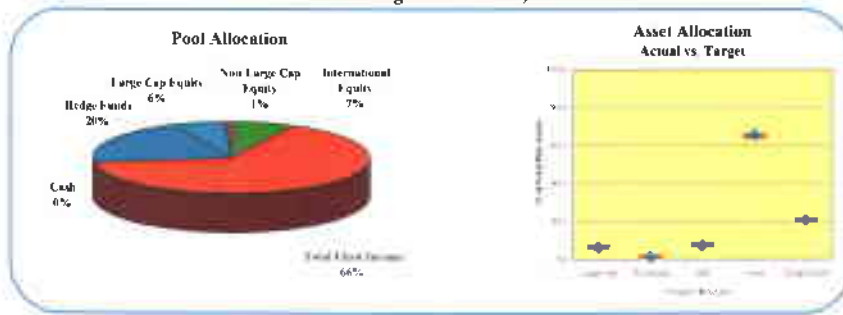
Pneumoconiosis



Investment Pools	Asset Values (000's)	Index Returns (Blue)			Actual Returns (Black)		
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Large Cap Equity	\$7,044	2.1%	(21.9)%	(37.3)%	(37.3)%	(8.8)%	N/A
S&P 500		1.1%	(21.9)%	(37.0)%	(37.0)%	(8.4)%	(2.2)%
Non-Large Cap Equity	\$2,994	3.7%	(24.1)%	(35.6)%	(35.6)%	(8.8)%	N/A
Russell 2500		5.4%	(26.2)%	(36.8)%	(36.8)%	(9.4)%	(1.0)%
Domestic Equity	\$20,037	2.3%	(22.3)%	(36.1)%	(36.1)%	(8.5)%	N/A
International Equity	\$20,353	8.2%	(17.8)%	(40.8)%	(40.8)%	(5.8)%	N/A
MSCI All Country World Free EX US		5.7%	(22.3)%	(45.2)%	(45.2)%	(6.6)%	3.0%
Global Equity	\$40,391	5.2%	(20.2)%	(38.3)%	(38.3)%	(7.8)%	N/A
Total Fixed Income	\$115,094	2.8%	(8.0)%	(13.4)%	(13.4)%	(1.3)%	N/A
Fixed Income Index		3.8%	2.7%	2.9%	2.9%	4.7%	4.2%
Cash	\$9,488	0.1%	0.3%	2.4%	2.4%	4.3%	N/A
Salomon 90 Day T-Bill + 15 bps		0.1%	0.3%	2.0%	2.0%	3.9%	3.3%
Hedge Funds	\$42,604	(1.2)%	(8.1)%	N/A	N/A	N/A	N/A
Total Pneumoconiosis Fund	\$207,576	2.3%	(9.8)%	(18.5)%	(18.5)%	(2.3)%	N/A

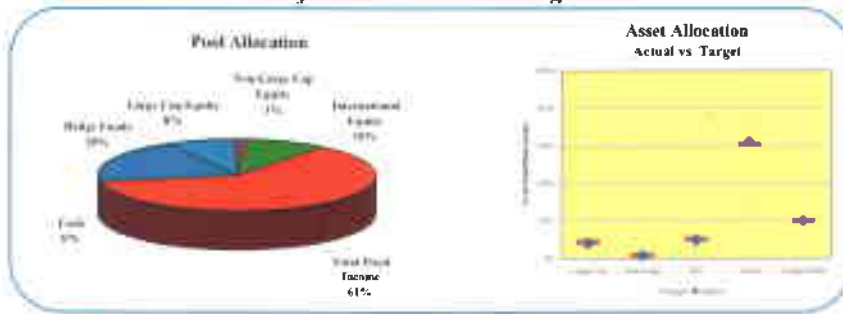
Returns are net of manager fees and expenses. Returns shorter than 1 year are unannualized.

Public Employees' Insurance Agency
Periods Ending December 31, 2008



Investment Pools	Asset Values (000's)	Index Returns (Blue)			Actual Returns (Black)		
		9 Month	YTD	1 Year	3 Years	5 Years	
Large Cap Equity <i>S&P 500</i>	\$6,288	2.1%	(21.9)%	(37.3)%	(37.3)%	(8.8)%	N/A
Non-Large Cap Equity <i>Russell 2500</i>	\$1,104	3.7%	(24.1)%	(35.6)%	(35.6)%	(8.8)%	N/A
Domestic Equity	\$7,393	2.3%	(22.3)%	(36.0)%	(36.0)%	(8.4)%	N/A
International Equity <i>MSCI All Country World Free FX US</i>	\$7,429	8.2%	(17.8)%	(40.5)%	(40.5)%	(5.6)%	N/A
Global Equity	\$14,822	5.2%	(20.2)%	(38.2)%	(38.2)%	(7.7)%	N/A
Total Fixed Income <i>Fixed Income Index</i>	\$67,496	2.9%	(6.9)%	(12.5)%	(12.5)%	(0.9)%	N/A
Cash <i>Sullivan 90 Day T-Bill + 15 bps</i>	\$22	0.1%	0.3%	2.4%	2.4%	4.3%	N/A
Hedge Funds	\$20,828	(1.2)%	(8.1)%	N/A	N/A	N/A	N/A
Total Public Employees' Fund	\$103,169	2.4%	(9.0)%	(17.1)%	(17.1)%	(1.9)%	N/A

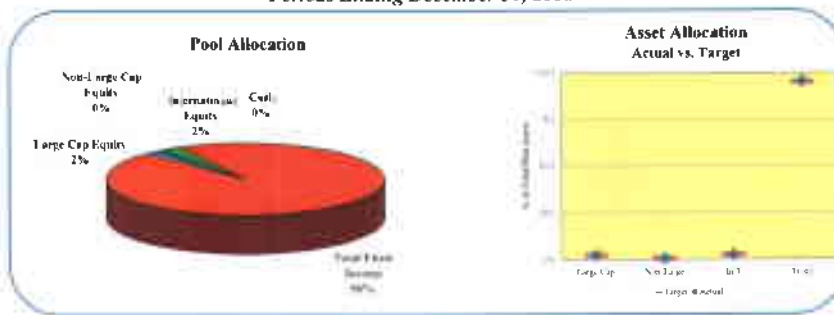
Board of Risk & Insurance Management



Investment Pools	Asset Values (000's)	Index Returns (Blue)			Actual Returns (Black)		
		9 Month	YTD	1 Year	3 Years	5 Years	
Large Cap Equity <i>S&P 500</i>	\$7,443	2.1%	(21.9)%	(37.3)%	(37.3)%	(8.8)%	N/A
Non-Large Cap Equity <i>Russell 2500</i>	\$1,308	3.7%	(24.1)%	(35.6)%	(35.6)%	(8.8)%	N/A
Domestic Equity	\$8,751	2.3%	(22.3)%	(36.2)%	(36.2)%	(8.5)%	N/A
International Equity <i>MSCI All Country World Free FX US</i>	\$9,017	8.1%	(17.8)%	(40.7)%	(40.7)%	(5.7)%	N/A
Global Equity	\$17,768	5.2%	(20.1)%	(38.3)%	(38.3)%	(7.8)%	N/A
Total Fixed Income <i>Fixed Income Index</i>	\$57,714	3.7%	(1.9)%	(8.0)%	(8.0)%	0.7%	N/A
Cash <i>Sullivan 90 Day T-Bill + 15 bps</i>	\$32	0.1%	0.3%	2.4%	2.4%	4.3%	N/A
Hedge Funds	\$18,492	(1.2)%	(8.1)%	N/A	N/A	N/A	N/A
Total Board of Risk & Ins. Mgmt	\$94,007	3.0%	(6.6)%	(16.1)%	(16.1)%	(1.3)%	N/A

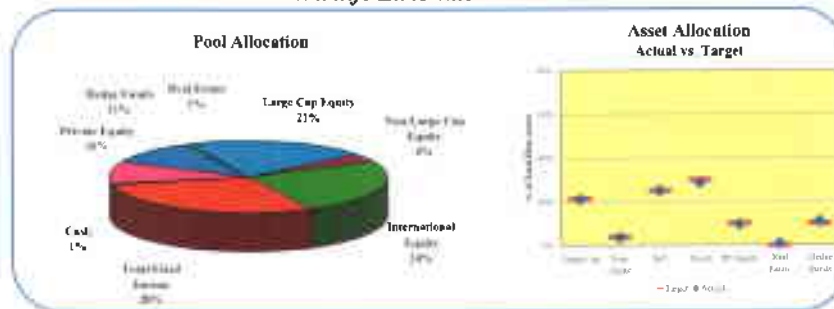
Returns are net of manager fees and expenses. Returns shorter than 1 year are unannualized.

WV Retiree Health Benefit Trust Fund
Periods Ending December 31, 2008



Investment Pools	Asset Values (000's)	Index Returns (Blue)			Actual Returns (Black)		
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Large Cap Equity <i>S&P 500</i>	\$3,517	2.1%	(21.9)%	N/A	N/A	N/A	N/A
		1.1%	(23.9)%	(37.0)%	(37.0)%	(8.1)%	(2.2)%
Non-Large Cap Equity <i>Russell 2500</i>	\$616	3.7%	(24.1)%	N/A	N/A	N/A	N/A
		5.4%	(26.2)%	(36.8)%	(36.8)%	(9.4)%	(1.0)%
Domestic Equity	\$4,133	2.3%	(22.3)%	N/A	N/A	N/A	N/A
International Equity <i>MSCI All Country World Free EX US</i>	\$4,085	8.2%	(17.8)%	N/A	N/A	N/A	N/A
		5.7%	(22.3)%	(45.2)%	(45.2)%	(8.6)%	(3.0)%
Global Equity	\$8,218	5.2%	(20.2)%	N/A	N/A	N/A	N/A
Total Fixed Income <i>Fixed Income Index</i>	\$169,733	3.4%	(3.8)%	N/A	N/A	N/A	N/A
		3.5%	2.7%	2.9%	2.9%	4.7%	4.2%
Cash <i>Salomon 90 Day T-Bill + 15 bps</i>	\$17	0.1%	0.3%	N/A	N/A	N/A	N/A
		0.1%	0.3%	2.0%	2.0%	3.9%	3.3%
Total WV Retiree Health Benefit Fund	\$177,968	3.5%	(4.6)%	N/A	N/A	N/A	N/A

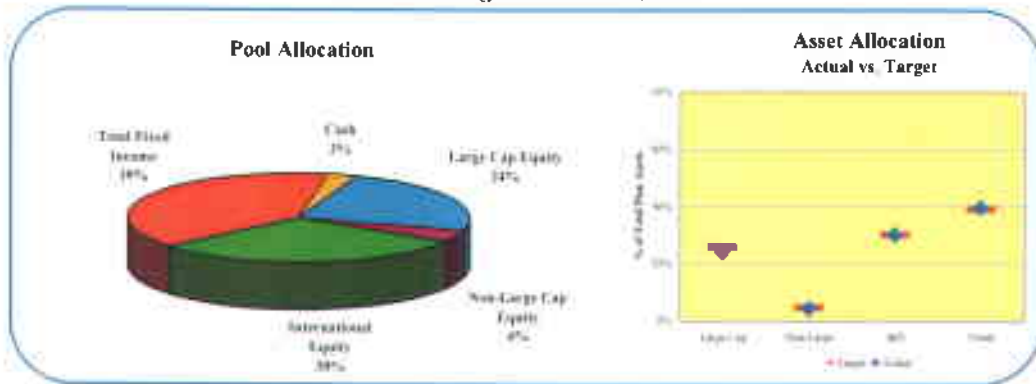
Wildlife Endowment Fund



Investment Pools	Asset Values (000's)	Index Returns (Blue)			Actual Returns (Black)		
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Large Cap Equity <i>S&P 500</i>	\$5,669	2.1%	(21.9)%	(37.3)%	(37.3)%	(8.8)%	(1.9)%
		1.1%	(23.9)%	(37.0)%	(37.0)%	(8.1)%	(2.2)%
Non-Large Cap Equity <i>Russell 2500</i>	\$952	3.7%	(24.1)%	(35.6)%	(35.6)%	(8.4)%	0.1%
		5.4%	(26.2)%	(36.8)%	(36.8)%	(9.4)%	(1.0)%
Domestic Equity	\$6,621	2.3%	(22.3)%	(36.1)%	(36.1)%	(8.5)%	(1.0)%
International Equity <i>MSCI All Country World Free EX US</i>	\$6,746	8.1%	(16.5)%	(39.8)%	(39.8)%	(5.4)%	3.2%
		5.7%	(22.3)%	(45.2)%	(45.2)%	(8.6)%	(3.0)%
Global Equity	\$13,367	5.1%	(19.6)%	(37.8)%	(37.8)%	(7.7)%	0.3%
Total Fixed Income <i>Fixed Income Index</i>	\$7,765	2.8%	(7.6)%	(13.1)%	(13.1)%	(1.1)%	1.1%
		3.5%	2.7%	2.9%	2.9%	4.7%	4.2%
Cash <i>Salomon 90 Day T-Bill + 15 bps</i>	\$210	0.1%	0.3%	2.4%	2.4%	4.3%	3.5%
		0.1%	0.3%	2.0%	2.0%	3.9%	3.3%
Private Equity	\$2,576	(1.2)%	(8.1)%	N/A	N/A	N/A	N/A
Real Estate	\$169	(1.2)%	(8.1)%	N/A	N/A	N/A	N/A
Hedge Funds	\$2,926	(1.2)%	(8.1)%	N/A	N/A	N/A	N/A
Total Wildlife Fund	\$27,013	3.5%	(13.9)%	(28.0)%	(28.0)%	(4.7)%	0.9%

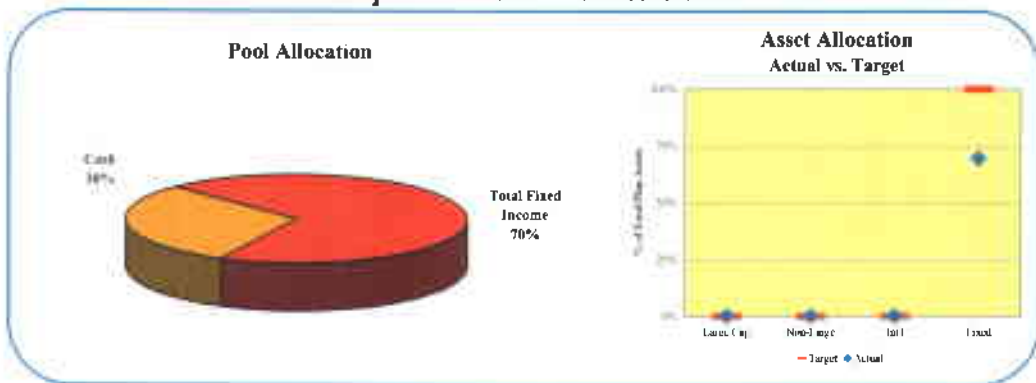
Returns are net of manager fees and expenses. Returns shorter than 1 year are unannualized.

Prepaid Tuition Trust Fund
Periods Ending December 31, 2008



Investment Pools	Asset Values (000's)	Index Returns (Blue)			Actual Returns (Black)		
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Large Cap Equity <i>S&P 500</i>	\$15,814	2.1 %	(21.9)%	(37.3)%	(37.3)%	(8.8)%	(1.9)%
		1.1 %	(21.9)%	(37.0)%	(37.0)%	(8.4)%	(2.2)%
Non-Large Cap Equity <i>Russell 2500</i>	\$2,771	3.7 %	(24.1)%	(35.6)%	(35.6)%	(8.8)%	0.1 %
		5.4 %	(26.2)%	(36.8)%	(36.8)%	(9.4)%	(1.0)%
Domestic Equity	\$18,585	2.3 %	(22.3)%	(36.1)%	(36.1)%	(8.5)%	(1.0)%
International Equity <i>MSCI All Country World Free EX US</i>	\$19,948	8.1 %	(17.8)%	(40.9)%	(40.9)%	(5.9)%	2.8 %
		5.7 %	(22.3)%	(45.2)%	(45.2)%	(6.6)%	3.0 %
Global Equity	\$38,533	5.2 %	(20.1)%	(38.4)%	(38.4)%	(8.0)%	0.0 %
Total Fixed Income <i>Fixed Income Index</i>	\$26,199	3.7 %	(3.0)%	(9.0)%	(9.0)%	0.4 %	2.0 %
		3.8 %	2.7 %	2.9 %	2.9 %	4.7 %	4.2 %
Cash <i>Salomon 90 Day T-Bill + 15 bps</i>	\$1,757	0.1 %	0.3 %	2.4 %	2.4 %	4.3 %	3.5 %
		0.1 %	0.3 %	2.0 %	2.0 %	3.9 %	3.3 %
Total Prepaid Tuition Trust	\$66,489	4.5 %	(12.9)%	(27.0)%	(27.0)%	(4.2)%	1.2 %

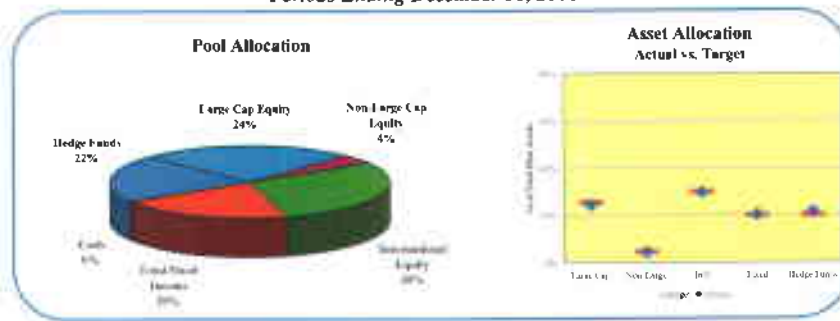
Prepaid Tuition Trust Escrow



Investment Pools	Asset Values (000's)	Index Returns (Blue)			Actual Returns (Black)		
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Total Fixed Income <i>Fixed Income Index</i>	\$2,291	3.5 %	(3.6)%	(9.5)%	(9.5)%	0.2 %	1.9 %
		3.8 %	2.7 %	2.9 %	2.9 %	4.7 %	4.2 %
Cash <i>Salomon 90 Day T-Bill + 15 bps</i>	\$1,001	N/A	N/A	N/A	N/A	N/A	N/A
		0.1 %	0.3 %	2.0 %	2.0 %	3.9 %	3.3 %
Total Prepaid Tuition Trust Escrow	\$3,292	2.5 %	(4.6)%	(10.4)%	(10.4)%	(0.1)%	1.6 %

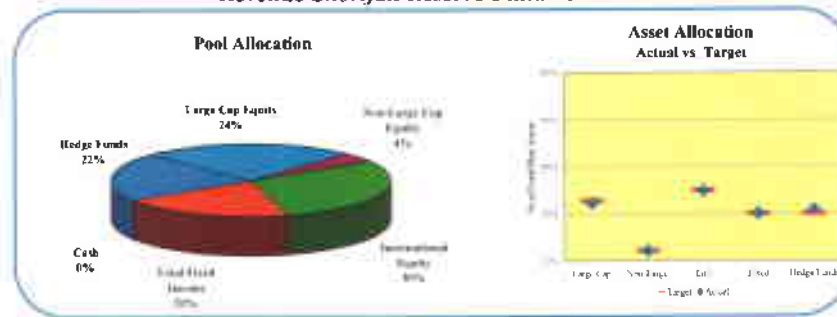
Returns are net of manager fees and expenses. Returns shorter than 1 year are unannualized.

Revenue Shortfall Reserve Fund
Periods Ending December 31, 2008



Investment Pools	Asset Values (MM\$)	Index Returns (Blue)			Actual Returns (Black)		
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Large Cap Equity <i>S&P 500</i>	\$36,678	2.1%	(21.9)%	(37.3)%	(37.3)%	N/A	N/A
		1.1%	(21.9)%	(37.0)%	(37.0)%	(8.4)%	(2.2)%
Non-Large Cap Equity <i>Russell 2500</i>	\$6,435	3.7%	(24.1)%	(35.6)%	(35.6)%	N/A	N/A
		5.4%	(26.2)%	(36.8)%	(36.8)%	(9.4)%	(1.0)%
Domestic Equity	\$43,113	2.3%	(22.3)%	(36.1)%	(36.1)%	N/A	N/A
International Equity <i>MSCI All Country World Free FX US</i>	\$44,421	8.2%	(17.8)%	(40.8)%	(40.8)%	N/A	N/A
		5.7%	(22.3)%	(45.2)%	(45.2)%	(6.6)%	3.0%
Global Equity	\$87,534	5.2%	(20.1)%	(38.1)%	(38.3)%	N/A	N/A
Total Fixed Income <i>Fixed Income Index</i>	\$30,331	2.9%	(7.3)%	(12.8)%	(12.8)%	N/A	N/A
		3.5%	2.7%	2.9%	2.9%	4.7%	4.2%
Cash <i>Salomon 90 Day T-Bill + 15 bps</i>	\$126	0.1%	0.3%	2.4%	2.4%	N/A	N/A
		0.1%	0.3%	2.0%	2.0%	3.9%	3.3%
Hedge Funds	\$32,366	(1.2)%	(8.1)%	N/A	N/A	N/A	N/A
Total Rev - Shortfall Reserve Fund	\$150,357	3.3%	(14.8)%	(28.8)%	(28.8)%	N/A	N/A

Revenue Shortfall Reserve Fund - Part B



Investment Pools	Asset Values (MM\$)	Index Returns (Blue)			Actual Returns (Black)		
		Month	Qtr	YTD	1 Year	3 Years	5 Years
Large Cap Equity <i>S&P 500</i>	\$51,085	2.1%	(21.9)%	(37.3)%	(37.3)%	N/A	N/A
		1.1%	(21.9)%	(37.0)%	(37.0)%	(8.4)%	(2.2)%
Non-Large Cap Equity <i>Russell 2500</i>	\$8,947	3.7%	(24.1)%	(35.6)%	(35.6)%	N/A	N/A
		5.4%	(26.2)%	(36.8)%	(36.8)%	(9.4)%	(1.0)%
Domestic Equity	\$60,031	2.3%	(22.3)%	(36.1)%	(36.1)%	N/A	N/A
International Equity <i>MSCI All Country World Free FX US</i>	\$61,902	8.2%	(17.8)%	(40.8)%	(40.8)%	N/A	N/A
		5.7%	(22.3)%	(45.2)%	(45.2)%	(6.6)%	3.0%
Global Equity	\$121,933	5.2%	(20.1)%	(38.4)%	(38.4)%	N/A	N/A
Total Fixed Income <i>Fixed Income Index</i>	\$41,922	2.8%	(7.5)%	(13.0)%	(13.0)%	N/A	N/A
		3.5%	2.7%	2.9%	2.9%	4.7%	4.2%
Cash <i>Salomon 90 Day T-Bill + 15 bps</i>	\$74	0.1%	0.3%	2.4%	2.4%	N/A	N/A
		0.1%	0.3%	2.0%	2.0%	3.9%	3.3%
Hedge Funds	\$45,012	(1.2)%	(8.1)%	N/A	N/A	N/A	N/A
Total Rev - Shortfall Reserve Fund B	\$208,943	3.3%	(14.9)%	(29.2)%	(29.2)%	N/A	N/A

Returns are net of manager fees and expenses. Returns shorter than 1 year are unannualized



West Virginia Investment Management Board

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December 17, 2008

The Honorable Earl Ray Tomblin
President of the Senate
West Virginia State Senate
Building 1, Room 227-M
1900 Kanawha Boulevard, East
Charleston, WV 25305

The Honorable Walt Helmick
West Virginia State Senate
Chair, Senate Finance Committee
Building 1, Room 465-M
1900 Kanawha Boulevard, East
Charleston, WV 25305

The Honorable Richard Thompson
West Virginia House of Delegates
Building 1, Room 234-M
1900 Kanawha Boulevard, East
Charleston, WV 25305

The Honorable Harry Keith White
Chair, House Finance Committee
West Virginia House of Delegates
Building 1, Room 462-M
1900 Kanawha Boulevard, East
Charleston, WV 25305

Subject: Madoff Fraud

Dear Gentlemen:

Other than the news that the treasury has dropped the fed fund rate to virtually zero, the big news in the financial arena for the week is the arrest of Bernard Madoff for running a ponzi scheme, which caught out a number of prominent investors, some hedge funds and funds of hedge funds. Please be advised that the Investment Management Board is confident that it does not have any exposure to Madoff or Madoff-related funds. We are currently double checking with all of the hedge funds we invest with to confirm this. The Investment Management Board's hedge fund consultant, Albourne, has advised against investing in Madoff-related funds for the last decade.

If you have any questions, please do not hesitate to contact me.

Sincerely,

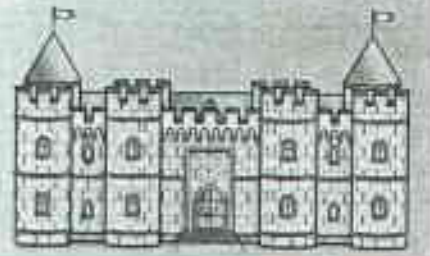
H. Craig Slaughter
Executive Director



HCS:jaa

Enclosure

C: Aaron Allred, Legislative Manager



Castle News Analysis

A Commentary on Current News by Albourne Analysts
15th December 2008

Albourne on Madoff

We set out below our thoughts on the Madoff-related funds, following the SEC's recent action and press reports over the last few days.

Albourne is pleased to confirm that for the last decade it has always strongly recommended redemption to any client that it has been aware of holding investments in a Madoff-related fund. At the same time, though, we have great sympathy for all those who may suffer loss.

Albourne also considers these events to be a powerful proof of concept for a "private sector" due diligence service such as ours that is paid for by the benefactors as opposed to paid for by the entities which are rated.

The following highlights the general issues around Madoff and why we reached the conclusion that clients who had an exposure should redeem.

1. General issues

Our view on Madoff has never wavered and has been based on a wide variety of factors and insights. It was not clear that a fraud was being perpetrated, but we concluded that, where a client had a holding, it should redeem.

There have always been believers in Madoff's supposed strategy – including sophisticated and well connected firms and individuals, some of whom were understood to have "transparency". Some acute observers of hedge funds have therefore disagreed with our views during this period – although their arguments have never convinced us. Albourne took a contrary view, in part for the following reasons:

- Returns "too good to be true" - The apparent smoothing of Madoff returns has been controversial. We cannot think of a group of funds trading easily marked-to-market assets which have appeared to have weathered quite so many different types of storm with such apparently consistent risk-adjusted returns.
- Culture of secrecy - A former Madoff trader explained that Madoff was built around obsessive secrecy; that there was a whole floor in Madoff's offices that he was not permitted to visit; and that he himself had no idea how they "made their money". In addition, Mr Madoff declined to meet any of his investors, without giving a credible reason. Given his prominent industry position and his former involvement with key institutions (such as the SEC and NASDAQ) that refusal was odd.
- Reported size – Over time, it became clear that there were multiple Madoff feeders and that in total their AUM exceeded the publically assumed scale of the firm. It is extremely unusual for a fund management company to significantly under-state its assets.
- Liquidity – The reported strategy involved not just trading equities but also options. Given the supposed size of the assets under management, it would have been difficult to execute the strategy due to the risk of market impact.

- "Too good to share?" – Some who believed in the Madoff strategy thought that his position as a market maker gave him an uncanny ability to catch the highs and lows. If this was so, Albourn wondered why, having discovered this alchemy, the Company would wish to share it.

2. Madoff Structure

2.1. The management firm

The Company's website described itself like this:

"Bernard L. Madoff Investment Securities LLC is a leading international market maker. The firm has been providing quality executions for broker-dealers, banks, and financial institutions since its inception in 1960. During this time, Madoff has compiled an uninterrupted record of growth, which has enabled us to continually build our financial resources. With more than \$600 million in firm capital, Madoff currently ranks among the top 1% of US Securities firms. Our sophisticated proprietary automation and unparalleled client service delivers an enhanced execution that is virtually unmatched in our industry."

Whilst the website mentions many of the activities of Bernard L. Madoff Investment Securities LLC ("the Company") there has never been any direct mention of its investment advisory activities. The Company is FINRA registered and according to its Form ADV advises on \$17bn of assets for 23 clients by whom it has been compensated by commissions. The website further stated that 1-5 employees (out of 51 - 250) work on investment advisory activities. It is important to note that there is no "Madoff Fund" nor other asset management products in the traditional sense of these terms.

The Company provided advisory services to third parties (which we will describe as Distributors) who have their own branded Funds (or feeders) that have then been marketed to investors. These Funds have a wide variety of names, have been distributed by well-known firms (often themselves registered with the SEC or other regulatory bodies), are often audited by "big 4" accounting firms and have brand name administrators. However, the prospectus ("PPM") and marketing materials have rarely mentioned the word Madoff and we have been advised by some of the Distributors that they are forbidden by contract to name the Company. A typical PPM might read –

"The Fund's assets are managed by a New York based NASD registered broker-dealer employing approximately 200 people and acting primarily as a market-maker in listed and unlisted stocks and convertible securities. The investment advisor utilizes a 'split strike conversion' options strategy consistent with that of the Fund".

It is possible that many investors in these distributed products are not aware (even now) that they have any association with the Company.

The management structure has been described as follows:

"The firm is managed by Bernard and Peter Madoff. B. Madoff serves as Chairman and CEO and P. Madoff is the Senior Managing Director and Head of Trading. Bernard's sons, Mark and Andrew hold key roles and a number of other long term employees hold key positions as well. There are 12 individuals dedicated to managing the split-strike conversion strategy at BLM. This team is headed by B. Madoff and consists of 8 senior traders and 4 junior traders. Decisions on when to enter and exit the strategy are made by the group".

The group has been formally segregated from the rest of the firm through being on a separate floor, to which no other staff have access. We have been told by different Distributors that other Madoff family members have not had or, conversely, have had substantial involvement in the strategy. Physical segregation was often described as being in place to ensure Chinese Walls between the broker/dealer activities and the investment advisory strategy. A due diligence flag would be raised as standard for any firm that has both broker/dealer and advisory functions.

The Company has not earned any management or performance fees in the normal way, but has instead claimed to earn 'market rate' commissions on stocks and options. Distributors however do charge fees on their funds at standard rates of management fees of 1 - 2% and incentive fees of 10 - 20%. It is notable that the Company has not charged fees that would earn it hundreds of millions of dollars each year and, also, that this has been a highly profitable product for Distributors.

The true scale of assets has also been a point of concern for Albourn, particularly as, unusually, the Company appeared to understate its AUM. Even the brief list on Bloomberg dated 14th December totals \$15bn and, although undoubtedly this includes some double-counting, the true scale and number of feeders remains unclear today.

2.2. The strategy

The strategy has generally been described as 'split strike conversion' although other descriptions are given as 'volatility arbitrage' or 'equity market neutral'.

A typical description of a "split strike conversion" strategy would be as follows. It might consist of the purchase of a basket of large cap US equities, the purchase of S&P 100 Index put options and the sale of S&P 100 Index call options, each of an amount approximately equal to the value of the stocks. The S&P 100 Index (OEX) is a market cap weighted index of the 100 largest US companies. Buying OEX puts establishes a floor to the value of the basket of equities by offsetting any decline in the value of the basket. Writing out of the money OEX calls establishes a ceiling above which gains on the equities are offset by losses on the short calls. The basket contains 40-50 stocks drawn from members of the OEX to replicate index performance. The call and put options are near out of the money, next month expiry. As a result the range over which the fund has market exposure might be 1-2%. The strategy would alternate between periods of investment and non-investment and would aim to identify and profit from periods of positive momentum in large cap US equities on a hedged basis. The holding period might typically range from two weeks to 3 months and the fund would be put into T-bills when not invested in stocks. No balance sheet leverage would be used, nor would there be any short sales of stock. There would be limitations on the minimum number of stocks in the basket, the minimum market capitalisation, the minimum correlation between basket and OEX and the distance to options strikes.

It is Albourn's understanding that, in the case of the Company, the options are a majority of the time OTC rather than exchange traded, although exchange traded options may be used. The terms of the OTC options generally match those of the listed market, for example, almost all expire on the third Friday of the month. Albourn has also been told that at the end of the calendar year all the Company's trades are exited to facilitate 'easy auditing'.

The validity of such a strategy is questionable. We monitor many similar strategies and we would expect a simple strategy like this to be replicated by others if it were so consistently profitable; we have not found this to be the case. Similar strategies are deployed by others, but none has achieved the same consistent 'returns'. In addition, the available liquidity of OTC options on \$17bn of notional is of concern. Options market volumes are not sufficiently large to indicate any substantial exchange trading or a realistic level of bank hedging of these exchange "lookalike" options. This might lead to a question whether these trades were actually being put on at all, or at all events on a scale that would fully hedge \$17bn of exposure.

Due diligence by any investors has typically only been permitted on the Distributor and much play has been made of the fact that Mr Madoff would not meet any of his investors. The hedge fund industry has many recluses but for a big enough investor they will do a meeting. To the extent that contact was made with the Company, it would make the following points:

- The Company is the executing broker for several funds
- The Company executes the strategy in compliance with Guidelines agreed with the fund
- The Company only has discretion over timing
- The Company gets paid commission for executing the strategy
- The Company executes based on a model developed with the fund
- The model is proprietary.

2.3. The Distributors

The structure of each product appears to be slightly different. In some instances the Company has been described as the Investment Advisor, in some the execution agent and in others the sub-advisor (which is why we have used the generic terms "Company" for Madoff entities and "Distributor" for the firm managing each Fund). Distributors would usually state that they have had 'managed accounts' rather than commingled funds.

A typical arrangement would be that the Distributor entered into a sub-advisory agreement with the Company through which the Company was delegated trading authority of the portfolio with full discretion. Trade operations and settlement were delegated to the Company, whilst the Distributor was responsible for oversight on the portfolio, trade checks, portfolio reconciliation, month-end valuation and due diligence on the Company.

An example track record is given below. Although such records could be lower or higher per Fund due to fees, leverage and other factors, they do in general show persistently smooth positive returns. We cannot think of a group of funds trading easily marked-to-market assets which appears to have weathered quite so many different types of storm with such apparently consistent risk-adjusted returns. Indeed, as far back as 2001, there were media stories in the Wall Street Journal and MarHedge querying the returns (see <http://nakedshorts.typepad.com/files/madoff.pdf>) and raising some of the questions that have been highlighted over the last few days.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	
1990													2.77%	2.77%
1991	3.07%	1.47%	0.52%	1.32%	1.52%	0.30%	1.65%	1.00%	0.73%	2.73%	0.01%	1.68%	17.64%	
1992	0.42%	2.72%	0.61%	2.77%	-0.27%	1.22%	-0.09%	0.68%	0.23%	1.25%	1.58%	1.36%	13.72%	
1993	-0.07%	1.87%	1.76%	-0.07%	1.65%	0.78%	0.02%	1.71%	0.22%	1.71%	0.18%	0.38%	10.76%	
1994	2.11%	-0.44%	1.65%	1.72%	0.44%	0.23%	1.74%	0.33%	0.76%	1.31%	-0.44%	0.00%	10.67%	
1995	0.60%	0.67%	0.76%	1.82%	1.55%	0.48%	1.02%	-0.24%	1.53%	1.53%	0.44%	1.06%	12.04%	
1996	1.42%	0.87%	1.16%	0.57%	1.44%	0.18%	1.24%	0.20%	1.18%	1.53%	1.61%	0.41%	12.00%	
1997	2.38%	0.87%	0.57%	1.10%	0.57%	1.38%	0.64%	0.28%	2.32%	0.48%	1.48%	0.58%	13.16%	
1998	0.68%	1.23%	1.63%	0.24%	1.55%	1.22%	0.70%	0.21%	0.68%	1.54%	0.78%	0.28%	12.52%	
1999	1.09%	0.11%	2.22%	0.24%	1.48%	1.70%	0.24%	0.57%	0.82%	1.03%	1.64%	0.52%	13.28%	
2000	2.14%	0.13%	1.71%	0.77%	1.27%	0.78%	0.35%	1.28%	0.18%	2.04%	0.62%	0.38%	10.67%	
2001	2.14%	0.03%	1.07%	1.38%	0.38%	0.17%	0.35%	0.44%	0.82%	1.22%	1.14%	0.12%	8.82%	
2002	-0.94%	0.82%	0.54%	1.04%	2.05%	0.18%	1.27%	-0.14%	0.05%	2.25%	0.10%	0.00%	8.42%	
2003	-0.33%	-0.08%	1.68%	0.03%	0.67%	0.65%	1.37%	0.18%	0.68%	1.25%	-0.14%	0.28%	7.32%	
2004	0.68%	0.44%	-0.01%	0.37%	0.23%	1.21%	0.62%	1.28%	0.49%	0.03%	0.78%	0.24%	6.44%	
2005	0.81%	0.37%	0.65%	0.14%	0.25%	0.48%	0.13%	0.18%	0.28%	1.21%	0.78%	0.84%	7.26%	
2006	0.70%	0.23%	1.31%	0.84%	0.78%	0.61%	1.04%	0.77%	0.62%	0.42%	0.68%	0.68%	8.38%	
2007	0.28%	-0.11%	1.61%	0.68%	0.61%	0.24%	0.17%	0.31%	0.67%	0.45%	1.04%	0.25%	7.34%	
2008	0.03%	0.05%	0.16%	0.03%	0.21%	-0.25%	0.72%	0.71%	0.50%	-0.02%			4.67%	

Although the strategy is not levered, we understand that Distributors could and did apply leverage at the Fund level.

The number of Distributors is unclear (Form ADV implies 23), as some Distributors have multiple products and clients of the Distributors themselves have their own linked products and notes. There are also many Fund of Funds which have an investment in this strategy as a core (and sometimes outsized) holding.

2.4. The operational process

One of the more credible aspects of the Company was that there was a group of highly respected (and unquestionably genuine) Distributors who clearly asserted that at least two of the feeders had full transparency and they were able to review them trade-by-trade. This created a ripple effect of confidence to a whole group of other investors, who felt they had less or no transparency.

Operationally, we understand that Distributors received paper trade tickets from the Company through the US postal service a few days after trades were placed. Distributors received only confirmation of trading activity; there was no daily transaction report and no daily confirmation of "no trades". The delay in trade tickets made them susceptible to amendment or manipulation. Further, for a Company that claimed to be at the forefront of electronic execution, it was unusual that they should provide paper tickets. Distributors also received monthly transaction reports and balance sheet reports from the Company. The type of checks that Distributors carried out included reconciling the monthly statement with the intra-monthly trading confirmation; checking that each trade price was within the daily high and low; and monitoring the trade tickets to verify that the equity basket was on the S&P 100 and check that the notional amount of the options matched the equity basket. There was no external or independent reconciliation of trades with counterparties (outside of the Company). However some Distributors do claim to have checked somewhat generically with counterparties to make sure they were trading with the Company in the relevant instruments (which of course begs the question as to why that check was deemed necessary and what value was obtained from it).

The Fund's administrator (often a well-known entity) typically received information directly from the Company and was able to verify prices through its own third party pricing vendor. Though the Company was the Funds' custodian, some cash could also be held at the administrator. The Company had ultimate custody of the equity basket and the T-bills were also held at the Company, but in a separate client account. The extent and nature of these brokerage accounts would seem to lie at the heart of the fraud allegations.

On the question why Distributors did not change to electronic trading tickets, we have been told that they did not encounter any problems with paper tickets and accordingly felt no need to change this method. Another stated reason is that the Company did not want real time information of its trades revealed, in case others might try to trade against it.

The Company from time to time provided Distributors with a general list of OTC counterparties, which might consist of between 12 and 20 names. However, the Distributor was not given information as to the trade details with specific counterparties at any given time. As far as the Funds were concerned, the counterparty risk was against the Company. Funds took material counterparty risk against the Company when the trade was 'on' (\$17bn of notional S&P exposure). Distributors assumed that the Company was covering this with market counterparties.

Although we have not seen every Fund, those we have seen would appear to have legitimate annual audited financial statements, signed off by reputable firms, which typically state that the "Company (or an affiliated broker dealer of the Company) acts as custodian for the assets that the Fund manages". It would appear that other auditors have placed reliance on confirmations received from the Company and its auditor, a small firm called Friebling & Horowitz.

Again, as noted above, at quarter and year ends, the Funds are generally in cash, so that a 13F report shows a minimal level of investments by the Company.

As the Company is a FINRA-registered broker-dealer, Distributors would also assert that the Company would be reviewed regularly by the regulators.

Conclusion

We believe this covers the main issues at present. Please contact your client account manager if you would like to raise further points or if we can help with our due diligence process or track record.

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Albourne is a party to non-disclosure agreements ("NDAs") with certain funds. These NDAs may restrict Albourne's ability to give certain clients access to research on funds or managers which are a party to these NDAs.



Executive Director's Update

LEGISLATIVE

DECEMBER 2008

DATES TO REMEMBER

- **Committee and Board Meeting**
February 17, 2009
- **Committee Meetings**
May 12, 2009
- **Board Meeting**
May 13, 2009
- **Committee Meetings**
September 22, 2009
- **Board Meeting**
September 23, 2009
- **Committee Meetings**
November 17, 2009
- **Board Meeting**
November 18, 2009

Our Mission Statement —

The West Virginia Investment Management Board is dedicated to providing prudent, efficient and professional investment management on behalf of and in the best interests of the beneficiaries of the assets it is entrusted with.



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The Bull and Bear of It PERFORMANCE: A Reprieve!

JAN 30 2009

MANAGER

Returns in December, up 3.5 percent, offered a welcome reprieve to the carnage that was the previous three months. Even with the positive returns brought by December, it has been a rough six months. Using the Public Employees Retirement System as a proxy for all the defined benefit pension plans, the portfolio is down 25 percent for the first half of the fiscal year ending December 31, 2008.

Further good news can be found in the performance of the portfolio relative to benchmarks. The Investment Management Board structured the portfolio to perform well in down markets. In the last recession, it performed extraordinarily well, but it has been more difficult this time around. For much of fiscal year 2008, the portfolio lagged, but the defensive structure has gradually made headway in the last seven months. The Investment Management Board's stock portfolio is now almost 2.5 percent better than the benchmark over the twelve months ending December 31, 2008. The star performer is the international stock portfolio, with its strong value tilt. During the first part of this bear market the value tilt in international stocks didn't help out, but it has paid off handsomely of late, with that portion of the portfolio outperforming the benchmark by almost 5 percent for the last twelve months. Domestic non-large



December offered a welcome reprieve.

cap stocks have also done well, relatively, due to the emphasis on fundamental value. They are over 1 percent better than the index for the twelve months ending December 31, 2008. The fixed income portion of the portfolio, unfortunately, continues to be a drag on a relative basis. Although up 2.8 percent for the month of December, the benchmark return was up 3.8 percent. Fundamental investors in fixed income have yet to be rewarded as the markets still have not come to terms with the credit crisis. There is an overriding fear that there is still bad news that hasn't yet been disclosed. In times like these, investors flock to treasury securities, which are vastly underrepresented in the Investment Management Board's portfolio.

(Continued on page 2)



Market Commentary

(Continued from page 3)

Large cap stocks lagged small-cap by a considerable margin, but posted modest gains led by cyclical stocks, such as consumer discretionary. However, a retail led recovery is highly unlikely at this stage of the economic cycle given people's ongoing struggles with declining wealth, worries about the economy, and the need to pay down debt. Interestingly, many of the gains in this sector were from for-profit education and auto parts retailers, perhaps a sign of the national psyche of people trying to increase their employment credentials and taking more of a "do-it-yourself" attitude in these troubling times. Investors now turn their attention to the release of year-end earnings reports to gauge market direction for 2009. Performance of selected benchmarks is shown below.

INDEX	SECTOR	(month)	YTD
S&P 500	Large-Cap	1.06%	-37.00%
Russell 2000	Small-Cap	5.80%	-33.79%
MS EAFE (US \$, gross)	International	6.02%	-43.06%
MS EM (US \$, gross)	Emerging Markets	7.83%	-53.10%

Developed international markets experienced their first positive return since May, with growth and value stocks rising about equally. The hardest hit sectors of November, industrials and materials, rebounded the most. Insurance companies jumped 10 percent, although financials as a whole were negative. Emerging markets echoed developed international ones, but to a larger degree, perhaps as a reaction to the previous month's negative performance.

FIXED INCOME

The U.S. Treasury yield curve continued to flatten in December as the yield on the 10- and 30-year maturities reached as low as 2.2 percent and 2.7 percent respectively. A flight-to-quality continues to fuel demand for U.S. government debt, despite the low yields. However, the spread sectors staged a bit of a rebound in December, outperforming U.S. Treasuries by a considerable margin. Much like the equity rally in December, this performance did little to erase the declines for the year, particularly in

high yield bonds. Performance of various sectors is shown below.

SECTOR	December	YTD	EXCESS (YTD) *
Barclays Aggregate	3.73%	5.24%	-7.10%
US Treasury	3.39%	13.74%	0.00%
Mortgage-Backed Sec.	1.67%	8.34%	-2.32%
US Credit	6.27%	-3.08%	-17.86%
High Yield	7.68%	-26.16%	-38.32%
Emerging Market	8.69%	-14.75%	-28.42%

* Excess returns over duration equivalent US Treasuries

For investors with patience and a long time horizon, tremendous opportunities exist.

CONCLUSION

The economy is in a downward spiral and the primary economic engine, the consumer, is not in a position to lead a recovery. Despite this and little in the way of positive economic news, investment markets were up in December. Some of this may be attributed to bargain hunters, and some may be attributed to optimism over the government stimulus packages, which are being relied upon for the initial stages of a possible recovery to begin in 2009. This path to recovery is expected to be long and arduous, but for investors with patience and a long time horizon, tremendous opportunities may exist. ■



The economy is in a downward spiral.

Sources used: Bloomberg News, CNNmoney, The Wall Street Journal, and Lehman Brothers Live.

Belkin: Caroline Kennedy and How a Woman Qualifies Pete Welis: Cooking With My 4-Year-Old Rebecca Shroot: When a Parrot Is a Sort of Seeing Eye Dog

The New York Times Magazine

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WHAT LED TO THE FINANCIAL MELTDOWN:

MATHEMATICAL MODELS USED TO EVALUATE WALL STREET TRADES? OR BANKERS WHO MISLEAD OR IGNORED THEM? BY JOE NOCERA

RISK!



RISK MISMANAGEMENT

WERE THE MEASURES USED TO EVALUATE WALL STREET TRADES FLAWED?

**OR WAS THE MISTAKE IGNORING THEM?
BY JOE NOCERA**

**'The story that I have to tell
is marked all the way through by a persistent
tension between those who assert that the
BEST DECISIONS ARE BASED ON QUANTIFICATION
and numbers, determined by the patterns of the past,
AND THOSE WHO BASE THEIR DECISIONS ON MORE SUBJECTIVE
DEGREES OF BELIEF ABOUT THE UNCERTAIN FUTURE.
This is a controversy that
HAS NEVER BEEN RESOLVED.'**

FROM THE INTRODUCTION TO "AGAINST THE GODS: THE REMARKABLE STORY OF RISK," BY PETER L. BERNSTEIN

THERE AREN'T MANY widely told anecdotes about the current financial crisis, at least not yet, but there's one that made the rounds in 2007, back when the big investment banks were first starting to write down billions of dollars in mortgage-backed derivatives and other so-called toxic securities. This was well before Bear Stearns collapsed, before Fannie Mae and Freddie Mac were taken over by the federal government, before Lehman fell and Merrill Lynch was sold and A.I.G. saved, before the \$700 billion bailout bill was rushed into law. Before, that is, it became obvious that the risks taken by the largest banks and investment firms in the United States — and, indeed, in much of the Western world — were so excessive and foolhardy that they threatened to bring down the financial system itself. On the contrary: this was back when the major investment firms were still assuring investors that all was well, these little speed bumps notwithstanding — assurances based, in part, on their fantastically complex mathematical models for measuring the risk in their various portfolios.

There are many such models, but by far the most widely used is called VaR — Value at Risk. Built around statistical ideas and probability theories that have been around for centuries, VaR was developed and popularized in the early 1990s by a handful of scientists and mathematicians — "quants," they're called in the business — who went to work for JPMorgan. VaR's great appeal, and its great selling point to people who do not happen to be quants, is that it expresses risk as a single number, a dollar figure, no less.

VaR isn't one model but rather a group of related models that share a mathematical framework. In its most common form, it measures the boundaries of risk in a portfolio over short durations, assuming a "normal" market. For instance, if you have \$50 million of weekly VaR, that means that over the course of the next week, there is a 99 percent chance that your portfolio won't lose more than \$50 million.

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That portfolio could consist of equities, bonds, derivatives or all of the above; one reason VaR became so popular is that it is the only commonly used risk measure that can be applied to just about any asset class. And it takes into account a head-spinning variety of variables, including diversification, leverage and volatility, that make up the kind of market risk that traders and firms face every day.

Another reason VaR is so appealing is that it can measure both individual risks — the amount of risk contained in a single trader's portfolio, for instance — and firmwide risk, which it does by combining the VaRs of a given firm's trading desks and coming up with a net number. Top executives usually know their firm's daily VaR within minutes of the market's close.

Risk managers use VaR to quantify their firm's risk positions to their board. In the late 1990s, as the use of derivatives was exploding, the Securities and Exchange Commission ruled that firms had to include a quantitative disclosure of market risks in their financial statements for the convenience of investors, and VaR became the main tool for doing so. Around the same time, an important international rule-making body, the Basel Committee on Banking Supervision, went even further to validate VaR by saying that firms and banks could rely on their own internal VaR calculations to set their capital requirements. So long as their VaR was reasonably low, the amount of money they had to set aside to cover risks that might go bad could also be low.

Given the calamity that has since occurred, there has been a great deal of talk, even in quant circles, that this widespread institutional reliance on VaR was a terrible mistake. At the very least, the risks that VaR measured did not include the biggest risk of all: the possibility of a financial meltdown. "Risk modeling didn't help as much as it should have," says Aaron Brown, a former risk manager at Morgan Stanley who now works at AQR, a big quant-oriented hedge fund. A risk consultant named Marc Grotz says, "VaR is a very limited tool." David Einhorn, who founded Greenlight Capital, a prominent hedge fund, wrote not long ago that VaR was "relatively useless as a risk-management tool



and potentially catastrophic when its use creates a false sense of security among senior managers and watchdogs. This is like an air bag that works all the time, except when you have a car accident." Nassim Nicholas Taleb, the best-selling author of "The Black Swan," has crusaded against VaR for more than a decade. He calls it, flatly, "a fraud."

How then do we account for that story that made the rounds in the summer of 2007? It concerns Goldman Sachs, the one Wall Street firm that was not, at that time, taking a hit for billions of dollars of suddenly devalued mortgage-backed securities. Reporters wanted to understand how Goldman had somehow sidestepped the disaster that had befallen everyone else. What they discovered was that in December 2006, Goldman's various indicators, including VaR and other risk models, began suggesting that something was wrong. Not hugely wrong, mind you, but wrong enough to warrant a closer look.

"We look at the P.&L. of our businesses every day," said Goldman Sachs' chief financial officer, David Viniar, when I went to see him recently to hear the story for myself. (P.&L. stands for profit and loss.) "We have lots of models here that are important, but none are more important than the P.&L., and we check every day to make sure our P.&L. is consistent with where our risk models say it should be. In December our mortgage business lost money for 10 days in a row. It wasn't a lot of money, but by the 10th day we thought that we should sit down and talk about it."

So Goldman called a meeting of about 15 people, including several risk managers and the senior people on the various trading desks. They examined a thick report that included every trading position the firm held. For the next three hours, they pored over everything. They examined their VaR numbers and their other risk models. They talked about how the mortgage-backed securities market "felt." "Our guys said that it felt like it was going to get worse before it got better," Viniar recalled. "So we made a decision: let's get closer to home."

In trading parlance, "getting closer to home" means reining in the risk, which in this case meant either getting rid of the mortgage-

backed securities or hedging the positions so that if they declined in value, the hedges would counteract the loss with an equivalent gain. Goldman did both. And that's why, back in the summer of 2007, Goldman Sachs avoided the pain that was being suffered by Bear Stearns, Merrill Lynch, Lehman Brothers and the rest of Wall Street.

The story was told and retold in the business pages. But what did it mean, exactly? The question was always left hanging. Was it an example of the futility of risk modeling or its utility? Did it show that risk models, properly understood, were not a fraud after all but a potentially important signal that trouble was brewing? Or did it suggest instead that a handful of human beings at Goldman Sachs acted wisely by putting their models aside and making "decisions on more subjective degrees of belief about an uncertain future," as Peter L. Bernstein put it in "Against the Gods?"

To put it in blunter terms, could VaR and the other risk models Wall Street relies on have helped prevent the financial crisis if only Wall Street paid better attention to them? Or did Wall Street's reliance on them help lead us into the abyss?

One Saturday a few months ago, Taleb, a trim, impeccably dressed, middle-aged man — inexplicably, he won't give his age — walked into a lobby in the Columbia Business School and headed for a classroom to give a guest lecture. Until that moment, the lobby was filled with students chatting and eating a quick lunch before the afternoon session began, but as soon as they saw Taleb, they streamed toward him, surrounding him and moving with him as he slowly inched his way up the stairs toward an already-crowded classroom. Those who couldn't get in had to make do with the next classroom over, which had been set up as an overflow room. It was jammed, too.

It's not every day that an options trader becomes famous by writing a book, but that's what Taleb did, first with "Fooled by Randomness," which was published in 2001 and became an immediate cult



classic on Wall Street, and more recently with "The Black Swan: The Impact of the Highly Improbable," which came out in 2007 and landed on a number of best-seller lists. He also went from being primarily an options trader to what he always really wanted to be: a public intellectual. When I made the mistake of asking him one day whether he was an adjunct professor, he quickly corrected me. "I'm the Distinguished Professor of Risk Engineering at N.Y.U.," he responded. "It's the highest title they give in that department." Humility is not among his virtues. On his Web site he has a link that reads, "Quotes from 'The Black Swan' that the imbeciles did not want to hear."

"How many of you took statistics at Columbia?" he asked as he began his lecture. Most of the hands in the room shot up. "You wasted your money," he sniffed. Behind him was a slide of Mickey Mouse that he had put up on the screen, he said, because it represented "Mickey Mouse probabilities." That pretty much sums up his view of business-school statistics and probability courses.

Taleb's ideas can be difficult to follow, in part because he uses the language of academic statisticians; words like "Gaussian," "kurtosis" and "variance" roll off his tongue. But it's also because he speaks in a kind of brusque shorthand, acting as if any fool should be able to follow his train of thought, which he can't be bothered to fully explain.

"This is a Stan O'Neal trade," he said, referring to the former chief executive of Merrill Lynch. He clicked to a slide that showed a trade that made slow, steady profits — and then quickly spiraled downward for a giant, brutal loss.

"Why do people measure risks against events that took place in 1987?" he asked, referring to Black Monday, the October day when the U.S. market lost more than 20 percent of its value and has been used ever since as the worst-case scenario in many risk models. "Why is that a benchmark? I call it future-blindness."

"If you have a pilot flying a plane who doesn't understand there can be storms, what is going to happen?" he asked. "He is not going to have a magnificent flight. Any small error is going to

crash a plane. This is why the crisis that happened was predictable."

Eventually, though, you do start to get the point. Taleb says that Wall Street risk models, no matter how mathematically sophisticated, are bogus; indeed, he is the leader of the camp that believes that risk models have done far more harm than good. And the essential reason for this is that the greatest risks are never the ones you can see and measure, but the ones you can't see and therefore can never measure. The ones that seem so far outside the boundary of normal probability that you can't imagine they could happen in your lifetime — even though, of course, they do happen, more often than you care to realize. Devastating hurricanes happen. Earthquakes happen. And once in a great while, huge financial catastrophes happen. Catastrophes that risk models somehow always manage to miss.

VaR is Taleb's favorite case in point. The original VaR measured portfolio risk along what is called a "normal distribution curve," a statistical measure that was first identified by Carl Friedrich Gauss in the early 1800s (hence the term "Gaussian"). It is a simple bell curve of the sort we are all familiar with:



The reason the normal curve looks the way it does — why it rises as it gets closer to the middle — is that the closer you get to that point, the smaller the change in the thing you're measuring, and hence the more frequently it is likely to occur. A typical stock or portfolio of stocks, for example, is far likelier to gain or lose one point in a day (or a week) than it is to gain or lose 20 points. So the pattern of normal distribution will cluster around those smaller changes toward the middle of the curve, while the less-frequent distributions will fall along the ends of the curve.

VaR uses this normal distribution curve to plot the riskiness of a portfolio. But it makes certain assumptions. VaR is often mea-



sured daily and rarely extends beyond a few weeks, and because it is a very short-term measure, it assumes that tomorrow will be more or less like today. Even what's called "historical VaR" — a variation of standard VaR that measures potential portfolio risk a year or two out, only uses the previous few years as its benchmark. As the risk consultant Marc Groz puts it, "The years 2005-2006," which were the culmination of the housing bubble, "aren't a very good universe for predicting what happened in 2007-2008."

This was one of Alan Greenspan's primary excuses when he made his mea culpa for the financial crisis before Congress a few months ago. After pointing out that a Nobel Prize had been awarded for work that led to some of the theories behind derivative pricing and risk management, he said: "The whole intellectual edifice, however, collapsed in the summer of last year because the data input into the risk-management models generally covered only the past two decades, a period of euphoria. Had instead the models been fitted more appropriately to historic periods of stress, capital requirements would have been much higher and the financial world would be in far better shape today, in my judgment." Well, yes. That was also the point Taleb was making in his lecture when he referred to what he called future-blindness. People tend not to be able to anticipate a future they have never personally experienced.

Yet even faulty historical data isn't Taleb's primary concern. What he cares about, with standard VaR, is not the number that falls within the 99 percent probability. He cares about what happens in the other 1 percent, at the extreme edge of the curve. The fact that you are not likely to lose more than a certain amount 99 percent of the time tells you absolutely nothing about what could happen the other 1 percent of the time. You could lose \$51 million instead of \$50 million — no big deal. That happens two or three times a year, and no one blinks an eye. You could also lose billions and go out of business. VaR has no way of measuring which it will be.

What will cause you to lose billions instead of millions? Some-

thing rare, something you've never considered a possibility. Taleb calls these events "fat tails" or "black swans," and he is convinced that they take place far more frequently than most human beings are willing to contemplate. Groz has his own way of illustrating the problem: he showed me a slide he made of a curve with the letters "T.B.D." at the extreme ends of the curve. I thought the letters stood for "To Be Determined," but that wasn't what Groz meant. "T.B.D. stands for 'There Be Dragons,'" he told me.

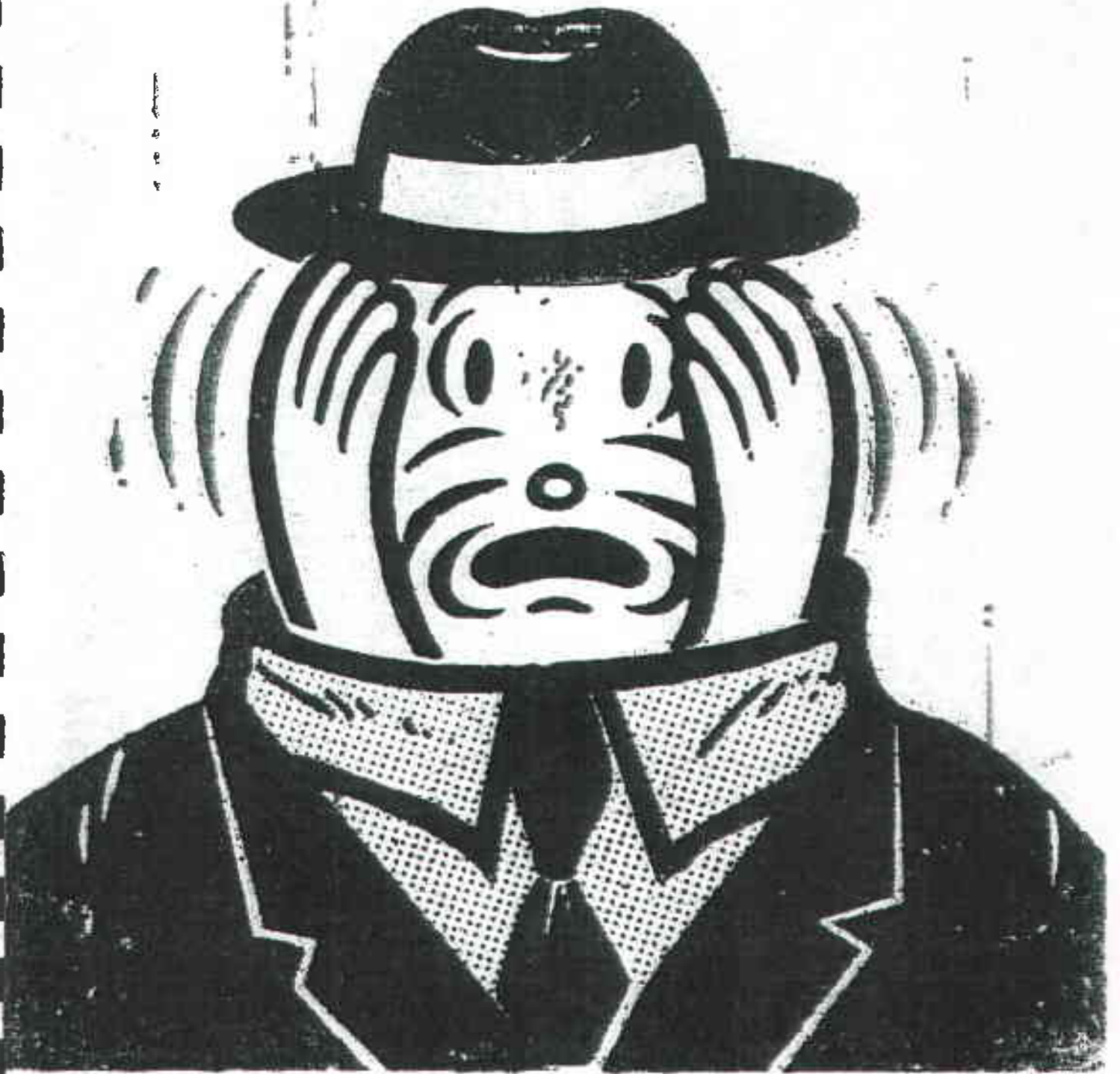
And that's the point. Because we don't know what a black swan might look like or when it might appear and therefore don't plan for it, it will always get us in the end. "Any system susceptible to a black swan will eventually blow up," Taleb says. The modern system of world finance, complex and interrelated and opaque, where what happened yesterday can and does affect what happens tomorrow, and where one wrong tug of the thread can cause it all to unravel, is just such a system.

"I have been calling for the abandonment of certain risk mea-

**'I do think that this was much more
A FAILURE OF MANAGEMENT
than of risk management,' says Gregg Serman of RiskMetrics.
'YOU CAN'T BLAME MATH.'**

ures since 1996 because they cause people to cross the street blindfolded," he said toward the end of his lecture. "The system went bust because nobody listened to me."

After the lecture, the professor who invited Taleb to Columbia took a handful of people out for a late lunch at a nearby diner. Somewhat surprisingly, given Taleb's well-known scorn for risk managers, the professor had also invited several risk managers who worked at two big investment banks. We had barely been seated before they tried to engage Taleb in a debate over the value of VaR. But Taleb is impossible to argue with on this subject: every time they raised an objection to





his argument, he curtly dismissed them out of hand. "VaR can be useful," said one of the risk managers. "It depends on how you use it. It can be useful in identifying trends."

"This argument is addressed in 'The Black Swan,'" Taleb retorted. "Not a single person has offered me an argument I haven't heard."

"I think VaR is great," said another risk manager. "I think it is a fantastic tool. It's like an altimeter in aircraft. It has some margin for error, but if you're a pilot, you know how to deal with it. But very few pilots give up using it."

Taleb replied: "Altimeters have errors that are Gaussian. You can compensate. In the real world, the magnitude of errors is much less known."

Around and around they went, talking past each other for the next hour or so. It was engaging but unsatisfying; it didn't help illuminate the role risk management played in the crisis.

The conversation had an energizing effect on Taleb, however. He walked out of the diner with a full head of steam, railing about the two "imbeciles" he just had to endure. I used the moment to ask if he knew the people at RiskMetrics, a successful risk-management consulting firm that spun out of the original JPMorgan quant effort in the mid-1990s. "They're intellectual charlatans," he replied dismissively. "You can quote me on that."

As we approached his car, he began talking about his own performance in 2008. Although he is no longer a full-time trader, he remains a principal in a hedge fund he helped found, Black Swan Protection Protocol. His fund makes trades that either gain or lose small amounts of money in normal times but can make oversize gains when a black swan appears. Taleb likes to say that, as a trader, he has made money only three times in his life — in the crash of 1987, during the dot-com bust more than a decade later and now. But all three times he has made a killing. With the world crashing around it, his fund was up 65 to 115 percent for the year. Taleb chuckled. "They wouldn't listen to me," he said finally. "So I decided, to hell with them, I'll take their money instead."

"**VaR WAS INEVITABLE.**" Gregg Berman of RiskMetrics said when I went to see him a few days later. He didn't sound like an intellectual charlatan. His explanation of the utility of VaR — and its limitations — made a certain undeniable sense. He did, however, sound like somebody who was completely taken aback by the amount of blame placed on risk modeling since the financial crisis began.

"Obviously, we are big proponents of risk models," he said. "But a computer does not do risk modeling. People do it. And people got overzealous and they stopped being careful. They took on too much leverage. And whether they had models that missed that, or they weren't paying enough attention, I don't know. But I do think that this was much more a failure of management than of risk management. I think blaming models for this would be very unfortunate because you are placing blame on a mathematical equation. You can't blame math," he added with some exasperation.

Although Berman, who is 42, was a founding partner of RiskMetrics, it turned out that he was one of the few at the firm who hadn't come from JPMorgan. Still, he knew the back story. How could he not? It was part of the lore of the place. Indeed, it was part of the lore of VaR.

The late 1980s and the early 1990s were a time when many firms were trying to devise more sophisticated risk models because the world was changing around them. Banks, whose primary risk had long been credit risk — the risk that a loan might not be paid back — were starting to meld with investment banks, which traded stocks and bonds. Derivatives and securitizations — those pools of mortgages or credit-card loans that were bundled by investment firms and sold to investors — were becoming an increasingly important component of Wall Street. But they were devilishly complicated to value. For one thing, many of the more arcane instruments didn't trade very often, so you had to try to value them by finding a comparable security that did trade. And they were sliced into different pieces — tranches they're called — each



of which had a different risk component. In addition every desk had its own way of measuring risk that was largely incompatible with every other desk.

JPMorgan's chairman at the time VaR took off was a man named Dennis Weatherstone. Weatherstone, who died in 2008 at the age of 77, was a working-class Englishman who acquired the bearing of a patrician during his long career at the bank. He was soft-spoken, polite, self-effacing. At the point at which he took over JPMorgan, it had moved from being purely a commercial bank into one of these new hybrids. Within the bank, Weatherstone had long been known as an expert on risk, especially when he was running the foreign-exchange trading desk. But as chairman, he quickly realized that he understood far less about the firm's overall risk than he needed to. Did the risk in JPMorgan's stock portfolio cancel out the risk

an elegant, Swiss-born, former JPMorgan banker who ran the team that devised VaR and who is now vice chairman of SunGard Data Systems. "VaR is not just one invention," he said. "You solved one problem and another cropped up. At first it seemed unmanageable. But as we refined it, the methodologies got better."

Early on, the group decided that it wanted to come up with a number it could use to gauge the possibility that any kind of portfolio could lose a certain amount of money over the next 24 hours, within a 95 percent probability. (Many firms still use the 95 percent VaR, though others prefer 99 percent.) That became the core concept. When the portfolio changed, as traders bought and sold securities the next day, the VaR was then recalculated, allowing everyone to see whether the new trades had added to, or lessened, the firm's risk.

"There was a lot of suspicion internally," recalls Guldumann, because traders and executives — nonquants — didn't believe that such a thing could be quantified mathematically. But they were wrong. Over time, as VaR was proved more correct than not day after day, quarter after quarter, the top executives came not only to believe in it but also to rely on it.

For instance, during his early years as a risk manager, pre-VaR, Guldumann often confronted the problem of what to do when a trader had reached his trading limit but believed he should be given more capital to play out his hand. "How would I know if he should get the increase?" Guldumann says. "All I could do is ask around. Is he a good guy? Does he know what he's doing? It was ridiculous. Once we converted all the limits to VaR limits, we could compare. You could look at the profits the guy made and compare it to his VaR. If the guy who asked for a higher limit was making more money with lower VaR" — that is, with less risk — "it was a good basis to give him the money."

By the early 1990s, VaR had become such a fixture at JPMorgan that Weatherstone instituted what became known as the 4:15 report because it was handed out every day at 4:15, just after the market

Marc Groz showed me a slide

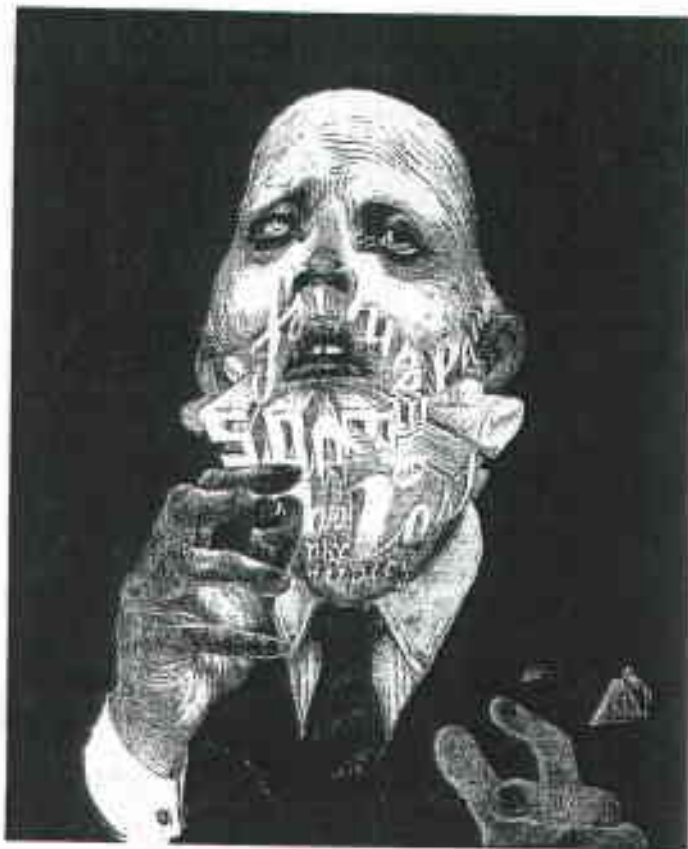
he made of a VaR curve with the letters 'T.B.D.' at the extreme ends.

THOUGHT THE LETTERS STOOD FOR 'TO BE DETERMINED,' but that wasn't it. 'T.B.D.' he told me, 'stands for

THERE BE DRAGONS.'

being taken by its bond portfolio — or did it heighten those risks? How could you compare different kinds of derivative risks? What happened to the portfolio when volatility increased or interest rates rose? How did currency fluctuations affect the fixed-income instruments? Weatherstone had no idea what the answers were. He needed a way to compare the risks of those various assets and to understand what his companywide risk was.

The answer the bank's quants had come up with was Value at Risk. To phrase it that way is to make it sound as if a handful of math whizzes locked themselves in a room one day, cranked out some formulas, and — presto! — they had a risk-management system. In fact, it took around seven years, according to Till Guldumann,



closed. It allowed him to see what every desk's estimated profit and loss was, as compared to its risk, and how it all added up for the entire firm. True, it didn't take into account Taleb's fat tails, but nobody really expected it to do that. Weatherstone had been a trader himself; he understood both the limits and the value of VaR. It told him things he hadn't known before. He could use it to help him make judgments about whether the firm should take on additional risk or pull back. And that's what he did.

What caused VaR to catapult above the risk systems being developed by JPMorgan competitors was what the firm did next: it gave VaR away. In 1993, Guldinann made risk the theme of the firm's annual client conference. Many of the clients were so impressed with the JPMorgan approach that they asked if they could purchase the underlying system. JPMorgan decided it didn't want to get into that business, but proceeded instead to form a small group, RiskMetrics, that would teach the concept to anyone who wanted to learn it, while also posting it on the Internet so that other risk experts could make suggestions to improve it. As Guldinann wrote years later, "Many wondered what the bank was trying to accomplish by giving away 'proprietary' methodologies and lots of data, but not selling any products or services." He continued, "It popularized a methodology and made it a market standard, and it enhanced the image of JPMorgan."

JPMorgan later spun RiskMetrics off into its own consulting company. By then, VaR had become so popular that it was considered the risk-model gold standard. Here was the odd thing, though: the month RiskMetrics went out on its own, September 1998, was also when Long-Term Capital Management "blew up." L.T.C.M. was a fantastically successful hedge fund famous for its quantitative trading approach and its belief, supposedly borne out by its risk models, that it was taking minimal risk.

L.T.C.M.'s collapse would seem to make a pretty good case for Taleb's theories. What brought the firm down was a black swan

it never saw coming: the twin financial crises in Asia and Russia. Indeed, so sure were the firm's partners that the market would revert to "normal" — which is what their model insisted would happen — that they continued to take on exposures that would destroy the firm as the crisis worsened, according to Roger Lowenstein's account of the debacle, "When Genius Failed." Oh, and another thing: among the risk models the firm relied on was VaR.

Aaron Brown, the former risk manager at Morgan Stanley, remembers thinking that the fall of L.T.C.M. could well lead to the demise of VaR. "It thoroughly punctured the myth that VaR was invincible," he said. "Something that fails to live up to perfection is more despised than something that was never idealized in the first place." After the 1987 market crash, for example, portfolio insurance, which had been sold by Wall Street as a risk-mitigation device, became largely discredited.

But that didn't happen with VaR. There was so much *schadenfreude* associated with L.T.C.M. — it had Nobel Prize winners among its partners! — that it was easy for the rest of Wall Street to view its fall as an example of comeuppance. And for a hedge fund that promoted the ingeniousness of its risk measures, it took far greater risks than it ever acknowledged.

For these reasons, other firms took to rationalizing away the fall of L.T.C.M.; they viewed it as a human failure rather than a failure of risk modeling. The collapse only amplified the feeling on Wall Street that firms needed to be able to understand their risks for the entire firm. Only VaR could do that. And finally, there was a belief among some, especially after the crisis abated, that the events that brought down L.T.C.M. were one in a million. We would never see anything like that again in our lifetime.

So instead of diminishing in importance, VaR became a more important part of the financial scene. The Securities and Exchange Commission, for instance, worried about the amount of risk that derivatives posed to the system, mandated that financial firms would have to disclose that risk to investors, and VaR

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RISK

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became the de facto measure. If the VaR number increased from year to year in a company's annual report, it meant the firm was taking more risk. Rather than doing anything to limit the growth of derivatives, the agency concluded that disclosure, via VaR, was sufficient.

That, in turn, meant that even firms that had resisted VaR now succumbed. It meant that chief executives of big banks and investment firms had to have at least a passing familiarity with VaR. It meant that traders all had to understand the VaR consequences of making a big bet or of changing their portfolios. Some firms continued to use VaR as a tool while adding other tools as well, like "stress" or "scenario" tests, to see where the weak links in the portfolio were or what might happen if the market dropped drastically. But others viewed VaR as the primary measure they had to concern themselves with.

VaR, in other words, became institutional-

base it on a firm's internal VaR, partly because that VaR was not set by regulators and partly because it obviously didn't gauge the kind of extreme events that destroy capital and create a liquidity crisis — precisely the moment when you need cash on hand.

Indeed, Erhan Berman, the chief executive of RiskMetrics (and no relation to Gregg Berman), told me that one of VaR's flaws, which only became obvious in this crisis, is that it didn't measure liquidity risk — and of course a liquidity crisis is exactly what we're in the middle of right now. One reason nobody seems to know how to deal with this kind of crisis is because nobody envisioned it.

In a crisis, Brown, the risk manager at AQR, said, "you want to know who can kill you and whether or not they will and who you can kill if necessary. You need to have an emergency backup plan that assumes everyone is out to get you. In peacetime, you think about other people's intentions. In wartime, only their capabilities matter. VaR is a peacetime statistic."

what Guldimann calls "asymmetric risk positions." These are products or contracts that, in general, generate small gains and very rarely have losses. But when they do have losses, they are huge. These positions made a manager's VaR look good because VaR ignored the slim likelihood of giant losses, which could only come about in the event of a true catastrophe. A good example was a credit-default swap, which is essentially insurance that a company won't default. The gains made from selling credit-default swaps are small and steady — and the chance of ever having to pay off that insurance was assumed to be minuscule. It was outside the 99 percent probability, so it didn't show up in the VaR number. People didn't see the size of those hidden positions lurking in that 1 percent that VaR didn't measure.

EVER MORE CRITICAL, it did not properly account for leverage that was employed through the use of options. For example, said Groz, if an asset manager borrows money to buy shares of a company, the VaR would usually increase. But say he instead enters into a contract that gives someone the right to sell him those shares at a lower price at a later time — a put option. In that case, the VaR might remain unchanged. From the outside, he would look as if he were taking no risk, but in fact, he is. If the share price of the company falls steeply, he will have lost a great deal of money. Groz called this practice "stuffing risk into the tails."

And yet, instead of dismissing VaR as worthless, most of the experts I talked to defended it. The issue, it seemed to me, was less what VaR did and did not do, but how you thought about it. Taleb says that because VaR didn't measure the 1 percent, it was worse than useless — it was downright harmful. But most of the risk experts said there was a great deal to be said for being able to manage risk 99 percent of the time, however imperfectly, even though it meant you couldn't account for the last 1 percent.

"If you say that all risk is unknowable," Gregg Berman said, "you don't have the basis of any sort of a bet or a trade. You cannot buy and sell anything unless you have some idea of the expectation of how it will move." In other words, if you spend all your time thinking about black swans, you'll be so risk averse you'll never do a trade. Brown put it this way: "NT" — that is how he refers to Nassim Nicholas Taleb — "says that 1 percent will dominate your outcomes. I think the other 99 percent does matter. There are things you can do to control your risk. To not use VaR is to say that I won't care about the 99 percent, in which case you won't have a business. That is true even though you know the fate of the firm is going to be determined by some huge event. When you think about disasters, all you can rely on is the disasters of the past. And yet you know that it will be different in the future. How do you plan for that?"

One risk-model critic, Richard Bookstaber, a hedge-fund risk manager and author of "A Demon of Our Own Design," *Continued on Page 50*

The triple-A-rated

mortgage-backed securities churned out by Wall Street firms

AND THAT TURNED OUT TO BE LITTLE MORE THAN JUNK?

VaR didn't see the risk because

IT GENERALLY RELIED ON A TWO-YEAR DATA HISTORY.

ized. RiskMetrics went from having a dozen risk-management clients to more than 600. Lots of competitors sprouted up. Long-Term Capital Management became an increasingly distant memory, overshadowed by the Internet boom and then the housing boom. Corporate chieftains like Stanley O'Neal at Merrill Lynch and Charles Prince at Citigroup pushed their divisions to take more risk because they were being left behind in the race for trading profits. All over Wall Street, VaR numbers increased, but it still all seemed manageable — and besides, nothing bad was happening!

VaR also became a crutch. When an international banking group that advises national regulators decided the world needed more sophisticated ways to gauge the amount of capital that firms had to hold, Wall Street firms lobbied the group to allow them to use their internal VaR numbers. Ultimately, the group came up with an accord that allowed just that. It doesn't seem too strong to say that as a direct result, banks didn't have nearly enough capital when the black swan began to emerge in the spring of 2007.

VaR DIDN'T GET EVERYTHING right even in what it purported to measure. All the triple-A-rated mortgage-backed securities churned out by Wall Street firms and that turned out to be little more than junk? VaR didn't see the risk because it generally relied on a two-year data history. Although it took into account the increased risk brought on by leverage, it failed to distinguish between leverage that came from long-term, fixed-rate debt — bonds and such that come due at a set date — and loans that can be called in at any time and can, as Brown put it "blow you up in two minutes." That is, the kind of leverage that disappeared the minute something bad arose.

"The old adage, 'garbage in, garbage out' certainly applies," Groz said. "When you realize that VaR is using tame historical data to model a wildly different environment, the total losses of Bear Stearns' hedge funds become easier to understand. It's like the historic data only has rainstorms and then a tornado hits."

Guldimann, the great VaR proselytizer, sounded almost mournful when he talked about what he saw as another of VaR's shortcomings. To him, the big problem was that it turned out that VaR could be gamed. That is what happened when banks began reporting their VaRs. To motivate managers, the banks began to compensate them not just for making big profits but also for making profits with low risks. That sounds good in principle, but managers began to manipulate the VaR by loading up on

ONE THING THAT surprised me, as I made the rounds of risk experts, was that if you listened closely, their views weren't really that far from Taleb's diagnosis of VaR. They agreed with him that VaR didn't measure the risk of a black swan. And they were critical in other ways as well. Yes, the old way of measuring capital requirements needed updating, but it was crazy to

RISK

Continued from Page 46

ranted about VaR for a half-hour over dinner one night. Then he finally said, "If you put a gun to my head and asked me what my firm's risk was, I would use VaR." VaR may have been a flawed number, but it was the best number anyone had come up with.

Of course, the experts I was speaking to were, well, experts. They had a deep understanding of risk modeling and all its inherent limitations. They thought about it all the time. Brown even thought VaR was good when the numbers seemed "off," or when it started to "miss" on a regular basis — it either meant that there was something wrong with the way VaR was being calculated, or it meant the market was no longer acting "normally." Either way, he said, it told you something useful.

"When I teach it," Christopher Donohue, the managing director of the research group at the Global Association of Risk Professionals, said, "I immediately go into the shortcomings. You can't calculate a VaR number and think you know everything you need. On a day-to-day basis I don't care so much that the VaR is 42. I care about where it was yesterday and where it is going tomorrow. What direction is the risk going?" Then he added, "That is probably another danger: because we put a dollar number to it, they attach a meaning to it."

By "they," Donohue meant everyone who wasn't a risk manager or a risk expert. There were the investors who saw the VaR numbers in the annual reports but didn't pay them the least bit of attention. There were the regulators who slept soundly in the knowledge that, thanks to VaR, they had the whole risk thing under control. There were the boards who heard a VaR number once or twice a year and thought it sounded good. There were chief executives like O'Neal and Prince. There was everyone, really, who, over time, forgot that the VaR number was only meant to describe what happened 99 percent of the time. That \$50 million wasn't just the most you could lose 99 percent of the time. It was the least you could lose 1 percent of the time. In the bubble, with easy profits being made and risk having been transformed into mathematical conceit, the real meaning of risk had been forgotten. Instead of scrutinizing VaR for signs of impending trouble, they took comfort in a number and doubled down, putting more money at risk in the expectation of bigger gains. "It has to do with the human condition," said one former risk manager. "People like to have one number they can believe in."

Brown told me: "You absolutely could see it coming. You could see the risks rising. However, in the two years before the crisis hit, instead of preparing for it, the opposite took place to an extreme degree. The real trouble we got into today is because of things that took place in the two years before, when the risk measures

were saying that things were getting bad."

At most firms, risk managers are not viewed as "profit centers," so they lack the clout of the moneymakers on the trading desks. That was especially true at the tail end of the bubble, when firms were grabbing for every last penny of profit.

At the height of the bubble, there was so much money to be made that any firm that pulled back because it was nervous about risk would forsake huge short-term gains and lose out to less cautious rivals. The fact that VaR didn't measure the possibility of an extreme event was a blessing to the executives. It made black swans all the easier to ignore. All the incentives — profits, compensation, glory, even job security — went in the direction of taking on more and more risk, even if you half suspected it would end badly. After all, it would end badly for everyone else too. As the former Citigroup chief executive Charles Prince famously put it, "As long as the music is playing, you've got to get up and dance." Or, as John Maynard Keynes once wrote, a "sound banker" is one who, "when he is ruined, is ruined in a conventional and orthodox way."

MAYBE IT WOULD HAVE BEEN different if the people in charge had a better understanding of risk. Maybe it would have helped if Wall Street hadn't turned VaR into something it was never meant to be. "If we stick with the Dennis Weatherstone example," Erhan Berman says, "he recognized that he didn't have the transparency into risk that he needed to make a judgment. VaR gave him that, and he and his managers could make judgments. To me, that is how it should work. The role of VaR is as one input into that process. It is healthy for the head of the firm to have that kind of information. But people need to have incentives to give him that information."

Which brings me back to David Viniar and Goldman Sachs. "VaR is a useful tool," he said as our interview was nearing its end. "The more liquid the assets, the better the tool. The more history, the better the tool. The less of both, the worse it is. It helps you understand what you should expect to happen on a daily basis in an environment that is roughly the same. We had a trade last week in the mortgage universe where the VaR was \$1 million. The same trade a week later had a VaR of \$6 million. If you tell me my risk hasn't changed — I say yes it has!" Two years ago, VaR worked for Goldman Sachs the way it once worked for Dennis Weatherstone — it gave the firm a signal that allowed it to make a judgment about risk. It wasn't the only signal, but it helped. It wasn't just the math that helped Goldman sidestep the early decline of mortgage-backed instruments. But it wasn't just judgment either. It was both. The problem on Wall Street at the end of the housing bubble is that all judgment was cast aside. The math alone was never going to be enough.

Like most firms, Goldman does have other models to test for the fat tails. But even Gold-

man has been caught flat-footed by the crisis, struggling with liquidity, turning itself into a bank holding company and even, at one dire moment, struggling to combat rumors that it would be the next to fall.

"The question is: how extreme is extreme?" Viniar said. "Things that we would have thought were so extreme have happened. We used to say, 'What will happen if every equity market in the world goes down by 30 percent at the same time?' We used to think of that as an extreme event — except that now it has happened. Nothing ever happens until it happens for the first time."

Which didn't mean you couldn't use risk models to sniff out risks. You just had to know that there were risks they didn't sniff out — and be ever vigilant for the dragons. When Wall Street stopped looking for dragons, nothing was going to save it. Not even VaR. ■



Status Report Workers' Compensation

Joint Committee on Government &
Finance

2/10/09

Provided by the West Virginia Offices of the Insurance Commissioner



**Old Fund / Debt Reduction
FY2009-FY2008
COMPARISON
January FY2009**

YEAR TO DATE

	FY2009	FY2008	Change	FY2008 Annual
Revenues				
Personal Income Tax	42,400,000	42,400,000	-	95,400,000
Severance Tax	53,400,192	53,834,508	(434,316)	124,294,765
Debt Reduction Surcharge	19,021,667	18,898,350	123,317	29,662,848
Self-Insured Debt Reduction Surcharge	4,533,326	4,387,762	145,564	7,477,936
Video Lottery	11,000,000	11,000,000	-	11,000,000
Employer Premium	2,322,901	1,808,036	514,865	2,679,526
Other Income - Return of Unclaimed Property	29,669	25,024	4,645	50,460
	<u>132,707,755</u>	<u>132,353,680</u>	<u>354,075</u>	<u>270,565,535</u>
Surplus Note Principal Payments	<u>60,000,000</u>	<u>60,000,000</u>	<u>60,000,000</u>	<u>40,000,000</u>
Investment / Interest Earnings (Losses)	<u>(152,340,338)</u>	<u>8,288,767</u>	<u>(160,629,105)</u>	<u>7,402,971</u>
Expenditures				
Public Employees Insurance	68,689	88,025	(19,336)	137,115
Payment of Claims	148,428,894	155,385,645	(6,956,751)	260,588,335
Contractual/Professional	10,275,310	11,604,859	(1,329,549)	23,957,894
	<u>158,772,892</u>	<u>167,078,529</u>	<u>(8,305,637)</u>	<u>284,683,344</u>
Excess (Deficiency) of Revenues over Expenditures	(118,405,475)	(26,436,082)	(91,969,393)	33,285,162
Cash Beginning Balances	<u>734,195,513</u>	<u>700,910,351</u>	<u>33,285,162</u>	<u>700,910,351</u>
Cash Ending Balances	<u>617,736,389</u>	<u>674,474,269</u>	<u>(56,737,880)</u>	<u>734,195,513</u>

Old Fund Liability Estimate

(excluding LAE)
(discounted)
January FY2009

FY2009 January

Beginning Reserve Amount 2,338,213,195

Claim Payments 21,068,434

Estimated Ending Reserve Amount 2,326,628,056

Note:

The interim estimate of the Old Fund liabilities is derived using a formula that reduces the reserve amount at the beginning of each month by the amount of claims payments made during the month.

The formula makes an adjustment for the time value of money, assuming that claim payments are evenly distributed through the month. The estimate is updated monthly.

SCHEDULE OF NET ASSETS
Workers' Compensation Old Fund - Debt Reduction
(In Thousands)
January FY2009

	June 30, 2008	January 31, 2009	Change
Assets:			
Cash and Cash Equivalents	713,576	606,749	(106,827)
Receivables, Net:	24,256	24,256	0
Surplus Note	<u>162,759</u>	<u>102,759</u>	<u>(60,000)</u>
Total Assets	<u>900,591</u>	<u>733,764</u>	<u>(166,827)</u>
Liabilities:			
Estimated Liability for Unpaid Claims and Claim Adjustment Expense	2,407,700	2,326,628	(81,072)
Other Liabilities	<u>490</u>	<u>490</u>	<u>0</u>
Total Liabilities	<u>2,408,190</u>	<u>2,327,118</u>	<u>(81,072)</u>
Net Assets:			
Unrestricted	<u>(1,507,599)</u>	<u>(1,593,354)</u>	<u>(85,755)</u>
Total Net Assets	<u><u>(1,507,599)</u></u>	<u><u>(1,593,354)</u></u>	<u><u>(85,755)</u></u>

*Debt Reduction estimates are updated on a monthly basis. See note on "Old Fund Liability Estimate" sheet.

Workers' Compensation Old Fund Balances
Cash Basis
(\$)

January FY2009

	Calendar Year 2006	Calendar Year 2007	Calendar Year 2008	Calendar Year 2009 January 1 - January 31
Revenue				
Statutory Transfers*	266,613,362	261,975,877	287,088,650	20,717,689
Collections	8,316,798	1,041,116	3,265,870	456,764
Investment Income	50,201,026	40,659,223	(168,342,828)	13,661,908
Total Revenue	325,131,186	303,676,215	122,011,692	34,836,362
Expenditures				
Claim Payments	(355,245,366)	(284,445,313)	(249,839,063)	(21,068,434)
Administrative/Other Expense	(21,630,179)	(24,710,582)	(23,576,238)	(203,459)
Total Expenditures	(376,875,545)	(309,155,895)	(273,415,301)	(21,271,893)
Workers' Compensation Commission Initial fund transfer January 2006	711,094,830			
Payments from BrickStreet Insurance on Surplus Note			100,015,205	
<hr/>				
Invested Balance with WVIMB at year end	647,444,812	635,908,034	591,375,200	605,037,109

Workers' Compensation Old Fund Benefit Payments
Average Monthly Payments
(\$)

January FY2009

	Previous 12-Month Period <u>02/01/07 to 01/01/08</u>	Current 12-Month Period <u>02/01/08 to 01/01/09</u>
Claims benefits paid:		
Medical	(4,381,307.29)	(4,344,925.13)
Permanent Total Disability	(12,935,606.78)	(12,531,224.62)
Permanent Partial Disability	(1,922,698.66)	(811,962.12)
Temporary Total Disability	(396,842.37)	(206,466.92)
Settlement Agreements	(530,205.55)	(243,479.46)
Fatafs	(2,867,524.39)	(2,764,289.46)
104 weeks	(427,574.77)	(516,705.85)
Total	<u>(23,461,759.80)</u>	<u>(21,419,053.56)</u>
Claims credits and overpayments	409,724.92	298,332.25
Total claims paid	<u>(23,052,034.88)</u>	<u>(21,120,721.31)</u>

OFFICE OF JUDGES' REPORT TO INDUSTRIAL COUNCIL

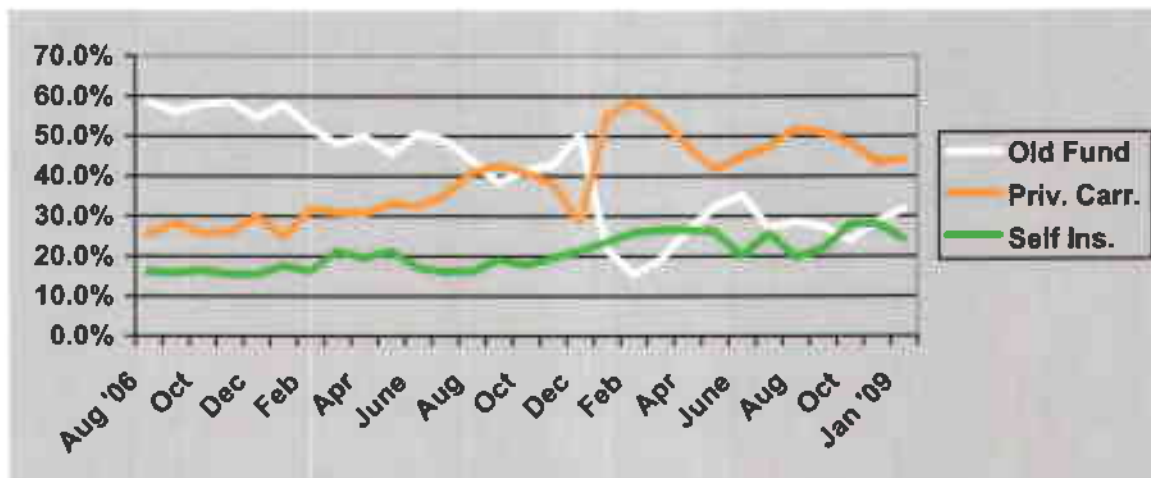
February 3, 2009

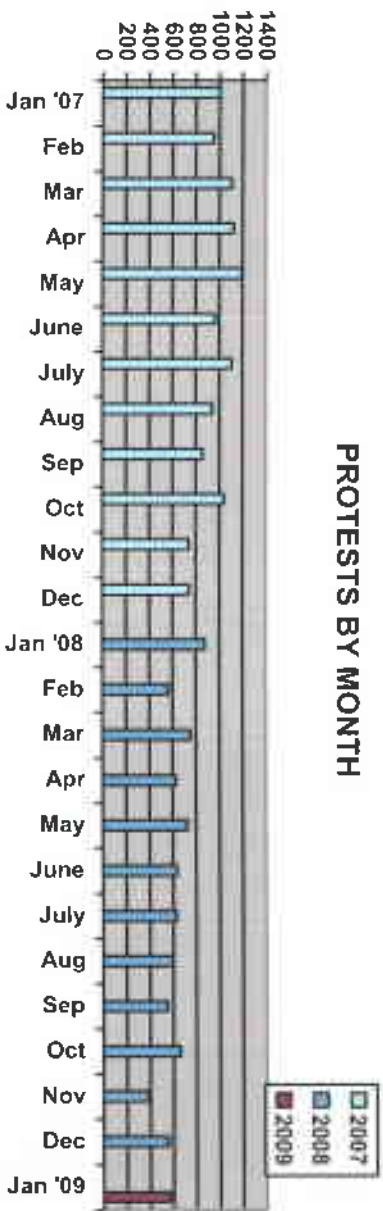
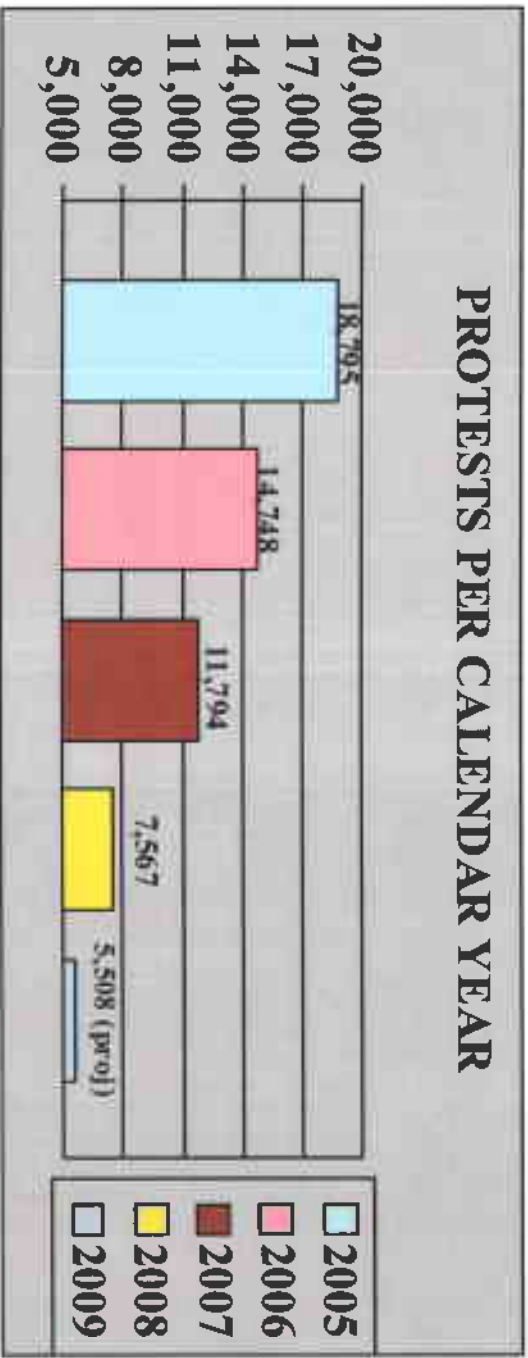
I. Statistical Analysis

A. Protests Acknowledged: 2008
7567 Jan.
568 2009
568

Fund Involved:

FUND	2006	2007	% of protests	2008	% of protests	Jan.'09	% of protests	2009	% of protests
Old Fund	8,146	4,433	56.68%	1,592	26.18%	146	31.81%	146	31.81%
Priv. Carrier	2,207	3,370	25.13%	2,971	48.86%	202	44.01%	202	44.01%
Others									
Self-Insured	2,264	1,772	18.19%	1,518	24.96%	111	24.18%	111	24.18%
Subtotal	12,617	9,575		6,081		459		459	
Temporary	2,131	2,219		1,486		109		109	
Total	14,748	11,794		7,567		568		568	





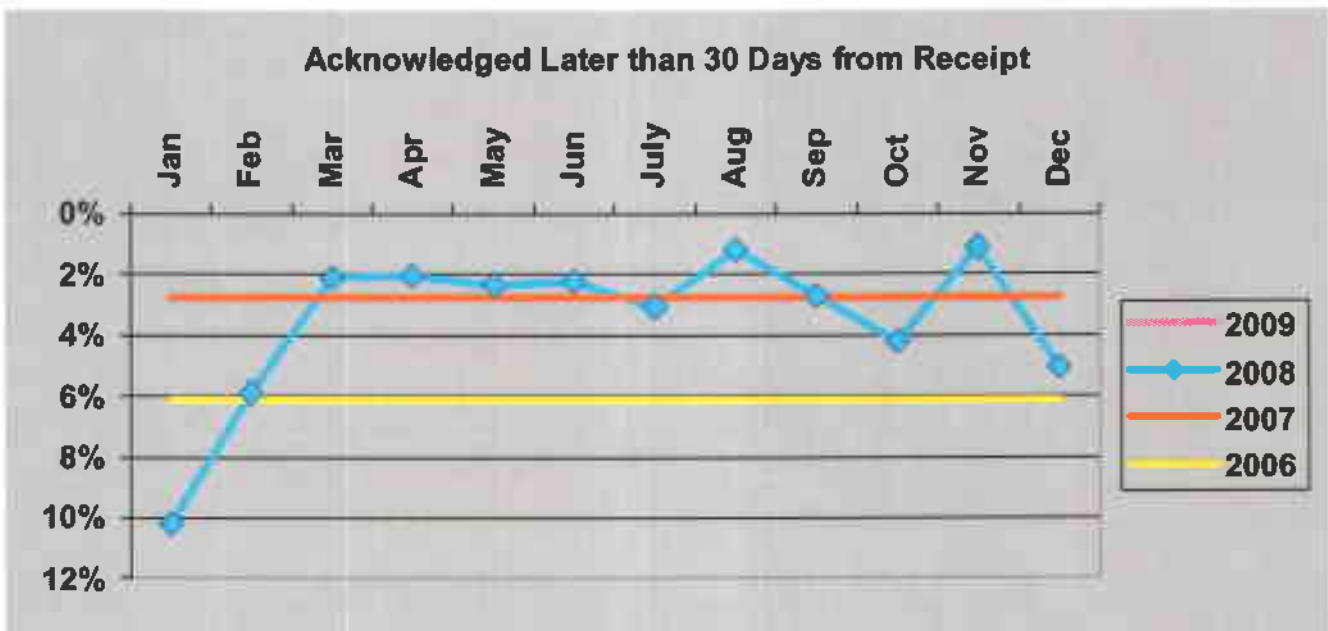
B. Issues Resolved: 2008 8,094 Jan 586 2009 586

C. Pending Caseload Report

PENDING END OF JAN	4,285
PENDING 1 MONTH BEFORE	4,388
PENDING 2 MONTHS BEFORE	4,560
PENDING 3 MONTHS BEFORE	4,660
PENDING 6 MONTHS BEFORE	4,837
PENDING 12 MONTHS BEFORE	5,301

D. **Acknowledgment Timeliness:**

	<u>2008</u>	<u>JAN</u>	<u>2009</u>
1. Protest Ackn. >30 days	3.6%	4.8%	4.8%
2. Protest Ackn. 24-30 days	2.3%	2.8%	2.8%
3. Protest Ackn. 11-23 days	19.0%	26.1%	26.1%
4. Protest Ackn. <11 days	75.1%	66.2%	66.2%

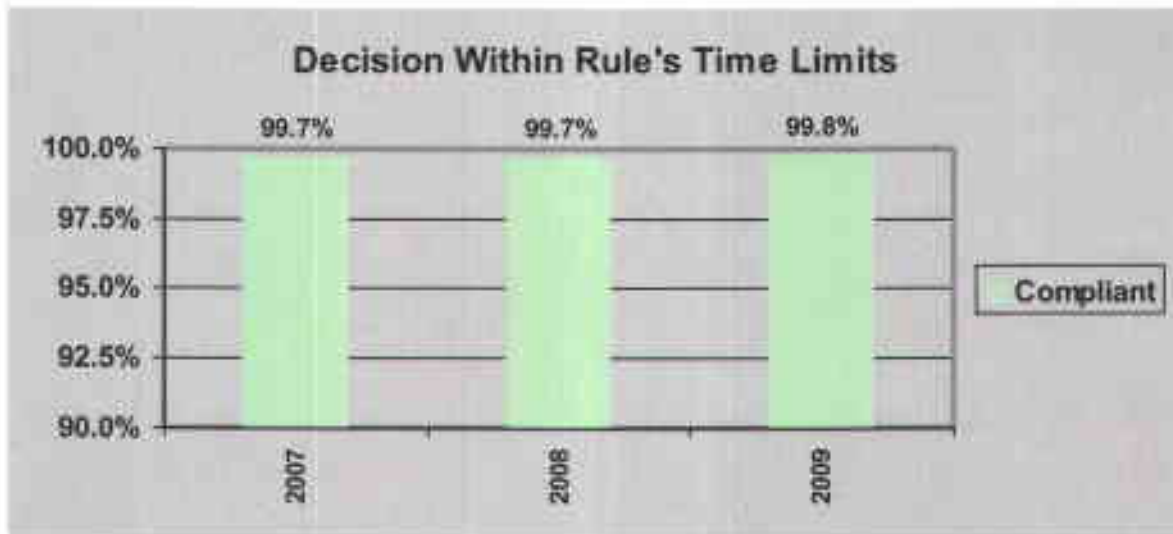


JAN '09

E. **Protests Resolved:**

1. Protests decided:	398
2. Withdrawals:	83
3. "No Evidence" Dismissals:	61

F. Final Decision Timeliness	<u>2008</u>	<u>JAN</u>	<u>2009</u>
1. <30 days:	59.6%	37.0%	37.0%
2. 30-60 days:	26.2%	49.1%	49.1%
3. 60-90 days:	13.9%	13.6%	13.6%
4. +90 days:	0.3%	0.2%	0.2%



G. Time Standard Compliance	<u>2008</u>	<u>JAN</u>	<u>2009</u>
	91.2%	86.7%	86.7%

Joe Manchin, III
Governor

Rita Hedrick-Helmick
Chairperson

W. Jack Stevens
Member

James D. Gray
Member

Workers' Compensation Board of Review

Offices located at 1207 Quarrier St, Charleston
All communications should be addressed to the Board of Review
at the address shown at the bottom of this page
an equal opportunity/affirmative action employer

MEMORANDUM

To: Jane L. Cline, Commissioner
Charles Bayless, Chairman
Dan Marshall
Bill Dean
Walter Pellish
Honorable Carrie Webster, House Judiciary Chair
Honorable Brooks McCabe
Honorable Nancy Peoples Guthrie
Senator Don Caruth

From: Rita F. Hedrick-Helmick, Chairperson

Date: February 3, 2009

Re: Workers' Compensation Board of Review Monthly Report

Attached, please find the Board of Review's January 2009 monthly report.

A number of changes have been made to the Board's reports. You will find a total of eight reports as opposed to the two reports you previously received. These reports include the following:

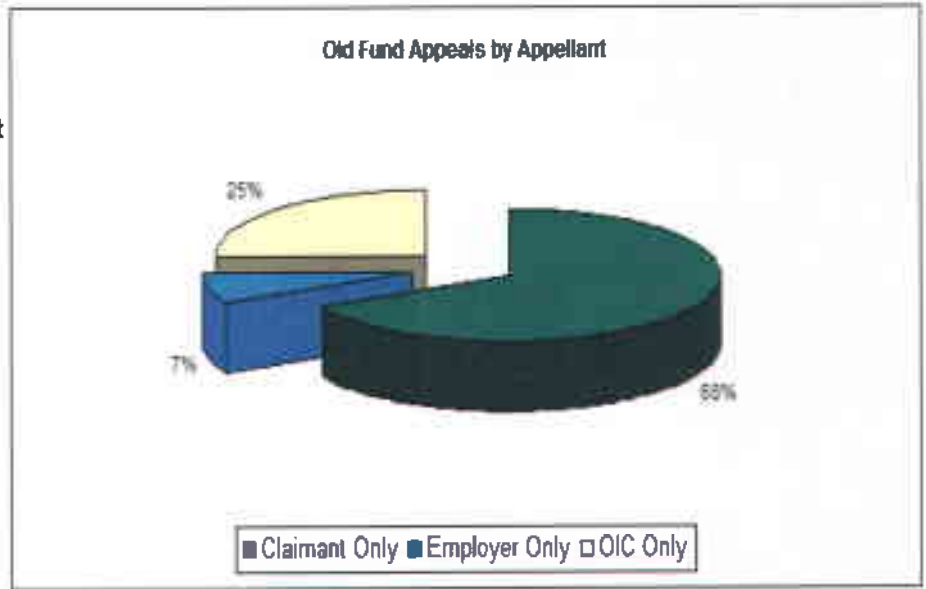
1. Monthly Report of Appeals Received
2. Yearly Report of Appeals Received
3. Monthly Report of Appeals Received by Issue
4. Yearly Report of Appeals Received by Issue
5. Monthly Appeals Received by Issue and Appellant
6. Monthly Summary of Dispositions by Party
7. Monthly Summary of Dispositions by Issue
8. Yearly Summary of Dispositions by Issue

If you have feedback or any additional questions, please do not hesitate to contact me.

**Monthly Appeals Received
From January 1, 2009 Thru January 31, 2009**

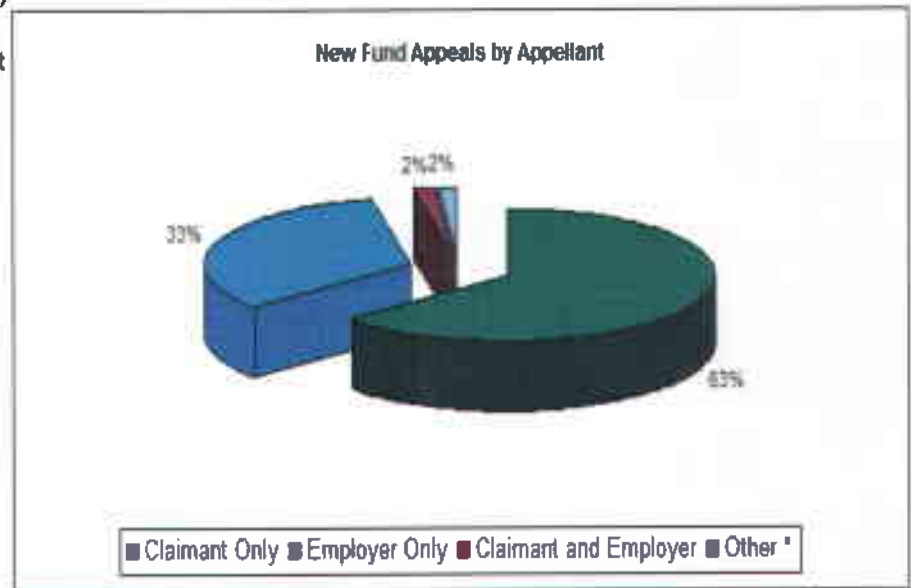
Old Fund Appeals (DOI < Jul-1-2005)

Appellant	Count
Claimant Only	56
Employer Only	6
OIC Only	21
Old Fund Total	83



Privately Insured Appeals (DOI > Jun-30-2005)

Appellant	Count
Claimant Only	42
Employer Only	22
Claimant and Employer	1
Other *	1
New Fund Total	66
Total Appeals	149



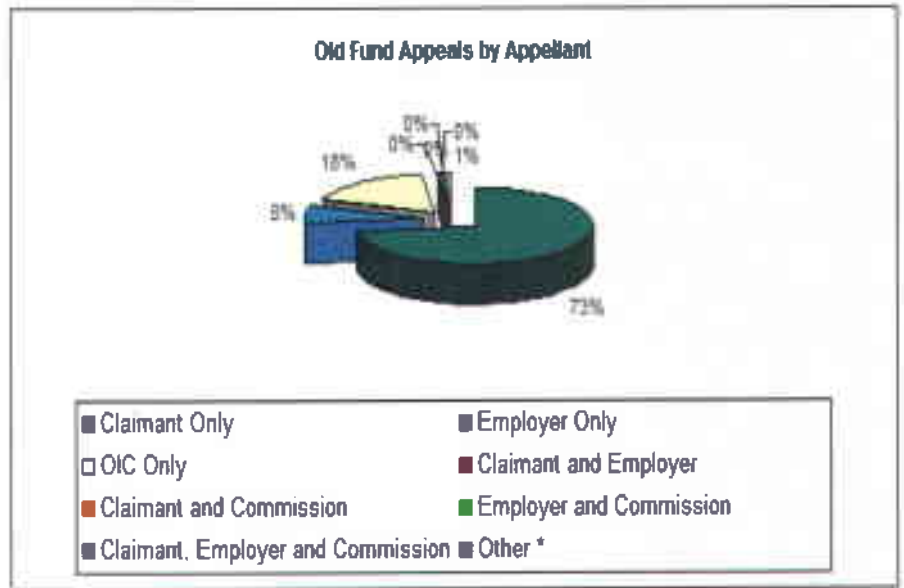
* Appeals requiring research

Appeals counted more than once:

Yearly Appeals Received From June 1, 2008 Thru January 31, 2009

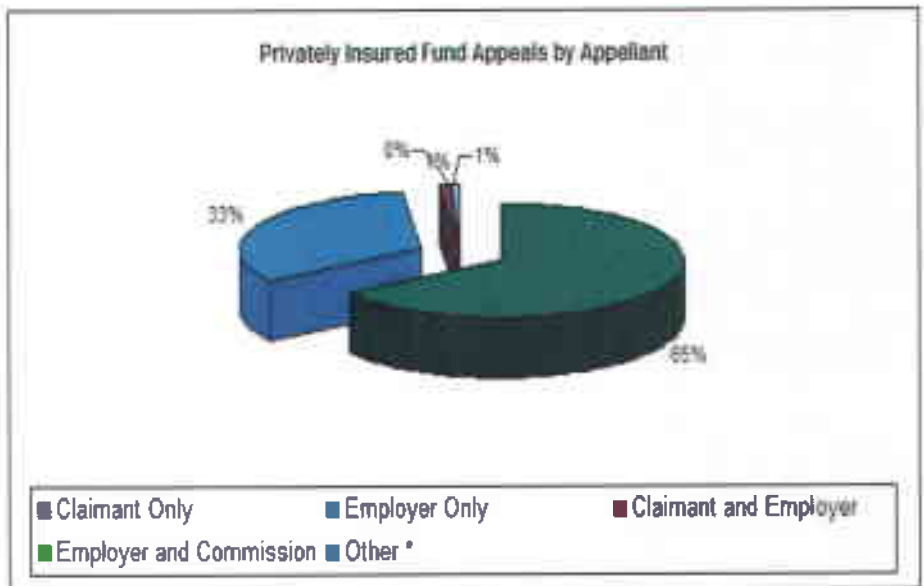
Old Fund Appeals (DOI < Jul-1-2005)

Appellant	Count
Claimant Only	513
Employer Only	53
OIC Only	125
Claimant and Employer	3
Claimant and Commission	1
Employer and Commission	1
Claimant, Employer and Commission	1
Other *	6
Old Fund Total	703



Privately Insured Appeals (DOI > Jun-30-2005)

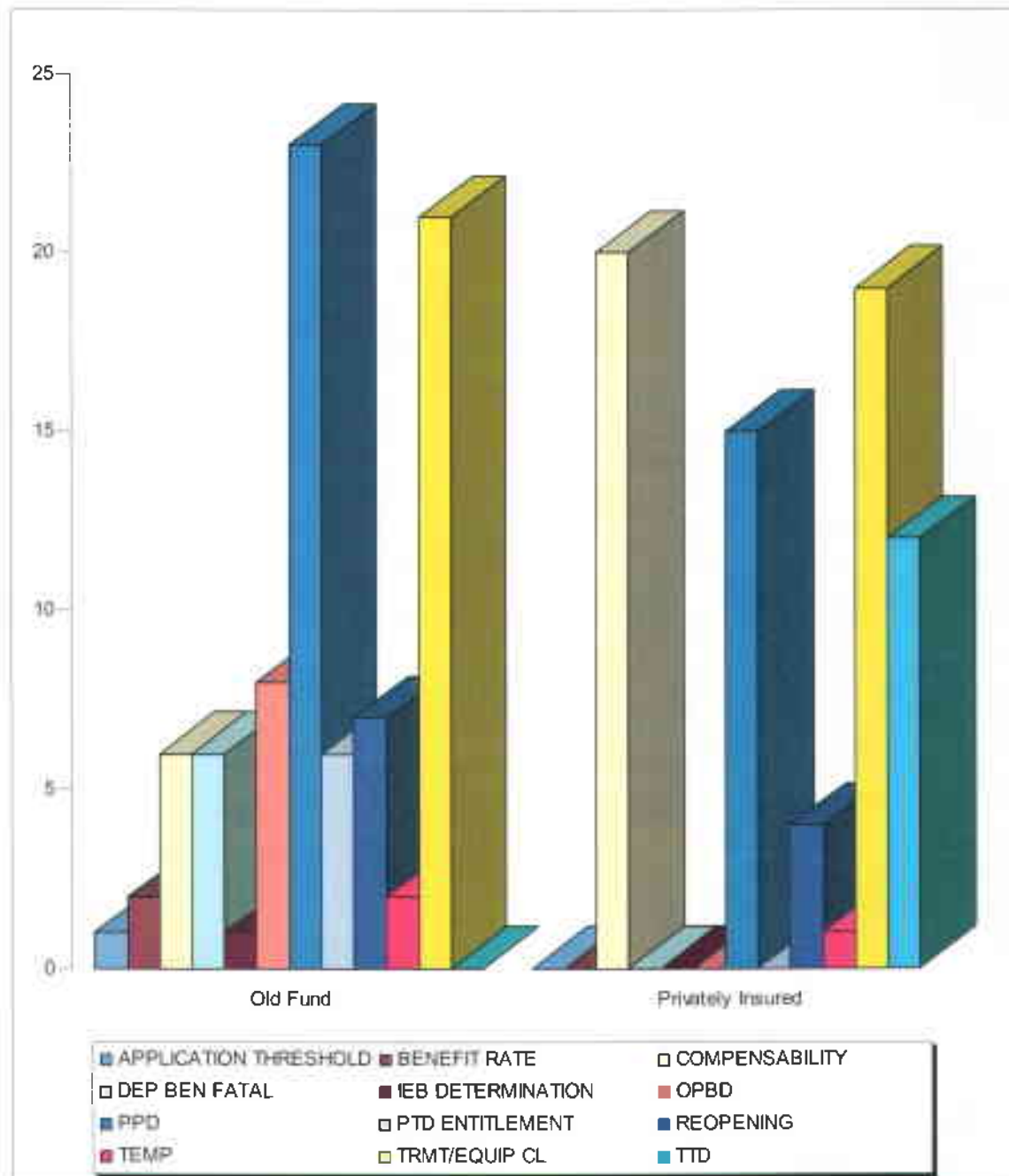
Appellant	Count
Claimant Only	412
Employer Only	205
Claimant and Employer	5
Employer and Commission	1
Other *	5
New Fund Total	628
Total Appeals	1331



Appeals requiring research

Appeals counted more than once: 4

Monthly Appeals Received By Issue
Old Fund Appeals (DOI < Jul-1-2005) vs Privately Insured Appeals (DOI > June-30-2005)
From January 1, 2009 Thru January 31, 2009



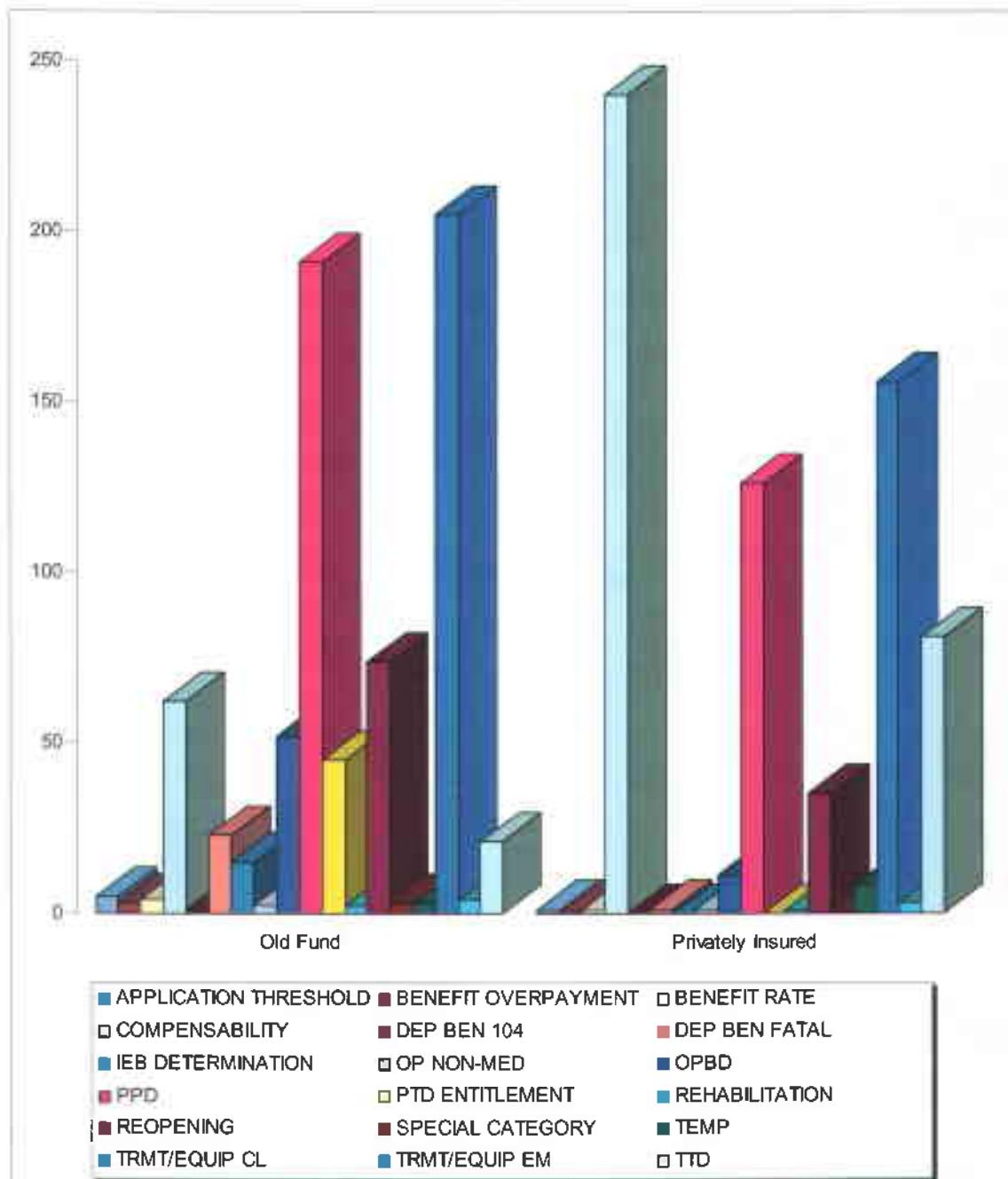
**Monthly Appeals Received By Issue
 Old Fund Appeals (DOI < Jul-1-2005) vs Privately Insured Appeals (DOI > June-30-2005)
 From January 1, 2009 Thru January 31, 2009**

Type of Issue	Total Issues	Old Fund		Insured Claims	
		#	%	#	%
APPLICATION THRESHOLD	1	1	100.0	0	0.0
BENEFIT RATE	2	2	100.0	0	0.0
COMPENSABILITY	26	6	23.1	20	76.9
DEP BEN FATAL	6	6	100.0	0	0.0
IEB DETERMINATION	1	1	100.0	0	0.0
OPBD	8	8	100.0	0	0.0
PPD	38	23	60.5	15	39.5
PTD ENTITLEMENT	6	6	100.0	0	0.0
REOPENING	11	7	63.6	4	36.4
TEMP	3	2	66.7	1	33.3
TRMT/EQUIP CL	40	21	52.5	19	47.5
TTD	12	0	0.0	12	100.0
Totals	154	83	53.9	71	46.1

Appeals counted more than once:

- 2042408 (2006064910 DOI: 12/05/2006 COMPENSABILITY)
- 2042408 (2006064910 DOI: 12/05/2006 REOPENING)
- 2042408 (2006064910 DOI: 12/05/2006 TRMT/EQUIP CL)
- 2042437 (2008010560 DOI: 09/06/2007 COMPENSABILITY)
- 2042437 (2008010560 DOI: 09/06/2007 TRMT/EQUIP CL)
- 2042449 (2006058364 DOI: 09/11/2006 REOPENING)
- 2042449 (2006058364 DOI: 09/11/2006 TTD)
- 2042459 (2008000982 DOI: 06/25/2007 TRMT/EQUIP CL)
- 2042459 (2008000982 DOI: 06/25/2007 TTD)

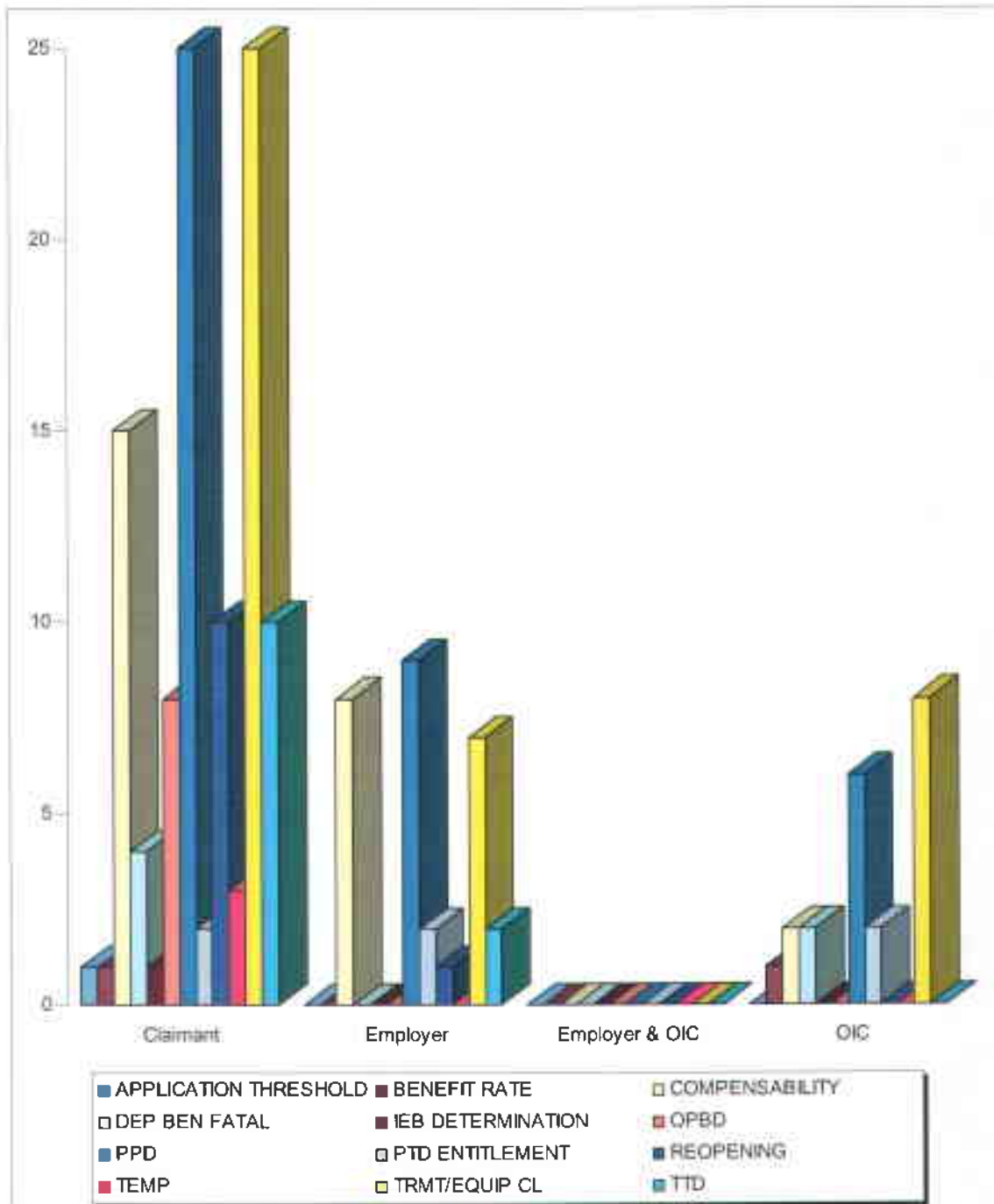
Yearly Appeals Received By Issue
Old Fund Appeals (DOI < Jul-1-2005) vs Privately Insured Fund Appeals (DOI > June-30-2005)
From June 1, 2008 Thru January 31, 2009



Yearly Appeals Received By Issue
Old Fund Appeals (DOI < Jul-1-2005) vs Privately Insured Fund Appeals (DOI > June-30-2005)
From June 1, 2008 Thru January 31, 2009

Type of Issue	Total Issues	Old Fund		Insured Claims	
		#	%	#	%
APPLICATION THRESHOLD BENEFIT	6	5	83.3	1	16.7
OVERPAYMENT	4	3	75.0	1	25.0
BENEFIT RATE	5	4	80.0	1	20.0
COMPENSABILITY	302	62	20.5	240	79.5
DEP BEN 104	1	1	100.0	0	0.0
DEP BEN FATAL	24	23	95.8	1	4.2
IEB DETERMINATION	15	15	100.0	0	0.0
OP NON-MED	3	2	66.7	1	33.3
OPBD	63	52	82.5	11	17.5
PPD	317	191	60.3	126	39.7
PTD ENTITLEMENT	45	45	100.0	0	0.0
REHABILITATION	3	2	66.7	1	33.3
REOPENING	109	74	67.9	35	32.1
SPECIAL CATEGORY	3	3	100.0	0	0.0
TEMP	11	3	27.3	8	72.7
TRMT/EQUIP CL	361	205	56.8	156	43.2
TRMT/EQUIP EM	7	4	57.1	3	42.9
TTD	102	21	20.6	81	79.4
Totals	1381	715	51.8	666	48.2

Appeals Received By Issue
From January 1, 2009 Thru January 31, 2009



Appeals Received By Issue
From January 1, 2009 Thru January 31, 2009

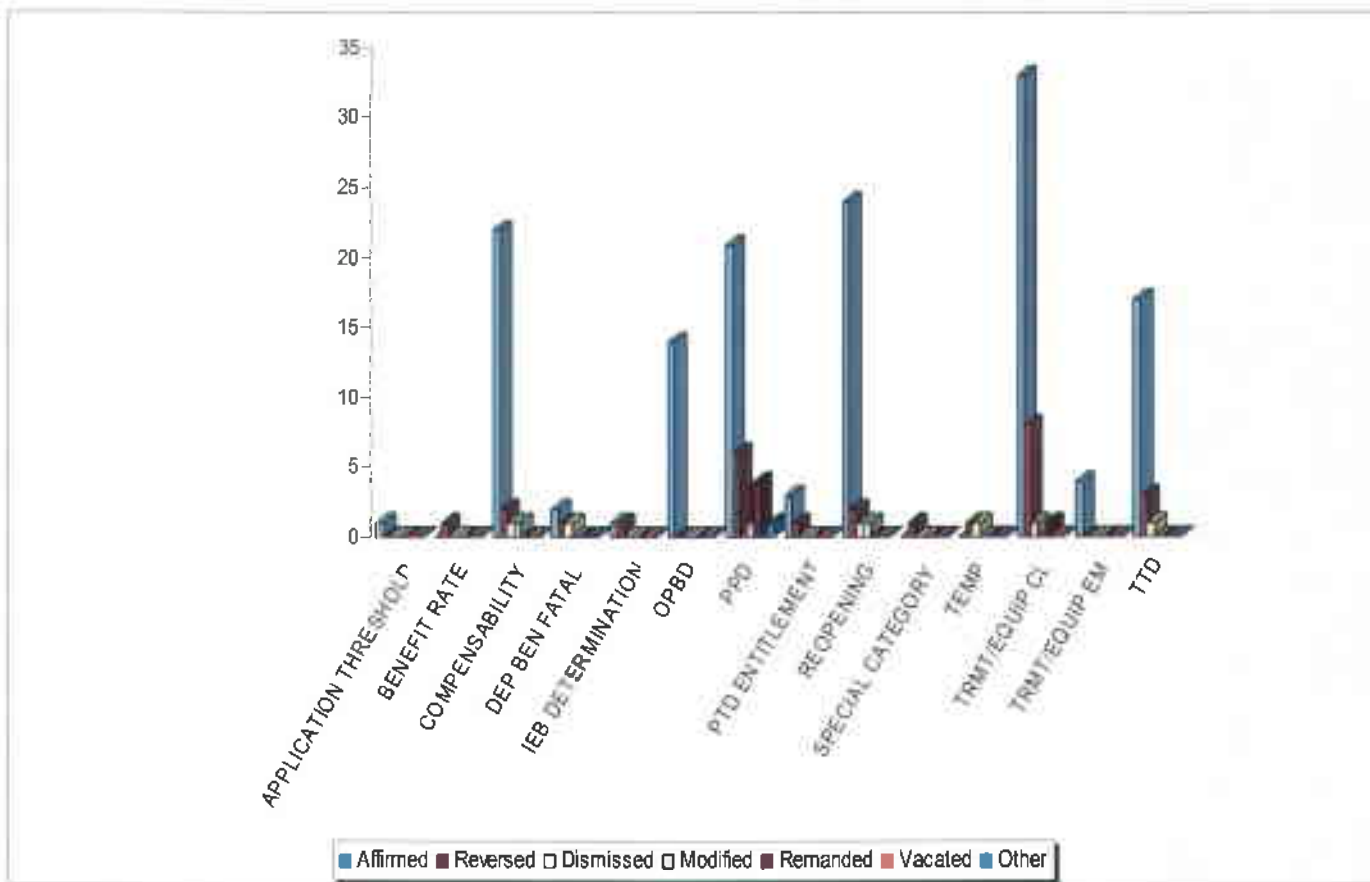
Type of Issue	Total Issues	Claimant		Employer		OIC		Emp and OIC	
		#	%	#	%	#	%	#	%
APPLICATION THRESHOLD	1	1	100.0	0	0.0	0	0.0	0	0.0
BENEFIT RATE	2	1	50.0	0	0.0	0	0.0	1	50.0
COMPENSABILITY	25	15	60.0	8	32.0	0	0.0	2	8.0
DEP BEN FATAL	6	4	66.7	0	0.0	0	0.0	2	33.3
IEB DETERMINATION	1	1	100.0	0	0.0	0	0.0	0	0.0
OPBD	8	8	100.0	0	0.0	0	0.0	0	0.0
PPD	40	25	62.5	9	22.5	0	0.0	6	15.0
PTD ENTITLEMENT	6	2	33.3	2	33.3	0	0.0	2	33.3
REOPENING	11	10	90.9	1	9.1	0	0.0	0	0.0
TEMP	3	3	100.0	0	0.0	0	0.0	0	0.0
TRMT/EQUIP CL	40	25	62.5	7	17.5	0	0.0	8	20.0
TTD	12	10	83.3	2	16.7	0	0.0	0	0.0
Totals	155	105	67.7	29	18.7	0	0.0	21	13.5

Appeals counted more than once:
 2042502: Appellant: CLAIMANT
 2042502: Appellant:
 EMPLOYER

**WORKER COMPENSATION BOARD OF REVIEW
FOR JANUARY 2009**

Appealed By	BOR Disposition	Disposition		Total %	Year to Date	Year to Date	
		Count	Disp %			Disp %	Total %
CLAIMANT	AFFIRMED	98	84.5%	55.7%	98	84.5%	55.7%
	DISMISSED	1	0.9%	0.6%	1	0.9%	0.6%
	REMAND	4	3.4%	2.3%	4	3.4%	2.3%
	REVERSE	13	11.2%	7.4%	13	11.2%	7.4%
	Total Dispositions	116			116		
CLAIMANT/EMPLOYER	AFFIRMED	3	75.0%	1.7%	3	75.0%	1.7%
	REVERSE	1	25.0%	0.6%	1	25.0%	0.6%
	Total Dispositions	4			4		
EMPLOYER	AFFIRMED	30	75.0%	17.0%	30	75.0%	17.0%
	MODIFY	1	2.5%	0.6%	1	2.5%	0.6%
	REVERSE	9	22.5%	5.1%	9	22.5%	5.1%
	Total Dispositions	40			40		
DIVISION/OIC	AFFIRMED	8	50.0%	4.5%	8	50.0%	4.5%
	MODIFY	2	12.5%	1.1%	2	12.5%	1.1%
	REMAND	1	6.3%	0.6%	1	6.3%	0.6%
	REVERSE	5	31.3%	2.8%	5	31.3%	2.8%
	Total Dispositions	16			16		
	Grand Totals	176			176		

Monthly Dispositions By Issues
BOR Orders Mailed From January 1, 2009 Thru January 31, 2009



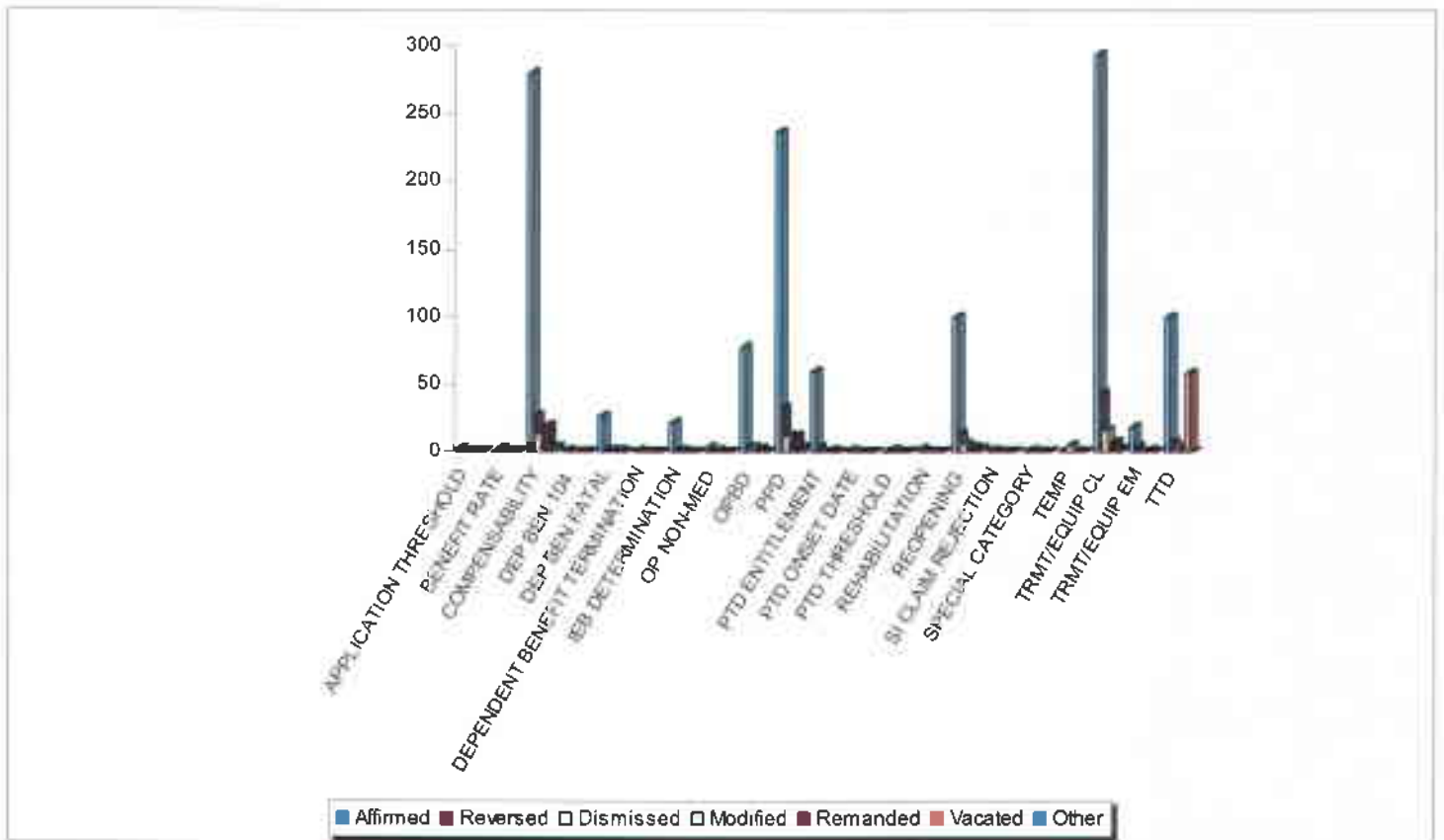
Monthly Dispositions By Issues
BOR Orders Mailed From January 1, 2009 Thru January 31, 2009

Type of Issue	Issues	Affirmed		Reversed		Dismissed		Modified		Remanded		Vacated		Other	
		#	%	#	%	#	%	#	%	#	%	#	%	#	%
APPLICATION THRESHOLD	1	1	100.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
BENEFIT RATE	1	0	0.0	1	100.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
COMPENSABILITY	26	22	84.6	2	7.7	1	3.8	1	3.8	0	0.0	0	0.0	0	0.0
DEP BEN FATAL	4	2	50.0	1	25.0	1	25.0	0	0.0	0	0.0	0	0.0	0	0.0
IEB DETERMINATION	2	1	50.0	1	50.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
OPBD	14	14	100.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
PPD	33	21	63.6	6	18.2	0	0.0	1	3.0	4	12.1	0	0.0	1	3.0
PTD ENTITLEMENT	4	3	75.0	1	25.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
REOPENING	28	24	85.7	2	7.1	1	3.6	1	3.6	0	0.0	0	0.0	0	0.0
SPECIAL CATEGORY	1	0	0.0	1	100.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
TEMP	2	0	0.0	1	50.0	1	50.0	0	0.0	0	0.0	0	0.0	0	0.0
TRMT/EQUIP CL	43	33	76.7	8	18.6	1	2.3	0	0.0	1	2.3	0	0.0	0	0.0
TRMT/EQUIP EM	4	4	100.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
TTD	21	17	81.0	3	14.3	1	4.8	0	0.0	0	0.0	0	0.0	0	0.0
Totals	184	142	77.2	27	14.7	6	3.3	3	1.6	5	2.7	0	0.0	1	0.5

Appeals counted in multiple categories:

9

Yearly Dispositions By Issues
BOR Orders Mailed From June 1, 2008 Thru January 31, 2009



Yearly Dispositions By Issues
BOR Orders Mailed From June 1, 2008 Thru January 31, 2009

Type of Issue	Issues	Affirmed		Reversed		Dismissed		Modified		Remanded		Vacated		Other	
		#	%	#	%	#	%	#	%	#	%	#	%	#	%
APPLICATION THRESHOLD	2	2	100.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
BENEFIT RATE	2	0	0.0	2	100.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
COMPENSABILITY	347	280	80.7	26	7.5	13	3.7	3	0.9	19	5.5	1	0.3	4	1.2
DEP BEN 104	1	1	100.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
DEP BEN FATAL	30	27	90.0	1	3.3	1	3.3	0	0.0	1	3.3	0	0.0	0	0.0
DEPENDENT BENEFIT															
TERMINATION	1	1	100.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
IEB DETERMINATION	24	22	91.7	1	4.2	1	4.2	0	0.0	0	0.0	0	0.0	0	0.0
OP NON-MED	4	3	75.0	0	0.0	1	25.0	0	0.0	0	0.0	0	0.0	0	0.0
OPBD	86	77	89.5	4	4.7	3	3.5	0	0.0	2	2.3	0	0.0	0	0.0
PPD	299	237	79.3	32	10.7	12	4.0	2	0.7	12	4.0	0	0.0	4	1.3
PTD ENTITLEMENT	63	59	93.7	3	4.8	0	0.0	0	0.0	1	1.6	0	0.0	0	0.0
PTD ONSET DATE	1	1	100.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
PTD THRESHOLD	2	0	0.0	1	50.0	1	50.0	0	0.0	0	0.0	0	0.0	0	0.0
REHABILITATION	2	2	100.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
REOPENING	127	100	78.7	13	10.2	6	4.7	2	1.6	4	3.1	0	0.0	2	1.6
SI CLAIM REJECTION	1	1	100.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
SPECIAL CATEGORY	1	0	0.0	1	100.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
TEMP	6	0	0.0	1	16.7	5	83.3	0	0.0	0	0.0	0	0.0	0	0.0
TRMT/EQUIP CL	363	294	81.0	43	11.8	16	4.4	0	0.0	7	1.9	0	0.0	2	0.6
TRMT/EQUIP EM	22	18	81.8	3	13.6	0	0.0	0	0.0	1	4.5	0	0.0	0	0.0
TTD	173	100	57.8	7	4.0	3	1.7	0	0.0	5	2.9	58	33.5	0	0.0
Totals	1557	1225	78.7	138	8.9	62	4.0	7	0.4	52	3.3	59	3.8	12	0.8

WEST VIRGINIA

BOARD OF TREASURY INVESTMENTS

CALENDAR OF EVENTS

- Board Meeting
February 5, 2009
- CD Auction
March 11, 2009

LEGISLATIVE OPERATING REPORT

JAN 29 2009

DECEMBER 2008

MANAGER

Board of Treasury Investments

1900 Kanawha Boulevard East
Suite E-122
Charleston WV 25305
(304) 340-1578
www.wvbtli.com

Board of Directors

John D. Perdue, State Treasurer, Chairman
Joe Manchin III, Governor
Glen B. Gainer III, State Auditor
Martin Glasser, Esq. Attorney Appointed by the Governor

Jack Rossi, CPA Appointed by the Governor

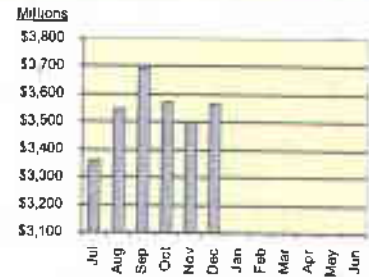
Executive Staff

Executive Director
Glenda Probst, CPA, CTP
Chief Financial Officer
Kara K. Brewer, CPA, MBA

Total Net Assets Under Management
\$3,562,886,000

Last Month
\$3,502,719,000

Beginning of Fiscal Year
\$3,364,534,000

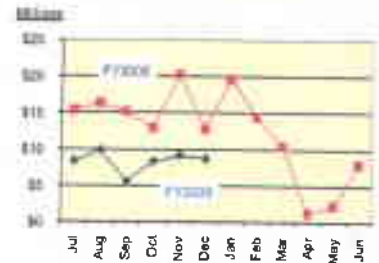


5.9% Growth This Fiscal Year

Total Net Income & Gains

This Month
\$8,650,000

Fiscal Year
\$49,711,000

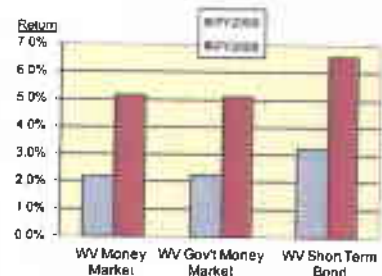


Fiscal Year Comparison

Effective Rates of Return

Time Weighted, Annualized, Net of All Fees

	Dec. 2008	Fiscal Year 2009	Fiscal Year 2008
WV Money Market	1.0%	2.2%	5.2%
WV Gov't Money Market	1.2%	2.2%	5.1%
	Fiscal Year 2009	Fiscal Year 2008	
	<i>(Past 12 Months)</i>	<i>(Past 12 Months)</i>	
WV Short Term Bond	3.3%	6.6%	



Returns are annualized fiscal year to date for WV Money Mkt & WV Gov't Money Mkt, past 12 months for WV Short Term Bond

Fiscal Year Return Comparisons

WEST VIRGINIA BOARD OF TREASURY INVESTMENTS
THE ECONOMIC STATE
DECEMBER 2008

Stress of 2008 Carries Over to 2009

December bids adieu to one of the most stressful years in the history of the financial markets. During 2008 we witnessed extreme declines in stock prices, car sales, housing starts, consumer confidence, Treasury rates and bullish sentiment. We saw extreme increases in stock volatility, housing delinquencies and foreclosures, valuation spreads, credit spreads of all descriptions, cash in money market funds and bearish sentiment. We even witnessed big increases and decreases in the price of oil. Topping out at \$147/barrel in July (supposedly on its way to \$200/barrel), it collapsed to \$32/barrel in December with many calling for a further drop to \$20-\$25/barrel.

The current U.S. economic picture is bleak, with no clear signs of a recovery on the horizon. The job market seems to be the grimmest indicator of the economic slump. The number of Americans collecting unemployment benefits surged to a 26-year high in December as 524,000 jobs were lost bringing the total number of jobs shed in 2008 to 2.6 million and the unemployment rate to 7.3%, the highest level since 1993.

Consumer confidence and spending both fell in December amid the employment data. Consumer confidence sank to an all-time low of 38 in December while retail sales plunged 2.7% marking the sixth consecutive monthly drop. Excluding autos, retail sales dropped 3.1% on the month—the biggest one-month drop on record.

While the Fed was reducing the federal funds rate to a range of 0.00% - 0.25%, the rally across the yield curve continued through December and was especially pronounced across the back-end of the curve.

Record or near record low rates continued across the curve. 2-yr rates moved lower to close at 76 basis points. Further out the curve the 10-year rate again tested record lows before closing down 71 basis points at 2.21%. Likewise the 30-year long bond lost 76 basis points closing out the month at 2.68%

The Barclays Capital Aggregate Index (formally the Lehman Brother Aggregate Index) returned 3.73% during the month while spread sectors rebounded. Investment grade CMBS fared the best during the month returning 16.3%.

The Citigroup 90-Day T-Bill Index returned 0.04% in December trailing the 1.35% return of the Citigroup 1-3 Year Government / Corporate Index. For the trailing 12 month period, the 90-Day T-Bills returned 5.02% while the 1-3 Year Government / Corporate Index returned 1.80%.

Small Banks Take Advantage of CD Auction

Three banks located in rural areas took advantage of low interest rates to snap up money during the Board of Treasury Investments' latest certificate of deposit auction.

Freedom Bank of Belington, located in Barbour County, pulled down the maximum \$5 million. More banks successfully bidding: CNB Bank of Berkeley Springs, \$2 million; Main Street Bank of Wheeling, \$2 million; and Clear Mountain Bank of Bruceton Mills, \$1 million.

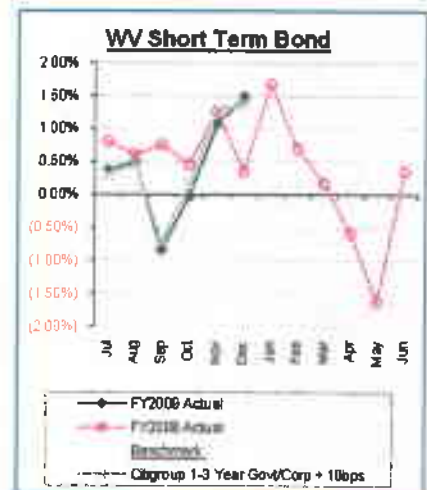
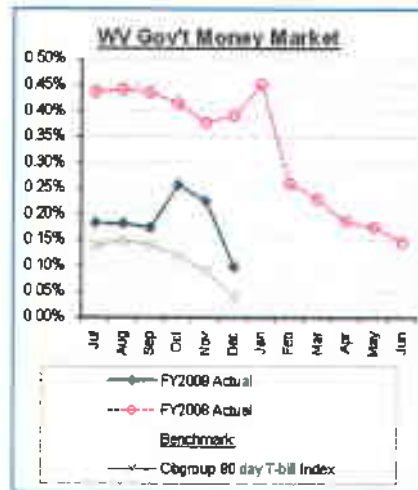
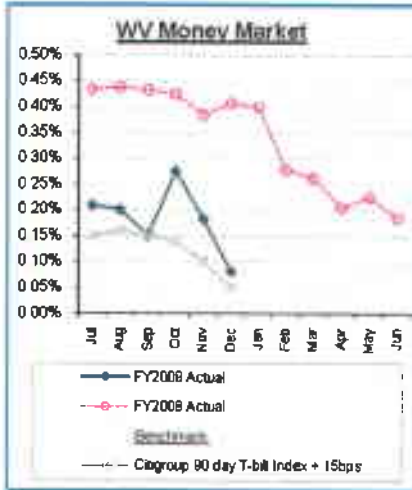
Other banks to place successful bids on \$5 million: Wesbanco Bank, Inc. of Wheeling; BB&T of Charleston; and First Community Bank.

"It is our hope that these institutions will use the low rates they are paying our board to in turn extend credit to families starving for it," said State Treasurer John Perdue.

West Virginia Board of Treasury Investments

Financial Highlights as of December 31, 2008

Monthly Rates of Return for Operating Pools *(Net of Fees)*



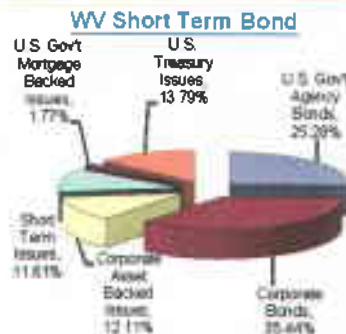
Summary of Value and Earnings *(In Thousands)*

Pool	Asset Value	Dec. Net Income (Loss)	Fiscal YTD Net Income (Loss)
WV Money Market	\$ 2,593,158	\$ 2,510	\$ 24,826
WV Gov't Money Market	235,726	173	1,957
WV Short Term Bond	282,787	3,888	6,549
WV Bank	75,672	168	1,523
Loss Amortization	185,463	1,180	13,386
Loans	125,600	523	652
Reserve	37,620	27	39
Participant Accounts	26,860	181	779
	\$ 3,562,886	\$ 8,650	\$ 49,711

Percent of Total Net Asset Value



Securities by Type for Operating Pools *(Percentage of Asset Value)*



WEST VIRGINIA BOARD OF TREASURY INVESTMENTS
SCHEDULE OF NET ASSETS, OPERATIONS & CHANGES IN NET ASSETS –
UNAUDITED

DECEMBER 31, 2008

(IN THOUSANDS)

	WV Money Market Pool	WV Government Money Market Pool	WV Short Term Bond Pool	WV Bank Pool	Other Pools	Participant Directed Accounts
Assets						
Investments:						
At amortized cost	\$ 2,794,922	\$ 235,290		\$ 75,000	\$ 162,802	\$ 22,523
At fair value			\$ 281,457		185,463	4,122
Cash		181				4
Collateral for securities loaned	444,848	32,547	66,527			
Other assets	3,524	284	2,736	672	422	212
Total assets	3,243,294	268,302	350,720	75,672	348,687	26,861
Liabilities						
Payable for securities loaned	444,848	32,547	66,527			
Other liabilities	205,288	29	1,406		4	1
Total liabilities	650,136	32,576	67,933		4	1
Net Assets	\$ 2,593,158	\$ 235,726	\$ 282,787	\$ 75,672	\$ 348,683	\$ 26,860
Investment Income						
Interest and dividends	\$ 1,375	\$ 127	\$ 925	\$ 168	\$ 554	\$ 75
Securities lending income	(8)	(1)				
Provision for securities lending loss	(566)	(90)	(212)			
Net accretion (amortization)	1,757	150	(105)		590	(18)
Provision for uncollectible loans						
Total investment income	2,558	186	608	168	1,144	57
Expenses						
Fees	157	15	22		4	1
Securities lending borrower rebates						
Bad debt expense						
Total expenses	157	15	22		4	1
Net investment income	2,401	171	586	168	1,140	56
Net realized gain (loss)						
from investments	109	2	771			
Net increase (decrease)						
in fair value of investments			2,531		590	125
Net gain (loss) from investments	109	2	3,302		590	125
Net increase (decrease) in net assets from operations	2,510	173	3,888	168	1,730	181
Distributions to participants	3,279	237	1,721	168	550	-
Participant activity						
Purchases, reinvestment of units and contributions	812,618	33,091	1,285	168	7,483	20
Redemptions and withdrawals	718,946	38,551	35,215		1,480	3,001
Inter-pool transfers in						
Inter-pool transfers out						
Net increase (decrease) in net assets from participant activity	93,672	(5,460)	(33,930)	168	6,003	(2,981)
Increase (decrease) in net assets	92,903	(5,524)	(31,763)	168	7,183	(2,800)
Net assets at beginning of period	2,500,255	241,250	314,550	75,504	341,500	29,660
Net assets at end of period	\$ 2,593,158	\$ 235,726	\$ 282,787	\$ 75,672	\$ 348,683	\$ 26,860

(Speaker Thompson presides)

AGENDA
JOINT COMMITTEE ON GOVERNMENT AND FINANCE
February 10, 2009

3:00 - 4:00 p.m.

Senate Finance Room

1. Approval of January 13, 2009, minutes

2. Committee Reports:

The following committees submitted interim reports for 2008: *(Need motion to accept reports)*

Agriculture and Agri-business Committee (Senator Edgell and Delegate Stemple, Chairs)

Joint Standing Committee on Finance (Senator Helmick and Delegate White, Chairs)

Forest Management Review Commission (Senator Helmick and Delegate Crosier, Chairs)

Joint Standing Committee on Government Organization (Senator Bowman and Delegate Morgan, Chairs)

Legislative Oversight Commission on Health and Human Resources (Senator Prezioso and Delegate Perdue, Chairs)

Park, Recreation and Natural Resources Subcommittee (Senator Fanning, Chair; Delegate Eldridge and Delegate Wells, Cochairs)

Joint Standing Committee on Pensions and Retirement (Senator Foster and Delegate Spencer, Chairs)

Select Committee B - Veterans' Issues (Senator Hunter and Delegate Fleischauer, Chairs)

Select Committee C - Infrastructure (Senator Unger and Delegate Hrutkay, Chairs)

Select Committee D - Health (Senator Prezioso and Delegate Perdue, Chairs)

Select Committee E - Broadband (Senator Unger and Delegate Browning, Chairs)

Select Committee F - Volunteer Fire Departments (Senator Chafin and Delegate Caputo, Chairs)

Legislative Oversight Commission on Workforce Investment for Economic Development (Senator McCabe and Delegate Tucker, Chairs)

3. Committee Requests:

Judiciary Subcommittee C (Senator Foster, Chair; Delegate Moore, Chair) Requests lodging and meal expenses be paid for David Rottman with the National Center for State Courts, who will be speaking at the Judiciary Subcommittee C meeting.

MOVE that lodging and meal expenses for David Rottman be approved.

4. Overview of Impact of Federal Stimulus Package on the States: *Molly Ramsdel, NCSL*

5. Update on Teacher's Retirement System Merger: *Anne Lambright, Director, Consolidated Public Retirement Board*

6. Monthly/Quarterly Reports Distribution:

Status Reports on the Lottery Commission, General Revenue Fund and Unemployment Compensation Trust Fund

7. Department of Transportation Report Distribution: *Danny Ellis, Business Manager*

8. **Monthly/Quarterly Reports Distribution:**
PEIA, BRIM, CHIP and Lease Report - *Robert Ferguson, Jr., Secretary, Dept. of Administration*
9. **Monthly/Quarterly Report Distribution from Department of Health and Human Resources:**
Medicaid Report - *John Law*
10. **Monthly Report on the Pharmaceutical Cost Management Council:** *Shana Phares, Chair*
11. **Investment Management Board Distribution:** *Craig Slaughter, Executive Director*
12. **Workers' Compensation:** *Bill Kenny, Deputy Insurance Commissioner and Mary Jane Pickens, General Counsel to the Insurance Commissioner*
13. **Board of Treasury Investments Report Distribution**
14. **Other Business**
15. **Adjournment**



West Virginia Investment Management Board

500 Virginia Street, East — Suite 200
Charleston, West Virginia 25301

Phone: (304) 345-2672

Fax: (304) 345-5939

Website: www.wvimb.org

December 17, 2008

The Honorable Earl Ray Tomblin
President of the Senate
West Virginia State Senate
Building 1, Room 227-M
1900 Kanawha Boulevard, East
Charleston, WV 25305

The Honorable Walt Helmick
West Virginia State Senate
Chair, Senate Finance Committee
Building 1, Room 465-M
1900 Kanawha Boulevard, East
Charleston, WV 25305

The Honorable Richard Thompson
West Virginia House of Delegates
Building 1, Room 234-M
1900 Kanawha Boulevard, East
Charleston, WV 25305

The Honorable Harry Keith White
Chair, House Finance Committee
West Virginia House of Delegates
Building 1, Room 462-M
1900 Kanawha Boulevard, East
Charleston, WV 25305

Subject: Madoff Fraud

Dear Gentlemen:

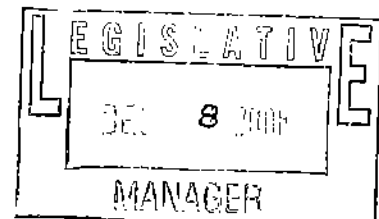
Other than the news that the treasury has dropped the fed fund rate to virtually zero, the big news in the financial arena for the week is the arrest of Bernard Madoff for running a ponzi scheme, which caught out a number of prominent investors, some hedge funds and funds of hedge funds. Please be advised that the Investment Management Board is confident that it does not have any exposure to Madoff or Madoff-related funds. We are currently double checking with all of the hedge funds we invest with to confirm this. The Investment Management Board's hedge fund consultant, Albourne, has advised against investing in Madoff-related funds for the last decade.

If you have any questions, please do not hesitate to contact me.

Sincerely,



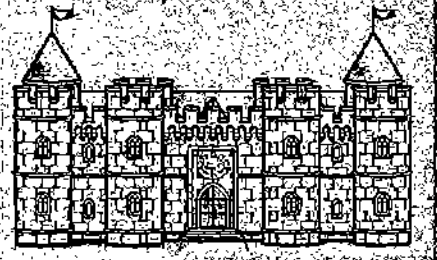
H. Craig Slaughter
Executive Director



HCS:jaa

Enclosure

C: Aaron Allred, Legislative Manager



Castle News Analysis

A Commentary on Current News by Albourne Analysts
15th December 2008

Albourne on Madoff

We set out below our thoughts on the Madoff-related funds, following the SEC's recent action and press reports over the last few days.

Albourne is pleased to confirm that for the last decade it has always strongly recommended redemption to any client that it has been aware of holding investments in a Madoff-related fund. At the same time, though, we have great sympathy for all those who may suffer loss.

Albourne also considers these events to be a powerful proof of concept for a "private sector" due diligence service such as ours that is paid for by the benefactors as opposed to paid for by the entities which are rated.

The following highlights the general issues around Madoff and why we reached the conclusion that clients who had an exposure should redeem.

1. General Issues

Our view on Madoff has never wavered and has been based on a wide variety of factors and insights. It was not clear that a fraud was being perpetrated, but we concluded that, where a client had a holding, it should redeem.

There have always been believers in Madoff's supposed strategy – including sophisticated and well connected firms and individuals, some of whom were understood to have "transparency". Some acute observers of hedge funds have therefore disagreed with our views during this period – although their arguments have never convinced us. Albourne took a contrary view, in part for the following reasons:

- Returns "too good to be true" - The apparent smoothing of Madoff returns has been controversial. We cannot think of a group of funds trading easily marked-to-market assets which have appeared to have weathered quite so many different types of storm with such apparently consistent risk-adjusted returns.
- Culture of secrecy - A former Madoff trader explained that Madoff was built around obsessive secrecy; that there was a whole floor in Madoff's offices that he was not permitted to visit; and that he himself had no idea how they "made their money". In addition, Mr Madoff declined to meet any of his investors, without giving a credible reason. Given his prominent industry position and his former involvement with key institutions (such as the SEC and NASDAQ) that refusal was odd.
- Reported size – Over time, it became clear that there were multiple Madoff feeders and that in total their AUM exceeded the publically assumed scale of the firm. It is extremely unusual for a fund management company to significantly under-state its assets.
- Liquidity – The reported strategy involved not just trading equities but also options. Given the supposed size of the assets under management, it would have been difficult to execute the strategy due to the risk of market impact.

- "Too good to share?" – Some who believed in the Madoff strategy thought that his position as a market maker gave him an uncanny ability to catch the highs and lows. If this was so, Albourn wondered why, having discovered this alchemy, the Company would wish to share it.

2. Madoff Structure

2.1. The management firm

The Company's website described itself like this:

"Bernard L. Madoff Investment Securities LLC is a leading international market maker. The firm has been providing quality executions for broker-dealers, banks, and financial institutions since its inception in 1960. During this time, Madoff has compiled an uninterrupted record of growth, which has enabled us to continually build our financial resources. With more than \$600 million in firm capital, Madoff currently ranks among the top 1% of US Securities firms. Our sophisticated proprietary automation and unparalleled client service delivers an enhanced execution that is virtually unmatched in our industry."

Whilst the website mentions many of the activities of Bernard L. Madoff Investment Securities LLC ("the Company") there has never been any direct mention of its investment advisory activities. The Company is FINRA registered and according to its Form ADV advises on \$17bn of assets for 23 clients by whom it has been compensated by commissions. The website further stated that 1- 5 employees (out of 51 - 250) work on investment advisory activities. It is important to note that there is no "Madoff Fund" nor other asset management products in the traditional sense of these terms.

The Company provided advisory services to third parties (which we will describe as Distributors) who have their own branded Funds (or feeders) that have then been marketed to investors. These Funds have a wide variety of names, have been distributed by well-known firms (often themselves registered with the SEC or other regulatory bodies), are often audited by "big 4" accounting firms and have brand name administrators. However, the prospectus ("PPM") and marketing materials have rarely mentioned the word Madoff and we have been advised by some of the Distributors that they are forbidden by contract to name the Company. A typical PPM might read –

"The Fund's assets are managed by a New York based NASD registered broker-dealer employing approximately 200 people and acting primarily as a market-maker in listed and unlisted stocks and convertible securities. The investment advisor utilizes a 'split strike conversion' options strategy consistent with that of the Fund".

It is possible that many investors in these distributed products are not aware (even now) that they have any association with the Company.

The management structure has been described as follows:

"The firm is managed by Bernard and Peter Madoff. B. Madoff serves as Chairman and CEO and P. Madoff is the Senior Managing Director and Head of Trading. Bernard's sons, Mark and Andrew hold key roles and a number of other long term employees hold key positions as well. There are 12 individuals dedicated to managing the split-strike conversion strategy at BLM. This team is headed by B. Madoff and consists of 8 senior traders and 4 junior traders. Decisions on when to enter and exit the strategy are made by the group".

The group has been formally segregated from the rest of the firm through being on a separate floor, to which no other staff have access. We have been told by different Distributors that other Madoff family members have not had or, conversely, have had substantial involvement in the strategy. Physical segregation was often described as being in place to ensure Chinese Walls between the broker/dealer activities and the investment advisory strategy. A due diligence flag would be raised as standard for any firm that has both broker/dealer and advisory functions.

The Company has not earned any management or performance fees in the normal way, but has instead claimed to earn 'market rate' commissions on stocks and options. Distributors however do charge fees on their funds at standard rates of management fees of 1 – 2% and incentive fees of 10 – 20%. It is notable that the Company has not charged fees that would earn it hundreds of millions of dollars each year and, also, that this has been a highly profitable product for Distributors.

The true scale of assets has also been a point of concern for Albourne, particularly as, unusually, the Company appeared to understate its AUM. Even the brief list on Bloomberg dated 14th December totals \$15bn and, although undoubtedly this includes some double-counting, the true scale and number of feeders remains unclear today.

2.2. The strategy

The strategy has generally been described as 'split strike conversion' although other descriptions are given as 'volatility arbitrage' or 'equity market neutral'.

A typical description of a "split strike conversion" strategy would be as follows. It might consist of the purchase of a basket of large cap US equities, the purchase of S&P 100 index put options and the sale of S&P 100 index call options, each of an amount approximately equal to the value of the stocks. The S&P 100 Index (OEX) is a market cap weighted index of the 100 largest US companies. Buying OEX puts establishes a floor to the value of the basket of equities by offsetting any decline in the value of the basket. Writing out of the money OEX calls establishes a ceiling above which gains on the equities are offset by losses on the short calls. The basket contains 40-50 stocks drawn from members of the OEX to replicate index performance. The call and put options are near out of the money, next month expiry. As a result the range over which the fund has market exposure might be 1-2%. The strategy would alternate between periods of investment and non-investment and would aim to identify and profit from periods of positive momentum in large cap US equities on a hedged basis. The holding period might typically range from two weeks to 3 months and the fund would be put into T-bills when not invested in stocks. No balance sheet leverage would be used, nor would there be any short sales of stock. There would be limitations on the minimum number of stocks in the basket, the minimum market capitalisation, the minimum correlation between basket and OEX and the distance to options strikes.

It is Albourne's understanding that, in the case of the Company, the options are a majority of the time OTC rather than exchange traded, although exchange traded options may be used. The terms of the OTC options generally match those of the listed market, for example, almost all expire on the third Friday of the month. Albourne has also been told that at the end of the calendar year all the Company's trades are exited to facilitate 'easy auditing'.

The validity of such a strategy is questionable. We monitor many similar strategies and we would expect a simple strategy like this to be replicated by others if it were so consistently profitable; we have not found this to be the case. Similar strategies are deployed by others, but none has achieved the same consistent 'returns'. In addition, the available liquidity of OTC options on \$17bn of notional is of concern. Options market volumes are not sufficiently large to indicate any substantial exchange trading or a realistic level of bank hedging of these exchange "lookalike" options. This might lead to a question whether these trades were actually being put on at all, or at all events on a scale that would fully hedge \$17bn of exposure.

Due diligence by any investors has typically only been permitted on the Distributor and much play has been made of the fact that Mr Madoff would not meet any of his investors. The hedge fund industry has many recluses but for a big enough investor they will do a meeting. To the extent that contact was made with the Company, it would make the following points:

- The Company is the executing broker for several funds
- The Company executes the strategy in compliance with Guidelines agreed with the fund
- The Company only has discretion over timing
- The Company gets paid commission for executing the strategy
- The Company executes based on a model developed with the fund
- The model is proprietary.

2.3. The Distributors

The structure of each product appears to be slightly different. In some instances the Company has been described as the Investment Adviser, in some the execution agent and in others the sub-advisor (which is why we have used the generic terms "Company" for Madoff entities and "Distributor" for the firm managing each Fund). Distributors would usually state that they have had 'managed accounts' rather than commingled funds.

A typical arrangement would be that the Distributor entered into a sub-advisory agreement with the Company through which the Company was delegated trading authority of the portfolio with full discretion. Trade operations and settlement were delegated to the Company, whilst the Distributor was responsible for oversight on the portfolio, trade checks, portfolio reconciliation, month-end valuation and due diligence on the Company.

An example track record is given below. Although such records could be lower or higher per Fund due to fees, leverage and other factors, they do in general show persistently smooth positive returns. We cannot think of a group of funds trading easily marked-to-market assets which appears to have weathered quite so many different types of storm with such apparently consistent risk-adjusted returns. Indeed, as far back as 2001, there were media stories in the Wall Street Journal and MarHedge querying the returns (see <http://nakedshorts.typepad.com/files/madoff.pdf>) and raising some of the questions that have been highlighted over the last few days.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Year
1990												2.77%	2.77%
1991	3.01%	1.46%	0.52%	1.22%	1.23%	0.30%	1.63%	1.00%	0.73%	2.73%	0.01%	1.66%	17.63%
1992	0.42%	2.72%	0.94%	2.76%	-0.27%	1.22%	-0.66%	0.66%	0.33%	1.33%	1.56%	1.56%	13.72%
1993	-0.02%	1.22%	1.73%	-0.01%	1.65%	0.76%	0.02%	1.71%	0.21%	1.71%	0.19%	0.39%	10.76%
1994	2.11%	-0.44%	1.45%	1.76%	0.44%	0.23%	1.71%	0.33%	0.73%	1.81%	-0.44%	0.60%	10.87%
1995	0.66%	0.67%	0.76%	1.62%	1.65%	0.45%	1.02%	-0.24%	1.63%	1.33%	0.44%	1.03%	12.64%
1996	1.42%	0.65%	1.16%	0.57%	1.34%	0.15%	1.26%	0.20%	1.16%	1.03%	1.61%	0.41%	12.68%
1997	2.36%	0.67%	0.63%	1.16%	0.57%	1.26%	0.64%	0.26%	2.32%	0.46%	1.43%	0.36%	13.10%
1998	0.82%	1.23%	1.63%	0.36%	1.66%	1.22%	0.76%	0.24%	0.63%	1.63%	0.76%	0.26%	12.62%
1999	1.66%	0.11%	2.22%	0.57%	1.66%	1.76%	0.26%	0.67%	0.63%	1.03%	1.64%	0.32%	13.26%
2000	2.14%	0.13%	1.77%	0.27%	1.36%	0.73%	0.63%	1.26%	0.18%	0.66%	0.62%	0.36%	10.67%
2001	2.14%	0.05%	1.07%	1.26%	0.26%	0.17%	0.23%	0.64%	0.63%	1.22%	1.14%	0.12%	9.62%
2002	-0.94%	0.53%	0.36%	1.03%	2.05%	0.16%	3.26%	-0.14%	0.03%	0.66%	0.16%	0.03%	8.43%
2003	-0.15%	-0.65%	1.66%	0.02%	0.66%	0.76%	1.37%	0.16%	0.66%	1.26%	-0.14%	0.26%	7.27%
2004	0.66%	0.44%	-0.01%	0.37%	0.57%	1.21%	0.02%	1.26%	0.46%	0.03%	0.76%	0.54%	6.44%
2005	0.61%	0.37%	0.63%	0.14%	0.63%	0.46%	0.13%	0.16%	0.66%	1.61%	0.76%	0.66%	7.26%
2006	0.76%	0.26%	1.34%	0.94%	0.76%	0.91%	1.06%	0.77%	0.66%	0.42%	0.66%	0.66%	9.36%
2007	0.26%	-0.11%	1.04%	0.66%	0.81%	0.34%	0.17%	0.31%	0.67%	0.46%	1.04%	0.26%	7.36%
2008	0.63%	0.06%	0.16%	0.63%	0.81%	-0.02%	0.72%	0.71%	0.56%	-0.02%			4.60%

Although the strategy is not levered, we understand that Distributors could and did apply leverage at the Fund level.

The number of Distributors is unclear (Form ADV implies 23), as some Distributors have multiple products and clients of the Distributors themselves have their own linked products and notes. There are also many Fund of Funds which have an investment in this strategy as a core (and sometimes outsized) holding.

2.4. The operational process

One of the more credible aspects of the Company was that there was a group of highly respected (and unquestionably genuine) Distributors who clearly asserted that at least two of the feeders had full transparency and they were able to review them trade-by-trade. This created a ripple effect of confidence to a whole group of other investors, who felt they had less or no transparency.

Operationally, we understand that Distributors received paper trade tickets from the Company through the US postal service a few days after trades were placed. Distributors received only confirmation of trading activity; there was no daily transaction report and no daily confirmation of "no trades". The delay in trade tickets made them susceptible to amendment or manipulation. Further, for a Company that claimed to be at the forefront of electronic execution, it was unusual that they should provide paper tickets. Distributors also received monthly transaction reports and balance sheet reports from the Company. The type of checks that Distributors carried out included reconciling the monthly statement with the intra-monthly trading confirmation; checking that each trade price was within the daily high and low; and monitoring the trade tickets to verify that the equity basket was on the S&P 100 and check that the notional amount of the options matched the equity basket. There was no external or independent reconciliation of trades with counterparties (outside of the Company). However some Distributors do claim to have checked somewhat generically with counterparties to make sure they were trading with the Company in the relevant instruments (which of course begs the question as to why that check was deemed necessary and what value was obtained from it).

The Fund's administrator (often a well-known entity) typically received information directly from the Company and was able to verify prices through its own third party pricing vendor. Though the Company was the Funds' custodian, some cash could also be held at the administrator. The Company had ultimate custody of the equity basket and the T-bills were also held at the Company, but in a separate client account. The extent and nature of these brokerage accounts would seem to lie at the heart of the fraud allegations.

On the question why Distributors did not change to electronic trading tickets, we have been told that they did not encounter any problems with paper tickets and accordingly felt no need to change this method. Another stated reason is that the Company did not want real time information of its trades revealed, in case others might try to trade against it.

The Company from time to time provided Distributors with a general list of OTC counterparties, which might consist of between 12 and 20 names. However, the Distributor was not given information as to the trade details with specific counterparties at any given time. As far as the Funds were concerned, the counterparty risk was against the Company. Funds took material counterparty risk against the Company when the trade was 'on' (\$17bn of notional S&P exposure). Distributors assumed that the Company was covering this with market counterparties.

Although we have not seen every Fund, those we have seen would appear to have legitimate annual audited financial statements, signed off by reputable firms, which typically state that the "Company (or an affiliated broker dealer of the Company) acts as custodian for the assets that the Fund manages". It would appear that other auditors have placed reliance on confirmations received from the Company and its auditor, a small firm called Friebling & Horowitz.

Again, as noted above, at quarter and year ends, the Funds are generally in cash, so that a 13F report shows a minimal level of investments by the Company.

As the Company is a FINRA-registered broker-dealer, Distributors would also assert that the Company would be reviewed regularly by the regulators.

Conclusion

We believe this covers the main issues at present. Please contact your client account manager if you would like to raise further points or if we can help with our due diligence process or track record.

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Albourne is a party to non-disclosure agreements ("NDAs") with certain funds. These NDAs may restrict Albourne's ability to give certain clients access to research on funds or managers which are a party to these NDAs.



Executive Director's Update

LEGISLATIVE

DECEMBER 2008

DATES TO REMEMBER

- **Committee and Board Meeting**
February 17, 2009
- **Committee Meetings**
May 12, 2009
- **Board Meeting**
May 13, 2009
- **Committee Meetings**
September 22, 2009
- **Board Meeting**
September 23, 2009
- **Committee Meetings**
November 17, 2009
- **Board Meeting**
November 18, 2009

Our Mission Statement —

The West Virginia Investment Management Board is dedicated to providing prudent, efficient and professional investment management on behalf of and in the best interests of the beneficiaries of the assets it is entrusted with.



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JAN 3 0 2009

The Bull and Bear of It PERFORMANCE: A Reprieve!

MANAGER

Returns in December, up 3.5 percent, offered a welcome reprieve to the carnage that was the previous three months. Even with the positive returns brought by December, it has been a rough six months. Using the Public Employees Retirement System as a proxy for all the defined benefit pension plans, the portfolio is down 25 percent for the first half of the fiscal year ending December 31, 2008.

Further good news can be found in the performance of the portfolio relative to benchmarks. The Investment Management Board structured the portfolio to perform well in down markets. In the last recession, it performed extraordinarily well, but it has been more difficult this time around. For much of fiscal year 2008, the portfolio lagged, but the defensive structure has gradually made headway in the last seven months. The Investment Management Board's stock portfolio is now almost 2.5 percent better than the benchmark over the twelve months ending December 31, 2008. The star performer is the international stock portfolio, with its strong value tilt. During the first part of this bear market the value tilt in international stocks didn't help out, but it has paid off handsomely of late, with that portion of the portfolio outperforming the benchmark by almost 5 percent for the last twelve months. Domestic non-large



December offered a welcome reprieve.

cap stocks have also done well, relatively, due to the emphasis on fundamental value. They are over 1 percent better than the index for the twelve months ending December 31, 2008. The fixed income portion of the portfolio, unfortunately, continues to be a drag on a relative basis. Although up 2.8 percent for the month of December, the benchmark return was up 3.8 percent. Fundamental investors in fixed income have yet to be rewarded as the markets still have not come to terms with the credit crisis. There is an overriding fear that there is still bad news that hasn't yet been disclosed. In times like these, investors flock to treasury securities, which are vastly underrepresented in the Investment Management Board's portfolio.

(Continued on page 2)

Performance

(Continued from page 1)

In December, it appeared as if investors may be recognizing the fact that long term value cannot be generated by holding treasuries at these prices, causing the fixed income portfolio to lift. While bad news is already well priced into the market for fixed income, additional bad news could cause the pricing to deteriorate further for a short period of time. Eventually, however, investors will move away from cash and treasuries as

they are not viable, long-term investments at these prices. When they do, they will gravitate to the securities that make up the vast majority of the Investment Management Board's fixed income portfolio.

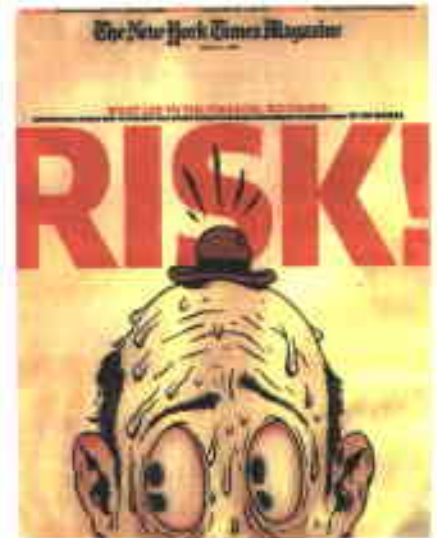
The alternative portfolio is holding up well. Private equity and real estate do not yet constitute a meaningful portion of the portfolio, but the Investment Management Board is happy with the opportunities it has seen in these

areas. The hedge fund portfolio is structured defensively in keeping with its role as a portfolio diversifying tool, and has performed as expected. At this point, a lot of negativity is now priced into the market. The next big question is how long it will take for the markets to recover. Do not expect a quick, sustained reversal. The gains in December may prove to be illusory. Already, January looks to be another down month. Expect the unexpected. ▪

Educational Outlook

Find enclosed an article taken from *The New York Times Magazine* for January 4, 2009 entitled, "Risk! What Led to the Financial Melt-down: Mathematical Models Used to Evaluate Wall Street Trades? Or Bankers who Misread or Ignored Them?" by Joe Nocera. This is a very well written article highlighting one of the big questions of the "day" — to what extent should one rely on mathematical models. While this article focuses on the use of mathematical risk

models to manage risk in a trading portfolio, the general question is relevant on a broader scale as well. In short, the answer is not that mathematical models are useless, but that they are only useful if one fully understands their limitations. ▪



Congratulations

Congratulations to Melissa Petit and Matt Jones for successfully passing the Accredited Fraud Investigator exam administered by the Forensic Institute, Inc. ▪

Market Commentary

The economic data released in December continued to provide evidence of a protracted economic recession. In contrast to a growing amount of negative economic news, investment markets recorded positive returns, although this was largely overshadowed by the significant losses for the year. The Russell 3000 broad market index increased 1.9 percent for the month, but lost 37 percent for the year. Bonds had another solid month, with the Barclays Aggregate Bond index increasing 3.7 percent.



Retail sales have now declined six consecutive months.

ECONOMY

There is little debate as to the declining state of the economy. Housing data continues to be weak, the financial sector is in a precarious state, the labor outlook is grim as job losses continue to mount, and manufacturing is in decline. Consumers are curtailing spending, perhaps out of necessity as job losses mount and credit is hard to come by, and also out of the need to engage in a form of personal deleveraging given the debt fueled spending patterns of recent years. The National Retail Federation reported that holiday sales were down 2.8 percent, and retail sales have now declined six consecutive months; the

"The labor outlook is grim as job losses continue to mount and manufacturing is in decline."

longest streak in four decades according to a government report. Much of the decline is in gasoline sales, which is more of a function of prices, but declines were widespread. Sales of electronic and clothing goods edged up slightly for the month, but by most any measure the consumer sector is languishing. This is a particular challenge to the resumption of economic growth, given that consumer spending is about two-thirds of economic activity. Consumer demand will likely come under additional pressure in response to the employment situation. Non-farm payrolls declined by 524,000 in December, bringing the total to more than 2.5 million for the year. The unemployment rate has edged up to 7.2 percent. This does not bode well for the ailing housing market. Mort-

gage delinquencies have risen to 6 percent, and delinquencies of 60 days or more are almost 4 percent. In addition, house prices continue to decline, further reducing consumer wealth. The S&P Case Shiller Composite index that is based on the metropolitan areas of 20 large cities has declined more than 18 percent in the last year. The recession is creating difficult times in the manufacturing sector as well. In addition to the well-publicized problems in the automobile industry, most manufacturing measures are in decline. The ISM Manufacturing index is at 32.4 (below 50 indicates contraction), and factory orders dropped 5.1 percent, and durable goods orders were down 1 percent last month.



In addition to the well-publicized problems in the automobile industry, most manufacturing measures are in decline.

A precipitous drop in energy prices continues to put downward pressure on headline inflation. Crude oil ended the year at \$40 per barrel, after reaching a high of around \$145 in July. The CPI declined by 1.7 percent in November, and the year-over-year increase is down to 1.1 percent. Core prices, which exclude food and energy, have risen 2 percent over the last twelve months.

EQUITY

Global equities staged a rally in December across all market capitalization tiers and in both the growth and value styles. Growth outperformed value in the large-cap space, but value returns were a little higher in small-cap.

(Continued on page 4)



Market Commentary

(Continued from page 3)

Large cap stocks lagged small-cap by a considerable margin, but posted modest gains led by cyclical stocks, such as consumer discretionary. However, a retail led recovery is highly unlikely at this stage of the economic cycle given people's ongoing struggles with declining wealth, worries about the economy, and the need to pay down debt. Interestingly, many of the gains in this sector were from for-profit education and auto parts retailers, perhaps a sign of the national psyche of people trying to increase their employment credentials and taking more of a "do-it-yourself" attitude in these troubling times. Investors now turn their attention to the release of year-end earnings reports to gauge market direction for 2009. Performance of selected benchmarks is shown below.

INDEX	SECTOR	(month)	YTD
S&P 500	Large-Cap	1.06%	-37.00%
Russell 2000	Small-Cap	5.80%	-33.79%
MS EAFE (US \$, gross)	International	6.02%	-43.06%
MS EM (US \$, gross)	Emerging Markets	7.83%	-53.18%

Developed international markets experienced their first positive return since May, with growth and value stocks rising about equally. The hardest hit sectors of November, industrials and materials, rebounded the most. Insurance companies jumped 10 percent, although financials as a whole were negative. Emerging markets echoed developed international ones, but to a larger degree, perhaps as a reaction to the previous month's negative performance.

FIXED INCOME

The U.S. Treasury yield curve continued to flatten in December as the yield on the 10- and 30-year maturities reached as low as 2.2 percent and 2.7 percent respectively. A flight-to-quality continues to fuel demand for U.S. government debt, despite the low yields. However, the spread sectors staged a bit of a rebound in December, outperforming U.S. Treasuries by a considerable margin. Much like the equity rally in December, this performance did little to erase the declines for the year, particularly in

high yield bonds. Performance of various sectors is shown below.

SECTOR	December	YTD	EXCESS (YTD) *
Barclays Aggregate	3.73%	5.24%	-7.10%
US Treasury	3.39%	13.74%	0.00%
Mortgage-Backed Sec	1.67%	8.34%	-2.32%
US Credit	6.27%	-3.08%	-17.86%
High Yield	7.68%	-26.16%	-38.32%
Emerging Market	8.69%	-14.75%	-28.42%

* Excess returns over duration equivalent US Treasuries

For investors with patience and a long time horizon, tremendous opportunities exist.

CONCLUSION

The economy is in a downward spiral and the primary economic engine, the consumer, is not in a position to lead a recovery. Despite this and little in the way of positive economic news, investment markets were up in December. Some of this may be attributed to bargain hunters, and some may be attributed to optimism over the government stimulus packages, which are being relied upon for the initial stages of a possible recovery to begin in 2009. This path to recovery is expected to be long and arduous, but for investors with patience and a long time horizon, tremendous opportunities may exist. ■



The economy is in a downward spiral.

Sources used: Bloomberg News, CNNmoney, The Wall Street Journal, and Lehman Brothers Live.

Lisa Belkin: Caroline Kennedy and How a Woman Qualifies Pete Wells: Cooking With My 4-Year-Old Rebecca Skloot: When a Parrot Is a Sort of Seeing Eye Dog

The New York Times Magazine

LEGISLATIVE

JANUARY 4, 2009

JAN 30 2009

MANAGER

WHAT LED TO THE FINANCIAL MELTDOWN:

MATHEMATICAL MODELS USED TO EVALUATE WALL STREET TRADES? OR BANKERS WHO MISREAD OR IGNORED THEM? BY JOE NOCERA

RISK!



RISK MISMANAGEMENT

WERE THE MEASURES USED TO EVALUATE WALL STREET TRADES FLAWED?

**OR WAS THE MISTAKE IGNORING THEM?
BY JOE NOCERA**

**'The story that I have to tell
is marked all the way through by a persistent
tension between those who assert that the
BEST DECISIONS ARE BASED ON QUANTIFICATION
and numbers, determined by the patterns of the past,
AND THOSE WHO BASE THEIR DECISIONS ON MORE SUBJECTIVE
DEGREES OF BELIEF ABOUT THE UNCERTAIN FUTURE.
This is a controversy that
HAS NEVER BEEN RESOLVED.'**

FROM THE INTRODUCTION TO "AGAINST THE GODS: THE REMARKABLE STORY OF RISK," BY PETER L. BERNSTEIN

THERE AREN'T MANY widely told anecdotes about the current financial crisis, at least not yet, but there's one that made the rounds in 2007, back when the big investment banks were first starting to write down billions of dollars in mortgage-backed derivatives and other so-called toxic securities. This was well before Bear Stearns collapsed, before Fannie Mae and Freddie Mac were taken over by the federal government, before Lehman fell and Merrill Lynch was sold and A.I.G. saved, before the \$700 billion bailout bill was rushed into law. Before, that is, it became obvious that the risks taken by the largest banks and investment firms in the United States — and, indeed, in much of the Western world — were so excessive and foolhardy that they threatened to bring down the financial system itself. On the contrary: this was back when the major investment firms were still assuring investors that all was well, these little speed bumps notwithstanding — assurances based, in part, on their fantastically complex mathematical models for measuring the risk in their various portfolios.

There are many such models, but by far the most widely used is called VaR — Value at Risk. Built around statistical ideas and probability theories that have been around for centuries, VaR was developed and popularized in the early 1990s by a handful of scientists and mathematicians — "quants," they're called in the business — who went to work for JPMorgan. VaR's great appeal, and its great selling point to people who do not happen to be quants, is that it expresses risk as a single number, a dollar figure, no less.

VaR isn't one model but rather a group of related models that share a mathematical framework. In its most common form, it measures the boundaries of risk in a portfolio over short durations, assuming a "normal" market. For instance, if you have \$50 million of weekly VaR, that means that over the course of the next week, there is a 99 percent chance that your portfolio won't lose more than \$50 million.

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That portfolio could consist of equities, bonds, derivatives or all of the above; one reason VaR became so popular is that it is the only commonly used risk measure that can be applied to just about any asset class. And it takes into account a head-spinning variety of variables, including diversification, leverage and volatility, that make up the kind of market risk that traders and firms face every day.

Another reason VaR is so appealing is that it can measure both individual risks — the amount of risk contained in a single trader's portfolio, for instance — and firmwide risk, which it does by combining the VaRs of a given firm's trading desks and coming up with a net number. Top executives usually know their firm's daily VaR within minutes of the market's close.

Risk managers use VaR to quantify their firm's risk positions to their board. In the late 1990s, as the use of derivatives was exploding, the Securities and Exchange Commission ruled that firms had to include a quantitative disclosure of market risks in their financial statements for the convenience of investors, and VaR became the main tool for doing so. Around the same time, an important international rule-making body, the Basel Committee on Banking Supervision, went even further to validate VaR by saying that firms and banks could rely on their own internal VaR calculations to set their capital requirements. So long as their VaR was reasonably low, the amount of money they had to set aside to cover risks that might go bad could also be low.

Given the calamity that has since occurred, there has been a great deal of talk, even in quant circles, that this widespread institutional reliance on VaR was a terrible mistake. At the very least, the risks that VaR measured did not include the biggest risk of all: the possibility of a financial meltdown. "Risk modeling didn't help as much as it should have," says Aaron Brown, a former risk manager at Morgan Stanley who now works at AQR, a big quant-oriented hedge fund. A risk consultant named Marc Grutz says, "VaR is a very limited tool." David Einhorn, who founded Greenlight Capital, a prominent hedge fund, wrote not long ago that VaR was "relatively useless as a risk-management tool



and potentially catastrophic when its use creates a false sense of security among senior managers and watchdogs. This is like an air bag that works all the time, except when you have a car accident." Nassim Nicholas Taleb, the best-selling author of "The Black Swan," has crusaded against VaR for more than a decade. He calls it, flatly, "a fraud."

How then do we account for that story that made the rounds in the summer of 2007? It concerns Goldman Sachs, the one Wall Street firm that was not, at that time, taking a hit for billions of dollars of suddenly devalued mortgage-backed securities. Reporters wanted to understand how Goldman had somehow sidestepped the disaster that had befallen everyone else. What they discovered was that in December 2006, Goldman's various indicators, including VaR and other risk models, began suggesting that something was wrong. Not hugely wrong, mind you, but wrong enough to warrant a closer look.

"We look at the P.&L. of our businesses every day," said Goldman Sachs' chief financial officer, David Viniar, when I went to see him recently to hear the story for myself. (P.&L. stands for profit and loss.) "We have lots of models here that are important, but none are more important than the P.&L., and we check every day to make sure our P.&L. is consistent with where our risk models say it should be. In December our mortgage business lost money for 10 days in a row. It wasn't a lot of money, but by the 10th day we thought that we should sit down and talk about it."

So Goldman called a meeting of about 15 people, including several risk managers and the senior people on the various trading desks. They examined a thick report that included every trading position the firm held. For the next three hours, they pored over everything. They examined their VaR numbers and their other risk models. They talked about how the mortgage-backed securities market "felt." "Our guys said that it felt like it was going to get worse before it got better," Viniar recalled. "So we made a decision: let's get closer to home."

In trading parlance, "getting closer to home" means reining in the risk, which in this case meant either getting rid of the mortgage-

backed securities or hedging the positions so that if they declined in value, the hedges would counteract the loss with an equivalent gain. Goldman did both. And that's why, back in the summer of 2007, Goldman Sachs avoided the pain that was being suffered by Bear Stearns, Merrill Lynch, Lehman Brothers and the rest of Wall Street.

The story was told and retold in the business pages. But what did it mean, exactly? The question was always left hanging. Was it an example of the futility of risk modeling or its utility? Did it show that risk models, properly understood, were not a fraud after all but a potentially important signal that trouble was brewing? Or did it suggest instead that a handful of human beings at Goldman Sachs acted wisely by putting their models aside and making "decisions on more subjective degrees of belief about an uncertain future," as Peter L. Bernstein put it in "Against the Gods?"

To put it in blunter terms, could VaR and the other risk models Wall Street relies on have helped prevent the financial crisis if only Wall Street paid better attention to them? Or did Wall Street's reliance on them help lead us into the abyss?

One Saturday a few months ago, Taleb, a trim, impeccably dressed, middle-aged man — inexplicably, he won't give his age — walked into a lobby in the Columbia Business School and headed for a classroom to give a guest lecture. Until that moment, the lobby was filled with students chatting and eating a quick lunch before the afternoon session began, but as soon as they saw Taleb, they streamed toward him, surrounding him and moving with him as he slowly inched his way up the stairs toward an already-crowded classroom. Those who couldn't get in had to make do with the next classroom over, which had been set up as an overflow room. It was jammed, too.

It's not every day that an options trader becomes famous by writing a book, but that's what Taleb did, first with "Fooled by Randomness," which was published in 2001 and became an immediate cult



classic on Wall Street, and more recently with "The Black Swan: The Impact of the Highly Improbable," which came out in 2007 and landed on a number of best-seller lists. He also went from being primarily an options trader to what he always really wanted to be: a public intellectual. When I made the mistake of asking him one day whether he was an adjunct professor, he quickly corrected me. "I'm the Distinguished Professor of Risk Engineering at N.Y.U.," he responded. "It's the highest title they give in that department." Humility is not among his virtues. On his Web site he has a link that reads, "Quotes from 'The Black Swan' that the imbeciles did not want to hear."

"How many of you took statistics at Columbia?" he asked as he began his lecture. Most of the hands in the room shot up. "You wasted your money," he sniffed. Behind him was a slide of Mickey Mouse that he had put up on the screen, he said, because it represented "Mickey Mouse probabilities." That pretty much sums up his view of business-school statistics and probability courses.

Taleb's ideas can be difficult to follow, in part because he uses the language of academic statisticians; words like "Gaussian," "kurtosis" and "variance" roll off his tongue. But it's also because he speaks in a kind of brusque shorthand, acting as if any fool should be able to follow his train of thought, which he can't be bothered to fully explain.

"This is a Stan O'Neal trade," he said, referring to the former chief executive of Merrill Lynch. He clicked to a slide that showed a trade that made slow, steady profits — and then quickly spiraled downward for a giant, brutal loss.

"Why do people measure risks against events that took place in 1987?" he asked, referring to Black Monday, the October day when the U.S. market lost more than 20 percent of its value and has been used ever since as the worst-case scenario in many risk models. "Why is that a benchmark? I call it future-blindness."

"If you have a pilot flying a plane who doesn't understand there can be storms, what is going to happen?" he asked. "He is not going to have a magnificent flight. Any small error is going to

crash a plane. This is why the crisis that happened was predictable."

Eventually, though, you do start to get the point. Taleb says that Wall Street risk models, no matter how mathematically sophisticated, are bogus; indeed, he is the leader of the camp that believes that risk models have done far more harm than good. And the essential reason for this is that the greatest risks are never the ones you can see and measure, but the ones you can't see and therefore can never measure: The ones that seem so far outside the boundary of normal probability that you can't imagine they could happen in your lifetime — even though, of course, they do happen, more often than you care to realize. Devastating hurricanes happen. Earthquakes happen. And once in a great while, huge financial catastrophes happen. Catastrophes that risk models somehow always manage to miss.

VaR is Taleb's favorite case in point. The original VaR measured portfolio risk along what is called a "normal distribution curve," a statistical measure that was first identified by Carl Friedrich Gauss in the early 1800s (hence the term "Gaussian"). It is a simple bell curve of the sort we are all familiar with:



The reason the normal curve looks the way it does — why it rises as it gets closer to the middle — is that the closer you get to that point, the smaller the change in the thing you're measuring, and hence the more frequently it is likely to occur. A typical stock or portfolio of stocks, for example, is far likelier to gain or lose one point in a day (or a week) than it is to gain or lose 20 points. So the pattern of normal distribution will cluster around those smaller changes toward the middle of the curve, while the less-frequent distributions will fall along the ends of the curve.

VaR uses this normal distribution curve to plot the riskiness of a portfolio. But it makes certain assumptions. VaR is often mea-



sured daily and rarely extends beyond a few weeks, and because it is a very short-term measure, it assumes that tomorrow will be more or less like today. Even what's called "historical VaR" — a variation of standard VaR that measures potential portfolio risk a year or two out, only uses the previous few years as its benchmark. As the risk consultant Marc Groz puts it, "The years 2005-2006," which were the culmination of the housing bubble, "aren't a very good universe for predicting what happened in 2007-2008."

This was one of Alan Greenspan's primary excuses when he made his mea culpa for the financial crisis before Congress a few months ago. After pointing out that a Nobel Prize had been awarded for work that led to some of the theories behind derivative pricing and risk management, he said: "The whole intellectual edifice, however, collapsed in the summer of last year because the data input into the risk-management models generally covered only the past two decades, a period of euphoria. Had instead the models been fitted more appropriately to historic periods of stress, capital requirements would have been much higher and the financial world would be in far better shape today, in my judgment." Well, yes. That was also the point Taleb was making in his lecture when he referred to what he called future-blindness. People tend not to be able to anticipate a future they have never personally experienced.

Yet even faulty historical data isn't Taleb's primary concern. What he cares about, with standard VaR, is not the number that falls within the 99 percent probability. He cares about what happens in the other 1 percent, at the extreme edge of the curve. The fact that you are not likely to lose more than a certain amount 99 percent of the time tells you absolutely nothing about what could happen the other 1 percent of the time. You could lose \$31 million instead of \$50 million — no big deal. That happens two or three times a year, and no one blinks an eye. You could also lose billions and go out of business. VaR has no way of measuring which it will be.

What will cause you to lose billions instead of millions? Some-

thing rare, something you've never considered a possibility. Taleb calls these events "fat tails" or "black swans," and he is convinced that they take place far more frequently than most human beings are willing to contemplate. Groz has his own way of illustrating the problem: he showed me a slide he made of a curve with the letters "T.B.D." at the extreme ends of the curve. I thought the letters stood for "To Be Determined," but that wasn't what Groz meant. "T.B.D. stands for 'There Be Dragons,'" he told me.

And that's the point. Because we don't know what a black swan might look like or when it might appear and therefore don't plan for it, it will always get us in the end. "Any system susceptible to a black swan will eventually blow up," Taleb says. The modern system of world finance, complex and interrelated and opaque, where what happened yesterday can and does affect what happens tomorrow, and where one wrong tug of the thread can cause it all to unravel, is just such a system.

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than of risk management,' says Gregg Berman of RiskMetrics.
'YOU CAN'T BLAME MATH.'**

asures since 1996 because they cause people to cross the street blindfolded," he said toward the end of his lecture. "The system went bust because nobody listened to me."

After the lecture, the professor who invited Taleb to Columbia took a handful of people out for a late lunch at a nearby diner. Somewhat surprisingly, given Taleb's well-known scorn for risk managers, the professor had also invited several risk managers who worked at two big investment banks. We had barely been seated before they tried to engage Taleb in a debate over the value of VaR. But Taleb is impossible to argue with on this subject; every time they raised an objection to





his argument, he curtly dismissed them out of hand. "VaR can be useful," said one of the risk managers. "It depends on how you use it. It can be useful in identifying trends."

"This argument is addressed in 'The Black Swan,'" Taleb retorted. "Not a single person has offered me an argument I haven't heard."

"I think VaR is great," said another risk manager. "I think it is a fantastic tool. It's like an altimeter in aircraft. It has some margin for error, but if you're a pilot, you know how to deal with it. But very few pilots give up using it."

Taleb replied: "Altimeters have errors that are Gaussian. You can compensate. In the real world, the magnitude of errors is much less known."

Around and around they went, talking past each other for the next hour or so. It was engaging but unsatisfying; it didn't help illuminate the role risk management played in the crisis.

The conversation had an energizing effect on Taleb, however. He walked out of the diner with a full head of steam, railing about the two "imbeciles" he just had to endure. I used the moment to ask if he knew the people at RiskMetrics, a successful risk-management consulting firm that spun out of the original JPMorgan quant effort in the mid-1990s. "They're intellectual charlatans," he replied dismissively. "You can quote me on that."

As we approached his car, he began talking about his own performance in 2008. Although he is no longer a full-time trader, he remains a principal in a hedge fund he helped found, Black Swan Protection Protocol. His fund makes trades that either gain or lose small amounts of money in normal times but can make oversized gains when a black swan appears. Taleb likes to say that, as a trader, he has made money only three times in his life — in the crash of 1987, during the dot-com bust more than a decade later and now. But all three times he has made a killing. With the world crashing around it, his fund was up 65 to 115 percent for the year. Taleb chuckled. "They wouldn't listen to me," he said finally. "So I decided, to hell with them, I'll take their money instead."

"VAR WAS INEVITABLE," Gregg Berman of RiskMetrics said when I went to see him a few days later. He didn't sound like an intellectual charlatan. His explanation of the utility of VaR — and its limitations — made a certain undeniable sense. He did, however, sound like somebody who was completely taken aback by the amount of blame placed on risk modeling since the financial crisis began.

"Obviously, we are big proponents of risk models," he said. "But a computer does not do risk modeling. People do it. And people got overzealous and they stopped being careful. They took on too much leverage. And whether they had models that missed that, or they weren't paying enough attention, I don't know. But I do think that this was much more a failure of management than of risk management. I think blaming models for this would be very unfortunate because you are placing blame on a mathematical equation. You can't blame math," he added with some exasperation.

Although Berman, who is 42, was a founding partner of RiskMetrics, it turned out that he was one of the few at the firm who hadn't come from JPMorgan. Still, he knew the back story. How could he not? It was part of the lore of the place. Indeed, it was part of the lore of VaR.

The late 1980s and the early 1990s were a time when many firms were trying to devise more sophisticated risk models because the world was changing around them. Banks, whose primary risk had long been credit risk — the risk that a loan might not be paid back — were starting to meld with investment banks, which traded stocks and bonds. Derivatives and securitizations — those pools of mortgages or credit-card loans that were bundled by investment firms and sold to investors — were becoming an increasingly important component of Wall Street. But they were devilishly complicated to value. For one thing, many of the more arcane instruments didn't trade very often, so you had to try to value them by finding a comparable security that did trade. And they were sliced into different pieces — tranches they're called — each



of which had a different risk component. In addition every desk had its own way of measuring risk that was largely incompatible with every other desk.

JPMorgan's chairman at the time VaR took off was a man named Dennis Weatherstone. Weatherstone, who died in 2008 at the age of 77, was a working-class Englishman who acquired the bearing of a patrician during his long career at the bank. He was soft-spoken, polite, self-effacing. At the point at which he took over JPMorgan, it had moved from being purely a commercial bank into one of these new hybrids. Within the bank, Weatherstone had long been known as an expert on risk, especially when he was running the foreign-exchange trading desk. But as chairman, he quickly realized that he understood far less about the firm's overall risk than he needed to. Did the risk in JPMorgan's stock portfolio cancel out the risk

an elegant, Swiss-born, former JPMorgan banker who ran the team that devised VaR and who is now vice chairman of SunGard Data Systems. "VaR is not just one invention," he said. "You solved one problem and another cropped up. At first it seemed unmanageable. But as we refined it, the methodologies got better."

Early on, the group decided that it wanted to come up with a number it could use to gauge the possibility that any kind of portfolio could lose a certain amount of money over the next 24 hours, within a 95 percent probability. (Many firms still use the 95 percent VaR, though others prefer 99 percent.) That became the core concept. When the portfolio changed, as traders bought and sold securities the next day, the VaR was then recalculated, allowing everyone to see whether the new trades had added to, or lessened, the firm's risk.

"There was a lot of suspicion internally," recalls Guldemann, because traders and executives — nonquants — didn't believe that such a thing could be quantified mathematically. But they were wrong. Over time, as VaR was proved more correct than not day after day, quarter after quarter, the top executives came not only to believe in it but also to rely on it.

For instance, during his early years as a risk manager, pre-VaR, Guldemann often confronted the problem of what to do when a trader had reached his trading limit but believed he should be given more capital to play out his hand. "How would I know if he should get the increase?" Guldemann says. "All I could do is ask around. Is he a good guy? Does he know what he's doing? It was ridiculous. Once we converted all the limits to VaR limits, we could compare. You could look at the profits the guy made and compare it to his VaR. If the guy who asked for a higher limit was making more money with lower VaR — that is, with less risk — "it was a good basis to give him the money."

By the early 1990s, VaR had become such a fixture at JPMorgan that Weatherstone instituted what became known as the 4:15 report because it was handed out every day at 4:15, just after the market

Marc Groz showed me a slide

he made of a VaR curve with the letters 'T.B.D.' at the extreme ends.

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being taken by its bond portfolio — or did it heighten those risks? How could you compare different kinds of derivative risks? What happened to the portfolio when volatility increased or interest rates rose? How did currency fluctuations affect the fixed-income instruments? Weatherstone had no idea what the answers were. He needed a way to compare the risks of those various assets and to understand what his companywide risk was.

The answer the bank's quants had come up with was Value at Risk. To phrase it that way is to make it sound as if a handful of math whizzes locked themselves in a room one day, cranked out some formulas, and — presto! — they had a risk-management system. In fact, it took around seven years, according to Till Guldemann,



closed. It allowed him to see what every desk's estimated profit and loss was, as compared to its risk, and how it all added up for the entire firm. True, it didn't take into account Taleb's fat tails, but nobody really expected it to do that. Weatherstone had been a trader himself; he understood both the limits and the value of VaR. It told him things he hadn't known before. He could use it to help him make judgments about whether the firm should take on additional risk or pull back. And that's what he did.

What caused VaR to catapult above the risk systems being developed by JPMorgan competitors was what the firm did next: it gave VaR away. In 1993, Guldinann made risk the theme of the firm's annual client conference. Many of the clients were so impressed with the JPMorgan approach that they asked if they could purchase the underlying system. JPMorgan decided it didn't want to get into that business, but proceeded instead to form a small group, RiskMetrics, that would teach the concept to anyone who wanted to learn it, while also posting it on the Internet so that other risk experts could make suggestions to improve it. As Guldinann wrote years later, "Many wondered what the bank was trying to accomplish by giving away 'proprietary' methodologies and lots of data, but not selling any products or services." He continued, "It popularized a methodology and made it a market standard, and it enhanced the image of JPMorgan."

JPMorgan later spun RiskMetrics off into its own consulting company. By then, VaR had become so popular that it was considered the risk-model gold standard. Here was the odd thing, though: the month RiskMetrics went out on its own, September 1998, was also when Long-Term Capital Management "blew up." L.T.C.M. was a fantastically successful hedge fund famous for its quantitative trading approach and its belief, supposedly borne out by its risk models, that it was taking minimal risk.

L.T.C.M.'s collapse would seem to make a pretty good case for Taleb's theories. What brought the firm down was a black swan

it never saw coming: the twin financial crises in Asia and Russia. Indeed, so sure were the firm's partners that the market would revert to "normal" — which is what their model insisted would happen — that they continued to take on exposures that would destroy the firm as the crisis worsened, according to Roger Lowenstein's account of the debacle, "When Genius Failed." Oh, and another thing: among the risk models the firm relied on was VaR.

Aaron Brown, the former risk manager at Morgan Stanley, remembers thinking that the fall of L.T.C.M. could well lead to the demise of VaR. "It thoroughly punctured the myth that VaR was invincible," he said. "Something that fails to live up to perfection is more despised than something that was never idealized in the first place." After the 1987 market crash, for example, portfolio insurance, which had been sold by Wall Street as a risk-mitigation device, became largely discredited.

But that didn't happen with VaR. There was so much *schadenfreude* associated with L.T.C.M. — it had Nobel Prize winners among its partners! — that it was easy for the rest of Wall Street to view its fall as an example of comeuppance. And for a hedge fund that promoted the ingeniousness of its risk measures, it took far greater risks than it ever acknowledged.

For these reasons, other firms took to rationalizing away the fall of L.T.C.M.: they viewed it as a human failure rather than a failure of risk modeling. The collapse only amplified the feeling on Wall Street that firms needed to be able to understand their risks for the entire firm. Only VaR could do that. And finally, there was a belief among some, especially after the crisis abated, that the events that brought down L.T.C.M. were one in a million. We would never see anything like that again in our lifetime.

So instead of diminishing in importance, VaR became a more important part of the financial scene. The Securities and Exchange Commission, for instance, worried about the amount of risk that derivatives posed to the system, mandated that financial firms would have to disclose that risk to investors, and VaR

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became the de facto measure. If the VaR number increased from year to year in a company's annual report, it meant the firm was taking more risk. Rather than doing anything to limit the growth of derivatives, the agency concluded that disclosure, via VaR, was sufficient.

That, in turn, meant that even firms that had resisted VaR now succumbed. It meant that chief executives of big banks and investment firms had to have at least a passing familiarity with VaR. It meant that traders all had to understand the VaR consequences of making a big bet or of changing their portfolios. Some firms continued to use VaR as a tool while adding other tools as well, like "stress" or "scenario" tests, to see where the weak links in the portfolio were or what might happen if the market dropped drastically. But others viewed VaR as the primary measure they had to concern themselves with.

VaR, in other words, became institutional-

base it on a firm's internal VaR, partly because that VaR was not set by regulators and partly because it obviously didn't gauge the kind of extreme events that destroy capital and create a liquidity crisis — precisely the moment when you need cash on hand.

Indeed, Ethan Berman, the chief executive of RiskMetrics (and no relation to Gregg Berman), told me that one of VaR's flaws, which only became obvious in this crisis, is that it didn't measure liquidity risk — and of course a liquidity crisis is exactly what we're in the middle of right now. One reason nobody seems to know how to deal with this kind of crisis is because nobody envisioned it.

In a crisis, Brown, the risk manager at AQR, said, "you want to know who can kill you and whether or not they will and who you can kill if necessary. You need to have an emergency backup plan that assumes everyone is out to get you. In peacetime, you think about other people's intentions. In wartime, only their capabilities matter. VaR is a peacetime statistic."

The triple-A-rated mortgage-backed securities churned out by Wall Street firms AND THAT TURNED OUT TO BE LITTLE MORE THAN JUNK? VaR didn't see the risk because IT GENERALLY RELIED ON A TWO-YEAR DATA HISTORY.

ized. RiskMetrics went from having a dozen risk-management clients to more than 600. Lots of competitors sprouted up. Long-Term Capital Management became an increasingly distant memory, overshadowed by the Internet boom and then the housing boom. Corporate chieftains like Stanley O'Neal at Merrill Lynch and Charles Prince at Citigroup pushed their divisions to take more risk because they were being left behind in the race for trading profits. All over Wall Street, VaR numbers increased, but it still all seemed manageable — and besides, nothing bad was happening?

VaR also became a crutch. When an international banking group that advises national regulators decided the world needed more sophisticated ways to gauge the amount of capital that firms had to hold, Wall Street firms lobbied the group to allow them to use their internal VaR numbers. Ultimately, the group came up with an accord that allowed just that. It doesn't seem too strong to say that as a direct result, banks didn't have nearly enough capital when the black swan began to emerge in the spring of 2007.

ONE THING THAT surprised me, as I made the rounds of risk experts, was that if you listened closely, their views weren't really that far from Taleb's diagnosis of VaR. They agreed with him that VaR didn't measure the risk of a black swan. And they were critical in other ways as well. Yes, the old way of measuring capital requirements needed updating, but it was crazy to

VaR DIDN'T GET EVERYTHING right even in what it purported to measure. All the triple-A-rated mortgage-backed securities churned out by Wall Street firms and that turned out to be little more than junk? VaR didn't see the risk because it generally relied on a two-year data history. Although it took into account the increased risk brought on by leverage, it failed to distinguish between leverage that came from long-term, fixed-rate debt — bonds and such that come due at a set date — and loans that can be called in at any time and can, as Brown put it, "blow you up in two minutes." That is, the kind of leverage that disappeared the minute something bad arose.

"The old adage, 'garbage in, garbage out' certainly applies," Groz said. "When you realize that VaR is using tame historical data to model a wildly different environment, the total losses of Bear Stearns' hedge funds become easier to understand. It's like the historic data only has rainstorms and then a tornado hits."

Guldimann, the great VaR proselytizer, sounded almost mournful when he talked about what he saw as another of VaR's shortcomings. To him, the big problem was that it turned out that VaR could be gamed. That is what happened when banks began reporting their VaRs. To motivate managers, the banks began to compensate them not just for making big profits but also for making profits with low risks. That sounds good in principle, but managers began to manipulate the VaR by loading up on

what Guldimann calls "asymmetric risk positions." These are products or contracts that, in general, generate small gains and very rarely have losses. But when they do have losses, they are huge. These positions made a manager's VaR look good because VaR ignored the slim likelihood of giant losses, which could only come about in the event of a true catastrophe. A good example was a credit-default swap, which is essentially insurance that a company won't default. The gains made from selling credit-default swaps are small and steady — and the chance of ever having to pay off that insurance was assumed to be minuscule. It was outside the 99 percent probability, so it didn't show up in the VaR number. People didn't see the size of those hidden positions lurking in that 1 percent that VaR didn't measure.

EVEN MORE CRITICAL, it did not properly account for leverage that was employed through the use of options. For example, said Groz, if an asset manager borrows money to buy shares of a company, the VaR would usually increase. But say he instead enters into a contract that gives someone the right to sell him those shares at a lower price at a later time — a put option. In that case, the VaR might remain unchanged. From the outside, he would look as if he were taking no risk, but in fact, he is. If the share price of the company falls steeply, he will have lost a great deal of money. Groz called this practice "stuffing risk into the tails."

And yet, instead of dismissing VaR as worthless, most of the experts I talked to defended it. The issue, it seemed to me, was less what VaR did and did not do, but how you thought about it. Taleb says that because VaR didn't measure the 1 percent, it was worse than useless — it was downright harmful. But most of the risk experts said there was a great deal to be said for being able to manage risk 99 percent of the time, however imperfectly, even though it meant you couldn't account for the last 1 percent.

"If you say that all risk is unmitigable," Gregg Berman said, "you don't have the basis of any sort of a bet or a trade. You cannot buy and sell anything unless you have some idea of the expectation of how it will move." In other words, if you spend all your time thinking about black swans, you'll be so risk averse you'll never do a trade. Brown put it this way: "NT" — that is how he refers to Nassim Nicholas Taleb — "says that 1 percent will dominate your outcomes. I think the other 99 percent does matter. There are things you can do to control your risk. To not use VaR is to say that I won't care about the 99 percent, in which case you won't have a business. That is true even though you know the fate of the firm is going to be determined by some huge event. When you think about disasters, all you can rely on is the disasters of the past. And yet you know that it will be different in the future. How do you plan for that?"

One risk-model critic, Richard Bookstaber, a hedge-fund risk manager and author of "A Demon of Our Own Design," *Continued on Page 50*

RISK

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ranted about VaR for a half-hour over dinner one night. Then he finally said, "If you put a gun to my head and asked me what my firm's risk was, I would use VaR." VaR may have been a flawed number, but it was the best number anyone had come up with.

Of course, the experts I was speaking to were, well, experts. They had a deep understanding of risk modeling and all its inherent limitations. They thought about it all the time. Brown even thought VaR was good when the numbers seemed "off," or when it started to "miss" on a regular basis — it either meant that there was something wrong with the way VaR was being calculated, or it meant the market was no longer acting "normally." Either way, he said, it told you something useful.

"When I teach it," Christopher Donohue, the managing director of the research group at the Global Association of Risk Professionals, said, "I immediately go into the shortcomings. You can't calculate a VaR number and think you know everything you need. On a day-to-day basis I don't care so much that the VaR is 42. I care about where it was yesterday and where it is going tomorrow. What direction is the risk going?" Then he added, "That is probably another danger: because we put a dollar number to it, they attach a meaning to it."

By "they," Donohue meant everyone who wasn't a risk manager or a risk expert. There were the investors who saw the VaR numbers in the annual reports but didn't pay them the least bit of attention. There were the regulators who slept soundly in the knowledge that, thanks to VaR, they had the whole risk thing under control. There were the boards who heard a VaR number once or twice a year and thought it sounded good. There were chief executives like O'Neal and Prince. There was everyone, really, who, over time, forgot that the VaR number was only meant to describe what happened 99 percent of the time. That \$50 million wasn't just the most you could lose 99 percent of the time. It was the least you could lose 1 percent of the time. In the bubble, with easy profits being made and risk having been transformed into mathematical conceit, the real meaning of risk had been forgotten. Instead of scrutinizing VaR for signs of impending trouble, they took comfort in a number and doubled down, putting more money at risk in the expectation of bigger gains. "It has to do with the human condition," said one former risk manager. "People like to have one number they can believe in."

Brown told me: "You absolutely could see it coming. You could see the risks rising. However, in the two years before the crisis hit, instead of preparing for it, the opposite took place to an extreme degree. The real trouble we got into today is because of things that took place in the two years before, when the risk measures

were saying that things were getting bad."

At most firms, risk managers are not viewed as "profit centers," so they lack the clout of the moneymakers on the trading desks. That was especially true at the tail end of the bubble, when firms were grabbing for every last penny of profit.

At the height of the bubble, there was so much money to be made that any firm that pulled back because it was nervous about risk would forsake huge short-term gains and lose out to less cautious rivals. The fact that VaR didn't measure the possibility of an extreme event was a blessing to the executives. It made black swans all the easier to ignore. All the incentives — profits, compensation, glory, even job security — went in the direction of taking on more and more risk, even if you half suspected it would end badly. After all, it would end badly for everyone else too. As the former Citigroup chief executive Charles Prince famously put it, "As long as the music is playing, you've got to get up and dance." Or, as John Maynard Keynes once wrote, a "sound banker" is one who, "when he is ruined, is ruined in a conventional and orthodox way."

MAYBE IT WOULD HAVE been different if the people in charge had a better understanding of risk. Maybe it would have helped if Wall Street hadn't turned VaR into something it was never meant to be. "If we stick with the Dennis Weatherstone example," Ethan Berman says, "he recognized that he didn't have the transparency into risk that he needed to make a judgment. VaR gave him that, and he and his managers could make judgments. To me, that is how it should work. The role of VaR is as one input into that process. It is healthy for the head of the firm to have that kind of information. But people need to have incentives to give him that information."

Which brings me back to David Viniar and Goldman Sachs. "VaR is a useful tool," he said as our interview was nearing its end. "The more liquid the asset, the better the tool. The more history, the better the tool. The less of both, the worse it is. It helps you understand what you should expect to happen on a daily basis in an environment that is roughly the same. We had a trade last week in the mortgage universe where the VaR was \$1 million. The same trade a week later had a VaR of \$6 million. If you tell me my risk hasn't changed — I say yes it has!" Two years ago, VaR worked for Goldman Sachs the way it once worked for Dennis Weatherstone — it gave the firm a signal that allowed it to make a judgment about risk. It wasn't the only signal, but it helped. It wasn't just the math that helped Goldman sidestep the early decline of mortgage-backed instruments. But it wasn't just judgment either. It was both. The problem on Wall Street at the end of the housing bubble is that all judgment was cast aside. The math alone was never going to be enough.

Like most firms, Goldman does have other models to test for the fat tails. But even Gold-

man has been caught flat-footed by the crisis, struggling with liquidity, turning itself into a bank holding company and even, at one dire moment, struggling to combat rumors that it would be the next to fail.

"The question is: how extreme is extreme?" Viniar said. "Things that we would have thought were so extreme have happened. We used to say, 'What will happen if every equity market in the world goes down by 30 percent at the same time?' We used to think of that as an extreme event — except that now it has happened. Nothing ever happens until it happens for the first time."

Which didn't mean you couldn't use risk models to sniff out risks. You just had to know that there were risks they didn't sniff out — and be ever vigilant for the dragons. When Wall Street stopped looking for dragons, nothing was going to save it. Not even VaR. ■

FY 2009 Economic Recovery and Reinvestment (\$ thousands)				
Subcommittee, Department, Agency, Account	House Mark	Senate Mark	Proposed Adjustment	Final Increase
Economic Recovery and Reinvestment				
Title I				
Department of Agriculture				
USDA Buildings and Facilities (Agency-Wide)	\$253,000	\$300,000	-\$100,000	\$300,000
Office of the Inspector General	\$22,500	\$5,000		\$5,000
Cooperative State Research, Education, and Extension Service				
Agriculture and Food Research Initiative	\$0	\$100,000	-\$50,000	\$50,000
Farm Service Agency				
Salaries and Expenses (IT and FTE)	\$245,000	\$171,000	-\$117,000	\$54,000
Agricultural Credit Insurance Fund				
Direct Farm Ownership Loans	\$0	\$17,200		\$17,200
Guaranteed Farm Ownership Loans	\$0	\$330		\$330
Direct Farm Operating Loans	\$0	\$23,600		\$23,600
Guaranteed Farm Operating Loans	\$0	\$1,300		\$1,300
Natural Resources Conservation Service				
Watershed Rehabilitation (construction)	\$50,000	\$170,000	-\$55,000	\$65,000
Watershed/Flood Prevention (construction)	\$750,000	\$275,000		\$275,000
Rural Development				
Salaries and Expenses (IT and FTE)	\$0	\$110,000	-\$30,000	\$80,000
Rural Housing Service				
Rural Housing Insurance Program				
Sec. 502 direct loans	\$270,000	\$67,000		\$67,000
Sec. 502 guaranteed loans	\$230,000	\$133,000		\$133,000
Rural community facilities program				
Rural Comm. Facilities direct loans	\$63,000	\$67,000		\$67,000
Rural Comm. Facilities Guaranteed loans		\$10,000		\$10,000
Rural Community Facilities grants	\$137,000	\$30,000		\$50,000
Rural Business-Cooperative Service				
Rural Business Enterprise Grants (RBEGr)	\$13,000	\$20,000		\$20,000
Business Industry Guaranteed Loans	\$87,000	\$130,000		\$130,000
BioRefinery/New Technologies	\$0	\$200,000		\$200,000
Rural Energy for America Capitalization	\$0	\$50,000		\$50,000
Rural Utilities Service				
Rural waste and waste disposal program				
Direct loans	\$400,000	\$412,000		\$412,000
Grants	\$1,100,000	\$963,000		\$963,000
Distance Learning, Telemedicine, and Broadband Program				
Distance Learning/Telemedicine Loans	\$0	\$20,000		\$20,000
Distance Learning/Telemedicine Grants	\$0	\$180,000	-\$100,000	\$80,000
Broadband Grants	\$2,835,000	\$0		\$0
Food and Nutrition Service				
Contingency	\$0	\$380,000		\$380,000
MIS	\$100,000	\$120,000		\$120,000
Child Nutrition School lunch equipment	\$0	\$150,000		\$150,000
Child and Adult Care Food Program	\$631,000	\$198,000	-\$98,000	\$100,000
GP Crop Disaster	\$0	\$803,000	-\$50,000	\$753,000
GP Farm Bill Administration	\$0	\$4,000		\$4,000
GP Farm Bill Administration (future-year advance appropriations)	\$0	\$30,000		\$30,000
Subtotal, Agriculture	\$6,926,500	\$5,109,430	-\$600,000	
(Fiscal Year 2009)	\$6,926,500	\$5,079,430		
(Future-year Advance Appropriations)	\$0	\$30,000		
Title II				
Commerce, Justice, Science				
Department of Commerce				
Bureau of Industry and Security				
Operations and administration	\$0	\$20,000		\$20,000
Economic Development Administration				
Economic development assistance programs	\$250,000	\$150,000		\$150,000
Bureau of the Census				
Periodic censuses and programs	\$1,000,000	\$1,000,000		\$1,000,000
National Telecommunications and Information Administration				
Broadband Mapping	\$350,000	\$350,000		\$350,000
Advanced Broadband Program	\$2,825,000	\$8,650,000	-\$2,000,000	\$6,650,000
DTV Coupons	\$650,000	\$650,000		\$650,000
National Institute of Standards and Technology				
Scientific and technical research and services (Basic)	\$100,000	\$218,000	-\$100,000	\$118,000
Technology Innovation Program	\$70,000	\$0		\$0
Manufacturing Extension Partnership Program	\$30,000	\$0		\$0
Construction	\$300,000	\$357,000		\$57,000
National Oceanic and Atmospheric Administration				
Operations, research, and facilities	\$400,000	\$427,000	-\$200,000	\$227,000
Procurement, acquisition, and construction	\$600,000	\$795,000		\$795,000
Departmental Management				
Commerce Dept. building renovation and modernization	\$0	\$54,000	-\$34,000	\$0
Office of the Inspector General	\$10,000	\$5,000		\$5,000
Department of Justice				
General Administration				
Tactical law enforcement wireless communications	\$0	\$100,000	-\$100,000	\$100,000
Detention Trustee				
Detention Trustee	\$0	\$130,000	-\$50,000	\$100,000

FY 2009 Economic Recovery and Reinvestment (\$ thousands)				
Subcommittee, Department, Agency, Account	House Mark	Senate Mark	Proposed Adjustment	Final Increase
Office of the Inspector General				
United States Marshals Service	\$1,000	\$2,000		\$2,000
Salaries and Expenses (Adam Walsh)	\$0	\$50,000		\$50,000
Construction	\$0	\$175,000	-\$25,000	\$150,000
Federal Bureau of Investigation				
Salaries and Expenses (mortgage fraud)	\$0	\$75,000		\$75,000
Construction	\$0	\$400,000	-\$100,000	\$300,000
Federal Prison System				
Buildings and Facilities	\$0	\$1,000,000	-\$200,000	\$800,000
Office of Justice Programs				
State & Local Law Enforcement Assistance (Byrne/Justice Assistance Grants)	\$3,000,000	\$1,500,000	\$450,000	\$1,050,000
State & Local Law Enforcement Assistance (Southwest Border)	\$0	\$100,000		\$100,000
State & Local Law Enforcement Assistance (Rural)	\$0	\$150,000		\$150,000
State & Local Law Enforcement Assistance (COPS Hiring)	\$1,200,000	\$2,000,000		\$1,000,000
State & Local Law Enforcement Assistance (Prevention, Intervention, Prosecution)	\$0	\$440,000		\$440,000
State & Local Law Enforcement Assistance (Tribal Assistance)	\$0	\$300,000		\$300,000
State & Local Law Enforcement Assistance (Violence Against Women)	\$0	\$300,000		\$300,000
State & Local Law Enforcement Assistance (Victims Assistance)	\$0	\$100,000		\$100,000
State & Local Law Enforcement Assistance (mgmt and admin)	\$0	\$30,000		\$30,000
State & Local Law Enforcement Assistance (mgt and admin)	\$0	\$10,000		\$10,000
Science				
National Aeronautics and Space Administration				
Science	\$400,000	\$500,000	-\$200,000	\$300,000
Aeronautics	\$150,000	\$250,000		\$100,000
Shuttle Replacement	\$0	\$500,000		\$500,000
Cross Agency Support (Construction)	\$50,000	\$250,000		\$200,000
Office of the Inspector General	\$2,000	\$2,000		\$2,000
National Science Foundation				
Research and related activities	\$2,500,000	\$1,200,000	-\$200,000	\$1,000,000
Major equipment and facilities construction	\$400,000	\$150,000		\$250,000
Education and human resources	\$100,000	\$50,000		\$50,000
Office of the Inspector General	\$2,000	\$2,000		\$2,000
Government-wide Supercomputers (above)	7	(100,000)		
Subtotal, Commerce, Justice	\$14,191,000	\$21,513,000	-\$3,659,000	
Title III				
Defense				
Operation and Maintenance				
Operations and Maintenance	\$0	\$0		
Facilities Sustainment, Restoration and Modernization	\$4,500,000	\$2,984,000		\$2,984,000
Hybrid Vehicles for the Army, Navy, Air Force, Marine Corps	\$0	\$200,000		\$200,000
Lease and Procurement				
Defense Production Act				
Lithium Ion Batteries	\$0	\$100,000		\$100,000
Research, Development, Test and Evaluation, Defense-Wide				
New Technology Transition and Demonstration of Energy Efficiency Technologies	\$350,000	\$200,000		\$200,000
Other Department of Defense Programs				
Defense Health Program				
Operation and Maintenance (FSM)	\$0	\$250,000		\$250,000
Office of the Inspector General	\$15,000	\$12,000		\$12,000
Subtotal, Defense	\$4,865,000	\$3,746,000		\$12,000
Title IV				
Energy and Water Development				
Corps of Engineers				
Construction, General	\$4,500,000	\$4,600,000		\$4,600,000
Department of Interior				
Bureau of Reclamation				
	\$500,000	\$1,400,000		\$1,400,000
Department of Energy				
Energy Programs				
Energy Efficiency and Renewable Energy				
Weatherization Assistance Program	\$6,200,000	\$2,900,000		\$2,900,000
Middle Income Families	\$300,000	\$0		
Advanced Battery Manufacturing	\$2,000,000	\$2,000,000		\$2,000,000
Loan guarantees for standard renewables	\$5,000,000	\$8,000,000	-\$2,000,000	\$7,000,000
FutureGen	\$0	\$2,000,000		\$2,000,000
Low Carbon Power	\$2,400,000	\$2,600,000		\$2,600,000
State and Local Government Energy Grants	\$6,900,000	\$4,700,000		\$4,700,000
Grants to States for "charging infrastructure"	\$200,000	\$200,000		\$200,000
State and Local Efficient Trucks and Buses	\$400,000	\$350,000		\$350,000
Institutional Entities grants	\$1,000,000	\$1,600,000		\$1,600,000
Institutional Entities Direct Loans	\$500,000	\$0		
Renewable Energy R&D through EERE	\$2,500,000	\$2,648,000		\$2,648,000
Environmental Cleanup				
Non-Defense Environmental Cleanup	\$0	\$483,000		\$483,000
Uranium Enrichment Decontamination and Decommissioning Fund	\$0	\$390,000		\$390,000
Science				
Science	\$3,500,000	\$0		
LAB construction		\$330,000		\$330,000
ARRA-E	\$400,000	\$0		
Government-wide Supercomputers	\$100,000	\$100,000	-\$100,000	\$0
Atomic Energy Defense Activities				
National Nuclear Security Administration				
Weapons Activities	\$0	\$900,000		\$900,000
Government-wide Supercomputers	\$0	\$100,000		\$100,000

FY 2009 Economic Recovery and Reinvestment (\$ thousands)				
Subcommittee, Department, Agency, Account	House Mark	Senate Mark	Proposed Adjustment	Final Increase
Environmental and Other Defense Activities				
Defense Environmental Cleanup	\$500,000	\$5,527,000		\$5,527,000
WAPA Operating Expenses	\$0	\$10,000		\$10,000
WAPA Borrowing Authority	\$10,000	\$10,000		\$10,000
WAPA Borrowing Authority (future-year advance appropriations)	\$3,240,000	\$3,240,000		\$3,240,000
BPA Borrowing Authority	\$0	\$0		\$0
BPA Borrowing Authority (future-year advance appropriations)	\$3,250,000	\$3,250,000		\$3,250,000
Transmission Training	\$100,000	\$100,000		\$100,000
Smartgrid	\$4,400,000	\$4,400,000		\$4,400,000
Loan Guarantees Transmission	\$2,000,000	\$2,000,000		\$2,000,000
Office of the Inspector General	\$15,000	\$15,000		\$15,000
Subtotal, Energy and Water Development	\$48,915,000	\$53,843,000	-\$1,100,000	
(Fiscal Year 2009)	\$42,425,000	\$47,353,000		
(Future-Year Advance Appropriations)	\$6,490,000	\$6,490,000		
Title V				
Financial Services, General Government				
Department of the Treasury				
Community Development Financial Institutions	\$0	\$250,000		\$250,000
District of Columbia				
Federal Communications Commission	\$0	\$125,000		\$125,000
Federal Communications Commission				
*Broadband Grants	\$3,325,000	\$0		
General Services Administration				
Federal Buildings Fund				
Amount to be deposited	\$7,700,000	\$9,048,000	-\$2,000,000	\$7,048,000
Federal facilities (construction, repair & alterations)	Not specified	(1,400,000)		
Border facility construction (construction, repair & alterations)	(1,000,000)	(1,200,000)		
Green Federal Buildings	(6,000,000)	(6,000,000)	-\$1,500,000	
DHS Headquarters Consolidation	Not specified	(448,000)		
Energy Efficient Federal Motor Vehicle Fleet Procurement				
Purchase of fuel efficient vehicles	\$600,000	\$600,000	-\$100,000	\$100,000
Office of the Inspector General	\$15,000	\$3,000		\$3,000
Recovery Accountability and Transparency Board				
Recovery Accountability and Transparency Board	\$14,000	\$7,000		\$7,000
Small Business Administration				
Salaries and Expenses (Microloan Program)	\$0	\$24,000		\$24,000
Salaries and Expenses (lender oversight activities)	\$0	\$15,000		\$15,000
Salaries and Expenses (Administrative Costs)	\$4,000	\$25,000		\$25,000
Salaries and Expenses (Lender Oversight IT)	\$0	\$20,000		\$20,000
Office of Inspector General	\$10,000	\$10,000		\$10,000
Surety bonds	\$0	\$15,000		\$15,000
Business Loans Program Account:				
Sec. 7(a) Guaranteed Loan Program				
Fee reduction/elimination for all 7(a) loans	\$0	\$515,000		\$515,000
Sec. 504 Loan Program	\$0	\$100,000		\$100,000
Sec. 7(a) Secondary Market Loans and New Direct Business Loan Program	\$420,000	\$0		
Direct Loans (Microloan Program)	\$0	\$6,000		\$6,000
Government-wide Supercomputers (elsewhere in bill)	\$0	(739,000)		
Subtotal, Financial Services, General Government	\$12,094,000	\$10,762,000	-\$3,800,000	
Title VI				
Homeland Security				
Department of Homeland Security				
Office of the Under Secretary for Management				
DHS headquarters Consolidation		\$248,000	-\$50,000	\$198,000
Office of the Inspector General	\$2,000	\$5,000		\$5,000
U.S. Customs and Border Protection				
Salaries and Expenses (tactical communications)	\$0	\$97,200		\$97,200
Salaries and Expenses (non-intrusive equipment)	\$100,000	\$100,000		\$100,000
Border Security Fencing, Infrastructure, and Technology	\$0	\$200,000		\$200,000
Construction (Ports of Entry)	\$150,000	\$800,000		\$800,000
Immigration and Customs Enforcement				
Automation Modernization (interoperable communications)	\$0	\$27,800		\$27,800
Transportation Security Administration				
Aviation Security (Checkpoint/EDS)	\$500,000	\$1,300,000	-\$200,000	\$1,500,000
Coast Guard				
Acquisition, Construction, and Improvements (polar icebreaker, shore facilities)	\$0	\$472,500	-\$122,500	\$450,000
Maintenance of Bridges	\$150,000	\$240,400		\$240,400
FEMA				
Management and Administration (interoperable communications)	\$0	\$6,000		\$6,000
State and Local Programs				
Emergency Operations Centers/Fueloo Centers construction	\$0	\$250,000		\$250,000
Critical infrastructure construction	\$0	\$500,000		\$500,000
Port Security grants	\$0	\$100,000		\$100,000
Transit and Rail Security	\$0	\$100,000		\$100,000
Firefighter Assistance Grants (Fire station construction)	\$0	\$500,000		\$500,000
Emergency Food and Shelter	\$200,000	\$100,000		\$100,000
Federal Law Enforcement Training Center				
Acquisition, Construction, Improvements, and Related Expenses	\$0	\$15,000		\$15,000

FY 2009 Economic Recovery and Reinvestment (\$ thousands)				
Subcommittee, Department, Agency, Account	House Mark	Senate Mark	Proposed Adjustment	Final Increase
Science and Technology				
Research, Development, Acquisition and Operations (cyber security)	\$0	\$14,000	-\$14,000	\$0
Subtotal, Homeland Security	\$1,102,000	\$5,076,700	-\$386,500	
Title VII				
Interior				
Department of the Interior				
Bureau of Land Management				
Management of Lands and Resources	\$0	\$135,000		\$135,000
Deferred maintenance		(101,000)		
Abandoned mine cleanup		30,000		
Construction	\$325,000	\$180,000		\$180,000
Road maintenance		(160,000)		
Energy efficient visitor centers		20,000		
Wildland Fire Management	\$0	\$15,000		\$15,000
United States Fish and Wildlife Service				
Resource Management	\$0	\$190,000	-\$25,000	\$165,000
Deferred maintenance		(170,000)		
Trail maintenance		20,000		
Construction	\$100,000	\$110,000		\$110,000
Road maintenance		60,000		
Energy efficient visitor centers		50,000		
National Park Service				
Operation of the National Park System	\$0	\$138,000		\$138,000
Deferred maintenance		(135,000)		
Historic Preservation Fund	\$0	\$35,000	-\$35,000	\$0
State grants		30,000		
Tribal grants		5,000		
Construction	\$1,700,000	\$589,000		\$589,000
Road maintenance		(180,000)		
Construction, equipment, energy efficient visitor centers		159,000		
Abandoned mine		50,000		
National Mall Revitalization	\$200,000	\$0		
Centennial Challenge	\$100,000	\$0		
United States Geological Survey				
Surveys, Investigations, and Research	\$200,000	\$135,000		\$135,000
Bureau of Indian Affairs				
Operation of Indian Programs				
Housing improvement program	\$0	\$40,000		\$40,000
Workforce training		20,000		
Construction	\$500,000	\$522,000		\$522,000
Road maintenance		150,000		
Schools, replacement		132,000		
Schools, major improvement and repair		115,000		
Schools, minor improvement and repair		35,000		
Irrigation construction		40,000		
Detention center construction		25,000		
Dam improvement and repair		25,000		
Indian Guaranteed Loan Program		\$10,000		\$10,000
Insular Affairs				
Assistance to Territories	\$0	\$62,000		\$62,000
Office of Inspector General				
Salaries and Expenses	\$15,000	\$7,600		\$7,600
Central Hazardous Materials Fund				
Central hazardous materials fund	\$0	\$20,000		\$20,000
Working Capital Fund				
Working capital fund	\$0	\$20,000	-\$20,000	\$0
Subtotal -- Department of the Interior	\$1,940,000	\$2,248,600		\$2,248,600
Environmental Protection Agency				
Hazardous Substance Superfund	\$800,000	\$800,000	-\$200,000	\$600,000
Leaking Underground Storage Tank Trust Fund Program	\$200,000	\$200,000		\$200,000
State and Tribal Assistance Grants	\$5,400,000	\$6,450,000		\$6,400,000
Clean Water SF		4,000,000		
Drinking Water SF		2,000,000		
Consolidated Sewer Overflows				
Brownfields		100,000		
Diesel Emission Reduction Act grants		300,000		
Office of the Inspector General	\$20,000	\$0		
Subtotal -- Environmental Protection Agency	\$9,420,000	\$7,400,000		\$7,400,000
Department of Agriculture				
Forest Service				
Capital Improvement and Maintenance	\$850,000	\$650,000		\$650,000
Road maintenance		200,000		
Deferred maintenance		345,000		
Abandoned mine cleanup		125,000		

FY 2009 Economic Recovery and Reinvestment (\$ thousands)				
Subcommittee, Department, Agency, Account	House Mark	Senate Mark	Proposed Adjustment	Final Increase
Wildland Fire Management	\$850,000	\$650,000	-\$165,000	\$485,000
Hazardous fuels reduction, federal		1300,000;		
Hazardous fuels reduction, state		1350,000;		
Department of Health and Human Services				
Indian Health Service				
Indian Health Services	\$0	\$133,000		\$133,000
Health information technology		85,000		
Contract care		130,000		
Indian Health Facilities	\$550,000	\$410,000		\$410,000
Maintenance and improvement		133,000		
Sanitation facilities		193,000		
Construction of facilities		133,000		
Equipment		28,000		
Smithsonian Institution				
Facilities Capital	\$150,000	\$150,000	-\$75,000	\$75,000
National Foundation on the Arts and Humanities				
National Endowment for the Arts				
Grants and Administration	\$50,000	\$0		
Subtotal -- Related Agencies	\$2,250,000	\$1,995,000		\$1,995,000
Subtotal, Interior	\$15,010,000	\$11,643,600	-\$540,000	
Title VIII				
Labor, Health and Human Services, Education & Related Agencies				
Department of Labor				
Employment and Training Administration				
Training and Employment Services	\$4,000,000	\$1,250,000		\$1,250,000
Training and Employment Services (Adult)	500,000	150,000		
Training and Employment Services (Youth)	1,200,000	1,200,000		
Training and Employment Services (Dislocated Workers)	1,000,000	1,000,000		
Training and Employment Services (National Emergency Grants)	750,000	100,000		
Training and Employment Services (Dislocated Workers National Res)	500,000	250,000		
Training and Employment Services (YouthBuild)	50,000	100,000		
Community Service Employment for Older Americans	\$120,000	\$120,000		\$120,000
State Unemployment Insurance & Employment Service Operations (E)	\$500,000	\$400,000		\$400,000
Departmental Management (worker protection/oversight)	\$80,000	\$0		
Office of Job Corps	\$100,000	\$150,000		\$150,000
Office of the Inspector General	\$6,000	\$3,000		\$3,000
Department of Health and Human Services				
Health Resources & Services Administration				
Health Resources & Services (Community health centers/services)	\$500,000	\$0		
Health Resources & Services (Community health centers/infrastructure)	\$1,000,000	\$1,870,000		\$1,870,000
Health Resources & Services (Health Workforce)	\$800,000	\$0		
Health Resources & Services (Barklawn Building)	\$88,000	\$88,000		\$88,000
Office of the Inspector General	\$19,000	\$0		
Centers for Disease Control and Prevention				
Buildings and Facilities	\$462,000	\$412,000		\$412,000
National Institutes of Health				
National Center for Research Resources	\$1,500,000	\$300,000		\$300,000
Office of the Director	\$1,500,000	\$2,790,000		\$2,790,000
Buildings and Facilities	\$500,000	\$500,000		\$500,000
Agency for Healthcare Research & Quality				
Research & Quality (Comparative effectiveness)	\$1,100,000	\$1,100,000		\$1,100,000
Administration for Children and Families				
LIHEAP	\$1,000,000	\$0		
Child Care and Development Block Grant Program (CCDBG)	\$2,000,000	\$2,000,000		\$2,000,000
Social Services Block Grant (SSBG)	\$0	\$400,000		\$400,000
Children & Families Services Programs (Head Start/Early Head Start)	\$2,100,000	\$2,100,000	-\$1,050,000	\$1,050,000
Children & Families Services Programs (Compassion Capital Fund)	\$100,000	\$0		
Children & Families Services Programs (CSBG)	\$1,000,000	\$200,000		\$200,000
Administration on Aging				
Aging Services Programs (Senior Meals)	\$200,000	\$100,000		\$100,000
Office of the Secretary				
Office of National Coordinator for Health IT	\$3,000,000	\$5,000,000	-\$2,000,000	\$3,000,000
PHSSEF (Prevention/Wellness)	\$3,000,000	\$5,800,000	-\$5,800,000	\$0
PHSSEF (pandemic flu/DAIDA)	\$800,000	\$870,000	(Offset) -870,000	\$0
Office of the Inspector General	\$0	\$4,000		\$4,000
Department of Education				
Education for the Disadvantaged (Grants to LEAs)	\$11,000,000	\$11,000,000	-\$600,000	\$10,400,000
Education for the Disadvantaged School Improvement Grants	\$2,000,000	\$2,000,000		\$2,000,000
Impact Aid	\$100,000	\$0		
School Improvement Programs (Education Technology)	\$1,000,000	\$1,000,000		\$1,000,000
School Improvement Programs (Education for Homeless Children)	\$65,000	\$70,000		\$70,000
School Improvement Programs (K-12 Construction)	\$14,000,000	\$16,000,000	-\$15,000,000	\$0
Innovation and Improvement (Credit Enhancement for Charter Schools)	\$25,000	\$0		
Innovation and Improvement (Teacher Incentive Fund)	\$200,000	\$0		
Special Education (Part B State Grants)	\$13,000,000	\$13,000,000		\$13,000,000
Special Education (Part C State Grants)	\$600,000	\$500,000		\$500,000
Student Financial Assistance (Fed Grants)	\$200,000	\$610,000		\$610,000
Student Financial Assistance (Perkins)	\$15,630,000	\$13,860,000		\$13,860,000
	\$0	\$61,000		\$61,000

FY 2009 Economic Recovery and Reinvestment (\$ thousands)				
Subcommittee, Department, Agency, Account	House Mark	Senate Mark	Proposed Adjustment	Final Increase
Work Study (new program)	\$490,000	\$0		
Student Aid Administration	\$50,000	\$0		
Higher Education (Teacher Quality Enhancement)	\$100,000	\$100,000	-\$50,000	\$50,000
Higher Education Facilities	\$6,000,000	\$3,500,000	-\$3,500,000	\$0
Institute of Education Sciences (Statewide Data Systems)	\$250,000	\$0		
Office of the Inspector General	\$14,000	\$4,000		\$4,000
Corporation for National and Community Service				
Operating Expenses	\$200,000	\$160,000		\$160,000
National Service Trust	\$0	\$40,000		\$40,000
Office of the Inspector General	\$1,000	\$0		
Social Security Administration				
Limitation on Administrative Expenses (National Computer Center)	\$400,000	\$750,000		\$750,000
Limitation on Administrative Expenses (IT)	\$500,000	\$140,000		\$140,000
Office of the Inspector General	\$2,000	\$3,000		\$3,000
Title XV - State Fiscal Stabilization Fund	\$79,000,000	\$79,000,000	-\$40,000,000	\$39,000,000
Subtotal, Labor, HHS, Education	\$169,409,000	\$169,184,000		
Title IX				
Legislative Branch				
Government Accountability Office				
Salaries and expenses (temporary staffing)	\$25,000	\$20,000		\$20,000
Subtotal, Legislative Branch	\$25,000	\$20,000		
Title X				
Military Construction and Veterans Affairs				
Military Construction				
Military Construction, Army	\$920,000	\$637,875		\$637,875
*Military Construction, Navy and Marine Corps	\$350,000	\$990,092		\$990,092
Military Construction, Air Force	\$280,000	\$871,332		\$871,332
*****	\$3,720,000	\$118,560		\$118,560
Family Housing Construction, Army	\$0	\$34,570		\$34,570
Family Housing OMM, Army	\$0	\$3,932		\$3,932
Family Housing Construction, Air Force	\$0	\$80,200		\$80,200
Family housing OMM, Air Force	\$0	\$16,461		\$16,461
Army National Guard	\$140,000	\$150,000		\$150,000
Air National Guard	\$70,000	\$110,000		\$110,000
Military Construction, Army Reserve	\$100,000	\$0		\$0
Military Construction, Navy Reserve	\$30,000	\$0		\$0
Military Construction, Air Force Reserve	\$60,000	\$0		\$0
DoD Home Ownership Assistance Program (HAP)**	\$0	\$410,973		\$410,973
BRAC 1990	\$300,000	\$0		\$0
				\$0
Veterans Affairs				
Benefits Administration, IT and claims processing		\$195,000		\$195,000
VA Major Construction	\$0	\$1,105,333		\$1,105,333
VA Minor Construction	\$0	\$939,836		\$939,836
VA Medical Facilities	\$950,000	\$1,370,459		\$1,370,459
National Cemetery Administration	\$50,000	\$64,951		\$64,951
Grants for State Extended Care Facilities		\$257,986		\$257,986
VA Medical Support & Compliance	\$0	\$5,000		\$5,000
VA General Operating Expenses	\$0	\$1,325		\$1,325
Office of the Inspector General	\$1,000	\$4,400		\$4,400
				\$0
Related Agency				
Arlington National Cemetery		\$60,500		\$60,500
Subtotal, Military Construction and Veterans Affairs	\$7,001,000	\$7,428,295		
*Includes funding for Milton Energy Initiatives -- \$318,562 million Defense Wide ECIP and \$494,363 million Navy Energy Construction. Total Energy Initiative				
** Vulnerable Populations -- non infrastructure funding				
***Funding for VA Energy Initiatives is provided in Minor Construction, ACA, and Medical Facilities accounts. Total Energy Initiatives \$328.9 million				
Title XI				
State, Foreign Operations				
Department of State				
Administration of Foreign Affairs				
Diplomatic and Consular Programs	\$0	\$180,500	-\$90,500	\$90,000
Capital Investment Fund	\$276,000	\$324,000	-\$48,000	\$228,000
Office of the Inspector General	\$0	\$2,000	-\$500	\$1,500
International Boundary and Water Commission, United States and Mexico				
Construction	\$324,000	\$324,000		\$324,000
U.S. Agency for International Development				
Funds Appropriated to the President				
Capital Investment Fund	\$0	\$100,000	-\$42,000	\$58,000
U.S. Agency for International Development Office of the Inspector General	\$0	\$500		\$500
Subtotal, State, Foreign Operations	\$500,000	\$1,031,000	-\$429,000	
Title XII				
Transportation, HUD				
Department of Transportation				
Federal Aviation Administration				
Supplemental Discretionary Grants for Airport Improvement	\$3,000,000	\$1,100,000		\$1,100,000
Facilities and Equipment	\$0	\$700,000		\$700,000
Federal Highway Administration				
Supplemental Grants for Highway Investment	\$30,000,000	\$27,060,000		\$27,060,000
Federal Land Highways	(\$50,000)	(\$500,000)		

FY 2009 Economic Recovery and Reinvestment (\$ thousands)				
Subcommittee, Department, Agency, Account	House Mark	Senate Mark	Proposed Adjustment	Final Increase
Ferries	\$0		(50,000)	
Supplemental discretionary grants for a National Surface Transportation System Federal Railroad Administration	\$0	\$5,500,000		\$5,500,000
Supplemental Capital Grants: National Passenger Rail Corporation (NPRM)	\$800,000	\$850,000		\$850,000
Grants to states for investments in high speed and intercity passenger rail High-Speed Rail Corridor Program	\$300,000	\$250,000	\$2,000,000	\$2,000,000
Federal Transit Administration				
Supplemental Grants for Public Transit Investment	\$6,000,000	\$8,400,000		\$8,400,000
Rail Modernization (transit)	\$2,000,000	\$0		
Capital Investment Grants (new starts)	\$1,000,000	\$0		
Maritime Administration				
Assistance to Small Shipyards	\$0	\$100,000		\$100,000
Office of Inspector General				
Salaries and Expenses	\$20,000	\$7,750		\$7,750
Department Housing and Urban Development				
Public and Indian Housing				
Brownfield Economic Development Initiative (BEDI)	\$0	\$0		
Supplemental Grants to PHAs for Capital Needs	\$5,000,000	\$5,000,000		\$5,000,000
Indian Housing Block Grants	\$500,000	\$310,000		\$510,000
Community Development Block Grants (CDBG)	\$1,000,000	\$0		
Homelessness Prevention	\$1,300,000	\$1,500,000		\$1,500,000
Public/Assisted Housing Stability and Energy Efficiency	\$2,500,000	\$3,500,000	-\$1,250,000	\$2,250,000
Neighborhood Stabilization Program	\$4,190,000	\$2,350,000	-\$2,230,000	\$0
HOME	\$1,500,000	\$3,250,000		\$2,250,000
Lead paint abatement	\$100,000	\$100,000		\$100,000
HAC Green Rural Housing	\$10,000	\$0		
Office of the Inspector General	\$15,000	\$2,750		\$2,750
Federal Housing Administration				
QPI GSE conforming loan limits	\$50,000	\$0		
Subtotal, HUD	\$59,435,000	\$60,580,900	-\$3,500,000	
Total, title I through XII	\$339,473,500	\$349,937,525		
(Fiscal Year 2009)	\$332,983,500	\$347,417,525		
(Future-Year Advance Appropriations)	\$6,490,000	\$2,520,000		
Mandatory Spending				
Food Stamps (Fiscal Year 2009)	\$20,717,000	\$8,231,000		
Food Stamps (Future-Year Advance Appropriations)		\$8,331,000		
Local Modification Program				
Subtotal, Mandatory Spending				
Additions through amendments				
Appropriations Portion	\$350,190,500	\$365,629,625	-\$83,014,500	\$282,615,025
Total Bill, With Tax Title				
Out of Committee	888,229,525			
Reduction in Approps	(8,014,500)			
Reduction in Finance	-25,000,000			
Final Total (w/o floor amendments)	780,215,025			

**Report to
the Joint Committee on Government and Finance**

**Shana Phares
Acting Pharmaceutical Advocate
on behalf of
the West Virginia Pharmaceutical Cost Management Council
February 10, 2009**

Primary Care Clinics who Received Grants to Establish 340b Pharmacies

Clinic	Seed Grant	Savings	Number scripts	Number patients	ROI
Clay Battelle Health Care Services Blacksville	\$60,000	new start 10/01/08 - \$ 8,000.00 annualized savings \$96,000.00	459	233	1.6
Access Health Lochgelly	\$60,000	new start 02/01/08 \$365,576.56 annualized savings \$427,891.87	9,227	1,083	7.1
Preston-Taylor Health Services Grafton	\$65,000	\$559,406.00	10,860	4,177	8.6
Family Care Weirton	\$60,000	\$1,696,576.71	20,295	2,615	28.3

Prescription Drug Forums

February 12, 2009

Martinsburg

Business Roundtable at the Berkeley County Development Authority

Consumer Brown Bag Session at Shenandoah Valley Medical Services with
Patterson's Pharmacy
WVU - East
Weis Pharmacy

February 17, 2009

Weirton

Business Roundtable at Wheeling - Nisshin Steel

Consumer Brown Bag Session at the Weirton Holiday Inn with
Family Care
Kroger's
Rite-Aid
Tri-State Medical

February 18, 2009

Parkersburg

Consumer Brown Bag Session at the City Building with
CVS
Phillips' Pharmacy
Rite-Aid

February 19, 2009

Charleston

Business Roundtable at Union Carbide

Consumer Brown Bag Session at the University of Charleston School of Pharmacy
with
Rite Aid
University of Charleston
Wal-Mart

**Comparison of State Allocations Under Original and New Senate State Fiscal Stabilization Fund
(\$ in thousands)**

Jurisdiction	House and Original Senate		New Senate		Change		
	Education	General Purpose	Education	General Purpose	Education	General Purpose	Total
Alabama	\$586,087	\$374,711	\$472,086	\$0	-\$114,000	-\$374,711	-\$488,712
Alaska	92,816	59,342	73,741	0	-19,075	-59,342	-78,417
Arizona	793,689	507,441	653,974	0	-139,715	-\$507,441	-647,156
Arkansas	356,960	228,220	287,410	0	-69,549	-228,220	-297,770
California	4,791,428	3,063,372	3,862,096	0	-929,332	-3,063,372	-3,992,704
Colorado	603,971	386,145	490,621	0	-113,350	-386,145	-499,495
Connecticut	438,098	280,096	351,950	0	-86,148	-280,096	-366,244
Delaware	107,442	68,692	87,254	0	-20,188	-68,692	-88,880
District of Columbia	72,059	46,071	57,907	0	-14,152	-46,071	-60,223
Florida	2,163,548	1,383,252	1,750,832	0	-412,696	-1,383,252	-1,795,948
Georgia	1,219,794	779,868	995,263	0	-224,531	-779,868	-1,004,399
Hawaii	156,239	99,891	124,629	0	-31,610	-99,891	-131,501
Idaho	194,791	124,539	159,137	0	-35,654	-124,539	-160,193
Illinois	1,655,266	1,058,285	1,332,613	0	-322,652	-1,058,285	-1,380,937
Indiana	810,835	518,403	652,626	0	-158,210	-518,403	-676,612
Iowa	381,612	243,982	306,156	0	-75,456	-243,982	-319,438
Kansas	360,661	230,587	290,631	0	-70,031	-230,587	-300,617
Kentucky	525,727	336,121	421,911	0	-103,816	-336,121	-439,937
Louisiana	576,411	368,525	455,405	0	-121,006	-368,525	-489,531
Maine	157,907	100,957	125,690	0	-32,217	-100,957	-133,174
Maryland	710,103	454,001	570,744	0	-139,360	-454,001	-593,360
Massachusetts	802,077	512,803	643,800	0	-158,277	-512,803	-671,080
Michigan	1,299,621	830,905	1,036,623	0	-262,998	-830,905	-1,093,903
Minnesota	659,286	421,510	529,326	0	-129,960	-421,510	-551,470
Mississippi	388,608	248,454	310,430	0	-78,178	-248,454	-326,632
Missouri	742,393	474,645	596,625	0	-145,769	-474,645	-620,413
Montana	119,885	76,647	96,183	0	-23,701	-76,647	-100,349
Nebraska	230,438	147,330	185,369	0	-45,070	-147,330	-192,399
Nevada	310,954	198,806	256,176	0	-54,778	-198,806	-253,584
New Hampshire	162,971	104,195	130,404	0	-32,567	-104,195	-136,762
New Jersey	1,075,587	687,671	864,213	0	-211,374	-687,671	-899,045
New Mexico	255,763	163,521	206,167	0	-49,596	-163,521	-213,117
New York	2,435,033	1,556,825	1,952,157	0	-482,877	-1,556,825	-2,039,701
North Carolina	1,121,422	716,974	916,057	0	-205,365	-716,974	-922,339
North Dakota	84,742	54,180	67,913	0	-16,829	-54,180	-71,009
Ohio	1,454,866	930,160	1,161,292	0	-293,574	-930,160	-1,223,734
Oklahoma	464,661	297,079	374,354	0	-90,307	-297,079	-387,386
Oregon	455,764	291,390	368,668	0	-87,096	-291,390	-378,486
Pennsylvania	1,542,132	985,954	1,236,992	0	-305,141	-985,954	-1,291,094
Rhode Island	134,567	86,035	107,386	0	-27,181	-86,035	-113,216
South Carolina	552,107	352,987	447,864	0	-104,244	-352,987	-457,230
South Dakota	102,478	65,518	82,476	0	-20,002	-65,518	-85,520
Tennessee	757,156	484,084	613,105	0	-144,051	-484,084	-628,135
Texas	3,135,121	2,004,421	2,563,170	0	-571,931	-2,004,421	-2,576,372
Utah	376,640	240,802	307,928	0	-68,712	-240,802	-309,514
Vermont	77,098	49,292	61,254	0	-15,843	-49,292	-65,136
Virginia	966,558	617,964	778,838	0	-187,720	-617,964	-805,684
Washington	802,629	513,157	647,773	0	-154,857	-513,157	-668,013
West Virginia	216,407	138,359	172,985	0	-43,423	-138,359	-181,781
Wisconsin	708,940	453,256	568,448	0	-140,492	-453,256	-593,748
Wyoming	66,137	42,285	53,292	0	-12,845	-42,285	-55,130
Puerto Rico	526,299	336,487	420,036	0	-106,263	-336,487	-442,750
American Samoa	60,238	38,513	48,750	0	-11,488	-38,513	-50,000
Guam	60,238	38,513	48,750	0	-11,488	-38,513	-50,000
Northern Mariana Islands	60,238	38,513	48,750	0	-11,488	-38,513	-50,000
Virgin Islands	60,238	38,513	48,750	0	-11,488	-38,513	-50,000
Total	\$39,024,738	\$24,950,242	\$31,475,000	\$0	-\$7,549,738	-\$24,950,242	-\$32,499,980

Changes to Funding Levels for Major Programs in Senate Recovery Package

Agency/Analysis	Program	Amount (\$ in millions)			Change	Notes
		Original Senate	New Senate	Change		
Agriculture/Food	Child Nutrition - School Lunch	198	100	-98	Competitive grant for school food service equipment program based on student eligibility for reduced lunch.	
	WIC	500	500	0	\$180 million for contingency fund; \$120 million management system.	
	SNAP	14,561	14,561	0	1.2% benefit increase; states receive \$150 million per year for admin.; available for FYs 2009, 2010; MOU requirement; states must maintain admin. expenditures to be eligible for funding.	
	Commodity Assistance Program	150	150	0	For food purchases; up to \$50 million may be used for administration of Emergency Food Assistance Program.	
Commerce	EDA	150	150	0	\$100 million for public works grants; \$50 million for economic adjustment assistance	
	Broadband Technology Opportunities	9,000	7,000	-2,000	Competitive grants; 20% match.	
Justice	Violence Against Women	500	500	0	\$250 million formula grants; \$30 million for transitional housing.	
	Byrne/JAG	1,940	1,500	-440	\$1.2 billion by formula; \$300 million competitive.	
	Victims of Crime	100	100	0	By formula; 60 days to obligate.	
	COPS	1,000	1,000	0		
Energy/Interior	Weatherization	2,900	2,900	0	Changes eligibility, assistance levels.	
	Electrical/Infrastructure Projects	200	200	0	Grants to states for plug-in vehicles, Sec. 137 of Energy Ind. Act.	
	Energy Efficiency Block Grant	4,200	4,200	0	Half by formula; half competitive.	
	State Energy Program	500	500	0		
Homeland Security	FEMA-State and Local Programs	950	950	0	For infrastructure; \$100 million for public transportation security; \$100 million for port security; \$250 million for operations centers; \$500 million for critical infrastructure, available until 9/30/09. Match is waived.	
	FEMA-Firefighting	500	500	0	Competitive.	
	FEMA-Emergency Food and Shelter	100	100	0		
Environment	Clean Water SRP	4,000	4,000	0	180 days to obligate before reallocation; 1% set-aside for administration.	
	Drinking Water SRP	2,000	2,000	0	1% set-aside for administration.	
	Brownfields/Disposal	400	400	0	\$100 million for Brownfields grants; \$300 million for diesel emission reduction; 1.5% set-aside for administration.	
	State Forest Management	350	NA	NA	Total appropriation of \$650 m. was reduced by \$165 m. It is unclear what portion of the cut would affect the state program. 1.5% set-aside for administration.	
	Historic Preservation Fund	55	0	-55	\$50 million for states; \$5 million for tribal.	
Labor	Leaking Underground Storage Tanks	200	200	0	Match waived.	
	Employment and Training (Adults)	500	500	0	Priority given to recipients of public assistance and other low-income individuals for intensive services and training.	
	Employment and Training (Youth)	1,200	1,200	0	For summer jobs up to age 24.	
	Dislocated Workers Training/Reemployment	1,000	1,000	0		
	Dislocated-Nat'l Reserve	250	250	0	Competitive grants for training in high-growth industries. Priority to energy efficiency and health care sectors.	
	National Emergency Grants	200	200	0		
	Community Service Empl. Older Americans	120	120	0	Allocated within 30 days of enactment; FY 2008 formula to current grants; available through 6/30/10.	
Health	State Employment Services	400	400	0	\$250 million for reemployment services for UI claimants, available through FY 2010; available through 9/30/10.	
	UI State Administration Grants	500	500	0	In addition to incentive payments for states for UI modernization.	
	Medicaid	\$2,046	\$2,066	20	FFIS estimate; includes \$3.5 billion for Medicaid repayments.	
	CDC - Immunization	750	0	-750	Discretionary funding.	
Human Services	Pandemic	\$70	0	-\$70	Purchase, stockpiling of antivirals, etc.	
	Family Care/Adoption Assistance	995	995	0	FFIS estimate.	
	CCDBG	2,000	2,000	0	Available through 9/30/10; \$93 million for infant and toddler care.	
	SSBG	400	400	0	Targeted to states with high unemployment.	
	Head Start & Early Head Start	2,100	1,050	-1,050	Funding combined. Available through 9/30/10.	
	CSBG	200	200	0	Available through 9/30/10; 5% set aside for outreach activities.	
	Aging Services-Senior Meals	100	100	0	Available through 9/30/10; \$67 million for congregate meals; \$33 million for home-delivered.	
	TANF	200	200	0	Emergency Contingency Fund, available through FY 2011.	
	ESEA Title I	13,000	12,400	-600	\$5.3 billion through targeted formulas; \$5.5 billion through incentive grant formula; \$1.4 billion for school improvement grants; available through 9/30/10.	
	Education	Educational Technology	1,000	1,000	0	50% competitive to LEAs; 50% through Title I formula.
Education for Homeless Children		70	70	0	As authorized under McKinney Homeless Assistance Act	
Special Ed (IDEA)		13,500	13,500	0	\$1.7 billion for ages 3-21; \$500 million for infants and toddlers (Part C); LEAs must spend at least 15% of part B funds on early childhood education.	
Vocational Rehabilitation Services		500	500	0		
Higher Education Teacher Quality		100	100	0	For higher ed Teacher Quality Partnership grants.	
School Modernization		16,000	0	-16,000	Allocated to states based on share of FY 2008 Title I allocation; 100 LEAs with most poor children receive funds from state by formula based on Title I; remainder awarded competitively by state; 1% set-aside for outlying areas and Indian Affairs schools;	
Higher Education Modernization		3,500	0	-3,500	For facility modernization; by formula based on share of FTH undergraduate students; includes community colleges.	
VA- State Extended Care Facilities		258	258	0	Match required.	
FAA-Discretionary Airport Grant		1,100	1,100	0	Discretionary to agency; no match.	
Transportation		Highways	27,060	27,060	0	In addition to \$830 million for federal roads, 100% federal share unless waived by receipt.
	FTA-Public Transit Investment Grants	8,400	8,400	0	Allocated on surface transportation program formula; 100% federal share; \$12 million net.	
	Surface Transportation Supplemental Grants	5,500	5,500	0	Solely competitive.	
Housing	Intercity Rail/Amtrak	3,100	3,100	0	Intercity passenger rail and high-speed rail corridor grants 100% federal.	
	Public Housing Capital Fund	5,000	5,000	0	\$3 billion allocated by formula; \$2 billion competitive; PHAs have 1 year to obligate; 60% spent within 2 years of obligation, 100% within 3 years; 1% set-aside.	
	Neighborhood Stabilization	2,250	0	-2,250	Competitive grants to states and local govts, purposes outlined in Housing and Economic Recovery Act of 2008; awarded within 1 year of enactment; 75% funds to be spent in 2 years, 100% spent within 3 years; available until 9/30/11; 1.5% set-aside.	
	NOMR	2,250	2,250	0	Based on FY 2008 allocations with minimum grant level; 1 year to obligate; 60% spent within 2 years of obligation, 100% within 3 years; available until 9/30/11; 20% may be used for green investments; 1% set-aside.	
	Homelessness Prevention Fund	1,500	1,500	0	Distributed through Emergency Shelter Grants with minimum grant level; 75% funds to be spent in 2 years, 100% spent within 3 years; 1.5% set-aside.	
State Fiscal Stabilization Fund	Section 202, 3 Energy Retrofit	1,500	1,250	-2,250	Grants to states, localities and tribes; 1% set-aside.	
	Lead Hazard Reduction	100	100	0		
	State Fiscal Stabilization Fund	79,000	79,000	0	5% reserved for outlying areas; \$7.5 billion for incentive grants; \$25 million admin.; remainder for education only.	
Total		\$326,873	\$284,660	-\$42,213		

Consolidated Revised Edition as of 12/23/08

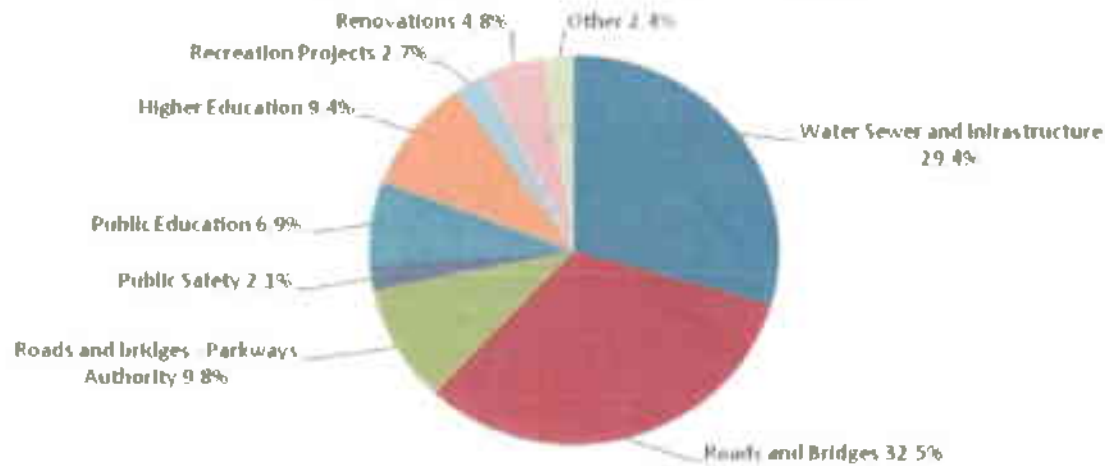
Capital Improvement Projects

(Ready to Start 180 days from approval)

by category

	Page #	Construction Ready Estimated Total Cost	
1 Water Sewer and Infrastructure	1-3	673,945,213	29.4%
2 Roads and Bridges	4-5	745,740,400	32.5%
3 Roads and bridges - Parkways Authority	6	224,296,162	9.8%
4 Public Safety	7	48,949,246	2.1%
5 Public Education	8	158,033,361	6.9%
6 Higher Education	9	215,531,166	9.4%
7 Recreation Projects	10	61,400,000	2.7%
8 Renovations	11-12	111,094,246	4.8%
9 Other	13	54,614,000	2.4%
Grand Total		2,293,603,794	

Capital Improvements by category



Capital Improvements Project (Ready to Start 180 days from approval)

Description of Project	Total Cost of Project
Water Sewer and Infrastructure	
Broadband expansion to schools, libraries, courthouses and state agencies	40,000,000
Upper Deckers Creek Channel Sediment Removal (Preston County)	500,000
Coalwood Floodplain Restoration Phase II (McDowell County)	110,000
Bud Streambank Stabilization (Wyoming County)	150,000
Snake Run Stream Restoration Project (Greenbrier County)	150,000
Conway Lake Restoration Project (Tyler County)	300,000
Waterline Extension for Micaiah Ridge, Itmann in Wyoming Co.	12,487,823
Waterline Extension for Sanderson, Dutch Ridge in Kanawha Co.	2,749,000
Waterline Extension for Miller Mountain in Webster Co.	2,960,000
Waterline Extension for Dille, Widen in Clay, Braxton Cos.	5,071,689
Waterline Extension for McMillion Ck, Muddlety Phase IIA in Nicholas Co.	6,252,022
Waterline Extension for Town of Terra Alta in Preston Co.	3,280,000
Waterline Extension for Brushy Fork, Spawlick, Arnolds Run in Barbour Co.	2,389,000
Waterline Extension for Danese in Fayette Co.	10,489,647
Waterline Extension for Dingess in Mingo Co.	8,770,000
Elk Valley PSD (Phase II)	9,138,190
Greater St. Albans PSD (Phase III)	8,704,000
Wayne, Town of	3,353,907
New Haven PSD/Fayette Co Comm (PHIIa)	1,424,260
Wayne, Town of	12,762,772
Chelyan PSD	5,176,000
Greater Harrison County PSD	8,044,500
Grant, Town of	3,110,000
Kanawha County Commission /RDA/ (P2)	2,670,000
Preston County Sewer PSD	2,148,000
Logan County PSD (Dollie & Leet)	3,300,000
Gilbert, Town of	5,225,000
Crum PSD	8,193,000
Fountain PSD	3,975,000
Midland PSD	3,500,000
LavaLette PSD	5,129,000
Biron River PSD	2,875,000
Shinnston, City of (Phase1)	4,470,000
Reedsville, Town of	2,829,000
Enlarged Hepzibah PSD (ph IIA)	3,400,000
Jane Lew PSD (Phase II)	6,887,000
Terra Alta, Town of	3,120,000
Marlinton, Town of	676,120
South Charleston Sanitary Board	5,800,000
Nutter Fort, Town of	2,950,000
Sugar Creek PSD	1,027,000
Sugar Creek PSD	3,080,000
Sugar Creek PSD	1,550,000
Oakvale Road PSD	6,687,000
Kanawha County Commission / RDA	1,684,000
Lincoln PSD	3,600,000
Frankfort PSD (Wiley Ford)	4,560,000
Buffalo Creek PSD	1,271,000
New Cumberland, City of	784,000
Hardy County PSD (Phase II)	975,000
Preston County PSD #4	4,165,000
Mason County PSD (Phase II)	4,038,000
North Beckley PSD (Phase IIIa)	4,831,042
Clarksburg Sanitary Board, City of	2,000,000
Scotts Run PSD	5,987,185

Description of Project	Total Cost of Project
Central Hampshire PSD	1,883,000
Beverly, Town of	1,749,000
Barrackville, Town of	5,743,960
Preston County Sewer PSD	1,410,000
Kingmill Valley PSD	2,625,860
Nitro Regional WW Utility, City of	2,260,000
Worthington, Town of	1,850,000
Pea Ridge PSD	9,120,000
Shepherdstown, Corporation of	9,127,000
Buffalo Creek PSD	5,262,000
Williamstown, City of	1,320,000
Beckley Sanitary Board	8,972,900
Belle Sanitary Board, Town of	2,368,700
Southwestern Water PSD	10,100,000
Central Barbour PSD	1,815,000
Pineville, Town of	4,440,900
Belington, City (Sewer)	2,985,000
Big Bend Public Service District	2,327,000
Elkins City (Water)	28,085,000
Grantsville, Town (Water)	1,000,760
Huttonsville Public Service District (Phase 1 Sewer)	1,900,000
Phillipi, City (Water)	7,731,400
Red Sulphur PSD (W)	2,000,000
McDowell County PSD (Jolo Phase III) (AML)	1,788,250
Sistersville, City (Water)	286,000
War, City (Phase V Water)	1,088,000
Central Boaz PSD (Water)	1,400,000
Hughes River Water Board (Water)	128,000
Mingo County Redevelopment Authority (Water)	335,000
Mingo County PSD (Dingess Water)	2,617,500
Putnam PSD	3,567,900
Eastern Wyoming PSD	8,660,000
Blue Ck. Watershed	2,400,000
Webster Co. Commission	2,500,000
City of Summersville	2,916,270
Century/Volga PSD	2,389,000
Danese PSD - RL 80, 41, 10	8,500,000
Nettie-Leivasy PSD	13,000,000
Town of Davy	6,500,000
McDowell County PSD	5,100,000
Town of Tunnelton	879,428
Masontown (Taylor Ridge Rd)	431,000
Masontown (Rohr Road to Bull Run)	710,000
Masontown (N. Union Community Rd.)	1,154,000
Summit Park PSD	1,500,000
Windmill Gap	760,000
Upper Kanawha Valley PSD	920,480
Blue Well PSD	1,337,228
Hodgesville	215,854
McDowell Co. PSD	3,027,000
Boone County PSD	889,080
Community of Douglas	365,000
Rivesville	3,377,383
Mineral County	5,800,000
Mullens	7,370,000
Parsons	2,700,000
Marion County	5,457,670
Hinton Brooks/Barksdale Sewer	3,544,000
Jim Ridge Phase II	1,908,000
Jane Lew	6,887,000
Prenter Road/Route 6 Phase IA Water	2,237,500
Fayette - New Haven PSD Stringtown Road Water	2,226,000
Grant County	500,000
Brooke County	9,822,000

Description of Project	Total Cost of Project
Upper Little Harts Creek Waterline Extension	1,730,000
Matswan Thacker Branch Waterline Extension	1,750,000
Spanishburg Water	1,898,000
Greenville-Wikel Water	3,200,000
Gauley River PSD Rt 39 Summersville Water	4,860,000
Kline-Mozar Water Extension	2,943,000
Pennsboro	2,583,900
Norton-Harding-Jimtown PSD Norton/Coalton Phase II	5,413,000
Summersville	6,888,000
US 52/Mill Creek Waterline Extension	8,193,000
Barbour County	2,000,000
Queen Shoals PSD Water System	950,000
Delbarton Wastewater Collection & Treatment	7,900,000
Handley	630,200
Kanawha	2,647,000
Meadow Bridge	937,000
PawPaw	2,000,000
Tucker County	949,500
Claywood Park PSD Newark Area	2,275,000
Claywood Park PSD Water Extension	5,330,000
Albright Sewer Improvements	1,600,000
Alderson Phase I Water Distribution	1,600,000
Bramwell Pinnacle Mountain Water	1,500,000
Camden-on-Gauley	2,439,500
Cameron Phase II Water Line	1,500,000
Fairview Water System Upgrade & Extensions	4,438,000
Flemington	4,700,000
Grantsville	2,200,300
Hambleton	500,000
Cottageville Sewer Extension	2,600,000
Keyser Limestone Run/Hollywood Road	9,092,000
Northwest Lewis County Water Project	3,600,000
Madison	1,500,000
Capels-Upper Shannon Branch Sewer	1,833,000
Monongalia	5,787,185
Pax Town Creek/Horse Creek Water Extension	900,000
Poca Wastewater System Improvements	1,400,000
Reedy Water System	130,000
Pleasant Hill PSD Beatrice Water Extension	1,485,000
Sutton North Hill Road Storm Sewer	500,000
Hammick PSD Plackman Flats Phase II Sewer	9,495,000
Union Water System Upgrade	745,000
Diana Phase I Water Extension	2,500,000
West Hamlin Water Plant Upgrade	1,408,000
Western Wyoming Water Phase 1A	6,050,000
Gilbert-Horsepart Creek and Gilbert Creek	4,843,000
Marsh Fork Water Project	3,180,000
Page-Kincaid PSD Robson Wastewater Extension	5,250,000
Bergoo-Curtin Sewer	2,885,891
King Coal Highway Water & Sewer Service	5,415,000
Otto Road & Vandale Water Extension	2,750,000
Clay County Phase II Waterline Extension	2,600,000
Big Otter/Nebo Waterline Extension	1,000,000
Clay Roane PSD Interconnection with Town of Clay	2,500,000
Construct a new operations facility for Bluefield Area Transit. Public Transit	3,760,000
Jim Ridge Phase II	4,000,000
Jim Ridge Phase III	4,000,000
Total Water Sewer and Infrastructure	673,948,213

Description of Project	Total Cost of Project
Roads and Bridges	
Coalfields Expressway X324-52-19.14(04)	18,359,600
Coalfields Expressway X324-52-19.14(05)	27,880,800
US Route 35	39,500,000
East Beckly bypass U341-29-14.47 (03)	3,000,000
East Beckly bypass U341-19-14.47 (04)	27,000,000
Corridor H	89,800,000
Walker	12,000,000
West Virginia Route 10	56,300,000
West Virginia Route 9	102,800,000
Mon/Fayette Xway	46,000,000
Fairmont Connector	22,700,000
Moatsville Arch bridge	2,100,000
Romney Bridge	10,400,000
Twelvepole Creek Bridge	16,600,000
North Martinsburg Falling Run	16,000,000
Table Station Connector	10,400,000
Twelvepole Creek Slide	1,100,000
Sundowner Bridge	1,400,000
Belton Bridge	2,300,000
King Coal Highway	33,800,000
Parkersburg St. Marys WV Route 2	9,200,000
Red Jacket to Mount View	34,000,000
LMC	6,300,000
Davis Creek Bridge	700,000
Indian Ridge Industrial Access	2,600,000
Sissonville Drive	4,300,000
US Route 50 Climbing Lane	2,800,000
Ellifritz Run Branch	800,000
Dickson Dam	1,900,000
Shepherd Branch	1,700,000
Fairmont Avenue	1,600,000
Relocated 39+1	2,000,000
Third Street and Court Avenue	400,000
Bigle Avenue Interstate Connection	20,000,000
Winfield Toll Bridge	20,000,000
Stalnaker Run	1,300,000
Mater Arch Branch	1,100,000
Spruce Run Branch	900,000
Dry Branch	800,000
Holly Grove	1,200,000
Middle Fork	1,000,000
Jarrells	500,000
Tortys Creek	500,000
Queen Shoals	400,000
Aries Slab	500,000
Paxton Lower Five Mile	500,000
Spring Fork	800,000
Edens Fork Pony Truss	800,000
Guthrie Arch	600,000
Granny Creek	500,000
Mud Fork	500,000
Lower Run Arch	600,000
Dave's Auto Arch	600,000
Whiting Electric Arch	600,000
McKown Creek Arch	600,000
Sayre Farm	500,000
Stone Lick Creek	1,500,000
Pine Creek	500,000
Little Track Fork	600,000
Barry Run	600,000
W. Robey Arch	1,100,000

Description of Project	Total Cost of Project
Long Run	800,000
Anmoore Precast	800,000
Irontown Girder	800,000
Fourpole Creek Bridge	500,000
Skygusty Bridge	800,000
Berwind Loop Bridge	500,000
Townhall Bridge	400,000
South Roselawn Street	400,000
House Creek Bridge # 5	400,000
Linkous Park Bridge	600,000
Clatville Channel Beam	400,000
Blake Bridge	400,000
Wyco Hollow Arch	400,000
Tug Neck	400,000
Peters Creek	500,000
Reese Bridge	600,000
Indian Bridge	800,000
Sinking Creek	600,000
Gum Street	600,000
Scrabble Creek	600,000
Meadow River	500,000
Sewell Creek	500,000
Sunlight	500,000
Greenbrier	600,000
White Buck	500,000
Spring Creek	600,000
Bemis Truss	1,800,000
Deer Run Park	500,000
Lower Mingo	1,100,000
Rough Run	900,000
Howell Truss	14,400,000
Patrick Creek	800,000
Huntington Steel Bridge	500,000
Turkey Creek	1,000,000
Ashtford Nells Slide	200,000
Fairplain Interstate connector	3,000,000
Wheeling Tunnel	3,000,000
Stonecoal Creek Branch	600,000
County Route 14 overpass	600,000
Wertz Avenue Bridge	200,000
Westover Bridge	1,100,000
Miller Road	400,000
Cedar Crest bridge	200,000
County Route 28 bridge	200,000
Buck Run Road	300,000
Wolf Run Road	200,000
County Route 25 OP	300,000
Interstate 77 / US 50 Interstate connector	400,000
Worthington Creek	500,000
WV Route 31 OP	200,000
Williamstown interstate connector	200,000
Laurel Run bridge	800,000
Little Kanawha River bridge	1,800,000
Oil Creek Branch	800,000
Wallback interstate connector	800,000
RWIS	900,000
Signal US Route 119	300,000
Signal US Route 18	600,000
Fort Hill bridge and ramps	12,000,000
Cheat Lake bridge	5,000,000
Striping of roads	10,100,000
Signal WV Route 20	200,000
Signal WV Route 2	300,000
Total Roads and Bridges	745,740,400

Description of Project	Total Cost of Project
Roads and Bridges - Parkways Authority	
NB. 43.7 - 47.9 11.7 Lane Miles - Pavement Rehab	10,342,466
SB. 46.8 - 42.0 12.4 Lane Miles - Pavement Rehab	10,114,104
SB 42.0 - 40.7 3.3 Lane Miles - Pavement Rehab	4,464,806
SB 35.0 - 30.2 13.2 Lane Miles - Pavement Rehab	16,219,660
SB 59.6 - 66.5 8.0 Lane Miles - Pavement Rehab	4,070,169
NB 66.0 - 76.0 23.3 Lane Miles - Pavement Rehab	19,349,523
SB 73.8 - 66.0 16.7 Lane Miles - Pavement Rehab	16,019,114
NB 35.2 - 40.7 13.7 Lane Miles - Pavement Rehab	10,686,809
NB 82.4 - 89.4 16 Lane Miles - Pavement Rehab	16,946,367
SB 89.4 - 82.4 15.7 Lane Miles - Pavement Rehab	16,631,681
NB 89.4 - 95. 11.9 Lane Miles - Pavement Rehab	15,131,116
SB 95. - 89.4 13.6 Lane Miles - Pavement Rehab	16,121,308
Bluestone Bridge Painting	1,000,000
Yeager Bridge Painting	1,000,000
Beckley Widening Project	70,000,000
Total Roads and Bridges - Parkways Authority	224,298,162

Description of Project	Total Cost of Project
Public Safety	
Huttonsville Correctional Center work camp	1,500,000
Huttonsville Correctional Center sewage upgrade	313,248
Anthony Correctional Center water project	450,000
Mt. Olive Correctional Center	8,000,000
Martinsburg Correctional Center expansion	600,000
Martinsburg Correctional Center electric locking system	321,000
Coonskin Armory HVAC/Electrical Upgrade	180,000
Gassaway Armory Upgrade	3,300,000
Multi-Building Roof Replace, Camp Dawson	180,000
Family Life Center Additional Building	1,600,000
Eastern Star House Upgrade and Shelter Relocation	450,000
Asbestos abatement various locations	200,000
Armory Roof Replacement Various Locations	1,100,000
Glen Jean Acoustic Upgrade	110,000
Taxiway Extension - Martinsburg	19,500,000
Avionic Shop Upgrade - Martinsburg	5,000,000
Roanoke tower construction microwave and IRP site	728,000
Mingo tower construction microwave and IRO site	725,000
Grenbrier Mountain tower construction microwave and IRP site	725,000
Gauley Mountain tower construction microwave and IRP site	725,000
Pennsboro tower construction microwave and IRP site	725,000
Other infrastructure sites to make fully functional (12 sites)	2,640,000
Total Public Safety	48,949,248

Description of Project	Total Cost of Project
Public Education	
WV School for the Deaf & Blind Campus Wide Pavement	381,731
Two new elevators - Elementary Deaf Dorm, Physical Education Building	249,000
Additions 7 Renovations at three elementary schools	20,100,000
Greenbrier West High School	16,743,955
Harts PK-8 School	7,343,620
New Middle School	9,248,844
New High School	20,685,311
New High School	53,124,000
New High School	31,300,000
Total Public Education	158,033,361

Description of Project	Total Cost of Project
Higher Education	
Bluefield State College – Upgraded Roadway and Parking Lot	7,000,000
Bluefield State College – Window Replacements	400,000
Bluefield State College – Basic Science Cyber Café	800,000
Concord University -- Addition-Science Building for Math & Science Departments-E&G Building	3,000,000
Concord University -- Replacement of Physical Plant Building-E&G Building	209,540
Concord University – Instructional classroom facility-University Point Building-E&G Portion	2,981,813
Concord University – Auxiliary facilities-University Point Building-Auxiliary Portion	2,981,813
Eastern West Virginia Community and Technical College – Access road to new facility which will be completed	1,850,000
Fairmont State University & Pierpont Community & Technical College - Infrastructure - Retaining Walls	128,000
Fairmont State University & Pierpont Community & Technical College - College Apartments Roof Renewal	150,000
Glenville State College - Student Residence Hall	25,000,000
Glenville State College - Health, Wellness, Education and Convocation Center	30,000,000
Glenville State College - New Physical Plant Facility	2,500,000
Shepherd University – Visual Arts Project Phase 2 and Demolish Sara Cree Hall	14,372,000
Shepherd University – Visual Arts Project Phase 3	31,000,000
Shepherd University – New Maintenance Facility and demolish old barns	8,001,000
Shepherd University – Pedestrian Bridge across Route 480	1,400,000
Shepherd University – Parking Structure - Auxiliary Enterprises	10,000,000
West Virginia State University – Sewer Lines Campus Wide	1,000,000
West Virginia State University – Water Lines Replacement Campus Wide	1,000,000
West Virginia State University – Campus Information Center	1,000,000
West Virginia State University – Telecommunications Network and Infrastructure - Campus Wide	1,000,000
West Virginia University - White Hall complete renovation for Physics	30,000,000
West Virginia University - Child Learning Center and Nursery School	8,000,000
West Virginia University (HSC) - Research Laboratories	3,200,000
West Virginia University (HSC) - Simulation Center, Phase II	12,000,000
West Virginia University (HSC) - Biomedical Research Facility, 1st Floor Build out	8,000,000
West Virginia University (HSC) - Biomedical Research Facility, Ground Floor Build out	6,500,000
West Virginia University Institute of Technology - Coed Building demolition	1,000,000
West Virginia University Institute of Technology CTC - Diesel Garage	2,500,000
Total Higher Education	216,631,188

Description of Project

**Total Cost
of Project**

Recreation Projects

Fairmont State University & Pierpont Community & Technical College - Infrastructure - Roadway to Tennis Courts & Tennis Courts Resurface	250,000
West Liberty State College - New Softball Complex	350,000
West Liberty State College - New Lights, Stadium and Pressbox for Athletic/ Recreation Center	8,000,000
West Virginia State University - Fleming Hall Renovation and Addition	25,000,000
West Virginia State University - Lakin Field renovation (seating locker room, restrooms, etc)	600,000
West Virginia University - Women's Soccer practice field	3,200,000
West Virginia University - Basketball Practice Facility	28,000,000
Total Recreation Projects	61,400,000

Description of Project	Total Cost of Project
Renovations	
Bluefield State College -- Basic Science HVAC Upgrade	850,000
Bluefield State College - Repainting Campuses Buildings	575,000
Concord University -- Renovations Carter Hall-E&G Building	2,800,000
Concord University -- Window Replacement-Library-E&G Building	600,000
Concord University -- Renovations Fine Arts Building-E&G Building	3,000,000
Concord University -- Renovations to HVAC, electrical, and plumbing for E&G buildings	3,133,689
Concord University -- President's House-E&G Building	348,008
Concord University -- Replacement Marsh Hall Roof for Energy Improvement-E&G Building	240,000
Concord University -- Renovations Student Center Building-Auxiliary Building	2,000,000
Concord University -- Renovations to HVAC, electrical, and plumbing for Auxiliary buildings	1,343,009
Concord University -- Window replacement-Wilson & Woodall Hall	340,000
Fairmont State University & Pierpont Community & Technical College - Folkife Center Renovations	1,750,000
Fairmont State University & Pierpont Community & Technical College - Robert C Byrd Aerospace Center - Fire Suppression	900,000
Fairmont State University & Pierpont Community & Technical College - Robert C Byrd Aerospace Center - Renovations	250,000
Fairmont State University & Pierpont Community & Technical College - Feaster Center Steps & Elevator & HVAC	2,000,000
Fairmont State University & Pierpont Community & Technical College - Hardway Hall Restoration	400,000
Fairmont State University & Pierpont Community & Technical College - IT Emergency Back-up	400,000
Fairmont State University & Pierpont Community & Technical College - Hunt Haight Hall Glass Front	250,000
Fairmont State University & Pierpont Community & Technical College - Residence Halls (Morrow, Pence, Prichard & College Apartments) - Life Safety Fire Suppression (Auxiliaries)	2,100,000
Fairmont State University & Pierpont Community & Technical College - College Apartments Carpet Upgrades (Auxiliaries)	200,000
Glenville State College - Expansion of Dining Area - Mollohan Campus Community Center	250,000
Glenville State College - Renovation of Corrections Training Facility	2,500,000
Marshall University-Corbly Hall Chiller Replacement	325,000
Marshall University- Twin Towers Complex Renovation/Upgrade (Auxiliary)	1,700,000
Marshall University-Busidrk Hall/Renovation/Upgrade (Auxiliary)	250,000
Marshall University- Holderby Hall Renovation/Upgrade (Auxiliary)	3,400,000
Marshall University-Student Ctr. HVAC Replacement (Auxiliary)	1,285,000
New River Community and Technical College -- Reroofing at Nicholas County; project is on AR 9 report with revised estimate of \$450,000 -- flat roof should be ready to go if funding is located	450,000
New River Community and Technical College -- Reroofing at Greenbrier Valley Student Activities Building; project included on AR9 report as part of overall renovation but roof was separately estimated a few years ago as a stand alone project for \$435,000	435,000
New River Community and Technical College -- Concrete floor replacement of Greenbrier Hall; projected included on AR9 report	200,000
New River Community and Technical College -- IVN Distance Learning network providing the electronic backbone which will connect all the New River campuses - This project is being bid at this point and includes partial funding of approximately \$100,000 from a federal Title III grant.	800,000
Shepherd University -- Classroom HVAC replacement Frank Center	700,000
Shepherd University -- Classroom HVAC replacement Snyder Hall	700,000
Shepherd University -- Energy Saving Windows White Hall	300,000
Shepherd University -- Energy Saving Windows Snyder Hall	400,000
Shepherd University -- Energy Saving Windows Stutzman Slonaker	300,000
Shepherd University -- Energy Saving Windows Ikenberry Hall	250,000
Shepherd University -- Snyder Annex Renovation	600,000
West Liberty State College -- Upgrade of Main Hall HVAC System	2,500,000
West Liberty State College -- New Roof on Blatnik Hall	350,000
West Liberty State College -- New Elevators for Beta, Krise, and Hughes Dorms	375,000
West Liberty State College -- New Bathrooms in Rogers Hall	480,000
West Virginia Northern Community College - Completion of Education Center - Classroom Remediation *	7,004,612
West Virginia Northern Community College - B&O Boiler Replacement **	118,000
West Virginia Northern Community College - Weirton RTU's ***	127,000
West Virginia Northern Community College - New Martinsville Roof & RTU's replacement	338,000
West Virginia Northern Community College - B&O Elevators Replacement	225,000
West Virginia Northern Community College - EC Front Plaza	250,000

Description of Project	Total Cost of Project
West Virginia School of Osteopathic Medicine – Phase II HVAC Replacement in Building B (Main Building) and Building C (Old Clinic) This is a deferred maintenance project that was included in our 2010 Capital budget Request and was on the HEPC agenda last year before it was pulled to use that money for the construction of our Center for Clinical Evaluation.	3,500,000
West Virginia State University – Wallace Hall Renovation	2,400,000
West Virginia State University – Davis Fine Arts Renovation	2,250,000
West Virginia State University – Hill Hall Renovations	500,000
West Virginia State University – Ferguson Lincoln Addition and Renovation	3,200,000
West Virginia State University – Campus Wide Classroom Lighting	300,000
West Virginia State University – Campus Wide Restroom Upgrade	500,000
West Virginia State University – Ferrell Hall Renovations	2,000,000
West Virginia State University – HVAC Upgrade - Hill Hall Faculty Office Building	300,000
West Virginia State University – Sprinkler System Required by Code - Sullivan Hall East and West	400,000
West Virginia State University – Elevator Replacement - Sullivan Hall East and West	700,000
West Virginia State University – Elevator - Hill Hall	200,000
West Virginia State University – Replace Chillers - Ferrell Hall	200,000
West Virginia State University – Replace Water Lines and Headers - Campus Wide	500,000
West Virginia State University – Sullivan Hall Renovation (windows, HVAC, roof, etc)	1,300,000
West Virginia State University – Gora Hall Renovations	3,000,000
West Virginia University - Dardisman renovation	7,900,000
West Virginia University - Downtown Zone Shop for facilities support	2,100,000
West Virginia University - Summit Dining renovation and expansion to support new dormitory	3,600,000
West Virginia University - Restoration of Woodburn Hall façade and roof	750,000
WVU - Campus Roof Safety	400,000
Potomac State College of West Virginia University - Administration Building steps and porch replacement	130,000
Potomac State College of West Virginia University - Academy Hall boiler replacement	190,000
Potomac State College of West Virginia University - Library Façade Upgrade with Interior Modification/Façade	841,508
Site Improvements/Library Parking & Walkway Site Improvements	
West Virginia University - College Park Demolition	900,000
West Virginia University (HSC) - Upgrade Cooling Towers - HSC North	750,000
West Virginia University (HSC) - Replace Morrish system Health Sciences Addition	1,000,000
West Virginia University (HSC) - Emergency Power Upgrade	250,000
West Virginia University (HSC) - Charleston Fire and Life Safety Upgrades	150,000
West Virginia University (HSC) - Classroom Renovations	1,070,000
West Virginia University Institute of Technology - COBE and Vining Library Humidity Control	250,000
West Virginia University Institute of Technology - COBE water remediation	300,000
West Virginia University Institute of Technology CTC - Davis Hall Roof	280,000
West Virginia University Institute of Technology CTC - Davis Hall Transformer Replacement	140,000
Philip Barbour HS - Facility Connectors	395,816
Maysville EL - HVAC, Window, Ceiling Replacements	953,731
Frankford EL - HVAC, DDC and Electrical Replacements and Upgrades	1,019,130
Career Center - HVAC and Control Replacement	743,681
Ripley HS - Science Lab and Lecture Classrooms	834,050
Flinn EL - MP Room Addition and Entry and Sprinkler Renovations	1,010,000
Hamlin PreK/Central Office - Sprinkler, FA, lighting, HVAC Units	149,488
Fire Code Corrections at Six Schools	213,000
Center McMechen EL - HVAC Replacement	768,151
Roosevelt EL - HVAC, Electrical, Fire Suppression, Ceiling Tiles	1,283,859
Various Renovations - 10 Schools	610,279
Frankford MS, Keyser Prim/MS & Career Center - Cooling Tower Renovation.	417,856
Burch HS - Enclosed Connector	197,118
Mountainview EL - Replacement of Fresh Air Units	247,825
Berkeley Springs HS - HVAC and Lighting - Arts & Humanities Bldg.	361,368
Air-Conditioning - Four Schools	574,780
Preston HS - Interior Renovations for Moisture Conditions	381,910
Woodrow Wilson HS - HVAC & Electrical Upgrades in Gymnasium	1,887,400
Homestead EL - Plumbing and Electrical Upgrades	1,487,050
Spencer MS - Fire Code Corrections & Installation of Grease Trap	1,016,491
Hinton Area EL - Elevator Installation	905,872
Anna Jarvis EL - HVAC, DDC, New Chiller, New Boilers & Exhaust Fans	1,000,000
Buckhannon Academy EL - HVAC Renovations	999,733
Long Drain - HVAC Renovations	829,025
Wirt Co. MS - New Entrance and Restrooms at Rear of Facility	640,833
Total Renovation Projects	111,094,248

Description of Project	Total Cost of Project
Other	
East & West wing exterior restoration	5,000,000
Building 5 10th floor renovation	4,400,000
Building 1 restroom renovation	3,000,000
Building 1 electrical upgrade	2,500,000
Buildings 5, 6, 7 courtyard electrical expansion	1,300,000
Building 4 window replacement	1,200,000
Buildings 5, 6, 7 roof replacement	800,000
Berkeley Springs Bathhouse renovation	2,250,000
Blackwater Lodge Roof	120,000
Cacapon Lodge Roof	120,000
Canaan Golf Drainage	450,000
Cass Company Store Boiler	234,000
Tomlinson Run pool renovation	890,000
Cass clubhouse renovation	350,000
Chief Logan recreation center construction	2,000,000
Twin Falls Lodge Expansion	4,000,000
Bluestone Pool Bathhouse replacement	300,000
In house systemwide picnic table fabrication and replacement program	200,000
Nitro Public Boat Launching Site - Construction of a 50-vehicle parking lot, boat ramp, courtesy dock and associated facilities for recreational boating and fishing access in the City of Nitro, WV	500,000
Watters Smith pool renovation	450,000
US Fish & Wildlife Conservation Stimulus-temporary job creation to address substantial backlog of unmet maintenance need in wildlife management areas, fish hatcheries, access sites, shooting ranges, etc.	6,000,000
Veterans Cemetery	14,700,000
FEMA DR 1698	1,250,000
FEMA DR 1769	1,600,000
PDM -09	900,000
Total Other	54,814,000
 Grand Total	 2,293,603,794

STATE OF WEST VIRGINIA RETIREMENT PLANS

As of
7/1/2008

	Public Safety (Plan A)	Public Safety (Plan B)	Judges' System (JRS)	Public Employees (PERS)	County Sheriff's (CSRS)	Teachers' Defined Benefit (TRB)	Emergency Medical Services (EMSS)	Transportation Commission (TRC)
Year of Plan	1935	1994	1949	1981	1998	1941	2008	1991
Plan Members	173	455	71	35,491	913	35,219	475	5,155
Active	665	12	49	20,912	227	28,522	0	0
Retired	No	No	Yes	Yes	Yes	Yes	Yes	Yes
At-Risk	No	No	No	Yes	No	Yes	No	No
Contribution	Per Actuary (NC+UAAL) above 15% Statutory (122.3% FY 2010)	12% of Base Pay	Per Actuary (NC+UAAL) 34.9% pay FY 2010	10.50%	10.50% plus Fee Deposits (1.40% fees FY 2009)	Per Actuary (NC+UAAL) 28.2% TRS pay FY 2010	10.50%	7.50%
Investment	9.00%	12% of Base Pay	10.50%	4.50%	8.50%	6.00%	8.50%	4.50%
Projected Funding (FY 2011)	\$88,441,000	\$9,024,000	(\$2,221,000)	\$737,988,000	\$29,886,000	\$4,134,695,000	\$5,532,000	N/A
Funding	83.9%	80.9%	102.3%	84.2%	75.0%	50.0%	73.9%	N/A
Normal Retirement	25 Years of Service or Age 50 and 20 Years or Age 62 and 10 Years	Age 50 and 25 Years Service or Age 52 and 20 Years or Age 62 and 10 Years	24 Years of Service or Age 65 and 16 Years	Age 60 and 5 Years of Service or Age 55 and Age plus Service equals 80	Age 50 with 20 Years of Service or Age 60 with 5 Years	Age 60 and 5 Years of Service or Age 55 and 30 Years or Any Age and 35 Years	Age 50 and Age plus Service equals 70 or Age 60 and 10 Years or Age 62 and 5 Years	Age 55 and 12 Years of Service for Full Benefits
Withdrawal Benefits	5.5% of Total Salary During Maximum of 25 Years of Service	(2.75% of FAS) x (Years of Service) FAS=(5 highest out of last 10 years of earnings)	Judges on bench on/or before 7-1-05 75% of Current Salary of Sitting Judges Judges on bench after 7-1-05 75% of FAS FAS=3 highest yrs	(2.0% of FAS) x (Years of Service) FAS=(3 highest consecutive out of last 10 years of earnings)	(2.25% of FAS) x (Years of Service) FAS=(5 highest consecutive plan yrs out of last 10 years of earnings)	(2.0% of FAS) x (Years of Service) FAS=(5 highest out of last 15 years of earnings)	2.6% of High 5 Year Average Pay times first 20 Years of Service; plus 2.0% for Years 21 through 25; plus 1.0% for Years 26 through 30	Vested Funds in Both EE & ER Contributions Vesting: 1/3 at 6 yrs 2/3 at 9 yrs 100% at 12 yrs
OLA	Yes	Yes	No	No	No	No	No	No
Credit for Military Service	Yes - Credit for up to 5 Years after 20 Years of Service	Yes - Credit for up to 5 Years after 20 Years of Service	Yes - Credit for up to 5 Years	Yes - Credit for up to 5 Years	Yes - Credit for up to 5 Years	Yes - Maximum of 10 Years Credit not to exceed 25% Service	Yes - Credit for up to 5 Years	Service under USERRA Only
Subsidy Benefits	No minimum service	No minimum service	Yes - After 10 Years of Service or Age 65 with 6 years	Yes - After 10 Yrs. of Svc. for Non- Work Related Disability	No minimum service	Yes - After 10 Years of WV Svc.(5 yrs. for Student Violence)	No minimum service	Yes - Immediate Payment of Total Account Balance
Interest Rate Assumptions	7.5%	7.5%	7.9%	7.5%	7.5%	7.5%	7.5%	N/A
Projected Reconciliation	by 6/30/2025	by 6/30/2030	N/A	by 6/30/2035	by 6/30/2029	by 6/30/2034	by 6/30/2038	N/A

RETIREMENT PLANS - RUNNING STATISTICS

PLAN NAME	PLAN YEAR	ACTIVES	RETIRES	VESTED TERM	UAL (in millions)	% FUNDING*	NET VALUE ASSETS (in millions)	
PERSA	7/1/2004	35,868	18,928	3,022	\$774.54	80.0%	\$3,095.66	
	7/1/2005	36,230	19,397	3,112	\$669.73	83.6%	\$3,404.65	
	7/1/2006	35,689	20,026	3,551	\$564.51	86.8%	\$3,700.19	
	7/1/2007	35,873	20,514	3,658	\$132.76	97.0%	\$4,293.30	
	7/1/2008	35,491	20,912	3,863	\$737.97	84.2%	\$3,939.06	
	7/1/2004	19,313	26,050	3,829	\$5,013.26	22.2%	\$1,427.48	
	7/1/2005	17,728	26,751	3,521	\$4,990.35	24.6%	\$1,627.36	
	7/1/2006	18,633	27,389	3,397	\$4,703.41	31.6%	\$2,174.46	
PERSB	7/1/2007	19,529	28,040	3,259	\$3,476.72	51.3%	\$3,665.99	
	7/1/2008	35,219	28,522	1,761	\$4,134.70	50.0%	\$4,133.88	
	7/1/2004	237	622	5	\$344.04	25.6%	\$118.08	
	7/1/2005	213	637	7	\$124.04	74.4%	\$361.39	
PUBLIC SAFETY	7/1/2006	204	645	8	\$54.03	89.3%	\$452.79	
	7/1/2007	191	651	7	\$14.38	97.3%	\$513.01	
	7/1/2008	173	662	10	\$88.44	83.9%	\$459.18	
	7/1/2004	380	6	0	\$2.22	90.0%	\$19.88	
STATE POLICE	7/1/2005	401	6	1	\$0.75	97.1%	\$25.30	
	7/1/2006	431	7	7	\$2.81	91.6%	\$30.75	
	7/1/2007	449	8	3	\$0.44	98.9%	\$40.35	
	7/1/2008	455	12	5	\$9.82	80.9%	\$41.56	
MUNICIPAL	7/1/2004	70	58	3	\$22.22	74.1%	\$63.56	
	7/1/2005	70	54	3	\$15.77	82.6%	\$74.76	
	7/1/2006	69	53	3	\$5.89	93.6%	\$85.93	
	7/1/2007	71	53	2	(\$8.11)	108.4%	\$104.13	
DEPUTY SHERIFF	7/1/2008	71	49	2	(\$2.22)	102.3%	\$100.19	
	7/1/2004	811	145	33	\$28.04	68.0%	\$59.72	
	7/1/2005	835	162	35	\$29.17	70.3%	\$68.91	
	7/1/2006	866	183	41	\$25.85	75.1%	\$77.90	
OTHER	7/1/2007	893	197	46	\$15.74	85.7%	\$93.98	
	7/1/2008	913	227	47	\$29.89	75.0%	\$89.85	
	7/1/2006	475	0	3	\$5.53	73.9%	\$15.68	
	7/1/2004	21,517	N/A	N/A	N/A	N/A	\$544.71	
TDC	7/1/2005	20,773	N/A	N/A	N/A	N/A	\$645.73	
	7/1/2006	19,602	N/A	N/A	N/A	N/A	\$748.30	
	7/1/2007	19,164	N/A	N/A	N/A	N/A	\$907.85	
	7/1/2008	5,155	0	N/A	N/A	N/A	\$255.43	
TOTAL							\$5,004.13	\$9,034.83

* Plan assets as a percent of Actuarial Accrued Liabilities

INTERIM COMMITTEE REPORTS — 2008

Agriculture and Agri-business Committee (Senator Edgell and Delegate Stemple, Chairs)
Joint Standing Committee on Finance (Senator Helmick and Delegate White, Chairs)
Forest Management Review Commission (Senator Helmick and Delegate Crosier, Chairs)
Joint Standing Committee on Government Organization (Senator Bowman and Delegate Morgan, Chairs)
Park, Recreation and Natural Resources Subcommittee (Senator Fanning, Chair; Delegate Eldridge and Delegate Wells, Cochairs)
Joint Standing Committee on Pensions and Retirement (Senator Foster and Delegate Spencer, Chairs)
Select Committee B - Veterans' Issues (Senator Hunter and Delegate Fleischauer, Chairs)
Select Committee C - Infrastructure (Senator Unger and Delegate Hrutkay, Chairs)
Select Committee D - Health (Senator Prezioso and Delegate Perdue, Chairs)
Select Committee E - Broadband (Senator Unger and Delegate Browning, Chairs)
Select Committee F - Volunteer Fire Departments (Senator Chafin and Delegate Caputo, Chairs)
Legislative Oversight Commission on Workforce Investment for Economic Development
(Senator McCabe and Delegate Tucker, Chairs)

NOTE: The following reports are attached but were not available for distribution at the meeting:

Legislative Oversight Commission on Health and Human Resources Accountability (Senator Prezioso and Delegate Perdue, Chairs)
Commission on Interstate Cooperation (Senator Jenkins and Delegate Pino, Chairs)



WEST VIRGINIA LEGISLATURE
STATE CAPITOL
CHARLESTON, WEST VIRGINIA 25305

Interim Committee on Agriculture & Agribusiness

Interim Report to the Joint Committee on Government and Finance
February 10, 2009

Senate Members

Senator Edgell, Chair
Senator Bailey
Senator Barnes
Senator Facemyer
Senator Hunter
Senator Love

House Members

Delegate Stemple, Chair
Delegate Talbot, Vice Chair
Delegate Anderson
Delegate Argento
Delegate Evans
Delegate Pethel
Delegate Schoen
Delegate Swartzmiller
Delegate Tabb
Delegate Beach (Nonvoting)
Delegate Miller (Nonvoting)
Delegate Proudfoot (Nonvoting)
Delegate Williams (Nonvoting)

Introduction

During the 2008-2009 interim, the Joint Committee on Government and Finance did not direct a study resolution to the interim Committee on Agriculture and Agribusiness for consideration.

The Committee heard testimony on several topics, including: animals quarantined and destroyed by the Commissioner of Agriculture; the Food, Conservation and Energy Act of 2008; land owner incentives to promote hunting; coyote destruction programs; and the use of switch grass as an alternative energy source.

Site Visitation

During the September interims, a site visitation was conducted at Lambert's Vintage Wine,

where the committee observed the wine making process; the West Virginia State Fire Academy, where the committee toured the new, state of the art, training facilities; and Jackson's Mill, where the committee toured the recently remodeled facilities.

Interim Legislation

The committee recommends the following legislation for passage during the 2009 Regular Session.

A bill that removes outdated provisions from the code regarding the registration of male breeding animals. Enacted in 1923, the provisions are no longer being used.

A bill that removes outdated provisions from the code regarding the regulation of vinegars. The Food and Drug Administration regulates vinegars.

A bill that removes outdated provisions from the code regarding the tree fruit self-improvement act. This initiative was sunset in 1998.

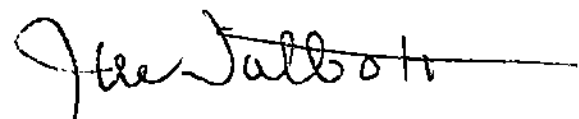
A bill to update language pertaining to indemnity for the death of diseased or infected animals; deleting outdated amounts paid to appraisers and arbitrators for services rendered; and disposing of dead domesticated animals.

Conclusions

The Committee requested additional information from several of the aforementioned presenters and all handouts and information contained in the minutes for the meetings are on file in the office of the Interim Committee on Agriculture & Agribusiness.

Respectfully Submitted,


Senator Larry Edgel, Co-Chair


Delegate Joe Talbot, Co-Vice Chair

H. B.

(By Delegates Talbot, Argento, Pethel, Swartzmiller, Tabb,
Beach, Williams, Anderson, Evans, Schoen and C. Miller)

[Introduced ,2009]

A BILL to repeal §19-22-1, §19-22-2, §19-22-3, §19-22-4, §19-22-5,
§19-22-6 and §19-22-7 of the Code of West Virginia, 1931, as
amended; relating to vinegars.

Be it enacted by the Legislature of West Virginia:

§1. Repeal of article regulating vinegars.

§19-22-1, §19-22-2, §19-22-3, §19-22-4, §19-22-5, §19-22-6 and
§19-22-7 of the code of West Virginia, 1931, as amended, are
repealed.

Note: This bill removes outdated provisions from the code. The
Federal Food and Drug Administration regulates vinegars.

Adopted by the Interim Committee on Agriculture and
Agribusiness.

1 H. B.

2 (By Delegates Talbot, Argento, Pethel, Swartzmiller, Tabb,
3 Beach, Williams, Anderson, Evans, Schoen and C. Miller)

4 [Introduced ,2009]

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11 A BILL to repeal §19-10-1, §19-10-2, §19-10-3, §19-10-4, §19-10-5,
12 §19-10-6, §19-10-7, §19-10-8, §19-10-9, §19-10-10, §19-10-11,
13 §19-10-12 and §19-10-13 of the Code of West Virginia, 1931, as
14 amended; relating to male breeding animals.

15 *Be it enacted by the Legislature of West Virginia:*

16 **§1. Repeal of article regulating male breeding animals.**

17 §19-10-1, §19-10-2, §19-10-3, §19-10-4, §19-10-5, §19-10-6,
18 §19-10-7, §19-10-8, §19-10-9, §19-10-10, §19-10-11, §19-10-12 and
19 §19-10-13 of the code of West Virginia, 1931, as amended, are
20 repealed.

Note: This bill removes outdated provisions from the code.
Enacted in 1923, the provisions are no longer being used.

Adopted by the Interim Committee on Agriculture and
Agribusiness.

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H.B.

(By Delegates Talbot, Argento, Pethtel, Swartzmiller, Tabb,
Beach, Williams, Anderson, Evans, Schoen and C. Miller)

[Introduced ,2009]

A BILL to repeal §19-2G-1, §19-2G-2, §19-2G-3, §19-2G-6, §19-2G-7,
§19-2G-9 and §19-2G-10 of the Code of West Virginia, 1931, as
amended; relating to the tree fruit industry self-improvement
act of 1984.

Be it enacted by the Legislature of West Virginia:

**§1. Repeal of article creating the tree fruit industry self-
improvement act of 1984.**

§19-2G-1, §19-2G-2, §19-2G-3, §19-2G-6, §19-2G-7, §19-2G-9 and
§19-2G-10 of the code of West Virginia, 1931, as amended, are
repealed.

Note: This bill removes outdated provisions from the code.
This initiative was sunset in 1998.

Adopted by the Interim Committee on Agriculture and
Agribusiness.

Senate Bill No. / House Bill No.

(By **)

[Originating in the Committee on _____]

reported February * 2009.]

A BILL to amend and reenact ~~§19-9-28, §19-9-29, §19-9-30, §19-9-31, §19-9-32, §19-9-33, §19-9-34 and §19-9-34a~~ of the Code of West Virginia, 1931, as amended, all relating to updating language pertaining to indemnity ~~in the~~ death of diseased or infected animals; ~~deleting~~ outdated amounts paid to appraisers and arbitrators for services rendered; and disposing of dead domestic animals.

Be it enacted by the Legislature of West Virginia:

That ~~§19-9-28, §19-9-29, §19-9-30, §19-9-31, §19-9-32, §19-9-33, §19-9-34 and §19-9-34a~~ of the Code of West Virginia, 1931, as amended, be amended and reenacted all to read as follows:

ARTICLE 9. DISEASES AMONG DOMESTIC ANIMALS

EUTHANASIA OF DISEASED ANIMALS

1 shall be effective for a period of two years from the date thereof.
2 All such animals, for which indemnity is claimed by the owner,
3 shall be appraised before being ~~slaughtered,~~ euthanized, and the
4 ~~owners~~ owner be indemnified as hereinafter provided: ~~Provided~~
5 ~~however,~~ That any animal infected with rabies may be slaughtered
6 euthanized by the owner or any person authorized to do so without
7 such an agreement and appraisal first being had, and if the disease
8 is caused by the bite of a dog, the animal shall be appraised and
9 compensation therefor obtained as provided in article twenty of
10 this chapter.

11 **§19-9-29. When right of indemnity does not exist.**

12 The right of indemnity shall not exist nor shall payment be
13 made in any of the following cases:

14 (a) For animals owned by the United States, this state, or any
15 county, city, town or village in this state;

16 (b) For animals brought into this state contrary to the
17 provisions of this article, or where the owner of the animals or
18 person claiming compensation has failed to comply with the
19 provisions of ~~the same~~ this article;

20 (c) When the owner or claimant at the time of coming into
21 possession of the animal knew or had reason to believe it to be
22 afflicted with a communicable disease;

23 (d) When the owner has been guilty of negligence or carelessly
24 exposed such animals to a communicable disease; and

1 ~~dollars, for a nonregistered swine twenty five dollars, for a~~
2 ~~registered swine forty dollars, for a nonregistered sheep ten~~
3 ~~dollars, and for a registered sheep twenty five dollars.~~ If the
4 amount of appraisal of any animal, as determined by the appraiser,
5 is not satisfactory to the owner of the animal, a written notice of
6 such this fact setting forth the reason ~~for complaint~~ shall be made
7 at once to the appraiser. The amount of the appraisal shall then
8 be determined by arbitrators, one to be appointed by the appraiser
9 and one by the owner of the animal. If these arbitrators are not
10 able to agree as to the amount of appraisal, a third arbitrator
11 shall be appointed by them, whose decision shall be final. Each
12 ~~arbitrator shall be paid one dollar for each appraisement of five~~
13 ~~or less than five animals, and two dollars if more than five~~
14 ~~animals are appraised.~~ Compensation for the arbitrators appointed
15 by the owner and the appraiser shall be paid by the party
16 appointing such the arbitrator, and in case a third arbitrator is
17 chosen, such the arbitrator shall be paid by the party against whom
18 the decision is made.

19 **\$19-9-31. Certificate of appraisal.**

20 When the animal is to be slaughtered euthanized, the
21 commissioner or his or her agent shall make and deliver to the
22 ~~owner~~ certificate of appraisal which may cover any number of
23 animals belonging to the same owner, showing the age and
24 description of each animal found to be infected or directly

1 disposition made of the carcass, and the price received for the
2 same by amount paid to the veterinarian, which price amount shall
3 be paid to the owner and credited on the amount of appraisal:
4 *Provided*, That in case animals are ~~slaughtered~~ ethanized as having
5 had tuberculous tuberculosis the appraisal certificate shall be
6 credited in the manner provided in section ~~thirty-six~~ six of this
7 article.

8 The slaughter ethanizing may be supervised and certificate
9 thereof may be made by the commissioner or any of his or her agents
10 or any person possessing the authority of an agent or an officer of
11 the United States bureau of ~~animal industry~~ Department of
12 Agriculture. The commissioner may require such that other
13 particulars to requirements be added to either of said the
14 certificates or the affidavits hereinafter required, and may make
15 and enforce such rules and regulations governing the handling,
16 shipping, and ~~slaughter~~ ethanizing of such animals, as may be
17 deemed necessary.

18 **§19-9-33. Payment of indemnity.**

19 All claims for indemnity for animals ~~slaughtered~~ ethanized as
20 tuberculous shall be paid in the manner prescribed in section
21 ~~thirty-seven~~ thirty-seven of this article. In all other cases when animals are
22 ~~slaughtered~~ ethanized as provided by the this article the
23 veterinarian shall forthwith forward the certificates of appraisal
24 and ~~slaughter~~ ethanizing, together with the owner's claim for

1 the certificates shall be paid pro rata at the end of each fiscal
2 year.

3 **§19-9-34. Disposal of carcass of diseased animal.**

4 Whenever it shall be ~~is~~ necessary to destroy or dispose of the
5 carcass of any animal to prevent the spread of disease, such ~~the~~
6 destruction or disposal shall be made by one of the following
7 ~~methods designed to be protective of human health and the~~
8 ~~environment. The methods include, but are not limited to the~~
9 ~~following:~~ (a) Complete cremation of ~~the entire~~ carcass with all
10 its parts and products; (b) boiling the carcass and all its parts
11 and products in water, or heating the same with steam at the
12 temperature of boiling water, continuously during at least two
13 hours; (c) ~~burial~~ disposing of the carcass and all its parts and
14 products in a ~~solid waste landfill permitted and approved by the~~
15 ~~Department of Environmental Protection;~~ (d) burial of the carcass
16 and ~~all its parts and products~~ in a place that shall ~~will~~ not be
17 subjected to overflow from ponds or streams, and which shall be
18 distant ~~at a distance of~~ not less than one hundred feet from any
19 watercourse, well, ~~or~~ spring, public highway, house or stable. In
20 burying such ~~the~~ carcass it shall be covered with quicklime to a
21 depth of not less than three inches, and the top of such carcass
22 shall ~~not be~~ within two feet of the surface of the ground when the
23 grave is filled and smoothed to the level of the surrounding
24 surface; ~~(e) rendering by a licensed facility; and (f) composting.~~

1 disease outbreak, all in accordance with the provisions of chapter
2 twenty-nine-a of this code.

3 Note: The purpose of the bill is to update language relating
4 to indemnity for the death of infected or diseased animals and to
5 provide the methods for the disposal of dead domesticated animals.

Note: The purpose of this bill is to update language
pertaining to indemnity for the death of diseased or infected
animals; deleting outdated amounts paid to appraisers and
arbitrators for services rendered in disposing of dead
domesticated animals.

Strike-throughs indicate language that would be stricken from
the present law, and underscoring indicates new language that would
be added.

DRAFT

**West Virginia Legislature
Joint Standing Committee on Finance
2008 - 2009 Interims**

**FINAL REPORT OF
THE JOINT STANDING COMMITTEE ON FINANCE
TO THE JOINT COMMITTEE ON GOVERNMENT AND FINANCE
February 8, 2009**

Your Joint Standing Committee on Finance was assigned the interim study of the following topics during the 2008-2009 legislative interim period:

- ***Monitoring of the TDC to TRS Merger***
- ***Evaluation of Enterprise Resource Planning Systems (replacement for state financial platform)***
- ***SCR 53- Requesting the Joint Committee on Government and Finance to study convention and visitors bureaus***
- ***HCR 50- Requesting that the Joint Committee on Government and Finance to study the impact of changing the funding formula for local health department services***
- ***Study of Fairs and Festivals distribution***
- ***SCR 59 - Requesting the Joint Committee on Government and Finance study simplified tax structure for communications***
- ***SCR 74 - Requesting the Joint Committee on Government and Finance review property tax assessment and appeals system***
- ***Monitor Water Trust Fund and new reclamation fund tax***
- ***Distribution of Lottery/Gaming Revenues***

- **Home Rule Impact on State Revenues**
- **Tax issues generally**
- **HCR 99- Requesting the Joint Committee on Government and Finance to make a study on a funding mechanism to increase the salaries of teachers and school service personnel**
- **Short and Long Term Road Funding Needs**
- **Short and Long Term State Water and Sewer Infrastructure Needs**
- **Short and Long Term Other Post Employment Benefit Funding and Benefits**

Your Committee reports that in addition to the foregoing matters, presentations have been received from the State Budget Office regarding the financial status of the State at the close of Fiscal Year 2007 - 2008; from the State Tax Commissioner providing an update on the implementation of the State Tax Department's new computer system known as the Revenue Accounts Processing Integrated Development System (RAPIDS); and from representative spokespersons describing and submitting a budget request for the West Virginia 211 system through which citizens may communicate with providers of governmental services.


With respect to the **Monitoring of the TDC to TRS Merger**, your Committee received information on the progress of the Consolidated Public Retirement Board toward completion of the transfer of members of the Teachers Defined Contribution retirement system to the Teachers Retirement System and **RECOMMENDS** that the Legislature continue to monitor those efforts during the 2009 Regular Session.

With respect to the **Evaluation of Enterprise Resource Planning Systems (replacement for state financial platform)**, your Committee received periodic updates and

presentations from the West Virginia Office of Technology and its vendors on their efforts to study the state government's current financial, procurement and human resources practices and provide appropriate alternative Enterprise Resource Planning (ERP) systems for the State, and **RECOMMENDS** that the Legislature continue to monitor those efforts during the 2009 Regular Session.

The remaining issues assigned have been considered by Subcommittees A, B and C of Your Committee, and the reports and recommendations of its subcommittees on those matters have been received and adopted by the full Joint Committee on Finance. All of those reports and recommendations, having been so adopted, are made a part of and submitted with this report to the Joint Committee on Government and Finance for its consideration. Additionally, the pending report of the West Virginia University Bureau of Business and Economic Research on its Study on the Future of the West Virginia State Road Fund, when received by Your Committee and appended to this report, is likewise made a part of this report and submitted to the the Joint Committee on Government and Finance for its consideration.

Respectfully Submitted,



Senator Walt Helmick
Co-Chairman



Delegate Harry Keith White
Co-Chairman

West Virginia Legislature
Joint Standing Committee on Finance
2008 - 2009 Interims
Subcommittee A

FINAL REPORT OF
SUBCOMMITTEE A

TO THE JOINT STANDING COMMITTEE ON FINANCE
February 8, 2009

Your Subcommittee A was appointed following the 2008 Regular Session of the 78th Legislature and assigned the following topics for study during the interim period:

***SCR 53- Requesting the Joint Committee on Government and Finance to study convention and visitors bureaus.**

***HCR 50- Requesting that the Joint Committee on Government and Finance to study the impact of changing the funding formula for local health department services.**

***Study of Fairs and Festivals distribution.**

During the 2008-2009 legislative interim period, Subcommittee A met and received information on these topics of study from state agencies and other sources. Subcommittee A **REPORTS** as follows:

On the issue convention and visitors bureaus, the committee heard from representatives from the West Virginia Municipal League, the West Virginia Association of Convention and Visitors Bureaus, as well as Danny Jones, Mayor of the City of Charleston, and Kathy Titus, Director of the Clarksburg Convention and Visitors Bureau, and Tim Brady, Director of the Greater Bridgeport Convention and Visitors Bureau.

Your Subcommittee **RECOMMENDS** that the Legislature support legislation that provides for accreditation of convention and visitors bureaus throughout the state.

Your Subcommittee **A RECOMMENDS** that the Legislature support legislation that provides that all hotel occupancy taxes collected by counties or municipalities between March 1, 2009 and July 1, 2010, may only be expended on those convention and visitors bureaus in existence as of March 1, 2009.


On the issue of changing the funding formula for local health departments, Subcommittee A heard presentations from Chris Curtis, Director of the Bureau for Public Health, as well as directors of local health departments around the state. Subcommittee A also received a report from a study conducted by the Marshall University Bureau of Business and Economic Research which concluded that public health in general is underfunded in West Virginia, that a new funding formula should be implemented for local health departments, and that the recommended formula will only be successful with increased funding. Subcommittee A **DOES NOT RECOMMEND** any change to the current funding formula for local health departments at this time.

On the issue of fairs and festivals funding, Subcommittee A heard from representatives of the West Virginia Association of Fairs and Festivals, representatives of the Division of Culture and History, and representatives of the Department of Agriculture. The Joint Standing Committee on Finance, Subcommittee A **RECOMMENDS** that the Legislature support legislation that gives the Division of Culture and History statutory authority to assist with promotion and administer funding for local fairs and festivals, as well as an annual state fair.

Respectfully Submitted,



Senator Edwin Bowman
Co-Chair



Delegate Brent Boggs
Vice-Chair

S. B. / H. B.

(By)

[Introduced February 11, 2009]

A BILL to amend the Code of West Virginia, 1931, as amended, by adding thereto a new section, designated §7-18-15, relating to limitations on expending hotel occupancy tax proceeds.

Be it enacted by the Legislature of West Virginia:

That the Code of West Virginia, 1931, as amended, be amended by adding thereto one new section, designated §7-18-15, to read as follows:

ARTICLE 18. HOTEL OCCUPANCY TAX.

§7-18-15. Limitations on expending proceeds.

For the period of the first day of March, two thousand nine, through the first day of July, two thousand ten, net revenue receivable during the fiscal year by a county or a municipality pursuant to this article shall be expended only on those convention and visitor's bureaus, visitor's and convention bureaus and regional travel councils that existed in this state as of the first

1 day of March, two thousand nine.

NOTE: The purpose of this bill is to prohibit the expenditure of hotel occupancy proceeds during the period of March 1, 2009, through July 1, 2010, to those convention and visitor's bureaus, visitor's and convention bureaus and regional travel councils not in existence and engaged in business in this state as of March 1, 2009.

§7-18-15 is new; therefore, strike-throughs and underscoring have been omitted.

Strike-throughs indicate language that would be stricken from the present law, and underscoring indicates new language that would be added.

1 S. B./ H. B.

2
3 (By)

4
5 [Introduced February 11, 2009]

6
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9
10 A BILL to amend and reenact §29-1-11 of the Code of West Virginia,
11 1931, as amended, relating to authorizing distribution of
12 fairs and festivals funding by the Commissioner of the
13 Division of Culture and History.

14 *Be it enacted by the Legislature of West Virginia:*

15 That §29-1-11 of the Code of West Virginia, 1931, as amended,
16 be amended and reenacted to read as follows:

17 **ARTICLE 1. Division of Culture and History.**

18 §29-1-11. Power to accept and receive funds; power to apply
19 for grants; disbursal of funds; restrictions on expenditure;
20 disposition of funds heretofore received or appropriated.

21 The division may, in the name of the state of West Virginia,
22 through the commissioner or its commissions, accept and receive
23 grants, appropriations, gifts, bequests and funds from any public
24 or private source for the purpose of carrying out the duties and
25 purposes of this article. The division may, through the

1 commissioner or its commissions, apply for grants from the federal
2 government, private foundations and any other source for the
3 purposes of this article. All funds received from any source shall
4 be paid into the treasury of the state and disbursed upon warrant
5 by the state auditor following requisition by the division. Such
6 requisitions shall be signed by the commissioner or by such other
7 person as the commissioner may authorize by written document
8 deposited with the auditor or, in the event of emergency, by the
9 governor or the governor's designee. No funds or gifts received
10 from any source shall be expended or used for any purpose other
11 than that intended as evidenced by a positive and affirmative
12 declaration or by a negative restriction or limitation.

13 The division may assist in the promotion and operation of an
14 annual state fair and other regional or local fairs and festivals
15 entitled to aid when funds are available and to expend those funds
16 for the support and development of fairs and festivals.

17 All federal or state funds received to provide grants-in-aid
18 or awards to further the purposes of this article shall be approved
19 and distributed by the appropriate commission established by this
20 article.

Note: The purpose of this bill is to authorize the
Commissioner of the Division of Culture and History to distribute
fairs and festivals funding.

Strike-throughs indicate language that would be stricken from
the present law, and underscoring indicates new language that would
be added.

1 **S. B. / H. B.**

2
3 (By)
4

5 [Introduced February 11, 2009]
6
7
8
9

10 A BILL to amend the Code of West Virginia, 1931, as amended, by
11 adding thereto six new sections, designated §7-18-2a,
12 §7-18-16, §7-18-17, §7-18-18, §7-18-19 and §7-18-20; and to
13 amend and reenact §7-18-3 and §7-18-14 of said code, all
14 relating to the establishment of accredited convention and
15 visitor bureaus; and standards for accreditation.

16 *Be it enacted by the Legislature of West Virginia:*

17 That the Code of West Virginia, 1931, as amended, be amended
18 by adding thereto six new sections, designated §7-18-2a, §7-18-16,
19 §7-18-17, §7-18-18, §7-18-19 and §7-18-20; and that §7-18-3 and
20 §7-18-14 of said code be amended and reenacted, all to read as
21 follows:

22 **ARTICLE 18. HOTEL OCCUPANCY TAX.**

23 **§7-18-2a. Legislative findings.**

24 (a) The Legislature hereby finds and declares that in order to

1 attract new business and industry to this state and to retain
2 existing business and industry, all to provide the citizens of the
3 state with economic security, and to advance the business
4 prosperity and economic welfare of this state, it is necessary to
5 enhance recreational and tourism opportunities. Therefore, in
6 order to promote recreation and tourism, the Legislature finds that
7 public financial support should be provided for constructing,
8 equipping, improving and maintaining projects, agencies and
9 facilities that promote recreation and tourism.

10 (b) The Legislature also finds that the support of accredited
11 convention and visitors bureaus and hotels is a public purpose for
12 which funds may be expended. Local convention and visitors bureaus
13 that meet the accreditation standards established by this article
14 and hotels receiving funds under this article may expend such funds
15 for the payment of administrative expenses, for the direct or
16 indirect promotion of conventions and tourism, and for any other
17 uses and purposes authorized by section fourteen of this article.

18 (c) The Legislature further finds that in order to ensure
19 that the funds collected pursuant to this article are distributed
20 and expended in a manner consistent with the intent expressed
21 herein, all convention and visitors bureaus are required to meet
22 the accreditation standards established by the West Virginia
23 Convention and Visitors Bureau Accreditation Board prior to
24 receiving any funds or disbursements authorized by this article.

1 §7-18-3. Definitions.

2 For the purposes of this article:

3 (a) "Accredited convention and visitors bureau," "accredited
4 visitors and convention bureau" and "accredited bureau" are
5 interchangeable terms, any of which means a nonstock, nonprofit
6 corporation that: (1) Has received accreditation from the West
7 Virginia Convention and Visitors Bureau Accreditation Board; and
8 (2) has a full-time staff working exclusively to promote tourism
9 and to attract conventions, conferences and visitors to the
10 municipality, county or region in which the bureau is located or
11 engaged in business.

12 ~~(a)~~ (b) "Consideration paid" or "consideration" means the
13 amount received in money, credits, property or other consideration
14 for or in exchange for the right to occupy a hotel room as herein
15 defined.

16 ~~(b)~~ (c) "Consumer" means a person who pays the consideration
17 for the use or occupancy of a hotel room. The term "consumer"
18 shall not be construed to mean the government of the United States
19 of America, its agencies or instrumentalities, or the government of
20 the State of West Virginia or political subdivisions thereof.

21 (d) "Convention center" means a convention facility owned by
22 the state, a county, a municipality or other public entity or
23 instrumentality and includes all facilities, including armories,
24 commercial, office, community service and parking facilities and

1 publicly owned facilities, constructed or used for the
2 accommodation and entertainment of tourists and visitors,
3 constructed in conjunction with the convention center and forming
4 reasonable appurtenances thereto.

5 (e) "Fiscal year" means the year beginning the first day of
6 July and ending the thirtieth day of June of the next calendar
7 year.

8 (f) "Historic site" means any site listed on the United States
9 national register of historic places, or listed by a local
10 Historical Landmarks Commission, established under state law, when
11 such sites are owned by a city, a county or a nonprofit historical
12 association and are open, from time to time, to accommodate
13 visitors.

14 (c) (g) "Hotel" means any facility, building or buildings,
15 publicly or privately owned (including a facility located in a
16 state, county or municipal park), in which the public may, for a
17 consideration, obtain sleeping accommodations. The term shall
18 include, but not be limited to, boarding houses, hotels, motels,
19 inns, courts, condominiums, lodges, cabins and tourist homes. The
20 term "hotel" shall include state, county and city parks offering
21 accommodations as herein set forth. The term "hotel" shall not be
22 construed to mean any hospital, sanitarium, extended care facility,
23 nursing home or university or college housing unit, or any facility
24 providing fewer than three rooms in private homes, not exceeding a

1 total of ten days in a calendar year, nor any tent, trailer or
2 camper campsites: *Provided*, That where a university or college
3 housing unit provides sleeping accommodations for the general
4 nonstudent public for a consideration, the term "hotel" shall, if
5 otherwise applicable, apply to such accommodations for the purposes
6 of this tax.

7 ~~(d)~~ (h) "Hotel operator" means the person who is proprietor of
8 a hotel, whether in the capacity of owner, lessee, mortgagee in
9 possession, licensee, trustee in possession, trustee in bankruptcy,
10 receiver, executor or in any other capacity. Where the hotel
11 operator performs his or her functions through a managing agent of
12 any type or character other than an employee, the managing agent
13 shall also be deemed a hotel operator for the purposes of this
14 article and shall have the same duties and liabilities as his or
15 her principal. Compliance with the provisions of this article by
16 either the principal or the managing agent shall, however, be
17 considered to be compliance by both.

18 ~~(e)~~ (i) "Hotel room" means any room or suite of rooms or
19 other facility affording sleeping accommodations to the general
20 public and situated within a hotel. The term "hotel room" shall
21 not be construed to mean a banquet room, meeting room or any other
22 room not primarily used for, or in conjunction with, sleeping
23 accommodations.

24 (j) "Net proceeds" means the gross amount of tax collections

1 received pursuant to this article less the amount of tax lawfully
2 refunded.

3 ~~(f)~~ (k) "Person" means any individual, firm, partnership,
4 joint venture, association, syndicate, social club, fraternal
5 organization, joint stock company, receiver, corporation, guardian,
6 trust, business trust, trustee, committee, estate, executor,
7 administrator or any other group or combination acting as a unit.

8 (l) "Promotion of the arts" means activity to promote public
9 appreciation and interest in one or more of the arts. It includes
10 the promotion of music of all types, the dramatic arts, dancing,
11 painting and the creative arts through shows, exhibits, festivals,
12 concerts, musicals and plays.

13 (m) "Recreational facilities" means and includes any public
14 park, parkway, playground, public recreation center, athletic
15 field, sports arena, stadium, skating rink or arena, golf course,
16 tennis courts and other park and recreation facilities, whether of
17 a like or different nature, that are owned by a county or
18 municipality.

19 (n) "Region" means an area consisting of one or more counties
20 that have agreed by contract to fund a convention and visitor's
21 bureau to promote those counties.

22 ~~(g)~~ (o) "State park" means any state-owned facility which is
23 part of this state's park and recreation system established
24 pursuant to this code. For purposes of this article, any

1 recreational facility otherwise qualifying as a "hotel" and
2 situated within a state park shall be deemed to be solely within
3 the county in which the building or buildings comprising said
4 facility are physically situated, notwithstanding the fact that the
5 state park within which said facility is located may lie within the
6 jurisdiction of more than one county.

7 ~~(h)~~ (p) "Tax," "taxes" or "this tax" means the hotel occupancy
8 tax authorized by this article.

9 ~~(i)~~ (q) "Taxing authority" means a municipality or county
10 levying or imposing the tax authorized by this article.

11 ~~(j)~~ (r) "Taxpayer" means any person liable for the tax
12 authorized by this article.

13 (s) "West Virginia Convention and Visitors Bureau
14 Accreditation Board" or "board" means the accreditation board
15 established pursuant to this article for the purpose of
16 establishing and enforcing standards for the accreditation of
17 municipal and county convention and visitors bureaus.

18 **§7-18-14. Proceeds of tax; application of proceeds.**

19 (a) *Application of proceeds.* -- The net proceeds of the tax
20 collected and remitted to the taxing authority pursuant to this
21 article shall be deposited into the General Revenue Fund of such
22 municipality or county commission and, after appropriation thereof,
23 shall be expended only as provided in subsections (b) and (c) of
24 this section.

1 (b) *Required expenditures.* -- At least fifty percent of the
2 net revenue receivable during the fiscal year by a county or a
3 municipality pursuant to this article shall be expended in the
4 following manner for the promotion of conventions and tourism:

5 (1) *Municipalities.* -- If ~~a~~ an accredited convention and
6 visitor's bureau is located within the municipality, county or
7 region, the governing body of such municipality shall appropriate
8 the percentage required by this subsection to that bureau. All
9 disbursements are to be made on a monthly basis. If ~~a~~ an
10 accredited convention and visitors bureau is not located within
11 such municipality, county or region, then the percentage
12 appropriation required by this subsection shall be appropriated as
13 follows:

14 ~~(i)~~ (A) Any hotel located within such municipality, county or
15 region may apply to such municipality for an appropriation to such
16 hotel of a portion of the tax authorized by this article and
17 collected by such hotel and remitted to such municipality, for uses
18 directly related to the promotion of tourism and travel, including
19 advertising, salaries, travel, office expenses, publications and
20 similar expenses. The portion of such tax allocable to such hotel
21 is to be distributed on a monthly basis and shall not exceed
22 seventy-five percent of that portion of such tax collected and
23 remitted by such hotel which is required to be expended pursuant to
24 this subsection: *Provided, That* prior to appropriating any moneys

1 to such hotel such municipality shall require the submission of,
2 and give approval to, a budget setting forth the proposed uses of
3 such moneys.

4 ~~(ii)~~ (B) If there is more than one accredited convention and
5 visitors bureau located within a municipality, county or region,
6 the city council may allocate the tax authorized by this article to
7 one or more of such bureaus in such portion as the city council in
8 its sole discretion determines. All allocations or distributions
9 will be made on a monthly basis.

10 ~~(iii) The balance of net revenue required to be expended by~~
11 ~~this subsection shall be appropriated to the regional travel~~
12 ~~council serving the area in which the municipality is located.~~

13 (2) Counties. -- If ~~a~~ an accredited convention and visitors
14 bureau is located within a county or region, the county commission
15 shall appropriate the percentage required by this subsection to
16 that convention and visitor's bureau. All allocations or
17 distributions will be made on a monthly basis. If ~~a~~ an accredited
18 convention and visitors bureau is not located within such county or
19 region, then the percentage appropriation required by this
20 subsection shall be appropriated as follows:

21 ~~(i)~~ (A) Any hotel located within such county or region may
22 apply to such county for ~~an~~ a monthly appropriation to such hotel
23 of a portion of the tax authorized by this article and collected by
24 such hotel and remitted to such county, for uses directly related

1 to the promotion of tourism and travel, including advertising,
2 salaries, travel, office expenses, publications and similar
3 expenses. The portion of such tax allocable to such hotel shall
4 not exceed seventy-five percent of that portion of such tax
5 collected and remitted by such hotel which is required to be
6 expended pursuant to this subsection: *Provided*, That prior to
7 appropriating any moneys to such hotel such county shall require
8 the submission of, and give approval to, a budget setting forth the
9 proposed uses of such moneys.

10 ~~(ii)~~ (B) If there is more than one accredited convention and
11 visitors bureau located within a county or region, the county
12 commission may allocate the tax authorized by this article to one
13 or more of such bureaus in such portion as the county commission in
14 its sole discretion determines. All allocations or distributions
15 will be made on a monthly basis.

16 ~~(iii) The balance of net revenue required to be expended by~~
17 ~~this subsection shall be appropriated to the regional travel~~
18 ~~council serving the area in which the county is located.~~

19 ~~(3) Legislative finding. -- The Legislature hereby finds and~~
20 ~~declares that in order to attract new business and industry to this~~
21 ~~state and to retain existing business and industry all to provide~~
22 ~~the citizens of the state with economic security, and to advance~~
23 ~~the business prosperity and economic welfare of this state, it is~~
24 ~~necessary to enhance recreational and tourism opportunities.~~

1 ~~Therefore, in order to promote recreation and tourism, the~~
2 ~~legislature finds that public financial support should be provided~~
3 ~~for constructing, equipping, improving and maintaining projects,~~
4 ~~agencies and facilities which promote recreation and tourism. The~~
5 ~~legislature also finds that the support of convention and visitor's~~
6 ~~bureaus, hotels and regional travel councils is a public purpose~~
7 ~~for which funds may be expended. Local convention and visitor's~~
8 ~~bureaus hotels and regional travel councils receiving funds under~~
9 ~~this subsection may expend such funds for the payment of~~
10 ~~administrative expenses, and for the direct or indirect promotion~~
11 ~~of conventions and tourism, and for any other uses and purposes~~
12 ~~authorized by subdivisions (1) and (2) of this subsection.~~

13 (c) *Permissible expenditures.* -- After making the
14 appropriation required by subsection (b) of this section, the
15 remaining portion of the net revenues receivable during the fiscal
16 year by such county or municipality, pursuant to this article, may
17 be expended for one or more of the purposes set forth in this
18 subsection, but for no other purpose. The purposes for which
19 expenditures may be made pursuant to this subsection are as
20 follows:

21 (1) The planning, construction, reconstruction, establishment,
22 acquisition, improvement, renovation, extension, enlargement,
23 equipment, maintenance, repair and operation of publicly owned
24 convention facilities, including, but not limited to, arenas,

1 auditoriums, civic centers and convention centers;

2 (2) The payment of principal or interest or both on revenue
3 bonds issued to finance such convention facilities;

4 (3) The promotion of conventions;

5 (4) The construction, operation or maintenance of public
6 parks, tourist information centers and recreation facilities
7 (including land acquisition);

8 (5) The promotion of the arts;

9 (6) Historic sites;

10 (7) Beautification projects; or

11 (8) Medical care, in an amount not exceeding one hundred
12 thousand dollars, in any county where:

13 ~~(i)~~ (A) There is an urgent necessity to preserve the delivery
14 of acute medical care services;

15 ~~(ii)~~ (B) There is an increase in need for acute medical care
16 services directly related to tourism;

17 ~~(iii)~~ (C) Recurrent flooding in the county significantly
18 disrupts, on a periodic basis, the delivery of acute medical care
19 services;

20 ~~(iv)~~ (D) There is an inadequate economic base within the
21 county from any source other than tourism to preserve the delivery
22 of acute medical care services;

23 ~~(v)~~ (E) There is an inadequate economic base directly related
24 to low population in the county, specifically, a population of less

1 than ten thousand persons according to the census of the year one
2 thousand nine hundred ninety; and

3 ~~(vi) (F)~~ There is one and only one hospital within the county;
4 and the county commission makes specific findings, by resolution,
5 that all of the foregoing conditions within the county exist.

6 ~~(d) Definitions. -- For purposes of this section, the~~
7 ~~following terms are defined:~~

8 ~~(1) Convention and visitor's bureau and visitor's and~~
9 ~~convention bureau. -- "Convention and visitor's bureau" and~~
10 ~~"visitor's and convention bureau" are interchangeable and either~~
11 ~~shall mean a nonstock, nonprofit corporation with a full-time staff~~
12 ~~working exclusively to promote tourism and to attract conventions,~~
13 ~~conferences and visitors to the municipality, county or region in~~
14 ~~which such convention and visitor's bureau or visitor's and~~
15 ~~convention bureau is located or engaged in business within.~~

16 ~~(2) Convention center. -- "Convention center" means a~~
17 ~~convention facility owned by the state, a county, a municipality or~~
18 ~~other public entity or instrumentality and shall include all~~
19 ~~facilities, including armories, commercial, office, community~~
20 ~~service and parking facilities and publicly owned facilities~~
21 ~~constructed or used for the accommodation and entertainment of~~
22 ~~tourists and visitors, constructed in conjunction with the~~
23 ~~convention center and forming reasonable appurtenances thereto.~~

24 ~~(3) Fiscal year. -- "Fiscal year" means the year beginning the~~

1 ~~first day of July and ending the thirtieth day of June of the next~~
2 ~~calendar year.~~

3 ~~(4) Net proceeds. -- "Net proceeds" means the gross amount of~~
4 ~~tax collections less the amount of tax lawfully refunded.~~

5 ~~(5) Promotion of the arts. -- "Promotion of the arts" means~~
6 ~~activity to promote public appreciation and interest in one or more~~
7 ~~of the arts. It includes the promotion of music for all types, the~~
8 ~~dramatic arts, dancing, painting and the creative arts through~~
9 ~~shows, exhibits, festivals, concerts, musicals and plays.~~

10 ~~(6) Recreational facilities. -- "Recreational facilities"~~
11 ~~means and includes any public park, parkway, playground, public~~
12 ~~recreation center, athletic field, sports arena, stadium, skating~~
13 ~~rink or arena, golf course, tennis courts and other park and~~
14 ~~recreation facilities, whether of a like or different nature, that~~
15 ~~are owned by a county or municipality.~~

16 ~~(7) Region. -- "Region" means an area consisting of one or~~
17 ~~more counties that have agreed by contract to fund a convention and~~
18 ~~visitor's bureau to promote those counties.~~

19 ~~(8) Regional travel council. -- "Regional travel council"~~
20 ~~means a nonstock, nonprofit corporation, with a full-time staff~~
21 ~~working exclusively to promote tourism and to attract conventions,~~
22 ~~conferences and visitors to the region of this state served by the~~
23 ~~regional travel council.~~

24 ~~(9) Historic site. -- "Historic site" means any site listed on~~

1 ~~the United States national register of historic places, or listed~~
2 ~~by a local historical landmarks commission, established under state~~
3 ~~law, when such sites are owned by a city, a county or a nonprofit~~
4 ~~historical association and are open, from time to time, to~~
5 ~~accommodate visitors.~~

6 (e) (d) Any member of a governing body who willingly and
7 knowingly votes to or causes to be expended moneys generated by the
8 provisions of this section for purposes other than specifically set
9 forth in this section is guilty of a misdemeanor and, upon
10 conviction thereof, shall be fined not more than one hundred
11 dollars.

12 **§7-18-16. West Virginia Convention and Visitors Bureau**
13 **Accreditation Board.**

14 (a) There is hereby established the West Virginia Convention
15 and Visitors Bureau Accreditation Board, consisting of the
16 following members:

17 (1) The president, ex officio, of the Association of
18 Convention and Visitors Bureaus, or his or her designee, will serve
19 as the chairperson of the board;

20 (2) The chairperson of the Hospitality and Travel Association,
21 or his or her designee;

22 (3) The chairperson of the West Virginia Tourism Commission,
23 or his or her designee;

24 (4) A county commissioner, appointed by the Governor from a

1 list of three persons nominated by the County Commissioners'
2 Association of West Virginia;

3 (5) An elected official of a municipality in West Virginia,
4 appointed by the Governor from a list of three persons nominated by
5 the West Virginia Municipal League;

6 (6) An attorney, appointed by the Governor; and

7 (7) A lay citizen of the State of West Virginia, appointed by
8 the Governor.

9 (b) The members of the West Virginia Convention and Visitors
10 Bureau Accreditation Board will serve for three-year terms:
11 Provided, That the initial term of the attorney member will be for
12 two years and the initial term of the lay citizen will be for two
13 years. Board members may serve for only two successive terms.

14 (c) Board members serve without compensation and without
15 reimbursement for any travel or lodging expenses from the State of
16 West Virginia.

17 **§7-18-17. Duties of the board.**

18 (a) The West Virginia Convention and Visitors Bureau
19 Accreditation Board has the following duties and responsibilities:

20 (1) Establishing, amending or modifying accreditation
21 standards for county or municipal convention and visitors bureaus
22 in this state;

23 (2) Evaluating applications for accreditation by county or
24 municipal convention and visitors bureaus and determining whether

1 the bureau meets all accreditation standards;

2 (3) Granting accreditation to bureaus that meet the
3 established standards;

4 (4) Renewing accreditation to bureaus that continue to meet
5 the established standards;

6 (5) Ensuring that all accredited bureaus receiving funds
7 pursuant to this article remain accredited;

8 (6) Ensuring that all expenditures made by an accredited
9 bureau are consistent with the intent and purposes of this article;
10 and

11 (7) Performing all functions necessary to carry out the intent
12 and purpose of this article.

13 (b) The board will meet at least twice a year, the time and
14 location of which will be determined in the discretion of the chair
15 or a majority of the members.

16 (c) There will be no appropriation of state funds for
17 compensation, costs or expenses incurred by the board in the
18 exercise of its duties. The board may accept contributions from
19 individuals or entities to cover the costs of reviewing
20 applications, awarding accreditation and other such activities.

21 **§7-18-18. Standards for accreditation.**

22 (a) The board will establish accreditation standards that
23 provide for full and provisional accreditation periods. Full
24 accreditation will be for a three-year period. Accreditation may

1 be renewed for additional three-year periods if the bureau
2 continues to meet the accreditation standards.

3 (b) The accreditation standards developed by the board are to
4 include, but not be limited to, requirements for the following
5 areas:

6 (1) Organizational structure and function;

7 (2) Budget;

8 (3) Staffing;

9 (4) Board development;

10 (5) Reporting and accountability;

11 (6) Planning;

12 (7) Communication;

13 (8) Marketing and advertising; and

14 (9) Such other standards as the board deems reasonable.

15 **\$7-18-19. Accreditation required for receipt of funds.**

16 (a) Any convention and visitors bureau operating or seeking
17 to operate in this state must apply for accreditation with the
18 board. Any convention and visitors bureau operating in this state
19 as of the first day of July, two thousand nine, must submit an
20 application for accreditation prior to the thirty-first day of
21 December, two thousand nine. Any convention and visitors bureau
22 formed in this state after the first day of July, two thousand nine
23 must submit an application for accreditation to the board by the
24 thirty-first day of December, two thousand nine, or by the

1 thirty-first day of December of each calendar year thereafter as
2 applicable.

3 (b) Upon satisfaction of all accreditation standards, the West
4 Virginia Convention and Visitors Bureau Accreditation Board will
5 grant to a county, municipal or regional convention and visitors
6 bureau a full or provisional accreditation as provided by section
7 twenty of this article. The board will advise all applicants for
8 accreditation of its decision to grant or deny full or provisional
9 accreditation in writing by the thirty-first day of May of the next
10 calendar year. Any county, municipal or regional convention and
11 visitors bureau that is denied a full or provisional accreditation
12 may protest the decision pursuant to the administrative procedures
13 set forth in chapter twenty-nine-a of this code.

14 (c) No convention and visitors bureau may receive any funds
15 or other distributions as provided by this article until such time
16 as it receives full or provisional accreditation from the board.

17 **§7-18-20. Requirements for accreditation, operation and receipt of**
18 **funds.**

19 (a) *Full accreditation.* -- Full accreditation will be granted
20 for a three-year period and may be renewed for additional
21 three-year periods upon application by a convention and visitors
22 bureau and verification by the board that the bureau has met or
23 continues to meet all accreditation standards established by the
24 board. Full accreditation will be granted:

1 (1) To any convention and visitors bureau that meets the
2 standards established by the board; or

3 (2) To any county, municipal or regional convention and
4 visitors bureau that, prior to the first day of July, two thousand
5 nine:

6 (A) Was created and operational;

7 (B) Was in receipt of funds or disbursements from a county; or
8 municipal taxing authority pursuant to this article; and

9 (C) Received a three-year accreditation from the West Virginia
10 Association of Convention and Visitors Bureaus: *Provided*, That any
11 bureau granted full accreditation pursuant to this subdivision will
12 receive its initial full accreditation for a period not to exceed
13 the remainder of the accreditation previously received from the
14 West Virginia Association of Convention and Visitors Bureaus.

15 (b) *Provisional accreditation.* -- Provisional accreditation
16 may be granted to a bureau that has not met all of the standards
17 required by the board for full accreditation. A provisional
18 accreditation will last no longer than one year, and will
19 automatically terminate when the bureau has become fully
20 accredited. Upon application, the board may grant a one-year
21 provisional accreditation to:

22 (1) Any convention and visitors bureau operating in this state
23 prior to the first day of July, two thousand nine, that did not
24 have a valid accreditation from the West Virginia Association of

1 Convention and Visitors Bureau and that is attempting to meet the
2 requirements for full accreditation; or

3 (2) Any new bureau seeking to operate in this state after the
4 first day of July, two thousand nine, and is attempting to meet the
5 requirements for full accreditation.

6 (c) *Receipt of funds.* -- A convention and visitors bureau that
7 receives full accreditation from the board will receive its
8 proportionate share of the funds and distributions from the taxing
9 authority pursuant to this article immediately upon receipt of such
10 accreditation. A bureau that is granted a provisional
11 accreditation will receive funds and distributions from the taxing
12 authority pursuant to this article for no longer than one year
13 after receipt of the provisional accreditation. If, at the
14 expiration of the one-year provisional accreditation period, the
15 bureau has not received full accreditation and becomes qualified
16 for continued funding thereunder, the taxing authority will cease
17 payment of all funds or disbursements provided by this article.

18 (d) *New bureaus.* -- Any convention and visitors bureau created
19 or made operational after the first day of July, two thousand nine,
20 will prior to commencing operation:

21 (1) Notify the county or municipal taxing authority of the
22 county or municipality in which the bureau is or will be located of
23 the formation of the new convention and visitors bureau;

24 (2) Apply for accreditation from the West Virginia Convention

- 1 and Visitors Bureau Accreditation Board;
- 2 (3) Receive full or provisional accreditation; and
- 3 (4) Forward a copy of the accreditation to the appropriate
- 4 taxing authority.

NOTE: The purpose of this bill is to establish the West Virginia Convention and Visitors Bureau Accreditation Board, establish its duties and responsibilities, and require accreditation standards for convention and visitors bureaus operating in this state.

\$7-18-2a, \$7-18-16, \$7-18-17, \$7-18-18, \$7-18-19 and \$7-18-20 are new; therefore, strike-throughs and underscoring have been omitted.

Strike-throughs indicate language that would be stricken from the present law, and underscoring indicates new language that would be added.

West Virginia Legislature
Joint Standing Committee on Finance
2008 - 2009 Interims
Subcommittee B

FINAL REPORT OF
SUBCOMMITTEE B

TO THE JOINT STANDING COMMITTEE ON FINANCE

February 8, 2009

Your Subcommittee B was appointed following the 2008 Regular Session and assigned the following topics for study during the interim period:

***SCR 59 - Requesting the Joint Committee on Government and Finance study simplified tax structure for communications.**

***SCR 74 - Requesting the Joint Committee on Government and Finance review property tax assessment and appeals system.**

***Monitor Water Trust Fund and new reclamation fund tax.**

***Study of Distribution of Lottery/Gaming Revenues.**

***Study of Home Rule Impact on State Revenues.**

***Tax issues generally.**

During the 2008-2009 legislative interim period, Subcommittee B met and received information on these topics of study from the following state agencies, political subdivisions and other sources:

Representatives from the West Virginia Department of Revenue, the Lottery Commission, the Marshall University Bureau of Business and Economic Research, city and county officials from

Bridgeport, West Virginia, private developers in Bridgeport, West Virginia, the West Virginia Association of Counties, the County Commissioners' Association of West Virginia, the Municipal League, the West Virginia Chamber of Commerce, private attorneys, and the Division of Environmental Protection as well the Fayette County Assessor, the Kanawha County Assessor, the Preston County Assessor, the Taylor County Assessor.

Based on the testimony presented, Subcommittee B makes the following recommendations:

Regarding **SCR 59 (Requesting the Joint Committee on Government and Finance study simplified tax structure for communications)**, Subcommittee B **RECOMMENDS** that the Legislature support legislation which would ensure simplicity for consumers and tax administrators, fairness, and neutrality, similar to model legislation which passed in Virginia last year.

Regarding **SCR 74 (Requesting the Joint Committee on Government and Finance review property tax assessment and appeals system)**, Subcommittee B received the report of a study conducted by the Marshall University Bureau of Business and Economic Research which concluded that there are many flaws in our current property tax assessment and appeals system. Assessors from across the state appeared to challenge many of the study's findings. The State Chamber of Commerce provided draft legislation for reforming the current system. Subcommittee B has brought all of these parties, along with the State Tax Department together to work out compromise legislation. If all the interested parties do reach a compromise, and legislation is proposed that reflect this compromise, your Subcommittee B would **RECOMMEND** introduction and passage of that legislation.


Regarding **the Water Trust Fund and new reclamation fund tax**, Subcommittee B **RECOMMENDS** that the Legislature examine: (1) the November 2008 report of the Hay Group on

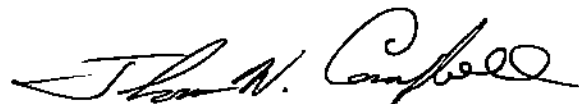
the actuarial valuation of the Special Reclamation Fund and its projected funded status for the Water Trust Fund; (2) the recommendations of the Special Reclamation Fund Advisory Council for new legislation to provide additional funding for the Special Reclamation Fund and the Water Trust Fund as contained in its January 7, 2009, report; and (3) the alternative funding scenarios for reclamation examined by Marshall University's Center for Business and Economic Research as contained in its report to the West Virginia Department of Environmental Protection that the Secretary will provide to the Legislature at a later date; and that the Legislature consider appropriate legislation to provide adequate funding for the Special Reclamation Fund and the Water Trust Fund during the 2009 Regular Session.

Regarding the **Study of Distribution of Lottery/Gaming Revenues**, Subcommittee B has thoroughly studied the distribution of all lottery revenues and **RECOMMENDS** no change to the current distribution at this time.

Subcommittee B **RECOMMENDS** the continued study of **home rule impact on state revenues and tax issues generally**.

Respectfully Submitted,


Senator Walt Helmick
Co-Chair


Delegate Thomas W. Campbell
Co-Chair

**West Virginia Legislature
Joint Committee on Finance
2008-2009 Interim Period
Subcommittee C**

Final Report of

SUBCOMMITTEE C

TO THE JOINT STANDING COMMITTEE ON FINANCE

February 8, 2009

Your Subcommittee C was appointed following the 2008 Regular Session of the 78th Legislature and assigned the following topics for study during the interim period:

Topic 1: The State Road Fund.

Topic 2: Other Post-Employment Benefits and Funding Requirements.

Topic 3: Water and sewer infrastructure.

During the 2008-2009 legislative interim period, Subcommittee C met and received information on these topics of study from various state agencies, political subdivisions and other experts and sources. Subcommittee C **REPORTS** as follows:

On **TOPIC 1: The State Road Fund** – On July 29, 2008, Department of Transportation Cabinet Secretary Paul A. Mattox provided an overview of highway projects and funding, and Joe Denault, Chairman of West Virginians for Better Transportation addressed the Subcommittee on regarding the condition of the State’s roads and bridges.

On November 10, 2008, a contract was executed between the Joint Committee on

Government and Finance and the West Virginia University Bureau of Business and Economic Research (BBER), commissioning a thorough examination of the State Road Fund to support the Joint Standing Committee on Finance's and its Subcommittee C's study of the State Road Fund and transportation funding generally. The research activity updated the following prior BBER studies:

- *Future of West Virginia's Highway System: A Comprehensive Analysis of the West Virginia State Road Fund and Policy Options*, November 2004
- *Financing West Virginia's Highways: An Update*, January 2007

Updates were received from BBER Director, Dr. Tom Witt on December 8, 2008 and January 12, 2009.

On **TOPIC 1**, your Subcommittee C **RECOMMENDS** continued study of the State Road Fund, the Federal Highway Trust Fund and surface transportation issues generally during its 2009 Regular Session and the 2009-2010 interim period.

On **TOPIC 2: Other Post-Employment Benefits and Funding Requirements** – The Subcommittee received extensive information on the valuation of the liability; plan invoicing; employer reporting; the application of special one-time OPEB funding to the benefit of only State accounts and the bifurcated premium structure between state and other participating employers; the sick leave buy-back program created in West Virginia Code §5-5-6 during the 2008 Regular Session; and implications and issues for state spending units, county school boards, counties, municipalities and other political subdivisions and their perspectives. The following individuals addressed the Subcommittee on OPEB issues during the interim: Jason Haught, Chief Financial Officer of the Public Employees Insurance Agency; Patti Hamilton,

Executive Director of the West Virginia Association of Counties; Mike McNulty of the Putnam County Public Service District, Pat Jones, Finance Director of Kanawha Valley Regional Transportation Authority; Lisa Dooley, Executive Director of the West Virginia Municipal League; Vivian Parsons, Executive Director of the West Virginia County Commissioners Association; and Donna Lipscomb, Executive Coordinator of the Department of Administration.


On **TOPIC 2**, your Subcommittee C **FINDS**, as it found in the prior interim period, there to be 1.) A need for a sufficient OPEB funding and/or liability reduction/elimination plan; and 2.) A need to eliminate current disincentives to the remittance of OPEB premiums. As the result of the Subcommittee's efforts to monitor the implementation and progress of the sick leave buy-back program created under West Virginia Code §5-5-6, the Subcommittee further **FINDS** 3.) Certain high-salaried employees are selling sick leave back to the State for amounts which exceed the OPEB liability represented by that leave; and, 4.) Restricting leave buy-back to only once per fiscal year to be paid out on either the pay day immediately following the first full pay period in July or the first full pay period in December may impose unnecessary administrative difficulties and inefficiencies. Your Subcommittee C **RECOMMENDS** that the Legislature continue to study the OPEB unfunded liability and the leave buy-back program during its 2009 Regular Session and in the subsequent interim period, with particular emphasis on addressing the Subcommittee's findings regarding the sick leave buy-back program during the 2009 Regular Session.

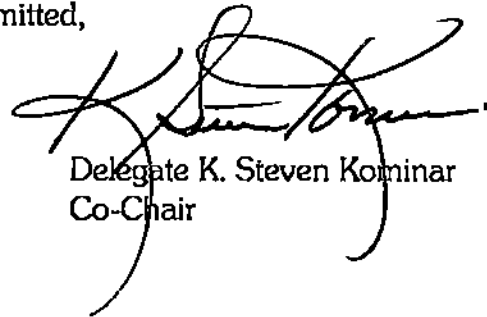
On **TOPIC 3: Water and sewer infrastructure** – On August 26, 2008, Ric MacDowell, EPA Project Director of the Alternative Wastewater Demonstration Cooperative Project of the

Lincoln County Commission and US EPA and Dave Clark of the Woodland Development Group on innovative approaches to wastewater treatment. On September 7, 2008, your Subcommittee received a presentation from Salem City Manager David Mayle, Vice-Mayor Jim Plaugher, and Councilmen Dave Fisher and Al Swagger concerning the Salem's water and wastewater treatment plants and toured those facilities.

On **TOPIC 3**, your Subcommittee **RECOMMENDS** continued study of water and sewer infrastructure issues during its 2009 Regular Session and the 2009-2010 interim period. Should the study topic be continued during the 2009-2010 interim period, your Subcommittee **RECOMMENDS** that **TOPIC 3** be committed to a single interim study committee charged with the examination of broad infrastructure issues, in the interest of gaining synergies and reducing duplication.

Respectfully Submitted,


Senator Walt Hemick
Co-Chair


Delegate K. Steven Kominar
Co-Chair

Financing West Virginia's Highways: Challenges and Opportunities¹

By
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Director, Bureau of Business and Economic Research
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Joint Committee on Finance
West Virginia Legislature
February 9, 2009

DRAFT

¹ This research was conducted under a contract with the Joint Committee on Government and Finance, West Virginia Legislature. The author would like to thank Alice Taylor (West Virginia Department of Transportation), Mark Muchow (West Virginia Department of Revenue) and Fred Lewis (House Finance Committee, West Virginia Legislature) for the information and assistance they provided during the course of the study. Additional assistance was provided by Eric Makela, undergraduate research assistant, Bureau of Business and Economic Research, College of Business and Economics, West Virginia University. The research presented herein represents the opinion of the author and does not reflect the position of the West Virginia University Board of Governors nor the West Virginia Higher Education Policy Commission.

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1.0 Introduction and Overview

West Virginia, along with many other states, is faced with the challenge of financing the construction and maintenance of highways and bridges. Over time the increasing fuel efficiency of the vehicle fleet combined with shifts to alternative fuels poses a challenge to conventional fuel tax revenues supporting road funds. When one couples the reduced vehicle miles traveled by driver due to fuel prices in excess of \$4.00 per gallon at the pump, one can see that fundamental changes will be required to finance road and bridge construction and maintenance.

This is even more critical in West Virginia since the state is only one of four states (the other states are Delaware, North Carolina and Virginia) having jurisdiction over both state and county roads. In West Virginia the state government is responsible for over 92 percent of public highways while municipalities are responsible for about 5.5 percent and Federal agencies for the balance.

The funding for West Virginia's highways and bridges is the responsibility of the State Road Fund, which was created in 1921 following the ratification of the Good Roads Amendment of 1920. The State Road Fund is established under the West Virginia Constitution, Article VI, Section 52:

[r]evenue from gasoline and other motor fuel excise and license taxation, motor vehicle registration and license taxes, and all other revenue derived from motor vehicles or motor fuels shall, after the deduction of statutory refunds and cost of administration and collection authorized by legislative appropriation, be appropriated and used solely for the construction, reconstruction, repair and maintenance of public highways, and also the payment of the interest and principal on all road bonds heretofore issued or which may be hereafter issued for the construction, reconstruction or improvement of public highways, and the payment of obligations in the construction, reconstruction, repair and maintenance of public highways.

The State Road Fund major tax revenue sources include motor fuel taxes, privilege tax, license fees and registration fees. Other revenue sources include interest, litter fees and miscellaneous revenues. As with many states, these funding sources have become inadequate over the years leading to a shortfall in support for highways and bridge construction and maintenance.

This study was commissioned by the West Virginia Legislature's Interim Subcommittee C Infrastructure to provide updated information and policy recommendations. The study has five major sections:

1. National trends affecting highway infrastructure financing and policy options under consideration.
2. Review of recent West Virginia studies and legislative actions taken to bolster funding for the State Road Fund
3. Recent changes in West Virginia's motor fuel excise tax and Implications for the State Road Fund
4. Principles of highway public finance
5. The economic outlook for highway financing in West Virginia
6. Concluding observations and recommendations

2.0 National Trends Affecting Highway Infrastructure Financing and Policy Options Under Consideration

Financing of our nation's highway infrastructure has traditionally been shared by both the federal and state/local government units. For federal-aid highway system roads and bridges funding is available from the Federal Highway Trust Fund, matched by state and local funds. Additional funding for specialized infrastructure has come from the Appalachian Regional Commission and other federal agencies; however, these funds are relatively small compared with those provided from the Trust Fund.

The Trust Fund has two major sources of revenue. The first is the federal excise taxes on motor fuels, which is usually included in the pump price of the fuel even though it is paid by business at the rack or terminal. The second is truck related in the form of truck and trailer sales, heavy vehicle use taxes, and truck tires. The receipts from gasoline taxes (currently 18.4 cents per gallon) are the largest source of revenue for the Trust Fund.

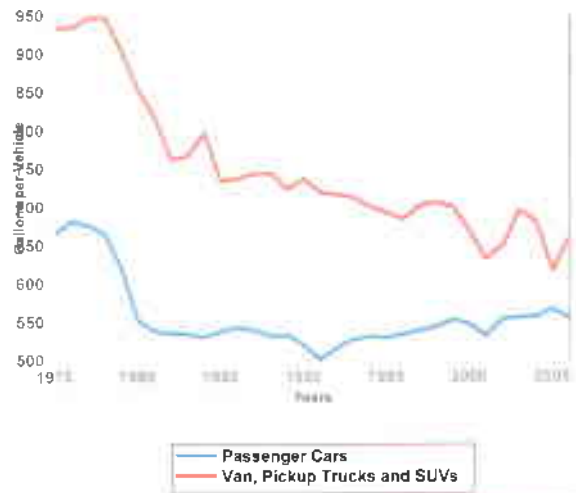
The funds available in the Trust Fund have been declining relative to the demands on the Trust Fund. As indicated in Appendix Table A-1, since 1975 the following structural changes in the U.S. vehicular fleet have occurred:

1. The fuel efficiency of passenger cars has gone from ~~13.8~~ ^{13.8} miles/gallon in 1976 to 22.4 miles/gallon in 2006, the last year for which data is available. Van, pickup trucks and SUV's fuel rates have also climbed during the period while there has been a slight increase in efficiency for trucks.
2. The number of vehicle miles traveled (VMT) per vehicle has increased steadily over the period 1975 to 2006.
3. The increased fuel efficiency has offset the VMT, leading to a decline in the fuel use per vehicle for all vehicle classes except for trucks. Thus Figure 1 illustrated in the impacts on fuel consumption for passenger cars as well as van, pickup trucks and SUVs.

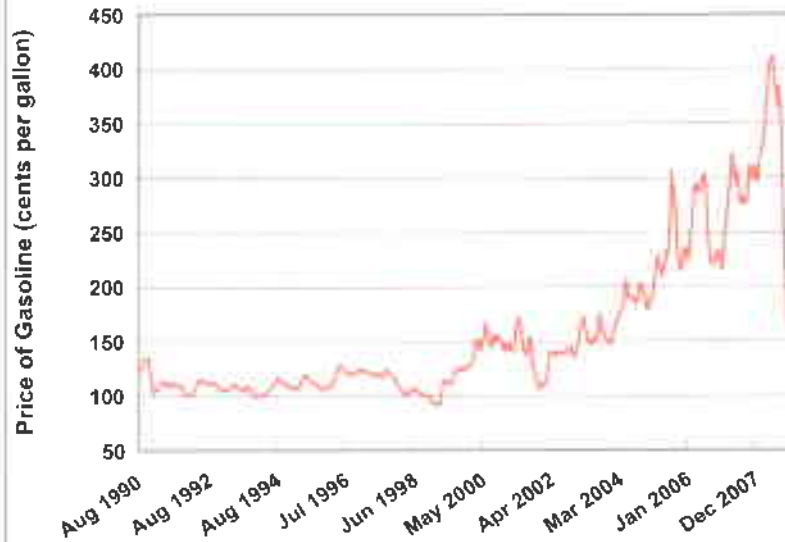
Beginning in 1999 motor fuel prices started an upward climb associated with the increases experienced in world crude prices. Figure 2 illustrates the volatility in regular retail gasoline prices over the past 18 years. After hitting a national average price of \$4.114 per gallon during the week of July 7, 2008, retail prices fell to \$1.784 per gallon during the week of January 12, 2009. This increased volatility, coupled with a widening recession has led to a decline in VMT nationally since 2006 (Figure 2). Figure 3 clearly illustrates the significantly lower vehicle miles driven by month in 2008 compared with 2007. Nationally the decline represents 5.3 percent less driving in November 2008 compared to the previous month.¹ In the case of West Virginia the decline was 6.2 percent over the same period.

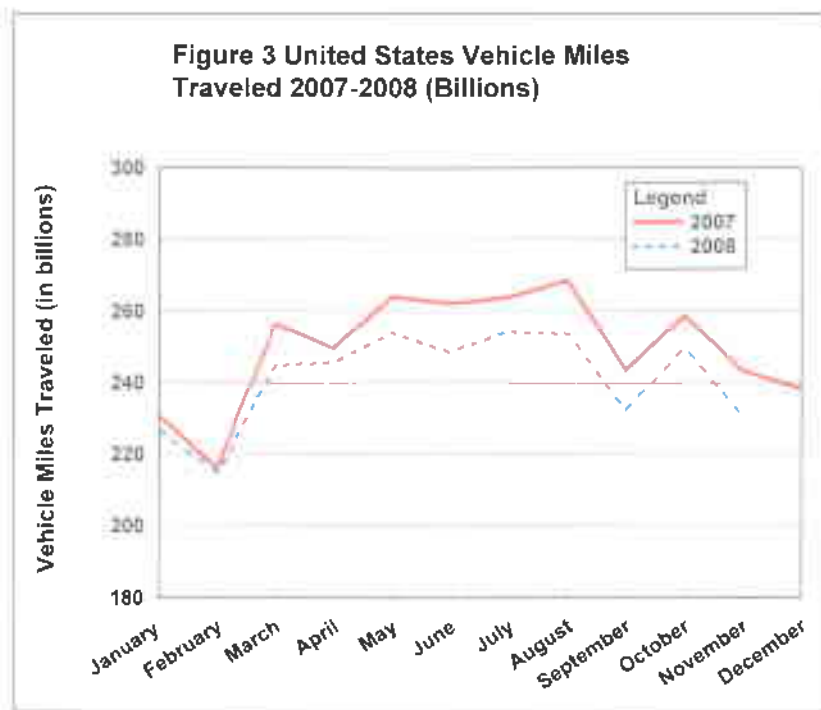
¹ Federal Highway Administration, Traffic Volume Trends, November 2008. Available at <http://www.fhwa.dot.gov/ohim/tvtw/08novtvt/>

**Figure 1 Changing Characteristics of U.S. Vehicles Over the Years:
Fuel Consumption (Gallons per Vehicle)**



**Figure 2 Weekly U.S. Regular Retail Gasoline Prices
(Cents per Gallon)**





Guiding the new administration's decisions will be a variety of recently released studies that examined the long-term financing of transportation needs in the U.S. In 2006 the Transportation Research Board of the National Academies released a comprehensive study on the motor fuel tax and alternatives for the long-term funding of the national transportation system.² This report made the following recommendations related to highway financing:

1. Maintain and reinforce the existing user fee finance system. Through cooperation between federal and state agencies there would be adjustments in user fee rates to provide incentives for more cost-conscious use of the highway system by users. Current fuel tax exemptions should be eliminated where there are abuses so as to reduce tax evasion. Advanced technology vehicles use of the highways should be associated with advances in user fees so that they are apportion some of the cost burden associated with highways.
2. Expand use of tolls and test road use metering. This recommendation would permit states to expand tolling on existing roads built through the federal-aid program. Both states and the federal government would explore trials or pilot implementation of programs permitting road use monitoring and mileage charging.

The American Association of State Highway and Transportation Officials (AASHTO) 2007 study of Highway Trust fund revenue options identified several short term options³:

² Transportation Research Board, *The Fuel Tax and Alternatives for Transportation Funding*, 2006. Available at <http://www.nap.edu>

³ AASHTO, *Revenue Sources to Fund Transportation Needs*, September 2007. Available at www.transportation.org

1. 10-Cent rate increase in the federal motor fuel excise tax with an option that future increases would be indexed to the Consumer Price Index.
2. 5 Percent sales tax on gas
3. 14.2 percent sales tax on gas in lieu of 28.4-cent gas tax

Longer-term AASHTO identified alternatives to either supplement or replace current fuel taxes. These options included a study on the viability of VMT taxes, perhaps in a form similar to the Oregon study.

During the course of its study AASHTO found two problems of more immediate concern. The first was the projected insolvency of the Federal Highway Trust Fund by FY2009 or FY2010, which will require Congressional action. The second was the significant increases in commodity prices for petroleum, concrete, asphalt, steel, and construction machinery, which has significantly reduced the number of transportation projects state and local transportation agencies can fund.

Following the AASHTO study was the release of the Interim Report of the National Surface Transportation Infrastructure Financing Commission, which was established by Congress as authorized in the last major transportation bill SAFET3A-LU.⁴ While the study was not the final report it identifies three major problems nationally with the current financing methods.

1. Given current revenue policies there is a gap between the supply of funds and the demands by users.
2. Current funding options do not promote optimal use of the highway system since the actual use is not linked to the prices paid by users.⁵
3. Decisions regarding funding are politicized and complicated by procedures regarding specific expenditures.

In September 2008 the Trust Fund was projected to be in a deficit after October 1, 2008. Congress authorized and President Bush signed into a law legislation permitting the transfer of \$8 billion into the Trust Fund, which permitted continuation of federal-aid payments to the states. The absence of these payments would have resulted in significant curtailments of highway construction projects around the country. At present Congress is considering an expansion of highway construction and maintenance as

Oregon Road User Fee Pilot Program

The Oregon Department of Transportation designed a pilot program in which on-board mileage-counting equipment was added to vehicles and users paid a road user fee equal to 1.2 cents per mile. Participants filled vehicle tanks at participating service stations. Options explored included separate billing of usage during rush hours. The study was the first in the U.S. exploring alternatives to motor fuel excise taxes. While there are issues involved in costs and installation of the technology as well as interstate travel charges and privacy, the study was the first to explore use of technology in vehicles and fuel vendors to generate funds outside of the motor fuel excise tax. Details of the study are available at www.oregon.gov/ODOT/HWY/RUFPP/mileage.shtml.

⁴ National Surface Transportation Infrastructure Financing Commission, *The Path Forward: Funding and Financing Our Surface Transportation System*, Interim Report, February 2008. Available at <http://nhtinfcommission.dot.gov/>. This website has an extensive set of background documents that were submitted and considered during the Commission's deliberations.

⁵ The issue of how to price road usage was addressed by Robin Lindsey, "Do Economists Reach A Conclusion on Road Pricing? The Intellectual History of an Idea", *Econ Journal Watch*, Volume 3, Number 2, May 2006, pp.292-379.

part of President Obama's stimulus recovery plan. Longer term, however, Congress will need to address the long-term funding of the nation's transportation system.

3.0 Review of Recent West Virginia Studies and Legislative Actions Taken to Bolster Funding for the State Road Fund

The challenge of financing the state's highways has been addressed in recent comprehensive studies. In 2004 the West Virginia Department of Transportation, Division of Highways, commissioned a comprehensive analysis of the State Road Fund by the West Virginia University Bureau of Business and Economic Research (BBER).⁶ The 2004 study analyzed the various revenue streams and expenditures associated with the State Road Fund. Key conclusions from this study included:

- The real inflation adjusted revenues in the State Road Fund has declined in recent years. An increase in one or more revenue sources through tax or user fee hikes is necessary to offset the effects of inflation.
- Over time the State Road Fund has provided funding for state programs that were previously funded by the State General Revenue Fund. This diversion of revenue from its original intended use for highway and bridge construction and maintenance has left the State Road Fund with insufficient resources; consequently, the study recommended shifting the funding for various programs to alternative revenue sources.
- The report recommended that increases in fuel and privilege taxes and registration fees be phased-in rather than be increased in one large increment.
- Increases in motor fuel taxes should be linked to a price index, such as the Federal-aid Highway construction Price Index, to insure the generation of adequate income to maintain highway and bridge construction and maintenance.
- Finally, attention must be given to the rapidly increasing costs associated with the Department of Motor Vehicles (DMV) operations. Consideration must be given to the options of either reducing the growth in the DMV operations or substantially increasing the various license and registration fees.

The 2006 West Virginia Tax Modernization report also addressed funding of the State Road Fund in its final report to Governor Joe Manchin III.⁷ Among the key recommendations affecting this fund by the State Road Fund Subgroup in the October 2006 report are:

- On the issue of revenue stability the Subgroup concluded that the fund does not have sufficient levels of revenues to meet its current requirements. The five cent per gallon motor fuel excise tax scheduled to expire August 1, 2007 should be renewed. The variable component (equal to five percent of the average wholesale price of motor fuel) should be recalculated for a period

⁶ Patrick C. Mann, Mahomet S. Tosun and Tom S. Witt, *Future of West Virginia's Highway System: A Comprehensive Analysis of the West Virginia State Road Fund and Policy Options*, West Virginia University Bureau of Business and Economic Research, August 2004. Available at www.bber.wvu.edu.

⁷ West Virginia Department of Revenue, *2006 Report to Governor Joe Manchin III by the West Virginia Tax Modernization Project*, October 2006.

beginning January 1, 2007 and that the wholesale price be increased from the current rate of \$0.97 to \$1.30.

- To add to revenue stability the minimum privilege tax levied by DMV should be increased from the current charge of \$25 (based on a book value of \$500 or less).
- There were several consumer friendly recommendations that waived inspection fees for new vehicles, reduced registration fee of vehicles titled in other states, and provided for collection of the consumer sales and use tax at time of sale.
- The privilege tax should be changed to a special consumer sales and service tax permitting deductibility on federal tax forms and should be paid on a sale and remitted by the seller.
- There should be a late fee on expired registration and all new registrations commence from the expiration date.
- There should be a re-examination of transfers from the General Revenue Fund to the State Road Fund, the latest transfers being in Fiscal Year 1983. In addition, some expenses should be transferred from the State Road Fund to the General Revenue Fund. The amount of consumer sales and use tax paid for purchases by contractors for use in Department of Transportation projects could be estimated and transferred back into the State Road Fund. Other estimated consumer sales and use tax revenues from the sales of tires and batteries as well as vehicle repairs could be transferred into the State Road Fund.
- Paid advertising on the West Virginia Courtesy Patrol Vehicles could defray their operations and reduces expenses charged to the State Road Fund.
- Department of Transportation accounts and funds could be consolidated thereby providing more administrative flexibility.
- Local option taxes could permit counties to levy additional funds supporting highway construction and maintenance.
- The Subgroup also considered several issues for long-term study including:
 - Alternative funding options for treatment of hybrid and alternative fuel vehicles
 - Possible indexing of registration and other fees to the Consumer Price Index.
 - Possible increase of the privilege tax to six percent, placing vehicle taxation on par with other tax goods
 - Integration of vehicle licensing with registration of personal property at the county level.
 - Consider privatization of the West Virginia Turnpike.

Additionally, in the fall 2006 the Joint Committee on Finance of the West Virginia Legislature commissioned an update of the 2004 study.⁸ This report provided updated forecasts of current State Road Fund revenue sources and outlined additional policy options that were not addressed in the 2004 report. The report duplicated some of the Commission's recommendation due, in part, to the fact that BBER faculty and staff participated in both studies. Among the options considered were:

- Renew five cents per gallon motor fuel excise tax set to expire on August 1, 2007

⁸ Tom S. Witt, *Financing West Virginia's Highways: An Update*, West Virginia University Bureau of Business and Economic Research, January 2007. Available at www.bber.wvu.edu

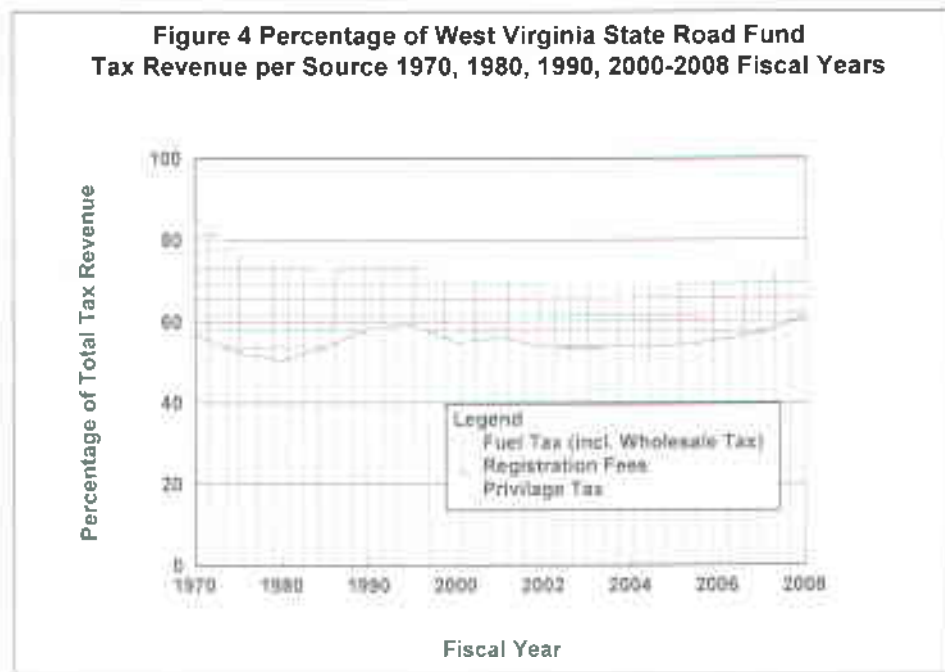
- Increase in the privilege tax from five to six percent and to change to a dedicated sales tax, thereby permitting the deductibility of federal income tax if authorized under federal tax laws.
- Adjustment of selected registration fees to bring in line with other states and adjustment of annual fees by increases in either the Consumer Price Index or Federal-aid Highway Construction Price Index
- Imposition of a late fee on expired registrations and continuation of registration as of the expired date
- Permit local option taxes and fees thereby shifting responsibility for financing to localities which are willing to pay.
- Use of tax increment financing for highway construction and maintenance.
- Examination of public-private partnerships permitting the private sector to deliver a service or facility for use by the general public for a fee
- Other innovative ways of pricing road usage were discussed including the Oregon experiment with a mileage-monitoring system and privatization of toll roads; however, no policy recommendations were made
- The lack of a sales and use tax exemption for purchases by contractors for specific use in state transportation project results in a transfer from the State Road Fund to the State General Fund. To remedy this subsidy, the State Tax Department could estimate the amount collected and transfer it back to the State Road Fund
- A portion of the sales tax collections on tires, batteries and vehicle repairs could be transferred to the State Road Fund in order to provide additional funds.
- Reaffirmed 2004 report recommendation that two programs-West Virginia State Policy and Public Service Commission Weight Enforcement-could have funding provided from the General Revenue Fund versus current funding from the State Road Fund
- Reaffirmed 2004 report recommendation to curtail cost growth associated with DWV
- Develop alternative user fee funding options for alternative fuel and hybrid vehicles to insure their continued contribution to the State Road Fund.

Over the past four years the West Virginia Legislature has passed legislation addressing many of the recommendations in these reports. Among the legislative actions are the following:

- Renewal of the five cent per gallon motor fuel excise tax that expired August 1, 2007 with an expiration on August 1, 2013 (Code of West Virginia §11-14C-5)
- Shift privilege tax of five percent to a sales tax permitting deductibility on federal income tax filing
- Estimate the amount of sales and use exemptions for purchases by contracts for specific use in West Virginia Department of Transportation projects within the State and allocate these funds from the State General Revenue Fund to the State Road Fund (Code of West Virginia §11-15-9 (b) 6). In June 2008 the West Virginia Department of Revenue transferred \$12,702,171.33.
- Shifted programs currently funded out of the State Road Fund to other funding sources. For example, the Courtesy Patrol's primary source of funding comes from the Tourism Promotion Fund. (Code of West Virginia §5B-2-12).

- Changes made in the motor fuel excise tax through Governor's Executive Orders and legislative action (see next section).
- Permitting counties the authority to impose, administer, collect and enforce payment of voter-approved service fees for the purpose of providing special infrastructure projects such as highway construction and maintenance within the county (known as the Local Powers Act) (Code of West Virginia §7-20-11 through §7-20-24). The implementation of this act in Monongalia County is discussed later in this document.

Tax revenues collected in the State Road Fund from fiscal year 1972 through fiscal year 2008 are presented in Appendix Table A-2. While there appears to be growth in the funds available over this period, the previous BBER studies clearly documented the decline in the real value (inflation adjusted) of the State Road Fund since the late 1990s. Appendix A Table 3 presents all revenue sources in the State Road Fund from fiscal year 1982 to the present along with the percent of total associated with these funds.⁹ Figure 4 illustrates the changing composition of the three major tax revenue sources over time.



As is evident from this figure, the fund had an increasing reliance on privilege tax revenues until around fiscal year 2004 and a declining reliance on registration fees over the entire period.

⁹ Besides the tax revenues associated with the motor fuel, registration and privilege tax, other funding sources include highway litter controls, industrial access road transfers and miscellaneous revenues.

4.0 Recent Changes in West Virginia's Motor Fuel Excise Tax and Implications for the State Road Fund

West Virginia's motor fuel excise tax is composed of two elements. First is a basic tax rate of 20.5 cents per gallon imposed upon every distributor, producer, retail dealer, importer or user, based on the quantities of all gasoline or special fuel sold or used in the state. This basic rate is composed of two parts: (1) base rate of 15.5 cents per gallon and (2) an addition rate of five cents per gallon set to expire on August 1, 2013. The ideal rate would be a combined rate of 20.5 cents per gallon, representing no incremental income and the elimination of any statutory language mandating a roll back.

The second component of the rate is a consumer sales and use tax on the sale of gasoline and special fuel, imposed at the wholesale level on distributors and importers. The average wholesale price of gasoline is determined annually based on sales data supplied by distributors and other information. The average wholesale price is the single statewide average wholesale price per gallon, rounded to the third decimal, exclusive of state and federal excise taxes, but not less than \$0.97 per gallon, times the rate of five percent. This tax was enacted in 1983 and was equivalent to 4.85 cents per gallon in 2004. This was raised to 6.5 cents per gallon in 2005.

In estimating tax yields it is often assumed that each cent of tax levied generates \$11 million for the retail and \$14 million for the wholesale components of the motor fuel tax. The difference in the yield is based upon a broader tax base for the wholesale tax (based upon a survey of the average wholesale price of all fuels sold in West Virginia). The following table summarizes the rates from selected years from 1983-2009.

Calendar Year	Tax Rate (¢ per gallon)	Notes
1978	10.50	
1983	15.35	Includes wholesale tax of 4.85
1989	20.35	Includes wholesale tax of 4.85
1993	25.35	Includes wholesale tax of 4.85
2001	25.65	Includes wholesale tax of 5.15
2002	25.35	Includes wholesale tax of 4.85
2005	27.00	Includes wholesale tax of 6.5
2006	27.00	Rate frozen by Governor's Executive Order
2007	31.50	Includes wholesale tax of 11.0
2008	32.20	Includes wholesale tax of 11.7
2009	32.20	Rate frozen by legislative action

In November 2005 the Tax Department reported that the final average wholesale price on gasoline and special fuel for the period July 1, 2005 through October 31, 2005 was \$2.01 per gallon, an increase of \$0.71 from the \$1.30 average for 2004. This increase was due to the substantial increase in gasoline prices following Hurricane Katrina, among other things. Under West Virginia law, this increase would have resulted in an increase in the wholesale component from 6.5 cents per gallon to 10.05 cents per

gallon, resulting in a total motor fuel tax rate of 30.55 cents per gallon. A projection of the additional revenue accruing to the State Road Fund if the higher rate went into effect would be at least \$50 million over the period February 2006 through January 2007 due to the one month lag in collections. Gov. Manchin issued an executive order freezing the wholesale rate (tax holiday) at the rate of 6.5 cents per gallon for 2006.

Tax holidays, such as enacted in West Virginia in 2006, have been examined in detail by economists.¹⁰ These temporary measures are very popular with consumers and lawmakers; however, they introduce costly economic distortions by temporarily shifting tax burdens from some industries and products to others temporarily. In addition, such holidays may introduce unnecessary instability in tax laws and in some instances, may have increased administrative costs.

In November 2006 the Tax Department reported that the final average wholesale price on gasoline and special fuel for the period July 1, 2006-October 31, 2006 was \$2.206 per gallon, an increase of almost \$0.20 from the 2005 average. The Tax Commissioner issued Administrative Notice 2006-22 announcing that the wholesale component would now be 11.0 cents per gallon, making the motor fuel excise tax 31.5 cents per gallon, effective January 1, 2007. The additional funds from this tax increase would begin in February 2007. The estimated additional funds accruing annually to the State Road Fund from this increase of 4.5 cents per gallon are estimated to be around \$63 million.

For calendar year 2008 the Tax Commissioner issued Administrative Notice 2007-24 announcing that the wholesale or variable components would be 11.7 cents per gallon, based upon an average wholesale price of motor fuel of \$2.34045 for the period July 1, 2006-October 31, 2007. This increased the motor fuel tax rate to 32.2 cents per gallon for calendar year 2008.

During the Second Special Session of the 2008 Legislature HB 218 was passed and signed into law by Governor Manchin. This bill amends and reenacts Code of West Virginia §11-14C-48 establishing the Motor Fuel Excise Tax Shortfall Reserve Fund that consists of funds transferred to the General Revenue Fund for the purpose of accumulating funds in light of motor fuel excise tax receipts shortfalls below the official revenue estimates. Under this legislation a fund totaling \$40 million was established with \$20 million allocated to shortfalls during calendar year 2008 and \$20 million for shortfalls during calendar year 2009. This legislation has guidelines for the determination of motor fuel excise tax revenues for the following periods:

- Fiscal year ending June 30, 2008
- Monthly shortfalls for the period of July 2008-December 2009.

For calendar year 2009 the Tax Commissioner issued Administrative Notice 2008-28 announcing that the wholesale or variable component would be 11.7 cents per gallon, based upon an average wholesale price of motor fuel for the period beginning January 1, 2009 and ending December 31, 2009 shall be \$2.34 per gallon for purposes of the tax computation. This resulted in an extension of the variable tax to

¹⁰ Jonathan Williams and Andrew Chamberlain, "Temporary Gasoline Tax Holidays: Relief for Motorist or Poor Tax Policy?" *State Tax Notes*, August 21, 2006, pp 531-533.

11.7 cents per gallon during 2009. It is not known what the average wholesale price would have been during the survey period (July 1, 2008–October 31, 2008); however, it should be noted that the peak in U.S. gasoline and diesel prices occurred during the first half of July 2008 when diesel retail average was \$4.764 per gallon (July 14, 2008) and gasoline retail was \$4.114 per gallon (July 7, 2008). Following the peak, the prices fell through the fall.¹¹ If the average wholesale price during the period was, say \$3.30, the variable component of the motor fuel tax would have been 16.5 cents per gallon, for a total motor fuel tax of 37.0 cents per gallon. The lost revenue to the State Road Fund from keeping the rate at 32.2 cents per gallon is in the range of \$62 million assuming a yield of \$14 million per cent and the estimated variable or whole tax rate of 16.5 cents.

During calendar year 2008 a total of \$12,680,775.97 was transferred out of the Motor Fuel Tax Shortfall Reserve Fund to the State Road Fund due to shortfalls in collections from those officially estimated by the Tax Department.

West Virginia's current motor fuel tax rate of 32.2 cents per gallon ranks as the 10th highest in the country. States with rates above West Virginia include New York, Washington, California, Connecticut, Hawaii, Nevada, Wisconsin, Illinois and Pennsylvania. Appendix Figure A-1 and A-2 presents the motor gasoline taxes and motor diesel taxes (inclusive of federal and state averaged across octane), respectively by state.

5.0 Principles of Highway Public Finance¹²

Highways or roads have some characteristics of a public good. Economists define a public good as a good that has non-rival and non-excludable properties. A non-rival good does not suffer from congestion, which means that additional users do not diminish the quantity available for existing users. A good is non-excludable if it is too costly or simply impossible to prevent other people from consuming it. Roads are partially non-rival until too many users cause congestion. Also, it might be very costly to prevent drivers from using some roads.

In assessing the provision of public goods, such as highways, economists use several different criteria to evaluate the various types of revenues used. These criteria include:

- Efficiency—which focuses on taxes varying positively with mileage driven and vehicle weight and taxes varying negatively with the number of vehicle axles.
- Equity, which incorporates concepts of ability-to-pay (taxes should be distributed in accordance with income or wealth), benefits received (taxes should be distributed in accordance with the benefits received from the highway system, and cost causation (taxes should be distributed in accordance with highway expenditures caused)
- Administration (cost efficiency), which focuses on administrative, enforcement and compliance costs.

¹¹ Energy Information Administration, U.S. Department of Energy, Weekly Gasoline and Diesel Prices, www.eia.doe.gov

¹² This section is based, in part, on the 2007 BBER report.

- Stability, which focuses on revenue stability over time

First tier taxes include registration fees and vehicle privilege taxes. Conceptually, first tier taxes should cover the fixed operating costs of the highway system. Second tier taxes should cover the construction costs of the highway system. Third tier taxes include weight-distance and axle-weight-distance taxes. Conceptually, third tier taxes should track the operation and maintenance costs that users impose on the highway system.

The fundamental justification for the use of motor fuel taxes (third tier) is to provide for a major portion of highway costs is the benefits received principle of taxation. Most public finance economists believe this is the soundest tax policy in that the consumers of government services are taxed in proportion to the benefits they receive from these services. The logic behind this is the fact that motor fuel usage has a high correlation with the operation and maintenance cost imposed by users. In this sense, motor fuel excise taxes serve as a user fee and thus meet the benefits received principle of taxation.¹³

Highways can be provided both privately and publicly. There are numerous private toll roads in the United States that charge drivers user fees. However, conventional economic theory argues that public goods are going to be underprovided by the private sector because entrepreneurs cannot effectively charge all consumers a fee and prevent all non-paying beneficiaries of public goods from consuming them. This leads to a socially suboptimal provision of roads due to the inability of the private sector to capture in prices all highway related benefits and externalities.

A public sector provision of highways could, in theory, result in a more optimal capture of these benefits and externalities through taxes or user fees. For example, motorists pay for their usage of highways and roads in motor fuel or gasoline taxes and fees that can be spent on road maintenance, safety, and clean up. These revenues could be used to compensate for highway related externalities such as pollution, noise, and accidents¹⁴. Ideally, one would want to tax motorists, businesses, and residents in proportion to the benefits they receive from the publicly provided transportation infrastructure and compensate them for road noise and pollution.

While motor fuel taxes and fees might approach this ideal tax instruments with respect to motorists, they omit businesses and residents who might be affected by highway related externalities. For instance, a motor fuel tax may not capture the benefits of economic development that might accrue to the local businesses and residents from a new road or highway construction in their area. The ability of motor fuel taxes and fees to accurately target highway "consumers" will be further compromised as alternative sources of energy become available. A more comprehensive highway financing strategy is needed in order to allocate the financial burden in accordance with benefits received. This comprehensive highway financing strategy would have to look beyond motor fuel taxes and user fees. For example, general revenue funds, local option sales and property taxes could be used to finance

¹³ Jonathan Williams, "Paying at the Pump: Gasoline Taxes in America", *State Tax Notes*, April 14, 2008. Provides a history of the gasoline tax and its theory, incidence, and controversies.

¹⁴ Gillen, D., D. Levinson, and A. Kanafani (1998). "The Social Costs of Intercity Transportation: A Review and Comparison of Air and Highway," *Transport Reviews*, Vol. 18, pp. 215-240.

highway construction and maintenance in addition to motor fuel taxes. The benefits to business and residential areas from a new road or highway construction could be captured with tax increment financing (TIF), for example.

Many states recognize that user fees and taxes are insufficient for the funding of public highways. In Appendix Table xx is a comparison of the revenues used by states (including the District of Columbia) in 2005 for the construction and maintenance of highway systems.¹⁵ The following are some key findings from this table:

- In 2005 29 states reports using appropriations from general revenue funds for highway uses. The amount report represents gross general fund appropriates reduced by the amount of highway-user revenues placed in the State General Fund. In part, these appropriations may reflect recognition of the public benefits accruing beyond the highway user revenues dedicated to highways.
- In 2005 33 states reported other state imposts in support of highways.
- In 2005 all states and the District of Columbia reported miscellaneous revenues in support of highways. In the case of West Virginia these funds may have come from miscellaneous revenues (maps sales, etc) and possibly interest income.
- Based upon the data, it is apparent that nearly all states supplement highway user fees (motor fuel taxes, motor vehicle and motor carrier taxes and road and crossing tolls) with other revenue

The previous reports on this subject have addresses a variety of options for augmenting revenues for the construction and maintenance of the West Virginia highway system. A number of these options were documented in the review of the BBER and West Virginia Tax Modernization Report above. One option that appeared to be promising was the passage of Senate Bill 673 during the 2006 of the West Virginia Legislature. This act, known as the Local Powers Act, permits counties the authority to impose, administer, collect and enforce payment of voter-approved service fees for the purpose of providing special infrastructure projects such as highway construction and maintenance within the county. This act was used by the County Commission of Monongalia County to design a countywide service fee to finance construction of certain infrastructure projects that had been identified by the Greater Morgantown Metropolitan Planning Organization.

The County Commission established the date of February 2, 2008 for a special election permitting the levying of a \$2.00 per week user fee on all employees within Monongalia County. The funds from the fee would be used to issue bonds that would fund \$180 million in 18 transportation projects within Monongalia County. Only 2,542 voted in favor of the user fee while 11,048 people voted against the fee. While there were a number of issues addressed during the period prior to the vote, the following were most prominent.

- Since the user fee was a flat fee levied on all full- and part-time wage earners, it was viewed as being highly regressive. That is, the percent of wage and salary income paid declined rapidly as this income increased.

¹⁵ Federal Highway Administration, *Highway Statistics 2005*, Table SF-1. Available from www.fhwa.dot.gov

- Many voters perceived that passage of the fee and resulting bonding and construction would result in a diversion of state highway construction and maintenance to other parts of the state. State highway officials indicated that such diversions would not be made but many voters did not believe in these reassurances.
- Questions were raised about the 'fairness' of a fee being levied on out of county residents who are employed in Monongalia County. On the other hand, the fee permitted the export of the burden to out of county residents. Approximately one-fourth of employees in Monongalia County commute from other counties.

There are several lessons that could be learned from this election outcome. First, the use of a wage based user fee raises issues of equity and incidence. The magnitude of the fee is fairly significant for low-wage, part-time employees. Second, the use of alternatives such as a general sales tax or local motor fuel excise tax might either spread the burden more widely or track better with the benefits received from improvements in local roads. Finally, there was little incentive for voter approval to take care of local needs if voters believed passage would preclude access to state funds. Linking local revenues raised to a state matching program could increase the incentives for passage.

6.0 The Economic Outlook for Future Highway Financing in West Virginia

West Virginia, along with the rest of the country, is now facing the possibility of a prolonged recession, possibly the most severe in the post-World War II era. On Friday, February 6, 2009 the Bureau of Labor Statistics released the January 2009 employment report. The U.S. economy lost 598,000 jobs from December and has lost 3.6 million jobs since the recession started in December 2007. The national unemployment rate increased to 7.6 percent, the highest since 1992. If marginally attached and underemployed workers are added to the unemployment rate, the rate could be as high as 13.9 percent. Some economists believe the U.S. unemployment rate will reach above 9 percent before the economy starts to grow again. HIS Global Insight's January 2009 forecast update calls for the most severe synchronized global downturn of recent times and perceives a turnaround to anemia positive growth in late 2009.¹⁶

Adding to the deterioration on the job front is the continued decline in retail sales, including automotive sales. Last week the January 2009 U.S. auto sales were released. The following were the declines in market segment sales in January 2009 compared to one year earlier: cars down 36.3%, light duty trucks down 37.8%; and total SUV/Cross-over down 35.4%.

West Virginia has weathered the downturn better than most states. In November 2008 BBER released its West Virginia economic outlook forecast for 2009 and beyond.¹⁷ Dr. George Hammond, author of the report, called for West Virginia to suffer job losses during 2009 followed by a rebound through 2014. In his view the job losses will be less severe than experienced nationally; however, the major risk to the forecast was the possibility of a more severe national downturn.

¹⁶ HIS Global Insight, *U.S. Executive Summary*, January 2009.

¹⁷ George Hammond, *West Virginia Economic Outlook 2009*, Bureau of Business and Economic Research, West Virginia University, November 2008. Available at www.bber.wvu.edu.

What are the implications of this recession on revenues accruing to the State Road Fund? The declines in vehicle miles traveled nationally and in West Virginia will result in at least a six percent reduction in motor fuel consumption, thereby affecting motor fuel tax revenues. Table 2 summarizes motor fuel tax collections and tax rates for the past six years.

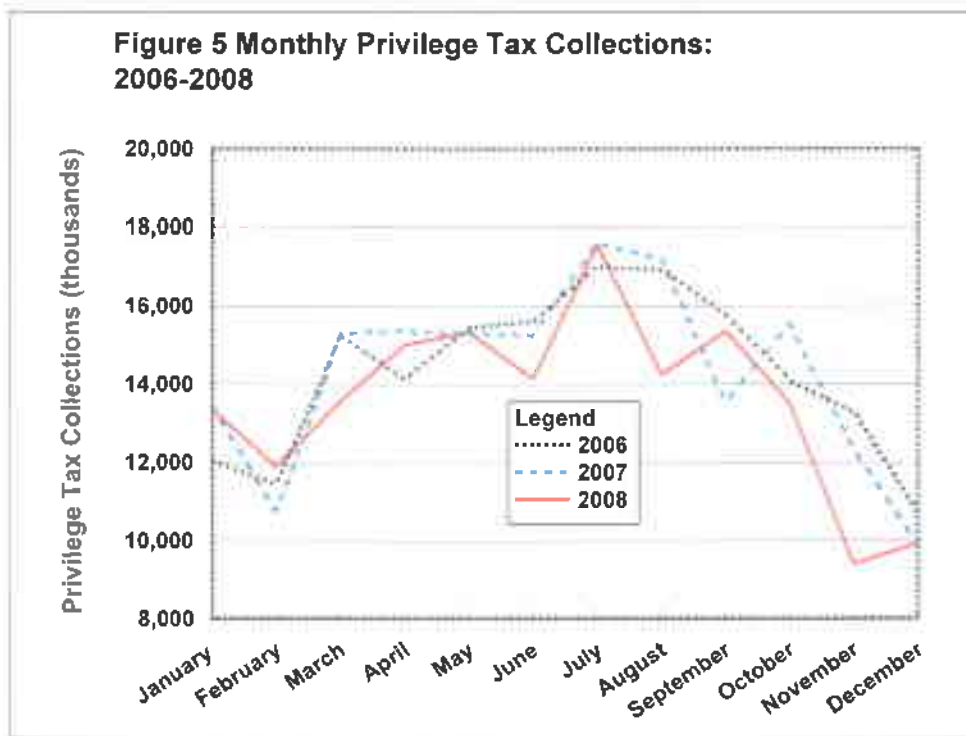
Table 2 Motor Fuel Tax Collections and Rates			
Calendar Year	Tax Collections (thousands)	Tax Rate (¢ per gallon)	Yield Per ¢ (thousands)
2003	\$297,906	25.35	\$11,752
2004	295,864	25.35	11,672
2005	323,966	25.35	13,786
2006	324,777	27.00	12,029
2007	377,176	31.50	11,974
2008	403,002	32.20	12,515
<i>2009 Estimated</i>	<i>378,350</i>	<i>32.20</i>	<i>11,750</i>

Source: West Virginia State Auditor's Office

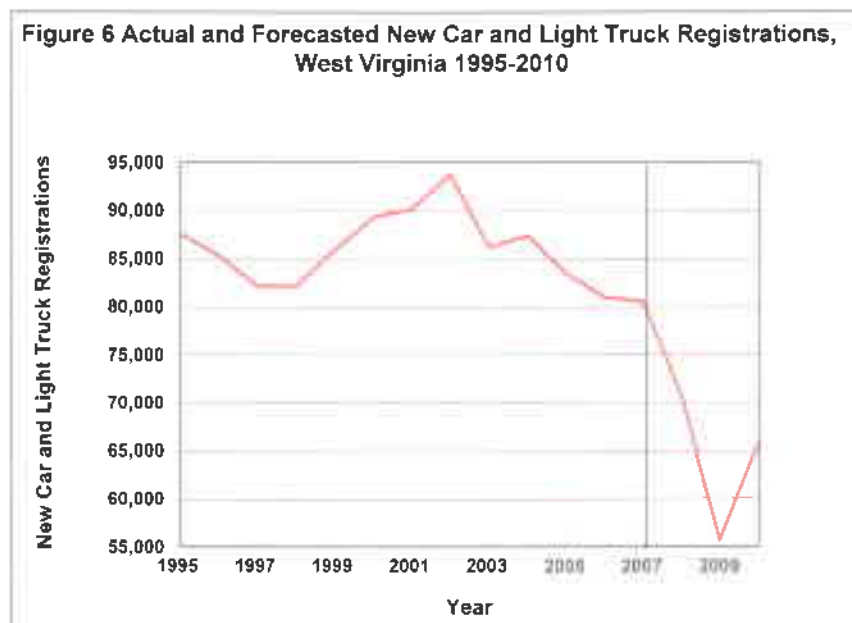
During calendar year 2009 the tax rate will remain at 32.20 cents per gallon. If one starts with the yield in 2008 and discounts it by 6.0 percent due to a decline in the number of miles driven (based upon FHWA data earlier in this report) and continued deterioration in the overall economy, then the yield per one cent would be estimated at \$11,750, which is still in line with the prior year yield. The estimated total revenues from the motor fuel tax in 2009 would be \$378 million.

Looking longer term, however, it is likely that the variable component of the tax might decline in line with much lower crude oil, diesel and gasoline prices. In December 2008 the spread between diesel (ultra low sulfur on highway) and gasoline (all grades) was nearly 56 cents but this spread had narrowed to around 30 cents by early February 2009. Some of the upward pressure on the statewide average wholesale price of motor fuel (used to calculate the variable component of the motor fuel tax) in the past several years was due to the considerably higher price of diesel compared to gasoline. As this differential is narrowed and crude oil prices remain relatively low, the average wholesale price may weaken, leading to a potential decline in the variable tax component from its current level of 11.7 cents per gallon. For each one cent decline the estimated revenue loss could be upwards of \$14 million.

The continued deterioration in the national and state economy will affect the amount of privilege tax paid into the State Road Fund. Over the last several years there the monthly collections have been lower for many months compared to the previous year. Figure 5 charts the monthly patterns in the monthly privilege tax collections over the period 2006-2008. During the period July 1, 2008-December 31, 2008 privilege tax revenue collections were estimated to be \$96,878,000 compared to \$90,595,000, a shortfall of \$6,283,000.



IHS Global Insight has released its forecasts of car and light truck (Figure 6), which shows a decline of nearly 41 percent in new vehicle registrations from 2002 to 2009.



Source: IHS Global Insight-US Regional Service, West Virginia Winter 2009 Forecast

Table 3 summarizes the IHS Global Insights new vehicle registrations on a quarterly basis through the first quarter of 2010. It is obvious that within the next year there may be a significant decline in new vehicle registrations which will lead to significant erosion in privilege tax receipts. If one assumes the loss in new vehicle registrations is 30,000 per year and the average selling price is \$22,000 per vehicle, then the lost privilege tax revenue is \$33 million. In addition, the slowing economy may reduce used car sales further reducing privilege tax revenues.

Year and Quarter	New Vehicle Registrations (Annualized Value)
2008Q1	77,300
2008Q2	77,200
2008Q3	70,800
2008Q4	57,200
2009Q1	48,900
2009Q2	51,500
2009Q3	56,700
2009Q4	61,400
2010Q1	65,600

Source: HIS Global Insight-US Regional Service, West Virginia January 2009 Update

Registration fees are the third major tax revenue source for the State Road Fund. The slowing economy may have some impact on this revenue stream but it will be minor compared with the potential impacts on motor fuel and privilege tax revenues. It should be noted that very few changes have been made in registration fees over the past twenty years. Since the state's population has shown little growth and these fees are not indexed to inflation, their relative contribution to the State Road Fund revenues has been slowly declining over time.

7.0 Concluding Observations and Recommendations

In recent years the West Virginia Legislature has taken significant action to bolster the revenues dedicated to the State Road Fund. Diversions from the fund have been significantly reduced and collections have been enhanced through the tax at the rack legislation. The five cent excise tax component of the motor fuel tax was renewed through August 1, 2012. The privilege tax has shifted to a sales tax permitting its deductibility on federal income tax filing. An option for voter-approved service fees at the local level for infrastructure projects was approved.

These efforts, however, do not solve the long-term short-fall between revenues and expenditures associated with the State Road Fund. Vehicles continue to be more energy efficient thereby reducing their consumption of motor fuels each year. The continued market penetration by alternative fuel and electric power vehicles threatens revenues associated with the 'gas tax'. Aging of the population will result in reduced vehicle miles traveled. Stabilization of crude oil prices in the \$40-\$65 range may result in lower variable components of the motor fuel tax. All of these trends will reduce proceeds from the current motor fuel excise tax.

As the nation and state moves into a severe recession, fewer new vehicles will be purchased and titled in West Virginia. This has potential for significant declines in the privilege tax revenues and minor reductions in registration fees. The long-term outlook is even more dismal when one realizes the State Road Fund revenues are not keeping up with the inflation in highway and bridge construction and maintenance.

The following are some recommendations for consideration by the West Virginia Legislature.

- Combine the motor fuel excise tax and variable tax at one rate of 32.2 cents per gallon beginning in 2010. This may avoid a significant revenue loss if the variable rate falls below 11.7 cents per gallon due to low crude, gasoline and diesel prices.
- Establish new registration category and higher registration fee for alternative fueled vehicles. The annual fee increment would reflect the foregone motor vehicle excise tax revenues that would have been paid annually.
- Change the date for receipt of motor fuel collections from the last day of the month to the 23rd day of the month. This will eliminate the volatility in collections from month to month when the last day falls either on a weekend or holiday.
- Consider establishment of more options and incentives for counties to enact local option taxes for infrastructure improvements. Options could include expansion of service fees from those levied on employee wages to local option motor fuel or sales taxes. One incentive could be the establishment of a funding program within the State Road Fund which matches on a 2 for 1 basis locally generated funds.
- Increase the privilege tax from five to six percent, a rate comparable to the general consumer sales and use tax.
- Increase registration fees by a given dollar amount or percent with the possibility of indexation in future years to inflation as measured by the consumer price index.

Appendix

Table A-1
The Changing Characteristics of U.S. Vehicles Over the Years
Motor Vehicle Mileage, Fuel Consumption and Fuel Rates

CY	Passenger Cars			Van, Pickup Trucks and SUV's			Trucks			All Motor Vehicles		
	Mileage miles/vehicle	Fuel Use gallon/vehicle	Fuel Rate miles/gallon	Mileage miles/vehicle	Fuel Use gallon/vehicle	Fuel Rate miles/gallon	Mileage miles/vehicle	Fuel Use gallon/vehicle	Fuel Rate miles/gallon	Mileage miles/vehicle	Fuel Use gallon/vehicle	Fuel Rate miles/gallon
1975	9,309	665	14.0	9,829	934	10.5	15,167	2,772	5.6	9,627	790	12.2
1976	9,418	681	13.8	10,127	934	10.8	15,438	2,764	5.6	9,774	800	12.1
1977	9,517	676	14.1	10,607	947	11.2	16,700	3,002	5.6	9,778	814	12.3
1978	9,500	665	14.3	10,968	948	11.6	18,045	3,263	5.5	10,077	816	12.4
1979	9,062	620	14.6	10,802	905	11.9	18,502	3,380	5.5	9,722	776	12.5
1980	8,813	551	16.0	10,437	854	12.2	18,736	3,447	5.4	9,458	712	13.3
1981	8,873	538	16.5	10,244	819	12.5	19,016	3,565	5.3	9,477	697	13.6
1982	9,050	535	16.9	10,276	762	13.5	19,931	3,647	5.5	9,644	686	14.1
1983	9,118	534	17.1	10,497	767	13.7	21,083	3,769	5.6	9,760	686	14.2
1984	9,248	530	17.4	11,151	797	14.0	22,550	3,967	5.7	10,017	691	14.5
1985	9,419	538	17.5	10,506	735	14.3	20,597	3,570	5.8	10,020	685	14.6
1986	9,464	543	17.4	10,764	738	14.6	22,143	3,821	5.8	10,143	692	14.7
1987	9,720	539	18.0	11,114	744	14.9	23,349	3,937	5.9	10,453	694	15.1
1988	9,972	531	18.8	11,465	745	15.4	22,485	3,736	6.0	10,721	688	15.6
1989	10,157	533	19.0	11,676	724	16.1	22,926	3,776	6.1	10,932	688	15.9
1990	10,504	520	20.2	11,902	738	16.1	23,603	3,953	6.0	11,107	677	16.4
1991	10,571	501	21.1	12,245	721	17.0	24,229	4,047	6.0	11,294	669	16.9
1992	10,857	517	21.0	12,381	717	17.3	25,373	4,210	6.0	11,558	683	16.9
1993	10,804	527	20.5	12,430	714	17.4	26,262	4,309	6.1	11,595	693	16.7
1994	10,992	531	20.7	12,156	701	17.3	25,838	4,202	6.1	11,683	698	16.7
1995	11,203	530	21.1	12,018	694	17.3	26,514	4,315	6.1	11,793	700	16.8
1996	11,330	534	21.2	11,811	685	17.2	26,092	4,221	6.2	11,813	700	16.9
1997	11,581	539	21.5	12,115	703	17.2	27,032	4,218	6.4	11,107	711	17.0
1998	11,754	544	21.6	12,173	707	17.2	25,397	4,135	6.1	12,211	721	16.9
1999	11,848	553	21.4	11,957	701	17.0	26,014	4,352	6.0	12,200	732	16.7
2000	11,976	547	21.9	11,672	669	17.4	25,617	4,391	5.8	12,164	720	16.9
2001	11,766	532	22.1	11,140	633	17.6	26,431	4,491	5.9	11,800	692	17.1
2002	12,202	555	22.0	11,364	650	17.5	27,071	4,642	5.8	12,171	719	16.9
2003	12,325	556	22.2	11,287	697	16.2	28,093	4,215	6.7	12,208	718	17.0
2004	12,497	557	22.4	11,044	682	16.2	27,719	4,157	6.7	12,190	715	17.1
2005	12,510	567	22.1	10,920	617	17.7	26,235	4,385	6.0	12,082	706	17.1
2006	12,427	554	22.4	11,857	660	18.0	27,295	4,640	5.9	12,408	720	17.2

Source: Federal Highway Administration, Highway Statistics (Table VM-1)

Figure A-1 Motor Gasoline Taxes as of January 2009
 (includes Federal tax of 18.4 cpg)

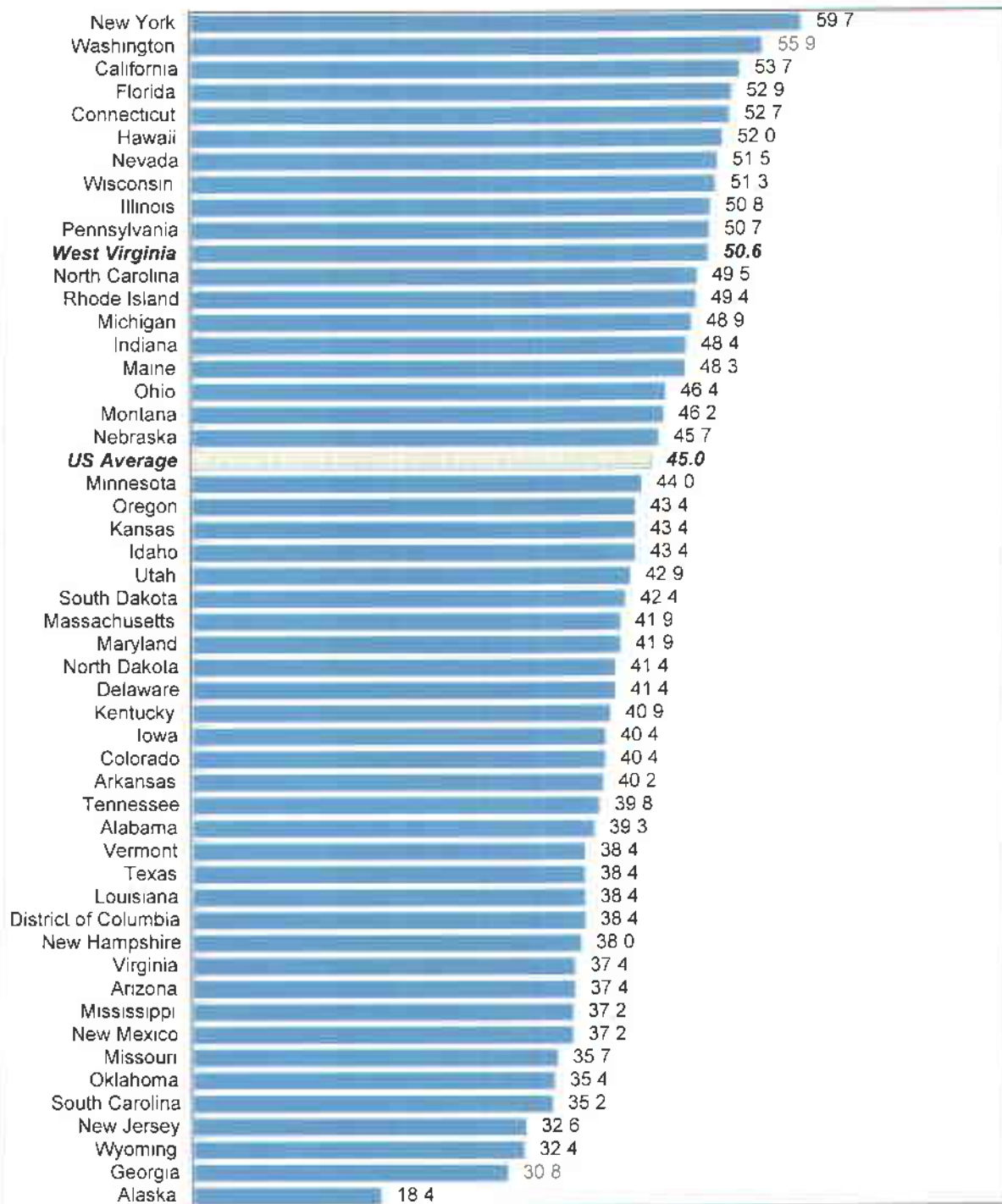
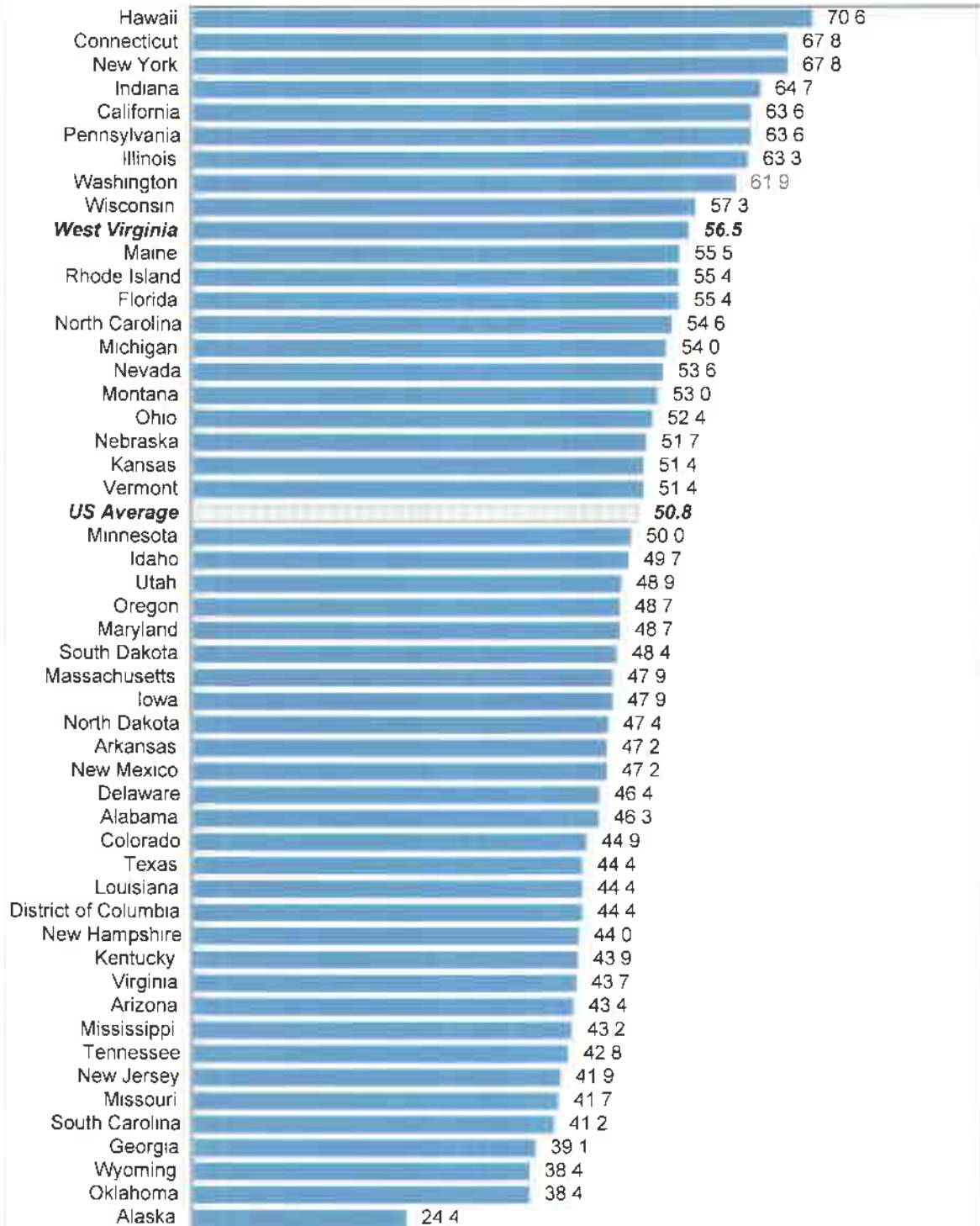


Figure A-2 Motor Diesel Taxes as of January 2009
 (includes Federal tax of 24.4 cpg)



**Table A-2
West Virginia State Road Fund Tax Revenue Sources**

FY	Gasoline Tax (thousands \$)	Wholesale Tax (thousands \$)	Registration Fees (thousands \$)	Privilege Tax (thousands \$)	Total Dedicated Tax Revenues (thousands \$)
1972	66,265	N/E	28,157	24,239	118,661
1973	69,059	N/E	33,579	29,048	131,686
1974	72,850	N/E	30,718	28,049	131,617
1975	73,097	N/E	34,430	32,387	139,914
1976	81,858	N/E	36,884	41,572	160,314
1977	79,522	N/E	36,880	46,021	162,423
1978	84,333	N/E	39,556	53,085	176,974
1979	111,194	N/E	49,712	61,070	221,976
1980	102,802	N/E	48,484	52,699	203,985
1981	97,320	N/E	46,223	48,111	191,654
1982	99,284	N/E	51,097	54,539	204,920
1983	103,891	7,520	53,239	55,029	219,679
1984	101,834	54,759	53,026	67,770	277,389
1985	98,832	54,790	54,296	77,195	285,113
1986	99,586	54,835	55,113	81,604	291,138
1987	107,787	57,667	57,593	87,556	310,603
1988	110,279	62,902	55,779	87,678	316,638
1989	116,833	60,650	60,733	93,208	331,424
1990	157,830	60,131	60,807	94,911	373,679
1991	151,792	61,483	64,738	89,528	367,541
1992	155,540	60,754	67,396	90,166	373,856
1993	165,426	63,252	68,819	97,775	395,272
1994	214,858	63,152	70,413	111,925	460,348
1995	212,554	64,889	70,047	122,489	469,979
1996	206,363	64,234	76,418	120,450	467,465
1997	203,313	67,466	75,297	126,140	472,216
1998	221,726	68,073	81,543	133,712	505,054
1999	227,078	68,779	79,788	143,506	519,151
2000	224,256	69,671	87,483	155,598	537,008
2001	224,426	71,265	77,440	154,370	527,501
2002	230,141	73,230	85,929	172,472	561,772
2003	221,338	67,835	86,238	167,723	543,134
2004	272,398	36,920	83,146	177,000	596,464
2005	311,625	N/E	88,074	176,495	576,194
2006	320,757	N/E	86,976	171,479	579,212
2007	349,172	N/E	87,058	173,306	609,536
2008	404,223	N/E	86,396	169,463	660,082

Source: West Virginia Department of Transportation, Division of Highways
 1970 – 1981 digest of revenue sources in West Virginia (fiscal year 2002)
 1982 – 1987 analysis of receipts and expenditures (where all your tax dollars goes) produced yearly by the State Auditor's Office
 1988 – 1993 Office of State Auditor revenue as of 6/30/xx
 1994 -2005 State of West Virginia Financial Information Management System Revenues as of 6/30/xx (issued by State Auditor)

Notes: There was not a Wholesale Tax prior to 1983
 N/E Non Existent

* indicates partial year

TableA- 3
West Virginia State Road Fund Tax and Revenue Sources

Fiscal Year	Gasoline Tax (thousands \$) (% of total)	Wholesale Tax (thousands \$) (% of total)	Registration Fees (thousands \$) (% of total)	Privilege Tax (thousands \$) (% of total)	Highway Litter Control (000's \$) (% of total)	Ind. Access Transfer (000's \$) (% of total)	Miscellaneous Revenues (thousands \$) (% of total)	Total (thousands \$) (% of total)
1982	\$99,284 48.5%	N/E N/E	\$51,097 24.9%	\$54,539 26.6%	N/E N/E	N/E N/E	N/A N/A	\$204,920
1985	98,832 33.9	54,790 18.8	54,296 18.6	77,195 26.5	N/E N/E	N/E N/E	6,087 2.1	291,200
1990	157,830 42.2	60,131 16.1	60,807 16.2	94,911 25.4	745 0.2	-1,716 -0.5	1,645 0.4	374,353
1991	151,792 41.1	61,483 16.7	64,738 17.5	89,528 24.3	1,384 0.4	-1,667 -0.5	1,899 0.5	369,157
1992	155,540 41.2	60,754 16.1	67,396 17.9	90,166 23.9	1,391 0.4	-1,105 -0.3	3,005 0.8	377,147
1993	165,426 40.8	63,252 15.6	68,819 17.0	97,776 24.1	1,403 0.3	-2,112 -0.5	10,870 2.7	405,433
1994	214,858 45.1	63,152 13.3	70,413 14.8	111,925 23.5	1,427 0.3	-344 -0.1	14,881 3.1	476,312
1995	212,554 44.4	64,809 13.6	70,047 14.6	122,489 25.6	1,454 0.3	-2,142 -0.4	9,433 2.0	478,724
1996	206,363 43.1	64,234 13.4	76,418 16.0	120,450 25.2	1,633 0.3	-3,408 -0.7	13,135 2.7	478,825
1997	203,313 41.8	67,466 13.9	75,297 15.5	126,140 25.9	1,490 0.3	-3,487 -0.7	16,030 3.3	486,249
1998	221,726 43.1	68,073 13.2	81,543 15.8	133,712 26.0	1,616 0.3	-3,466 -0.7	11,661 2.3	514,865
1999	227,078 42.7	68,779 12.9	79,788 15.0	143,506 27.0	1,574 0.3	-217 0.0	10,772 2.0	531,280
2000	224,256 41.0	69,671 12.7	87,483 16.0	155,598 28.4	1,580 0.3	-1,562 -0.3	10,395 1.9	547,421
2001	224,426 41.8	71,265 13.3	77,440 14.4	154,370 28.8	1,483 0.3	-4,346 -0.8	11,770 2.2	536,408
2002	230,141 40.5	73,230 12.9	85,929 15.1	172,472 30.4	1,744 0.3	-3,511 -0.6	7,802 1.4	567,807
2003	221,338 40.3	67,835 12.4	86,238 15.7	167,723 30.6	1,595 0.3	-2,294 -0.4	6,461 1.2	548,896
2004	272,398 47.2	36,920 6.4	83,146 14.4	176,700 30.6	1,578 0.3	-2,948 -0.5	6,603 1.1	574,397
2005	311,625 53.2	0 0.0	88,074 15.0	176,495 30.2	1,856 0.3	-2,428 -0.4	7,364 1.3	582,986
2006	320,757 54.3	0 0.0	86,796 14.7	171,479 29.0	1,691 0.3	-3,005 -0.5	10,212 1.7	587,930
2007	349,172 56.0	0 0.0	87,058 14.0	173,306 27.8	1,549 0.2	-3,034 -0.5	12,614 2.0	620,665
2008	404,223 58.3	0 0.0	86,396 12.5	169,463 24.5	1,878 0.3	-3,352 -0.5	34,346 4.9	692,954

Sources: 1982 - 1987: Analysis of Receipts and Expenditures (Where All Your Tax Dollars Goes), produced yearly by the State Auditors Office
1988 - 1993: Office of the State Auditor, Revenue as of 6/30
1994 - 2003: State of West Virginia Financial Information Management System
Revenue as of 06/30 (Issued by State Auditor)
2004-2005: State Dollar Report produced yearly by the State Auditors Office

Notes: N/E Non Existent

N/A Not Available

Table A-4 Revenues Used by States for Highways 2005 1.

NOVEMBER 2006

(THOUSANDS OF DOLLARS)

TABLE SF-1

STATE	BALANCE BEGINNING OF YEAR 2/			HIGHWAY REVENUES				TOTAL	APPROPRIATIONS FROM GENERAL FUNDS 4/	OTHER STATE IMPOSTS	MISCELLANEOUS	ORIGINAL ISSUES	REFUNDING ISSUES	FEDERAL FUNDS			TOTAL RECEIPTS
	RECEIVED FOR CURRENT HIGHWAY WORK	RESERVES FOR DEBT SERVICE	TOTAL	MOTOR FUEL TAXES	MOTOR VEHICLE AND MOTOR CARRIER TAXES	ROAD AND CROSSING TOLLS	TOTAL							FEDERAL HIGHWAY ADMINISTRATION	OTHER AGENCIES	FROM LOCAL GOVERNMENTS	
Alabama 3/	304 775		304 775	477 558	221 154		698 712	62 630	50 107	7 699	59 446		577 109	44 037	34 448	1 534 188	
Alaska	41 610	11 161	52 771	31 473	39 648	21 751	92 872	87 558		26 569			384 419	7 882		599 300	
Arizona	689 275	18 483	707 758	624 777	287 056		911 833	911 833	801 266	33 686	318 216		508 783	15 019	23 731	2 612 536	
Arkansas	177 383	16 428	193 811	430 973	115 009		545 982	88 912	1 356	10 866			411 058	8 890	1 872 748		
California	6 294 526		6 294 526	3 206 048	2 310 261	231 858	5 748 167	26 656	423 498	195 361	300 000		2 132 269	81 049	610 205	9 517 205	
Colorado 5/	1 461 813		1 461 813	500 621	693 880		1 194 501	81 212		142 391			365 959	4 233	24 660	1 812 956	
Connecticut	310 046		310 046	297 686	173 846	167	471 699	112 772	82 724	82 527	220 106	89 725	316 907	7 827	2 994	1 387 281	
Delaware	300 662	81 276	381 938	301 278	116 785		418 063	176 904		386 586	176 483	32 171	102 083	1 942		1 067 557	
Dist. of Col.	54 911		54 911	25 912	65 933		91 845	87 060	36 501	1 165			90 471	4 443		311 485	
Florida	1 700 769	133 948	1 834 717	1 807 525	740 004	910 573	3 458 102	234 835	106 737	137 654	1 293 931	578 875	1 868 942	18 679	293 300	7 991 055	
Georgia	2 064 663	60 264	2 124 927	422 720	191 487	14 203	628 410		319 711	65 286	5 661		746 338	13 383	13 068	1 831 045	
Hawaii	376 473		376 473	71 118	64 219		135 337	10 676	41 950	14 918	45 087	176 087	158 264	2 165		648 369	
Iaho	82 302		82 302	203 685	118 552		322 247			3 862			254 435	16 457	3 326	800 327	
Illinois	951 462	164 813	1 116 305	1 206 866	1 177 899	604 881	2 989 646		52	91 922	1 147 006		847 669	14 601	59 064	5 149 960	
Indiana	311 060	50 564	361 624	879 038	131 678		1 099 739	71 374		147 772			578 482	19 927	182 147	2 099 441	
Iowa	153 896		153 896	418 344	262 342		780 686	40 338	289 054	7 411			319 452	8 870		1 445 811	
Kansas	1 061 234	51 802	1 113 036	405 290	120 860	73 784	599 934		106 235	27 209			381 588	10 178	26 719	1 151 863	
Kentucky	219 050	343 522	562 572	488 956	577 351		1 066 307	298 794		48 723	361 508	73 161	457 181	16 371		2 322 045	
Louisiana 5/	126 308	9 733	136 041	577 102	42 763	34 834	654 699	154 651		39 973			474 897	8 024		1 332 234	
Maine	70 472	12 083	82 555	208 152	62 708	84 580	345 440			11 531	3 840	72 875	178 342	1 008		613 036	
Maryland	650 891	56 286	707 177	477 328	561 311	154 321	1 192 958			72 121	49 476		627 858	8 978		1 951 391	
Massachusetts	1 552 977	547 061	2 100 038	571 498	307 118	272 853	1 251 469	548 966		15 118	367 198		454 780	15 111		2 742 642	
Michigan	1 156 397		1 156 397	916 116	785 105	31 394	1 732 615	335 529	37 338	38 323	34 790	265 200	805 330	18 572	50 944	3 438 641	
Minnesota	608 642		608 642	652 031	577 275		1 179 286	16 797	190 886	55 707	123 169		442 145	17 550	32 080	3 057 780	
Mississippi	223 042	45 117	268 159	378 426	135 399		513 815		31 995	7 010	179 000		462 057	7 316	10 657	1 151 850	
Missouri	441 752		441 752	707 685	251 060		958 725	7 255	218 227	15 772			776 723	8 812	7 007	1 992 521	
Montana	105 886		105 886	121 376	79 888		201 264		6 590	2 318	130 750		300 396	17 792	5 643	664 953	
Nebraska	108 280		108 280	301 469	84 766		386 235	28 579	145 196	10 525			282 188	3 716	37 787	883 426	
Nevada	248 161	13 891	262 052	353 138	113 486	520	467 144	37 294		24 431	190 054		201 768	5 682		926 373	
New Hampshire 6/	130 960		130 960	146 426	97 147	64 987	303 660			8 850	5 281		127 389	1 614	3 335	450 029	
New Jersey	1 909 939	183 349	2 093 289	253 542	325 209	886 553	1 465 304			124 795	1 569 932	3 294 305	687 254	7 350		7 148 940	
New Mexico	987 469	1 016	988 485	243 472	229 813		473 285		19 729	18 326			240 871	29 407		781 168	
New York	(419 089)	31 171	(387 918)	1 344 055	722 317	1 088 029	3 154 401	277 736		119 661	1 760 165	3 305 514	1 706 169	19 031	27 969	10 390 646	
North Carolina	624 554		624 554	1 237 025	440 996	2 298	1 680 318		420 103	62 496	324 601		1 085 537	38 333	11 458	3 622 847	
North Dakota 5/	49 801		49 801	113 418	49 177		162 595		6 284	262			215 064	9 453	20 967	414 925	
Ohio	1 138 166	17 561	1 155 727	1 696 753	702 880	182 449	2 582 082			44 184	149 274		1 050 601	32 070	64 783	3 922 994	
Oklahoma	427 142	84 425	511 567	276 341	181 594	193 643	651 578	129	51 494	35 692			419 295	8 057	8 633	1 174 878	
Oregon	740 395		740 395	378 823	346 446		725 269	34 766	10 220	28 875	323 251	107 490	361 212	115 022		1 706 105	
Pennsylvania	2 141 869	442 259	2 583 928	1 873 750	834 062	728 504	3 436 316	50 977		199 467	267 332		1 062 740	23 877	15 767	5 056 466	
Rhode Island 5/	35 887	4 750	40 637	66 286	29 872	12 181	108 339			49 036	33 350		218 549	2 691		411 865	
South Carolina	137 002	19 289	156 291	474 037	169 174	9 630	591 841		2 233	11 569	140 191	6 495	802 801	6 853	26 963	1 588 965	
South Dakota 5/	101 066		101 066	121 940	2 676		124 616			58 583	28 069		221 111	1 893	14 980	449 252	
Tennessee	1 111 062		1 111 062	706 278	219 749	24	926 051	84 275		53 438	78 821		620 675	19 876	41 094	1 824 220	
Texas	2 656 777	476 481	3 133 258	1 799 299	1 556 813	180 496	3 536 608			33 004	296 601	1 525 748	332 425	3 130 810	72 381	183 521	9 111 098
Utah	443 880		443 880	332 318	93 180	164	425 682	113 556	40 143	28 000	50 141		235 719	40 404	11 191	944 870	
Vermont	17 700		17 700	40 835	114 720		155 555		1 495	10 200	1 026	566	127 261	6 948		303 804	
Virginia	1 344 290	140 581	1 484 871	861 724	717 716	117 287	1 696 727	286 086	511 474	82 998	35 317	313 850	431 485	27 817	85 002	3 470 356	
Washington	464 004	78 499	542 503	893 482	298 579	132 020	1 324 081			40 987	394 882		570 095	45 850	76 990	2 578 776	
West Virginia	141 093	14 661	155 744	289 092	262 749	56 727	607 568	13 618		26 896	31 546	319 860	439 964	18 286		1 457 507	
Wisconsin	482 671		482 671	861 706	369 407		1 231 113			31 648	87 929		533 770	8 538	134 915	2 304 773	
Wyoming 5/	17 831		17 831	41 963	31 342		73 305	14 313	85 152	21 118			196 474	47 889		438 251	
Total	36 861 901	3 111 574	39 973 475	31 032 149	18 144 032	6 355 728	55 531 909	3 383 776	4 290 529	896 340	11 621 910	9 570 402	29 933 989	992 873	2 151 125	120 372 853	

1/ Tables SF-1 and SF-2 show the receipts and disbursements State for highways. See Table SF-21 for general note on SF series. This table is compiled from reports of State authorities.

2/ Any differences between beginning balances and the closing balances on last year's Table SF-2 are the result of accounting adjustments, inclusion of funds not previously reported, etc.

3/ Amounts shown represent only those highway-user revenues that were expended on State or local roads. See Table SDF for the full amount of and disposition of highway-user revenues.

4/ Amounts shown represent gross general fund appropriations for highways reduced by the amount of highway-user revenues placed in the State General Fund. See the "Offset by General Funds Spent for Highways" column on Table DF.

5/ Preliminary data was used.

6/ 2004 data was used.

2008-2009 ANNUAL REPORT

Forest Management Review Commission

Pursuant to Section 7, Article 24, Chapter 5 of the Code of West Virginia, the West Virginia Forest Management Review Commission (FMRC) makes the following report to the Joint Committee on Government and Finance for the period of May 2008 through January 2009.

May 2008

Mr. Jeff Herholdt, Director of the Division of Energy from the West Virginia Department of Commerce, gave a presentaion to the commission regarding Biomass Energy Utilization and passed out information regarding Biomass Opportunities in West Virginia.

Mr. Randy Harris from the Mingo County Redevelopment Authority gave a presentation of Hybrid Energy, and coal and wood to liquid fuels. Handouts presented.

Mr. Randy Dye, Director, Division of Forestry, gave an update on the Division of Forestry staffing. Previous staffing levels showed 30% vacancies; staffing has since stabilized with recruiting from forestry schools and currently there are only four vacancies.

June 2008

Mr. Randy Dye, Director of the Division of Forestry, discussed proposed topics of interest for the 2008 interims and presented a handout with an outline for the commission to review, including economic development and assistance for state forestry industries, taxes, logging capacity, forestry inventory, "green" certification of WV sustainable forestry initiatives, WV Division of Forestry programs, site visit to the Crawford Tree Farm, and many other topics.

July 2008

Mr. Gary Gibson, Director of Plant Industries, Department of Agriculture gave a presentation on the gypsy moth problems facing West Virginia and the need for additional state and federal funding. Delegate Hartman made a motion for staff to prepare a letter to West Virginia's congressional representatives and the US Department of Agriculture, Forest Service, requesting their help to restore federal funding for gypsy moth suppression and the "Gypsy Moth Slow the Spread Program." *See attached.* The motion was adopted.

Further, a motion was made for staff to draft a Resolution commending the forestry industry in West Virginia for adopting and adapting to sustainable forestry initiatives.

August 2008

Mr. Clyde Thompson, US Forest Service, discussed issues regarding spraying in the Monongahelia Forest for gypsy moth as well as ATV access and the Monongahelia forest plan.

Mr. Randy Dye, Director, Division of Forestry, provided a status report on the status of forest industries with presenters. Additional information was presented to the commission that indicates that there has been over a 20% decrease in jobs associated with the lumbar industry since 2005

Staff presented the resolution commending the forestry industry in West Virginia for adopting and adapting to sustainable forestry initiatives. Following a discussion of the resolution, Ed McCoy made a motion to amend the resolution. Senator Helmick moved to pass the resolution with amendment. The motion was adopted. *See attached*. The Resolution was forwarded to the WV Division of Forestry and the WV Forestry Association.

September 2008

During the out of town interim meetings in Bridgeport, WV, the commission planned to conduct a visitation at Crawford Tree Farm. Due to inclement weather, the visitation was cancelled and instead the Division of Forestry officials conducted a presentation on Urban and Community Forestry, and tree farming at their Regional Headquarters in Farmington, West Virginia. Members of the Crawford family were in attendance to discuss their tree farming operation and awards.

October 2008

Patrick Bowen, State Resource Conservationist, US Department of Agriculture, Natural Resource Conservation Service, discussed the redesign of state and private forestry as a result of the Food, Conservation and Energy Act of 2008-2012 (referred to as the 2008 Farm Bill), including new cooperative programs with the WV Division of Forestry and over \$8 million in funding for 2008.

Karen T. Sykes, US Department of Agriculture, Northeastern Area/Watershed Planner/Forester Northeastern Area, gave a presentation to the commission on State & Private Forestry.

November 2008

Randy Dye, Director, Division of Forestry gave a presentation with handouts regarding implementation of the Strategic Plan for the Sustainability of West Virginia Forestry. The chairmen of the commission requested the Plan in an October 2008 letter. *See attached*.

The previous plan was written in 1988, shortly after the Forest Management Review Commission was established as a statutory body in 1987 and has not been updated since that time. The new Plan will result from a study of 12 topics and will include broad representation of the forestry community in West Virginia in the twelve committees studying the topics. A more detailed explanation of the Plan is included in the attached letter, dated November 18, 2008. Once the study is completed the Plan will be presented to the FMRC and the forestry community.

December 2008

Randy Dye, Director, Division of Forestry gave a presentation on the WV Forestry Inventory. The forest inventory was first completed in 1949, with the most recent one in 2000.

Of the 15.4 million acres in West Virginia, 11.5 million acres can be considered timberland, since it will produce at least 120 board feet per acre each year, with 11.157 million acres of timberland available for harvest. In general, the volume of West Virginia's forests has increased by 22% since 1989 and West Virginia forests are growing more timberland than is being harvested. If the harvest continued at today's rate, it would take 135 years to cut down every tree in West Virginia. Families own approximately 60 percent of all forest land in the state; about 14 percent of the timberland is owned by government interests.

January 2009

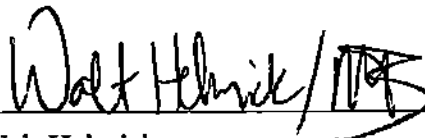
Randy Dye, Director, Division of Forestry gave a presentation and handout to the commission on Forest Ecology in West Virginia. There are three ecoregions, the Western Hill, Allegheny Mountain and Eastern Ridge and Valley Regions.

The commission sent a letter of condolence to the family of Delegate Proudfoot, who was tragically killed in a car accident last month. *See attached.*

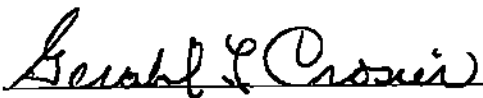
February 2009

The commission was presented information on "supertrees" and the USGS topographical maps. The history of taxation of forest land in West Virginia and how it compares to other surrounding states was presented by Mr. Randy Dye, Division of Forestry.

Respectfully submitted,



Walt Helmick
Senate Co-chair



Gerald L. Crosier
House of Delegates Co-chair

WEST VIRGINIA LEGISLATURE
Forest Management Review Commission

Building 1, Room E-132
1900 Kanawha Boulevard, East
Charleston, WV 25305-0610
(304) 347-4800
(304) 347-4819 FAX



Senator Walt Helmick
Co-chair

Delegate Gerald Crosier
Co-chair

August 18, 2008

The Honorable Nick Rahall
2307 Rayburn House Building
Washington, D.C. 20515

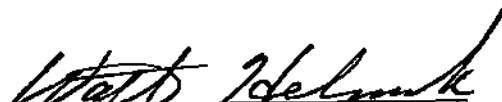
Dear Congressman Rahall:

At the July interim meeting of the West Virginia Legislature's Forest Management Review Commission, representatives from the state Department of Agriculture appeared before our committee to discuss their concerns about proposed federal funding cuts for gypsy moth suppression. West Virginia's forested lands and urban landscapes continue to be threatened by the gypsy moth, which is a destructive, non-native, plant-eating insect you have probably already heard much about. For many years the citizens of our state have been able to depend on funding from the USDA Forest Service to help offset the cost for gypsy moth suppression. Currently, the funding for the Gypsy Moth Slow the Spread Program, which has been a roll model for programs aimed at reducing the movement of invasive plant pests, has been greatly reduced.

The elimination of gypsy moth suppression funding could not come at a worst time. Gypsy moth populations are building within West Virginia and the amount of forested land defoliated by the insect has increased from 2,641 acres in 2005 to 17,272 acres in 2006, to 77,910 acres in 2007 and almost 85,000 acres this year. Each year the economic loss to our forests and timber stands as a result of gypsy moth defoliation averages \$2 million. This is just the value of the timber; it does not take into account environmental impacts and tourism issues. Yet the cost of protecting our forests through a federally-assisted gypsy moth suppression program is less than half that amount. Our cost-ratio benefits are more than two-to-one in favor of suppression treatments.

In light of these issues, the members of the Forest Management Review Commission would greatly appreciate your support in helping to restore federal funding for gypsy moth suppression and the Gypsy Moth Slow the Spread Program to historical levels. Such an effort is needed if we are to protect our beautiful mountains and sensitive ecosystems from the impact of the gypsy moth. Thank you for your consideration of this matter.

Sincerely,


Senator Walt Helmick


Delegate Gerald Crosier

WEST VIRGINIA LEGISLATURE
Forest Management Review Commission

Building 1, Room E-132
1900 Kanawha Boulevard, East
Charleston, WV 25305-0610
(304) 347-4800
(304) 347-4819 FAX



Senator Walt Helmick
Co-chair

Delegate Gerald Crosier
Co-chair

August 18, 2008

The Honorable Alan B. Mollohan
2302 Rayburn House Building
Washington, D.C. 20515

Dear Congressman Mollahan:

At the July interim meeting of the West Virginia Legislature's Forest Management Review Commission, representatives from the state Department of Agriculture appeared before our committee to discuss their concerns about proposed federal funding cuts for gypsy moth suppression. West Virginia's forested lands and urban landscapes continue to be threatened by the gypsy moth, which is a destructive, non-native, plant-eating insect you have probably already heard much about. For many years the citizens of our state have been able to depend on funding from the USDA Forest Service to help offset the cost for gypsy moth suppression. Currently, the funding for the Gypsy Moth Slow the Spread Program, which has been a roll model for programs aimed at reducing the movement of invasive plant pests, has been greatly reduced.

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Sincerely,

A handwritten signature in cursive script that reads "Walt Helmick".
Senator Walt Helmick

A handwritten signature in cursive script that reads "Gerald Crosier".
Delegate Gerald Crosier

WEST VIRGINIA LEGISLATURE
Forest Management Review Commission

Building 1, Room E-132
1900 Kanawha Boulevard, East
Charleston, WV 25305-0610
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Senator Walt Helmick
Co-chair

Delegate Gerald Crosier
Co-chair

August 18, 2008

The Honorable Robert C. Byrd
311 Hart Senate Office Bldg.
Washington, D.C. 20510

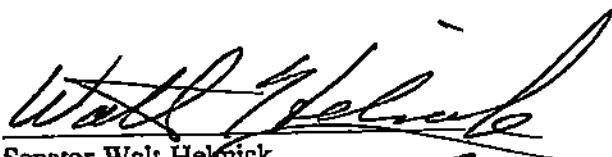
Dear Senator Byrd:


At the July interim meeting of the West Virginia Legislature's Forest Management Review Commission, representatives from the state Department of Agriculture appeared before our committee to discuss their concerns about proposed federal funding cuts for gypsy moth suppression. West Virginia's forested lands and urban landscapes continue to be threatened by the gypsy moth, which is a destructive, non-native, plant-eating insect you have probably already heard much about. For many years the citizens of our state have been able to depend on funding from the USDA Forest Service to help offset the cost for gypsy moth suppression. Currently, the funding for the Gypsy Moth Slow the Spread Program, which has been a roll model for programs aimed at reducing the movement of invasive plant pests, has been greatly reduced.

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Sincerely,


Senator Walt Helmick


Delegate Gerald Crosier

WEST VIRGINIA LEGISLATURE
Forest Management Review Commission

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1900 Kanawha Boulevard, East
Charleston, WV 25305-0610
(304) 347-4800
(304) 347-4819 FAX



Senator Walt Helmick
Co-chair

Delegate Gerald Crosier
Co-chair

August 18, 2008

The Honorable John D. Rockefeller, IV
531 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Rockefeller:

At the July interim meeting of the West Virginia Legislature's Forest Management Review Commission, representatives from the state Department of Agriculture appeared before our committee to discuss their concerns about proposed federal funding cuts for gypsy moth suppression. West Virginia's forested lands and urban landscapes continue to be threatened by the gypsy moth, which is a destructive, non-native, plant-eating insect you have probably already heard much about. For many years the citizens of our state have been able to depend on funding from the USDA Forest Service to help offset the cost for gypsy moth suppression. Currently, the funding for the Gypsy Moth Slow the Spread Program, which has been a roll model for programs aimed at reducing the movement of invasive plant pests, has been greatly reduced.

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Sincerely,

Handwritten signature of Senator Walt Helmick.
Senator Walt Helmick

Handwritten signature of Delegate Gerald Crosier.
Delegate Gerald Crosier

WEST VIRGINIA LEGISLATURE
Forest Management Review Commission

Building 1, Room E-132
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Charleston, WV 25305-0610
(304) 347-4800
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Senator Walt Helmick
Co-chair

Delegate Gerald Crosier
Co-chair

August 18, 2008

The Honorable Shelley Moore Capito
1431 Longworth House Office Building
Washington, D.C. 20510

Dear Congresswoman Capito:

At the July interim meeting of the West Virginia Legislature's Forest Management Review Commission, representatives from the state Department of Agriculture appeared before our committee to discuss their concerns about proposed federal funding cuts for gypsy moth suppression. West Virginia's forested lands and urban landscapes continue to be threatened by the gypsy moth, which is a destructive, non-native, plant-eating insect you have probably already heard much about. For many years the citizens of our state have been able to depend on funding from the USDA Forest Service to help offset the cost for gypsy moth suppression. Currently, the funding for the Gypsy Moth Slow the Spread Program, which has been a roll model for programs aimed at reducing the movement of invasive plant pests, has been greatly reduced.

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Sincerely,

Handwritten signature of Senator Walt Helmick in cursive script.
Senator Walt Helmick

Handwritten signature of Delegate Gerald Crosier in cursive script.
Delegate Gerald Crosier

WEST VIRGINIA LEGISLATURE
Forest Management Review Commission

Building 1, Room E-132
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Senator Walt Helmick
Cochair

Delegate Gerald Crosier
Cochair

Resolution

By The West Virginia Forest Management Review Commission

"A Commendation for Professional Forestry In West Virginia"

Recognizing the State's forestry and forest products industries and commending them for

the enthusiasm for which they have adopted and adapted to Sustainable Forestry.

WHEREAS, Forestry is the profession embracing the science, art, and practice of creating,

managing, using, and conserving forests and associated resources for human benefits and

in a sustainable manner to meet desired goals, needs, and values; and

WHEREAS, The specific goals and values achieved through forestry may include clean water,

clean air, wildlife habitat, timber production, woodland recreation and an array of non-

timber products, recognizing that all goals are not expected on all acres. Sustainable

Forestry specifically integrates managing forest lands for these values and goals at a rate

that will continuously maintain the potential for social, environmental and economic

benefits for present and future generations; and

WHEREAS, West Virginia is justifiably proud of its rich bounty of timber and associated plants

and animals and of its people who recognize that careful stewardship of our forest land is

essential if our descendants are to benefit from and enjoy these resources as we do today; and

WHEREAS, West Virginia's forests contribute more than four billion dollars annually from forest products and incalculable other dollars from clean water, hunting and fishing, aesthetics, and woodland recreation, and other environmental services that would not exist if it were not for the forests; and

WHEREAS, Through self-imposed voluntary forest practice standards that provided the foundation for West Virginia's Logging Sediment Control Act and Best Management Practices the state's forest products industry has achieved an outstanding record of responsible forestry. Moreover, industry members have implemented the national Sustainable Forestry Initiative, a program of member mandated comprehensive forestry and conservation practices, designed to perpetuate healthy forests and the thousands of life-enriching products derived from such forests through training, education, and monitoring; and

WHEREAS, Self-monitoring by the forestry industry and actively enforced state laws combine to ensure that West Virginia wood products are harvested and produced legally; and

WHEREAS, Based on credible testimony and evidence it is clear that the management of West Virginia's forests and the production of forest products in the state is fully sustainable, providing for current needs while ensuring the same or greater productivity for future generations; therefore, be it

Resolved by the Forest Management Review Commission on August 25, 2008:

That West Virginia forest landowners, particularly tree farm owners whose tracts have been recently recognized, nationally and internationally, as examples of sustainable forestry for

certification purposes are hereby commended; and, be it

Further Resolved, That the forest products industry is recognized for adopting the Sustainable Forestry Initiative through which it voluntarily promotes, trains, and educates company personnel, staff and contractors in the up-to-date use of professional forest practices designed to perpetuate and enhance our rich forest heritage; and for voluntarily subjecting its practices to monitoring to ensure compliance; and, be it

Further Resolved, That the West Virginia forestry community in general be commended for practicing careful stewardship that has increased the volume of timber growing in West Virginia's forests, while allowing some areas to be harvested five or six times, for each of the last six decades, as audited by the Inventory Branch of the U. S. Forest Service; and, be it

Further Resolved, That purchasers of West Virginia wood products can be assured, based upon ample evidence, that the forests of West Virginia are being managed sustainably, and harvested legally; and, not only are the forests themselves being sustained, but so are the myriad benefits essential to a healthy and productive life which will continue to be available for future generations. . .the products, the beauty, the wildlife, the recreation and the industry; and, be it

Further Resolved, That House Resolution No. 8 by Delegates Stemple, Butcher, and Williams passed during the 2001 Regular Session of the West Virginia Legislature, be incorporated by reference as part of this Resolution because of the meaningful and specific ideas expressed therein, especially the request that the public, forest landowners and resource agencies embrace and support the objectives of the Sustainable Forestry Initiative in this State.



WALT HELMICK
CHAIRMAN

THE SENATE OF WEST VIRGINIA
COMMITTEE ON FINANCE
CHARLESTON 25305

ROOM 488, STATE CAPITOL
(304) 387-7980

October 12, 2008

Mr. Randy Dye
State Forester
Guthrie Center, Bldg. 13
1900 Kanawha Blvd., East
Charleston, WV 25305

Dear Randy:

It is again time to plan for the year's activities. Although we hate to train our sights on you, you and your crew can do what we need to have done. As you probably know better than us, the forestry industry has been having hard times. As always in politics, some in industry would like to blame the Legislature; some would place the blame on you and others will be after the Governor. We don't need the blame and we are trying to help the industry.

As a bit of history, the more or less informal Forest Management Review Commission (FMRC) was established as a statutory body in 1987 to serve as a coordinating body to generally assist in the retention and expansion of forestry and forestry related industries (5-23-4). The charge was to involve the several state and federal agencies, commissions, boards, committees, associations and other entities. Then Delegate Joe Martin, who, with Delegate Sara Lee Neal, helped initiate the legislation reminds me of this every now and then.

One of the first attempts of the FMRC was an effort to study and prepare a strategic plan for forestry in the State of West Virginia. Under the leadership of Delegate Neal and Senator Vernon C. Whitacre, then co-chairman of the FMRC, a statewide committee of some 75 knowledgeable individuals was organized under the leadership of four co-chairmen from the forest industry and economic development. This resulted in December, 1988 in a 139 page "Strategic Plan For More Fully Developing The Forest Resource In West Virginia." Your office probably has a copy of this document. The executive summary says the committee studied 17 issues, 49 goals, 54 strategies and that 269 specific suggestions were agreed upon. This was a remarkable accomplishment for a new Commission.

Mr. Randy Dye
October 12, 2008
Page 2

In the 20 years since, the industry has seen great progress as well as some disappointments. West Virginia has attracted some of the world's largest plants for manufacturing forest products from low quality timber which enables us to practice better forestry, according to reports from the U.S. Forest Service the state's timber volume continues to grow in excess of harvest, we continue to refine the various tax programs and the industry seems dedicated to sustainability. However, the current price for lumber is the lowest it has been in years, the high cost of fuel is said to be reflecting adversely on forestry activities and there is continuing litigation about whether forestry practices contribute to flooding.

Consequently, as co-chairmen of the FMRC, we have decided that another review is in order. We understand that it has been 100 years since the first efforts to develop what is now the Division of Forestry. Perhaps this overall effort could be tied somehow to this milestone. . .showing what has happened and why.

We would like for you to invite whomever is necessary to assist in studying the following topics with a view to reporting on one or two at each meeting of the FMRC this coming year. We understand that it takes a while to get organized; so we would expect your first oral report, with a condensed hand out sheet at the November meeting. At the conclusion of the assessment studies, we will work together to take the accumulated reports and from them devise a Strategic Plan for Sustainability of West Virginia Forests that the FMRC can publish as it did 20 years ago.

After quite a bit of thought, outside input, and we believe common sense, the following topics are being suggested:

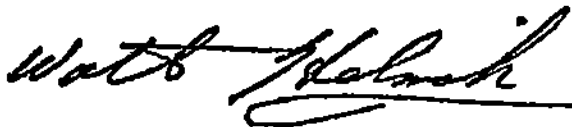
- A. October. Just a report on how you are planning the studies.
- B. November. The West Virginia timber inventory.
- C. December. Taxation and West Virginia forestland. Are we different?
- D. January. West Virginia's primary forestry industry.
- E. February. West Virginia's secondary forest industry.

Mr. Randy Dye
October 12, 2008
Page 3

- F. March. West Virginia forest ecology - diversity, uniqueness, similarities, or as the scientists say the physiologic, climatology, edaphic and biotic. [Special meeting since the Legislature is in session.]
- G. April. Dangerous factors affecting forestry - past, present, future. [Special meeting since the Legislature is in session.]
- h. May. Reclamation of damaged lands to forestry.
- I. June. Urban forestry. Forest management and tourism.
- J. July. Regenerating the West Virginia forest. Usefulness of biomass.
- K. August. Silvicultural guides to managing West Virginia forests.
- L. September. Forest management and wildlife.
- M. October. Tree marking guides for West Virginia hardwoods.
- N. Strategic Plan for the Sustainability of West Virginia forests.

We realize that this will make your life very busy this year, but we believe that it is a necessary step in planning for West Virginia's future and the future of our very important forest resource.

Sincerely,



Walt Helmick
Co-Chair FMRC



Gerald L. Crosier
Co-Chair FMRC



Joe Manchin III
Governor

Charles R. Dye
Director/State Forester

DIVISION OF FORESTRY
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0180
(304) 558-2788/FAX (304) 558-0143
www.wvforestry.com

November 18, 2008

The Honorable Walt Helmick
West Virginia Senate
Building , Room 465-M
State Capitol Complex
Charleston, WV 25305

The Honorable Gerald Crosier
West Virginia House of Delegates
Building 1, Room 220-E
Charleston, WV 25305

Dear Senator Helmick and Delegate Crosier:

The West Virginia Division of Forestry (WV DOF) is proceeding to address the 12 topics so the Forest Management Review Commission (FMRC) can publish a "Strategic Plan for Sustainability of West Virginia Forest" as requested in your October 12, 2008 correspondence. Today's presentation is simply an overview of the process that will be utilized to address these 12 topics.

I have provided you with a packet of information that illustrates the work that has been done thus far. The sheet titled "FMRC Response Committees" shows the committee members that will be addressing each of the 12 topics. These individuals represent a broad spectrum of the forestry community with members from the US Forest Service, NRCS, industry, WVFA, WVU Division of Forestry & Natural Resources, private forestry consultants, loggers, sawmill owners, banking, WV DNR Wildlife and Parks Sections, WV Department of Agriculture Plant Pest Division, WV DEP Mine Reclamation, The Nature Conservancy, large and small private landowners, cooperate landowners and the WV Division of Forestry.

These committees will be studying the following topics which I will be presenting to the FMRC in the corresponding months.

- | | |
|-------------|---|
| 1. December | The West Virginia Timber Inventory |
| 2. January | Taxation and West Virginia's Forestland |
| 3. February | West Virginia's Primary Forest Industry |

4. March	West Virginia's Secondary Forest Industry
5. April	West Virginia's Forest Ecology
6. May	Threats to West Virginia's Forest
7. June	Reclamation of Damaged Lands
8. July	Urban Forestry
9. August	Regeneration of West Virginia's Forest
10. September	Silvicultural Guide Lines for Managing W V's Forest
11. October	Forest Management and Wildlife
12. November	Tree Marking Guides for West Virginia Hardwoods
13. December	Strategic Plan for the Sustainability of WV's Forest

Our first committee meeting was held last Thursday, November 13, 2008 in Charleston with 47 of the 60 committee members present. The committees are scheduled to meet again this Friday, November 21, 2008 at various locations around the state. The committee's notes, suggestions, and ideas are due December 8, 2008 to respective DOF members who will prepare a draft report for the committees by January 2, 2009. Each committee will review and edit the draft reports and return them to the DOF by January 9, 2009. All committees will then meet at the Flatwoods Days Inn for the final review of each topic. The DOF will then start developing the strategic plan which will be completed by the December 2009 deadline.

The Strategic Plan presented to the FMRC for acceptance in December 2009 will be in a very similar format to the one they released in December 1988.

I want to thank the Commission for this opportunity to assist in the development of this plan which will better position the forest industry and other interest for the challenges that lie ahead of us all.

Sincerely,



Charles R. Dye
Director/State Forester

CRD/plc

WEST VIRGINIA LEGISLATURE
Forest Management Review Commission
Parks, Recreation and Natural Resources Subcommittee

Building 1, Room E-132
1900 Kanawha Boulevard, East
Charleston, WV 25305-0610



(304) 347-4800
(304) 347-4819 FAX

January 11, 2008

Mrs. Lynn Proudfoot
and family
P.O. Box 2371
Elkins, WV 26241

Dear Lynn, Will, Ben and Elizabeth:

The members of the Parks, Recreation and Natural Resources Subcommittee and the Forest Management Review Commission would like to express our heartfelt condolences to you on Bill's recent passing. Having spent time with you and Bill on parks visitations and other committee functions, we know how close-knit your family is and how deep your sense of loss must be.

Please know that Bill was a valued member of our committees who was universally liked and respected. We will remember Bill as a colleague who brought a tremendous breadth of knowledge and experience to our committees on such a wide array of subjects - whether it was natural resources, agriculture, education, history, government, politics, all things mechanical, or virtually anything else we delved into. Those of us who attended the parks visitations to the pioneer homestead at Twin Falls State Park or the museum at Watters Smith State Park, for example, will all remember Bill's extensive knowledge and understanding of the "how things worked" and "how people lived" in rural 19th century Appalachia. Bill was the kind of man who had the knowledge, experience and wisdom to live successfully in the 21st century, but who would have been equally adept at living on that pioneer homestead in the 1800s.

And most of all, we will remember Bill for the wonderful human being he was. He was a kind, cheerful and thoughtful person who was always gracious to fellow committee members and staff. Bill was not only our colleague, he was our friend - and his presence will be greatly missed by all.

Again, we express our heartfelt condolences to you and we acknowledge Bill's exemplary record of service to our committees.

May God Bless You,

Walt Helmick, Chair
State Senate

John Pat Fanning, Chair
State Senate

Gerald L. Crosier, Chair
House of Delegates

Jeff Eldridge, Cochair
House of Delegates

William G. Hartman, Vice Chair
House of Delegates

Danny Wells, Cochair
House of Delegates

Forest Management Review Comm.

Parks, Recreation and Natural Resources
Subcommittee



WEST VIRGINIA LEGISLATURE
JOINT COMMITTEE ON GOVERNMENT ORGANIZATION
STATE CAPITOL
CHARLESTON, WEST VIRGINIA 25305

2007-2008 Report
of the
Joint Standing Committee on Government Organization
to the
Joint Committee on Government and Finance

During the 2007-2008 Interim Session, the Joint Standing Committee on Government Organization has had under consideration the following topics:

SB554 Relating to osteopathic physician and surgeon licensing requirements

HCR34 Requesting that the Joint Committee on Government and Finance study a four day work week consisting of ten hour days for city, county and state employees

HCR73 Requesting that the Joint Committee on Government and Finance authorize a study of the structure and organization of the West Virginia Racing Commission, Athletic Commission and Lottery

HCR87 Requesting that the Joint Committee on Government and Finance authorize a study of the adoption of green building standards

HCR88 Requesting that the Joint Committee on Government and Finance authorize a study of the policies and procedures for awarding vendor preferences in state purchasing contracts

HCR89 Requesting that the Joint Committee on Government and Finance authorize a study of the authority and structure of professional regulatory boards

HCR90 Requesting that the Joint Committee on Government and Finance authorize a study of the law governing the West Virginia Board of Pharmacy

HCR91 Requesting that the Joint Committee on Government and Finance to authorize a study of the law governing the West Virginia Board of Occupational Therapy

HCR92 Requesting that the Joint Committee on Government and Finance authorize a study of the law governing the Board of Registration for Sanitarians

HCR93 Requesting that the Joint Committee on Government and Finance authorize a study of the advisability and feasibility of the creation of a new professional licensure category of marriage and family therapy

HCR94 Requesting that the Joint Committee on Government and Finance authorize a study of the law governing the Board of Barbers and Cosmetologists

HCR95 Requesting that the Joint Committee on Government and Finance authorize a study of the law governing the Board of Registration for Foresters

HCR96 Requesting that the Joint Committee on Government and Finance authorize a study of the law governing the West Virginia Board of Veterinary Medicine

HCR97 Requesting that the Joint Committee on Government and Finance authorize a study on whether the West Virginia Partnership to Promote Community Well-Being established by Executive Order 8-04 should be codified

HCR113 Requesting that the Joint Committee on Government and Finance authorize a study of the impact of climate change

HCR117 Requesting that the Joint Committee on Government and Finance study inclusion of athletic trainer licensure and regulation under the laws governing the West Virginia Board of Physical Therapists

HB4079 A study of Professional Employer Organization (PEO) sponsorship of and involvement in employee health plans and other issues related to the operation of PEOs

HB4525 Weatherization Program under the Department of Energy

Study the impact on private businesses of state contracts awarded to the West Virginia Association of Rehabilitation Facilities

Study of Television Cable Company Oversight

Study of the WV 211 Program

The Committee and its Subcommittees met throughout the Interims, held discussions and had presentations regarding 19 of the 21 topics.

The Committee reports the following bills:

HB Blank, Relating to the West Virginia Partnership to Promote Community Well-Being

HB Blank, Updating the law governing professional licensing boards in general

HB Blank, Updating the law governing the practice of veterinary medicine

HB Blank, Updating the law governing the practice of occupational therapy

HB Blank, Updating the law governing the practice of environmental health science and public health sanitation

HB Blank, Updating the law governing the practice of forestry

HB Blank, Repealing outdated sections of West Virginia Code

HB Blank, Authorizing professional licensing boards to combine administrative staff functions

HB Blank, Creating licensure for Marriage and Family Therapists

With the recommendation that they each do pass.

Respectfully Submitted,



Senator Edwin Bowman
Senate Co-Chair



Delegate Jim Morgan
House Co-Chair

**PARKS, RECREATION AND NATURAL
RESOURCES INTERIM SUBCOMMITTEE**

**Annual Report to the Joint Committee on
Government and Finance
2008 - 2009**

February 10, 2009

In the 2008 - 2009 interim year, the Parks, Recreation and Natural Resources Subcommittee continued its oversight role of the West Virginia state park system and was also actively involved in other wildlife resources and outdoor recreation issues of importance to the State.

Parks Related Issues

The West Virginia state park system continues to be one of the most operationally self-sufficient in the nation, even though it is one of the few systems in the nation not charging entry fees. The Fiscal Year 2008 operational self-sufficiency figure was 60 percent, compared to 59 percent the prior year. This figure was improved despite large increases in operating expenses including gasoline, utilities and minimum wage changes, which increased operating expenses in FY08 in excess of an estimated \$1 million. FY 2008 was a record year for total revenues, with revenues totaling \$21,229,122.

Parks issues of interest in 2008 - 2009 and speakers who appeared before the Subcommittee to address these issues included:

- *Ken Caplinger, Chief, West Virginia State Parks*, who discussed significant developments in the West Virginia state parks system in 2008;

- *Clyde Thompson, Forest Supervisor, and Nadine Pollock, Natural Resources Group Leader, Monongahela National Forest*, who discussed recreation management in the Monongahela National Forest;

- *Bob Beanblossom, West Virginia State Parks District Administrator*, who discussed the history of the West Virginia state park system;

- *Jody Spencer, Superintendent of the Greenbrier River Trail*, who discussed recent developments on the Greenbrier River Trail;

- *Bob Hoke, Secretary-Treasurer, Mountain State Railroad and Logging Association*, who discussed recent developments at Cass Scenic Railroad State Park.

Wildlife Resources Related Issues

In the 2008 - 2009 interim year, the Subcommittee also continued its oversight role of outdoor recreation activities managed by the Wildlife Resources Section. Wildlife Resources issues of interest in 2008 - 2009 and speakers who appeared before the Subcommittee to address these issues

included:

- *Paul Johansen, Assistant Chief for Game Management, West Virginia Wildlife Resources*, who discussed the results of the Fall 2008 big game hunting season. A summary of the harvest figures from the 2008 big game hunting season is included in the appendix. Mr. Johansen also appeared at another Subcommittee meeting to provide a review of the available research on dynamic deer crossing sign and sensor systems. The Subcommittee passed a resolution requesting the study of deer/vehicle collisions and the formation of public-private partnerships between state and insurance companies to find and fund countermeasures. The resolution is included in the appendix.

- *Jim Evans, Supervisor of Game Research, West Virginia Wildlife Resources*, who discussed the status of coyotes in West Virginia.

DNR Law Enforcement Issues

West Virginia DNR Law Enforcement issues of interest in 2008 - 2009 and speakers who appeared before the Subcommittee to address these issues included:

- *Lieutenant Dave Trader, West Virginia DNR Law Enforcement*, who discussed hunter-related accidents in West Virginia and ways to increase hunter safety.

State Parks and other DNR sites visited by the Subcommittee in 2008

In furtherance of its traditional oversight role, the Subcommittee has made a substantial commitment to visit state park sites, as well as other sites managed by the Division of Natural Resources. This year the Subcommittee conducted on-site visitations to Berwind Lake Wildlife Management Area, Blackwater Falls State Park, Canaan Valley Resort State Park, Cass Scenic Railroad State Park, Panther Wildlife Management Area, Seneca State Forest, Twin Falls Resort State Park, Watoga State Park and Watters Smith Memorial State Park. Summaries of these visitation sites are located in the appendix of this report.

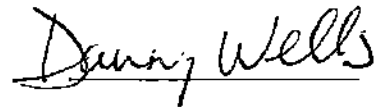
Respectfully submitted,



John Pat Fanning
Chair
State Senate



Jeff Eldridge
Co-chair
House of Delegates



Danny Wells
Co-Chair
House of Delegates

APPENDIX

1 SENATE/HOUSE CONCURRENT RESOLUTION NO. \

2 (By)

3
4
5
6 Requesting the Joint Committee on Government and Finance to study
7 deer/vehicle collisions (DVC) in West Virginia and establish
8 public-private partnerships between the State and insurance
9 companies to address and reduce DVC and to fund DVC
10 countermeasures.

11 Whereas, DVC across the United States, including West
12 Virginia, are a significant and increasing safety problem; and

13 Whereas, Nationwide, an estimated 1.5 million DVC occur
14 annually, resulting in \$1 to \$2 billion in economic losses (e.g.,
15 insurance claims, property damage, time off work, etc.) twenty-nine
16 thousand personal injuries, and more than two hundred human
17 fatalities; and

18 Whereas, In West Virginia, the number of white-tailed deer
19 reportedly killed by vehicles annually has risen substantially from
20 just over two thousand in 1978 to just over nineteen thousand in
21 the year 2007; and

22 Whereas, The DVC problem and its potential countermeasures are
23 complex, interdisciplinary issues with significant transportation
24 safety implication; and

1 Whereas, Numerous methods have been used to minimize DVC,
2 include, in vehicle technologies, deer whistles, roadway lighting,
3 speed limit reductions, deicing salt alternatives, deer-flagging
4 models, intercept feeding, passive deer crossing signs, dynamic
5 deer crossing signs and sensors, roadside reflectors and mirrors,
6 deer repellants, deer herd reduction, public information and
7 education, roadside vegetation management, exclusionary fencing,
8 wildlife crossings and roadway maintenance, design and planning
9 policies; and

10 Whereas, The efficacy of many of these DVC countermeasures
11 have proven to be ineffective. However, some of these measures
12 show promise and should be more fully evaluated using science
13 based, research methodologies; and

14 Whereas, The complexity and interdisciplinary nature of the
15 DVC problem and its countermeasures requires adequate research,
16 funding, development of effective partnerships and appropriate
17 exchange of information and technology; therefore be it

18 *Resolved by the Legislature of West Virginia:*

19 That the Joint Committee on Government and Finance is hereby
20 requested to study deer/vehicle collisions (DVC) in West Virginia
21 and establish public-private partnerships between the state and
22 insurance companies to address and reduce DVC and to fund DVC
23 countermeasures; and be it

24 *Further Resolved,* That representatives from Rahall Appalachian

1 Transportation Institute at Marshall University, Division of
2 Forestry and Natural Resources at West Virginia University, West
3 Virginia Office of the Insurance Commissioner, West Virginia
4 Department of Transportation, and West Virginia Division of Natural
5 resources and insurance companies from the state be appointed to
6 serve on a committee charge with investigating the wide range of
7 issues, concerns and contributing factors associated with DVC in
8 West Virginia; and be it

9 *Further Resolved*, That the committee prepare recommendations
10 designed to effectively reduce DVC and fund DVC countermeasures in
11 West Virginia; and be it

12 *Further Resolved*, That the Joint Committee on Government and
13 Finance report to the regular session of the Legislature, 2010, on
14 its findings, conclusions and recommendations, together with drafts
15 of any legislation necessary to effectuate its recommendations; and
16 be it

17 *Further Resolved*, That the expenses necessary to conduct this
18 study, to prepare a report and to draft necessary legislation be
19 paid from legislative appropriations to the Joint Committee on
20 Government and Finance.

Summary of the 2008 Big Game Harvest Figures

Parks, Recreation and Natural Resources Subcommittee Meeting

January 11, 2009

2008 Bucks-only Firearm Season

The 2-week, bucks-only firearm season traditionally opens on the Monday of Thanksgiving week. Hunters harvested 68,540 bucks during the 2008 season, which is up 2% from the 67,213 bucks taken in 2007. Undoubtedly weather during the first two days of the season influenced hunter participation and probably dampened the harvest somewhat. Rain fell opening day statewide with temperatures in the low 40's accompanied by gusty winds. Day two was windy with snow falling and temperatures in the mid 30's. Snowfall accumulation varied across the state, with more than a foot of snow being reported in the higher mountains of eastern West Virginia. Historically, deer harvest these first two days account for 55% of the season's total. More favorable weather conditions during the first two days of the season would have resulted in an even higher buck harvest.

This is the 11th year in a row that concurrent antlerless deer hunting has been permitted during portions of the buck season in selected counties. For the 7th year in a row, concurrent antlerless deer hunting took place during the entire 2-week buck season. Where adequate harvests of antlerless deer are occurring, Wildlife Biologists continue to report significant positive benefits associated with this regulation strategy, including a reduction in buck hunting pressure and an increase in antlerless deer hunting pressure.

While we have made significant progress in balancing the state's deer population with available habitat, a number of counties still support deer populations that are well above management objectives and beyond the capacity of the habitat to support in a sustainable fashion. Where this is the case, liberal antlerless deer harvest regulations will continue to be used in selected counties to reduce overall deer populations to desired levels. Where deer populations are below or approaching management objectives, we be recommending more conservative antlerless deer harvest regulation for the 2009 season. These proposed regulations will be consistent with guidelines established in the DNR's *White-tailed Deer Operational Plan*.

2008 Antlerless Deer Season

Antlerless deer hunting opportunities were provided in a total of 44 counties, or portions thereof, during the 2008 season. These counties had a 22-day split antlerless deer season with a bag limit that ranged from 4 to 1, depending upon management objectives. The season included 2-weeks of concurrent antlerless deer hunting during the buck season, 6 days during the traditional antlerless deer season, and 4 days in late December for antlerless deer hunting.

A total of 54,704 antlerless deer were harvested during the 2008 season. This figure is 25% above the 2007 harvest which was expected, as we had a more liberal antlerless season in place this past fall. Harvesting female deer during the antlerless deer season is the most important and effective tool used by wildlife managers, landowners and hunters to control deer numbers and

bring deer populations in line with their carrying capacity. As this management strategy is accomplished, antler size, body weight and overall physical condition of the deer herd will improve. We will continue to recommend appropriate antlerless deer harvest regulations for the 2009 season. Where deer populations exceed management objectives, liberal antlerless harvest regulations will be implemented to achieve management objectives. Where these populations are below management objectives, more conservative seasons will be put in place.

2008 Muzzleloader Deer Season

The 2008 muzzleloader deer harvest of 8,378 was 9% higher than the 2007 harvest. This increase in the muzzleloader harvest was also expected, as more counties were open to antlerless deer season and either-sex muzzleloader hunting.

2008 Archery Deer Season

The 2008 archery deer harvest of 30,749 was 12% above the 2007 harvest.

2008 Bear Seasons

We are still process bear tags and harvest information is not yet available for the 2008 seasons.

2008 Wild Turkey Seasons

Spring turkey hunters harvested a total of 9,895 birds during the 2008 spring gobbler season. These numbers are 1% lower than the 2007 harvest of 9,965.

Fall turkey hunters in 2008 harvested 1,128 birds during the fall 2008 season. The harvest is currently 25% lower than the 1,511 recorded in 2007. Wildlife Biologists had forecast a lower fall turkey harvest based upon poor poult production in the spring and abundant food sources this fall which tend to scatter flocks and make them less accessible to hunters.

SUMMARY OF OPERATIONS

Berwind Lake Wildlife Management Area

Background Information

Berwind Lake Wildlife Management Area began in the mid-1950's as a cooperative effort between local business, fishing and community groups and the State of West Virginia. Land was purchased from the Berwind Corporation to build a small lake. Construction on the earthen dam began in 1958 and the lake was opened on April 25, 1959.

The core area is comprised of 93 acres of forested land, the lake and maintained grassy areas. The swimming pool was constructed in 1967 and underwent extensive renovations in 2007. It reopened Memorial Day Weekend, 2008. The lake was drained in the early 1980's in order to rebuild the dam to meet more stringent environmental and safety requirements. The arch bridge across the lake was built in 1993-94 and throughout the years other improvements have included adding picnic shelters and tables, hiking trails and fishing docks. The most recent addition is eight primitive campsites, completed in May, 2001, and located near the office.

Resource Management Issues

The lake is stocked with trout January through April of each year and catfish are stocked during summer months, providing a draw for fishermen throughout the year.

The dam is cleared of trees and brush periodically to meet regulations. Power line rights of way have also been cleared recently as was the area where the campground is now located.

Current/Recent Projects and Improvements

- Swimming pool renovated
- Swimming pool bathhouse renovated
- Electrical upgrade to pool shelters
- Playground equipment upgrade

Major Needs

Equipment

1-ton dump truck

Major Repairs and Alterations

Re-roof shelter

Extend water lines to picnic shelter

Additional picnic shelter

Construct shelter at swimming pool area

Personnel

The area operates with two full-time personnel, a superintendent and maintenance supervisor. There are two seasonal employees and four part-time employees to cover maintenance and pool operations during the summer. The area also utilizes CWEP workers when available.

Superintendent's Comments

Berwind Lake is operated to provide both the recreational opportunities of the pool, campground, paddle boats and picnic areas as well as the hunting and fishing opportunities for outdoor sportsmen. The area is the only recreational facility available to the residents of southern McDowell County. With the efforts of current and past employees, the area has undergone significant upgrades, most notably the pool renovation.

Although still available for hunting, the "official" nature of much of the WMA proper, consisting of many thousands of acres, has changed in the past few years as the private land company has not been willing to renew the WMA lease with DNR Wildlife Resources.

Statistical Trends

Berwind Lake Wildlife Management Area	FY 2007	FY 2006	FY 2005
Attendance*	30,951	61,806	94,375
Campsite Occupancy	8.42%	4.71%	3.13%
Operating Revenue	5,035	5,140	4,985
Operating Expenditures	122,322	116,619	118,059
Surplus/(Subsidy)	(117,287)	(111,480)	(113,074)
Self Sufficiency %	4%	4%	4%

* The drop in attendance is due in part to the lengthy closing of the pool for renovations and the general decline in population of the surrounding areas. Also impacting attendance is the loss of the majority of the WMA acreage due to the lease not being renewed.

Three Year Revenue Comparison Berwind Lake Wildlife Management Area

Revenue	FY 2007	FY 2006	FY 2005
Boat Rental	455	460	315
Campsite Rentals	730	1,052	559
Firewood Sales	19	64	32
Gift Shop Sales	234	418	520
Miscellaneous Collections	126	123	725
Picnic Shelter Fees	2,772	1,730	1,883
Vending Machines	700	1,292	950
TOTAL OPERATING REVENUE	5,035	5,140	4,985

Three Year Expense Comparison Berwind Lake Wildlife Management Area

Expense	FY 2007	FY 2006	FY 2005
Total Personal Services	59,996	56,003	54,194
Total Employee Benefits	36,922	35,769	31,881
CURRENT EXPENSE			
Office/Postal/Freight	519	538	482
Utilities	4,676	4,907	4,397
Telephone	3,804	3,161	3,617
Contract/Professional	8	5	153
Travel	509	265	387
Vehicle Rental	-	-	259
Association Dues	50	50	50
Clothing/Household	3,451	3,290	4,428
Advertising			
Vehicle Maintenance Expense	3,925	3,757	5,421
Research/Education/Medical	239	-	-
Merchandise for Resale	1,472	1,816	1,999
Miscellaneous	199	416	212
Training	-	-	1,339
Miscellaneous Equipment	1,796	1,094	461
TOTAL CURRENT EXPENSE	20,649	19,300	23,205
REPAIRS AND ALTERATIONS			
Office Equipment	-	36	-
Building/Household/Comm	-	-	-
Building Repairs/Alterations	214	2,720	3,431

Expense	FY 2007	FY 2006	FY 2005
Vehicle Repairs	3,289	157	-
Ground Improvements	460	1,711	1,788
Farm/Construction Equipment	424	496	499
Other Repairs/Alterations	368	427	3,060
TOTAL REPAIRS AND ALTERATIONS	4,755	5,548	8,778
EQUIPMENT			
Other Equipment	-	-	-
Credit Card Purchases/Equip.	-	-	-
TOTAL EQUIPMENT	0	0	0
TOTAL OPERATING EXPENSES	122,322	116,619	118,059

SUMMARY OF OPERATIONS

Panther Wildlife Management Area

Background Information

In 1940, in response to the need for public recreation facilities in the southern part of the state, the State of West Virginia decided to establish a public use area in the Panther Creek region of McDowell County. Unfortunately, public funds ran out before the job could be completed. At that time, the people of McDowell and surrounding counties began a fund drive known as "Pennies for Panther" which, according to old records in the area office, raised nearly \$9,500. Land acquisition was completed with these funds and the area became a reality.

A decision was then made by the state and federal governments to locate a Civilian Conservation Corps camp in the forest, but Camp Panther was short lived as manpower demands from World War II necessitated the closing of the camp in June 1942 and the dismantling of the prefabricated CCC buildings. Many of the buildings were taken apart and shipped to the Pacific Theater and used as barracks.

Today, Panther Wildlife Management Area consists of 7,810 acres and offers camping, a group camp that can accommodate up to sixty guests, a swimming pool, picnic areas, hiking trails and hunting and fishing in season.

Resource Management Issues

Recent improvements include installing a water system at Georges Fork shelter and installing waterlines to Bonner Field and Sand Bottom shelters. Also, the sewer plant was rehabilitated after the May 2002 flood.

Current/Recent Projects and Improvements

- Every structure stained
- New shingles on most area buildings
- New garage doors on all buildings
- Installed tile in snack stand
- Renovated group camp barrack restrooms
- Purchased new bunk beds for group camp
- Re-wired outdoor lights at group camp
- Installation of new Superintendent's residence

Fixed major leaks and painted pool

Major Needs

Capital Improvements

- New assistant superintendent's residence (lost in May 2002 flood)
- Total renovation of group camp barracks from 60 to 100 person capacity
- New maintenance shop (lost in February 2006 fire)
- Installation of a heating system in group camp upper building
- Paving parking lots and office road

Equipment

- Backhoe
- ATV/UTV
- Maintenance shop equipment and tools (lost in February 2006 fire)
- Radios (ultra-highband)

Major Repairs and Alterations

- Replace windows in group camp upper building
- Install vinyl liner and new filtration system at pool
- New pool deck
- Replace pool deck furniture

Personnel

The area operates with three full-time staff members including a superintendent, assistant superintendent, maintenance supervisor. Seasonal staff includes one maintenance workers and one group camp cleaner. Summer staff consists of five lifeguards. The area also utilizes CWEP workers when possible.

Superintendent's Comments

Panther continues to offer vital public recreation and hunting opportunities to the residents of the southern part of West Virginia. The area has enjoyed strong support from the local communities. This continues to be evident with the donation of monies by Cabot Oil and Gas to aid in playground improvements, as well as community groups pledging to donate time to replace playground equipment.

The current goal is to upgrade the area grounds and facilities to a level equal to or above the conditions existing prior to the May 2002 flood. Some success has already been achieved including improving outdated infrastructure of the facilities including plumbing and wiring; acquiring funding to replace all playground equipment; and pursuing funding for a heating system to enable the group camp to be used all year long, something that has been requested by numerous individuals and groups in the community.

Statistical Trends

Panther Wildlife Management Area	FY 2007	FY 2006	FY 2005
Attendance	43,721	63,648	27,163
Campsite Occupancy	5.33%	4.51%	3.01%
Operating Revenue	21,676	24,699	17,105
Operating Expenditures	213,966	197,897	172,429
Surplus/(Subsidy)	(192,291)	(173,198)	(155,325)
Self Sufficiency	10%	12%	10%

Three Year Revenue Comparison

Panther Wildlife Management Area

Revenue	FY 2007	FY 2006	FY 2005
Campsite Rentals	730	605	519
Equipment Rental			
Firewood Sales	14	-	-
Group Camps	10,920	12,739	9,589
Miscellaneous Collections	188	38	378
Picnic Shelter Fees	3,186	3,712	2,754
Snack/Comm/Souvenir	2,714	3,343	1,839
Swimming Fees	3,610	3,897	1,915
Vending Machines	312	365	111
TOTAL OPERATING REVENUE	21,676	24,699	17,105

Three Year Expense Comparison Panther Wildlife Management Area

Expense	FY 2007	FY 2006	FY 2005
---------	---------	---------	---------

Total Personal Services	97,571	104,523	75,023
Total Employee Benefits	37,340	43,243	32,969
CURRENT EXPENSE			
Office/Postal/Freight	1,033	967	581
Printing/Binding	-	-	65
Utilities	9,872	8,999	11,310
Telephone	5,139	5,768	4,690
Contract/Professional	895	245	6,075
Travel	743	1,037	255
IS&C/WV Net	102	186	102
Machine Rentals	1,233	1,295	1,272
Association Dues	50	50	50
Clothing/Household	6,707	6,226	6,709
Advertising			
Vehicle Maintenance Expense	4,869	5,993	3,422
Research/Education/Medical			
Merchandise for Resale	2,166	2,730	2,050
Miscellaneous	459	921	845
Training	395	2,240	1,786
Miscellaneous Equipment	38,844	3,722	7,767
TOTAL CURRENT EXPENSE	72,534	40,379	46,978
REPAIRS AND ALTERATIONS			
Office Equipment	-	70	-
Building/Household/Comm	911	2,255	1,946
Building Repairs/Alterations	4,128	5,682	9,735
Vehicle Repairs	(3,250)	656	56
Ground Improvements	682	615	1,665
Farm/Construction Equip	474	96	176
	3,577	378	3,881

Other Repairs/Alterations			
TOTAL REPAIRS AND ALTERATIONS	6,522	9,751	17,459
EQUIPMENT			
Office/Communication Equip	-	-	-
Household Equip/Furnishings	-	-	-
Vehicles	-	-	-
Livestock/Farm/Const	-	-	-
Other Equipment	-	-	-
Credit Card Purchases/Equip.	-	-	-
TOTAL EQUIPMENT	0	0	0
TOTAL OPERATING EXPENSES	213,966	197,897	172,429

SUMMARY OF OPERATIONS

Twin Falls Resort State Park

Background Information

Quality service and hospitality continue to identify Twin Falls Resort State Park since opening to the public in 1970. Twin Falls is a multifaceted 3,776 acre state park located in the heart of Wyoming County, 40 minutes southwest of Beckley. The park features a 20-room lodge with a full-service restaurant, 14 vacation cottages, and an 18-hole championship golf course. A beautiful 50 site campground, picnic areas, three picnic shelters, game courts, hiking trails and the 1800's era Pioneer Farm are featured attractions in the park.

Twin Falls Resort State Park came into being in 1964 as a "gift of land" from Pocahontas Land Corporation. The Area Redevelopment Administration provided initial funding for the development of the land into a state park. The golf course opened in the fall of 1967 and the lodge complex and related development began the next year and opened in 1970. In 1976 the campground opened along with three picnic areas. The park's popularity for conference and banquet use prompted funding for additional conference/banquet rooms, kitchen renovations, storage and utility expansion. This addition opened in March 1981 giving Twin Falls five conference areas. During the same time period, the golf course was upgraded to an 18-hole, Par 72 course designed by George Cobb with the new back nine opening in 1984.

Resource Management Issues

Whitetail deer are perhaps over-abundant in the park. A population census will likely be done later this year to determine if the area might need a permit only hunt in 2009.

Current /Recent Projects and Improvements

- Lodge expansion project underway to add 28 guest rooms, indoor pool and fitness center.
- Lodge addition furnishing and equipment.
- New playground equipment.
- Stabilization of the recreation and lodge buildings.
- New keyless entry system.
- Wireless internet service installed in guest rooms, conference rooms and cottages
- Four playground sets installed at different location on the park.
- New sewage lift station at campground.
- Wood signs replaced with plastic laminate signs.
- Lodge fire alarm upgrades.
- Renovation of four conference rooms completed.
- Gazebo installed at shelter two.

Rebuilt 36 sand traps on golf course.

Several upgrades were made to cottages and guest rooms (27" TV drapes, bed spreads, lamps, mattresses and bathrooms renovations)

Major Needs

Capital Improvements

- Replace lodge HVAC chiller
- Electric hook-ups for campsites
- Pave cart paths
- Golf course rain shelters
- Golf course maintenance facility
- Golf course rest rooms
- Recreation building
- Miniature golf course
- Water Tank for Campground and Pioneer Farm
- Bathrooms at all Picnic Areas
- Upgrade amphitheater

Equipment

- 4WD assistant superintendent vehicle
- Maintenance vehicle
- Gas grill and range for restaurant
- Flail mower
- Lawn tractor

Major Repairs and Alterations

- Cottage renovations
- Pro Shop fire detection and alarm system
- Re-roof golf pro shop
- Re-roof lodge
- New phone system for entire park
- Renovation of picnic area rest rooms
- Lodge carpeting and furnishings
- Lodge restaurant furnishings
- Air conditioners in cottages
- Patio furniture for lodge
- Kitchen in Rhododendron Suite
- Lodge furniture

Personnel

Twin Falls currently has a total of 20 full-time staff representing administrative functions, building maintenance, housekeeping, front desk operations, golf operations, special events and grounds maintenance. Thirty seven part-time or seasonal staff members assist in operation of the park during the summer season.

Superintendent Comments

Twin Falls staff continues to strive to improve the park in every way possible. Some of the items that we are currently working on that was mention under the "Current/Recent Projects and Improvements" are needed to keep up with the growth and future development of the Park. One of the most important items is the Lodge Expansion Project.

Our mission statement is... "promote conservation by preserving and protecting natural areas of unique or exceptional scenic, scientific, cultural, archaeological or historic significance and to provide outdoor recreation opportunities for the citizens of this state and its visitors". We want to continue fulfilling this mission while at the same time increasing revenue. We believe that it is imperative that the lodge expansion is completed. Not only will this project lead to an increase in attendance, but it will also increase revenue. We are closer now in finalizing this project than ever before and our hopes are that we find additional funding to see this vital improvement come to fruition.

Statistical Trends

Twin Falls Resort State Park	FY 2007	FY 2006	FY 2005
Attendance	113,569	123,667	142,069
Lodge Occupancy	59.70%	55.44%	56.07%
Cabin Occupancy	54.19%	51.84%	51.02%
Campsite Occupancy	14.46%	14.74%	16.60%
Operating Revenue	776,102	811,990	802,753
Operating Expenditures	1,568,943	1,526,236	1,430,262
Surplus/(Subsidy)	(792,840)	(714,246)	(627,509)
Self Sufficiency	49%	53%	56%
Golf Rounds			

Three Year Revenue Comparison Twin Falls Resort State Park

Revenue	FY 2007	FY 2006	FY 2005
Cabin Rentals	205,255	227,968	216,916
Campsite Rentals	28,816	28,945	31,385
Coin Laundry	-	114	34
Cot Rental	780	1,330	746
Driving Range	2	-	-
Equipment Rental	780	995	1,042
Facility Use Rental	2,438	883	672
Firewood Sales	2,176	2,116	2,346
Gift Shop Sales	22,887	25,007	24,644
Golf Carts	54,940	65,855	67,378
Greens Fees	131,033	133,736	123,158
Lodge Rooms	276,919	272,018	264,975
Magazine Sales	85	107	82
Miscellaneous Collections	4,412	3,626	20,223
Picnic Shelter Fees	11,820	10,373	10,587
Pro Shop	25,487	26,759	25,875
Residence Rentals	1,600	2,400	1,600
Restaurant Concession	649	1,887	3,012
Restaurants	2,830	4,988	4,709
Snack/Comm/Souvenir	1,006	746	844
Swimming Fees	2,259	2,138	2,526
Vending Machines	-	-	(18)
TOTAL OPERATING REVENUE	776,102	811,990	802,753

Three Year Expense Comparison Twin Falls Resort State Park

Expense	FY 2007	FY 2006	FY 2005
Total Personal Services	670,999	657,448	655,489
Total Employee Benefits	253,969	247,687	241,266
CURRENT EXPENSE			
Office/Postal/Freight	10,589	14,004	9,012
Printing/Binding	1,336	1,562	1,547
Utilities	179,301	160,248	167,004
Telephone	25,768	27,470	30,197
Contract/Professional	47,189	60,261	43,059
Travel	2,318	1,697	4,177
IS&C/WV Net	303	243	-
Vehicle Rental	3,350	2,032	3,227
Machine Rentals	5,360	7,427	6,423
Association Dues	1,209	1,018	1,624
Clothing/Household	46,415	45,809	68,129
Advertising	4,498	10,901	6,814
Vehicle Maintenance Expense	26,287	26,037	21,649
Research/Education/Medical	1,456	1,048	2,143
Maintenance Contracts	9,528	6,125	6,360
Merchandise for Resale	24,978	38,210	34,178
Hospitality	2,052	979	682
Miscellaneous	521	1,206	1,468
Credit Card Processing Fees	10,266	9,495	9,146
Training	566	2,368	1,531
Miscellaneous Equipment	48,485	55,690	4,924
TOTAL CURRENT EXPENSE	451,775	473,827	423,292
REPAIRS AND ALTERATIONS			
Office Equipment	320	2,033	2,977
Building/House/Comm	49,333	27,073	7,589

Expense	FY 2007	FY 2006	FY 2005
Building Repairs/Alterations	42,686	50,590	13,049
Vehicle Repairs	9,136	8,617	10,566
Ground Improvements	61,218	28,674	43,750
Farm/Construction Equipment	19,648	22,752	18,252
Other Repairs/Alterations	9,859	7,534	14,032
TOTAL REPAIRS AND ALTERATIONS	192,199	147,274	110,215
EQUIPMENT			
Office/Comm Equip	-	-	-
Household Equip/Furn	-	-	-
Vehicles	-	-	-
Livestock/Farm/Const	-	-	-
Other Equipment	-	-	-
Credit Card Purchases/Equip.	-	-	-
TOTAL EQUIPMENT	0	0	0
TOTAL OPERATING EXPENSES	1,586,943	1,526,236	1,430,262

SUMMARY OF OPERATIONS

Blackwater Falls State Park

Background Information

The headwaters of the Blackwater River rise on the southern rim of Canaan Valley at altitudes approaching 4,000 feet. As early as 1800, the area was explored by adventurous types on fishing expeditions. In 1859 the Dobbin House was built in the area that is now the park. This 12-room log structure was the first house in the area and was used as a summer house, hunting and fishing lodge, and later as a boarding house for workers building the railroad. In the early 1870's, the falls were described as "a place of singular beauty" in *Harpers New Monthly Magazine*. Soon after the turn of the century, however, the area was devastated by timbering and the resulting fires that consumed the thick organic layer on the ground. By the 1930's the timber boom was over and the area was leased to the West Virginia Conservation Commission, and in 1937 the site became Blackwater Falls State Park.

The CCC began reforestation efforts shortly afterward, planting many thousands of seedlings. The main development of the park began in the mid-1950's with the construction of the first permanent structure in the park, a picnic shelter at Pendleton Falls. The 25 deluxe cabins were opened in 1956, and the lodge opened in January 1957. The campground opened in 1961, along with the new boardwalk down to the falls. Other improvements took place in the 1970's and 1980's including new shelters, trails and the recreation/skiing center. By 1999 a new conference center, indoor pool and fitness room had been added to the lodge complex. Cross country skiing has become a major attraction at Blackwater Falls. The park continues to attract visitors from all over the country, especially the large urban centers in the East, and has even hosted foreign embassy officials from Washington, D.C.

Resource Management Issues

The acquisition of Lindy Point and Pase Point land adjacent to the park has allowed for the preservation of this vital portion of the viewshed area of the Blackwater Canyon. The roadway to Lindy Point has been paved and volunteer work groups have assisted in improving the trails to the Lindy Point and Pase Point Overlooks and park staff constructed a protective barrier. Additional land was purchased from the power company between the park bridge and the town of Davis in 2002. This 500 acre addition to the park protects river access for fishermen and hikers.

The increasing populations of black bear in the region led to almost daily sightings and frequent nuisance problems of bears getting into garbage cans, dumpsters and even into cabins from time to time, during the 1990s. Staff has investigated bear-proof trash cans and food storage lockers and continues a public education program to inform visitors of the presence of the bears through handouts, posters and nature programs. Daily trash pickup (removal of the source of interest) has

greatly reduced the nuisance and problems that once created potential conflicts are now rarely noticed.

Business Management Issues and Trends

Restaurant Operations

We have been operating the food and beverage operations at Blackwater Falls State Park since 1990 and have served over 1,037,000 meals to guests from all 50 states and many foreign countries. Our 17 year history indicates that our customer base prefers a regional fare of House Specialties of Brown Beans and fried potatoes, Broiled Trout, and foods traditional to West Virginia appetites. Over the 17 years of operation Blackwater Falls Food and Beverage has managed to nearly break even on the financial side of it's operation.

Concession Operations

Concession operations currently include cross-country skiing and sledding, boating, cycling, fly fishing and pony ring rides and a petting zoo, although our existing Pony Ride/Petting Zoo Concessionaire contractor has recently left and we are searching for a substitute operator.

Revenue Trends

Revenues collected at Blackwater Falls State Park annually average over \$2 ½ million dollars. The park has generally been over 90% self-sufficient in recent years. There is little doubt that the pending addition of more cabins and the addition of snowmaking equipment and lights at the sled run would allow the park to push into the black.

Pendleton Lake Swimming

The lake was closed to public swimming in 2007 due to high bacterial counts and guest dissatisfaction. A desirable future project, an outdoor pool or "spray park" to replace lake swimming should have a positive effect on overall sales of rooms, cabins and campsites.

Current/Recent Projects and Improvements

- Renovations to cabins, lodge rooms and restaurant
- Paving to parking lots and driveways
- Lodge sewage treatment plant
- Replacement of the Blackwater Falls Boardwalk.
- Replacement of the Gentle Trail Overlook through the recreational Trails Grant
- Addition of 500 acres of state park property
- Twenty-six cabins re-roofed

Major Needs

Capital Improvements

- Addition of A/C to lodge restaurant
- Shop renovation
- Storage building
- Miniature golf course or other appropriate recreational amenity at Pendleton Lake including a swimming pool or spray park.

Equipment

- Jeep Cherokee
- Endloader/Snowplow
- Lodge Room Furniture
- Cabin Appliances/Furniture
- Pickup Trucks/w Plows/ Cabin Cleaning Vans

Major Repairs and Alterations

- Cabin area power liners
- Water line replacement, lodge, camping and picnic areas
- Asbestos abatement
- Restaurant kitchen renovations
- Lodge, cabin and nature center renovations
- Insulated windows- lodge and cabins

Personnel

Blackwater Falls State Park currently employs 27 full time employees and up to 115 seasonal and summer employees during the busy summer months. In addition, Blackwater Falls uses juvenile inmates from the Davis Correctional Center for Boys. Blackwater Falls adds more than one million dollars annually into the local economy through staff payrolls alone. Overall economic impact was conservatively estimated several years ago at \$6,492,458.

Superintendents Comments

From 1934 to the present, Blackwater Falls State Park has offered the visiting public access to one of the most unique and scenic areas of West Virginia. From its beginnings as an overlook/picnic area, the park has grown to the present day modern conference facilities and fitness center in the full-service lodge. The wide range of activities include hiking, biking, camping, picnicking, swimming, game courts, recreation and nature programs and skiing and sledding which make Blackwater Falls a year-round attraction with close geographical proximity to the population centers of the east coast.

Because of the recent improvements to Blackwater Falls State Park and the anticipated changes resulting from the construction of Corridor H, the future looks very bright for the park. The challenge will be to meet the increased demand and maintain the facilities in a manner that is responsible and considerate of our surrounding environment, to provide services to park visitors and West Virginia citizens.

Statistical Trends

Blackwater Falls State Park	FY 2007	FY 2006	FY 2005
Attendance	372,945	374,234	352,032
Lodge Occupancy	56.23%	59.65%	60.37%
Cabin Occupancy	53.50%	55.93%	55.72%
Campsite Occupancy	39.04%	39.69%	44.62%
Operating Revenue	2,412,708	2,580,352	2,574,229
Operating Expenditures	2,893,169	2,801,030	2,841,189
Surplus/(Subsidy)	(480,461)	(220,678)	(266,961)
Self Sufficiency	83%	92%	91%

Three Year Revenue Comparison Blackwater Falls State Park

Revenue	FY 2007	FY 2006	FY 2005
Boat Rentals	6	2,877	743
Cabin Rentals	638,435	632,976	633,020
Campsite Rentals	76,899	84,280	85,816
Coin Laundry	447	507	696
Coin Machine Concession	5,227	5,475	5,287
Cot Rental	3,310	2,795	3,781
Facility Use Rental	5,575	5,752	4,867
Firewood Sales	8,317	8,323	9,433
Games	146	176	128
Gift Shop Sales	439,370	436,392	470,249
Lodge Rooms	724,434	825,753	783,074
Miscellaneous Collections	2,644	24,331	18,753
Miscellaneous Concessions	1,652	963	595
Picnic Shelter Fees	1,863	3,644	2,607
Residence Rentals	1,900	2,750	3,297
Restaurant	483,531	521,374	531,677
Riding Stables	884	359	752
Snack/Comm/Souvenir	16,747	19,708	16,716
Swimming Fees	1,192	1,764	2,541
Tennis	131	152	198
TOTAL OPERATING REVENUE	2,412,708	2,580,352	2,574,229

Three Year Expense Comparison Blackwater Falls State Park

Expense	FY 2007	FY 2006	FY 2005
Total Personal Services	1,271,630	1,233,270	1,317,976
Total Employee Benefits	406,775	415,905	396,357
CURRENT EXPENSE			
Office/Postal/Freight	12,165	13,803	13,241
Printing/Binding	5,325	1,396	529
Rental Expense	-	10	-
Utilities	306,570	300,899	264,125
Telephone	33,269	32,828	39,102
Contract/Professional	53,986	30,327	16,795
Travel	2,780	1,611	2,368
IS&C/WV Net	336	243	-
Vehicle Rental	5,658	-	-
Machine Rentals	4,038	5,431	4,188
Association Dues	50	50	325
Clothing/Household	115,724	119,671	138,973
Advertising	4,131	5,727	7,363
Vehicle Maintenance Expense	41,082	37,708	33,247
Research/Education/Medical	214	1,034	-
Maintenance Contracts	8,131	8,950	9,260
Merchandise for Resale	473,861	472,044	505,072
Hospitality	2,765	1,534	171
Miscellaneous	1,792	2,999	5,638
Credit Card Processing Fees	33,033	32,974	32,099
Training	50	20	543
Miscellaneous Equipment	46,959	17,496	7,645
TOTAL CURRENT EXPENSE	1,151,918	1,086,755	1,080,685
REPAIRS AND ALTERATIONS			
	450	587	318

Expense	FY 2007	FY 2006	FY 2005
Office Equipment			
Building/Household/Comm	22,388	20,724	13,793
Building Repairs/Alterations	24,035	42,562	21,949
Vehicle Repairs	2,632	2,250	-
Ground Improvements	2,663	3,290	6,183
Farm/Construction Equipment	3,430	3,870	855
Other Repairs/Alterations	7,249	1,816	3,073
TOTAL REPAIRS AND ALTERATIONS	62,847	75,099	46,171
EQUIPMENT			
Office/Comm Equipment	-	-	-
Household Equip/Furnishing	-	-	-
Other Equipment	-	-	-
TOTAL EQUIPMENT	0	0	0
TOTAL OPERATING EXPENSES	2,893,169	2,801,030	2,841,189

SUMMARY OF OPERATIONS

Canaan Valley Resort State Park

Background Information

The 6,015 acre development that comprises Canaan Valley Resort State Park is located in a 64,000 acre area nestled in the Allegheny Chain between two mountains of greater than 4,000 feet. This high plateau was described as "savage and inaccessible" in *Harpers Magazine* in 1853 and contains natural features and plant life reminiscent of the Canadian tundra. Like many of the areas that are now state parks, this area was heavily timbered around the early 1900's before the farming and livestock industries took precedence. In 1957, S. Maude Kaemmerling willed 3,135 acres of the valley floor and the eastern slope of Cabin Mountain to the state for use as a recreational area. In 1963 the state received funds from the federal government for development of several state parks including Canaan Valley. The purchase of additional lands to enlarge the original Kaemmerling tract met with some opposition and delayed the overall construction projects and park development. But by December 1971 the states first major ski area was open for business and the parks facilities now include a championship golf course, swimming pool, tennis courts, miniature golf, cabins and cottages, campground, spa and health club and the fully modern 250 room lodge complex.

Resource Management Issues

Canaan Valley Resort State Park, located in the Potomac Highlands, is in the center one of the most ecologically diverse areas in the eastern United States. Composed of 6, 114 acres, Canaan Valley Resort State Park offers year-round accommodations for skiing, hiking, horseback riding, golf, swimming, nature interpretation and a myriad of other programs and facilities.

Business Management Issues and Trends

Concession Operations

Canaan Valley Resort State Park is leased to a concessionaire who, since 1974, has been responsible for all revenue producing facilities. The State of West Virginia fulfills certain contractual responsibilities involving maintenance operations.

Revenue Trends

The average yearly revenue for Canaan Valley State Park has averaged around \$9 million dollars. The West Virginia Division of Natural Resources, State Parks Section receives 14% of the total gross income as a base percentage with a graduated scale calling for higher percentages if higher gross incomes are realized. Two percent of the 14% that the state receives is deposited into a maintenance fund. This fund is used for projects or improvements that are state obligations and which are mutually agreed upon by the West Virginia Division of Natural Resources, Parks Section and Guest Services Incorporated. The park system typically realizes a profit from the park of several hundred thousand dollars annually.

Current/Recent Projects and Improvements by Concessionaire

The license agreement between the West Virginia Division of Natural Resources and Guest Services Inc. stipulated that GSI would develop an additional 9-hole golf course by April 1, 2004. There were a series of meetings between representatives of both entities on the additional nine holes. It was agreed that the funding required to develop an additional nine holes would be better spent on other projects in the park. The mutually agreed upon projects led to Addendum # 11 of the license agreement. The following is a list of those projects.

* Golf Course Irrigation System.	\$523,000	
* Outdoor Pavilion and upgrade to the Ice Rink.		\$321,000
* Re-Surface sidewalks/walkways at Main Lodge.		\$213,000
* Construct new 250,000 gallon potable water tank.		\$252,000
* Door and lock replacement on lodge rooms and cabins.		\$161,000
* Install new roof on Golf Pro Shop.		\$ 50,000
* Install new snow making pump.		<u>\$ 64,000</u>
	TOTAL	\$1,584,000

The 20,000 square foot Bear Paw Lodge was constructed at a cost of \$2.2 million in 2001.

Recent Additions and Improvements by Parks Section

Completion of a new cart path at the Golf Course	\$ 75,000	
Seasonal paint crew	\$ 30,000	Annually
Paving of lodge entrance	\$ 25,000	
Maintenance Building Replacement	\$ 65,000	
Roof on Water Plant	\$ 25,000	
Harr Barn Demolition	\$ 4,000	
	TOTAL	\$224,000

Current Cooperative Projects

Upgrade of Fire Alarm Systems to Lodge Elevators
Replacement of Lodge Restaurant Commercial Dishwasher
Repairs to Ski Lifts.

Major Needs

Capital Improvements

- Replace all lodge guest room units
- Ski mountain improvements
- Golf course rain shelter
- Amphitheatre
- ADA walkways and trails
- Paved bike paths
- Entrance sign upgrades
- 3rd water well
- Storage building

Equipment

- Backhoe
- Road grader
- Snowplows and frames
- Shop maintenance equipment
- 4WD vehicles
- Van
- Grounds maintenance equipment

Major Repairs and Alterations

- Paint A Lift
- Parking lot repaving
- Window replacement lodge/pro shop
- Window replacement ski area
- Water and sewer plant replacement
- Water line replacement
- Deck replacement

Personnel

The State Parks Section of the Division of Natural Resources currently employs four full time employees and 8 seasonal and summer employees. Guest Services Inc. employees 185 people on a year round basis, 125 of those are full time benefit earning employees. During the four month ski season, Guest Services total number of employees increases to 325. The combined payrolls of the West Virginia Division of Natural Resources and Guest Services Inc. contribute around \$4 million dollars into the local economy and the overall impact of the park was estimated at \$10,431,827 several years ago.

Superintendent's Comments

Canaan Valley Resort State Park came into being as a result of the generosity of Maude Kaemmerling who willed the original land to the state for use as a recreational area. Since then, many individuals have worked hard to preserve the natural beauty of the area, while at the same time providing a unique recreation experience for those who enjoy the outdoors year round. The unique environment, in many ways representative of areas of Canada, has become something of a winter playground for many on the east coast of the United States.

Statistical Trends

Canaan Valley Resort State Park	FY 2007	FY 2006	FY 2005
Attendance	351,443	475,119	488,221
Lodge Occupancy	42.61%	39.91%	41.27%
Cabin Occupancy	51.90%	50.24%	49.72%
Campsite Occupancy	35.22%	41.00%	35.57%
Operating Revenue	617,489	553,497	610,270
Operating Expenditures	495,453	560,711	520,980
Surplus/(Subsidy)	122,036	(7,213)	89,290
Self Sufficiency	125%	99%	117%

Three Year Revenue Comparison (Percentage paid to state)
Canaan Valley Resort State Park

Revenue	FY 2007	FY 2006	FY 2005
Canaan Concessionaire	604,885	543,268	602,010
Gas/Oil Lease Royalties	12,704	10,230	8,261
Miscellaneous Collections	(100)	-	-
TOTAL OPERATING REVENUE	617,489	553,497	610,270

Three Year Revenue Comparison (Gross concessionaire revenues)
Canaan Valley Resort State Park

Total Revenues	FY 2007	FY 2006	FY 2005
	8,824,645	8,204,885	8,166,197

Three Year Expense Comparison Canaan Valley Resort State Park

Expense	FY 2007	FY 2006	FY 2005
Total Personal Services	202,862	260,426	239,458
Total Employee Benefits	70,151	92,400	94,306
CURRENT EXPENSE			
Office/Postal/Freight	1,121	3,029	1,118
Printing/Binding	-	-	-
Utilities	46,756	49,133	44,135
Telephone	10,070	5,241	5,614
Contract/Professional	54,464	49,063	49,179
Travel	144	694	163
Vehicle Rental	-	3,528	725
Machine Rentals	1,283	2,916	3,654
Association Dues	50	50	100
Clothing/Household	10,643	8,839	5,171
Advertising	-	182	-
Vehicle Maintenance Expense	22,470	27,101	21,412
Research/Education/Medical	-	179	-
Maintenance Contracts	500	300	368
Merchandise for Resale	-	669	30
Hospitality	78	66	45
Miscellaneous	2,210	3,886	1,955
Training	189	-	-
Miscellaneous Equipment	14,655	3,583	2,756
TOTAL CURRENT EXPENSE	164,643	158,456	136,426
REPAIRS AND ALTERATIONS			
Office Equipment	786	-	-
Building/Household/Comm	745	3,546	628
Building Repairs/Alterations	29,108	16,609	23,553

Expense	FY 2007	FY 2006	FY 2005
Vehicle Repairs	1,009	5,928	5,942
Ground Improvements	7,066	6,158	2,356
Farm/Construction Equipment	5,799	5,355	7,929
Other Repairs/Alterations	13,283	2,833	4,295
TOTAL REPAIRS AND ALTERATIONS	57,796	40,429	44,703
EQUIPMENT			
Livestock/Farm/Construction	-	-	6,087
Other Equipment	-	9,000	-
TOTAL EQUIPMENT	-	9,000	6,087
TOTAL OPERATING EXPENSES	495,453	560,711	520,980

SUMMARY OF OPERATIONS

Cass Scenic Railroad State Park

Background Information

Cass, originally developed by the West Virginia Pulp and Paper Company (today's Mead/WestVaco Corporation) was at one time the location of one of the larger lumber and pulp operations in West Virginia, including a huge sawmill and company store, as well as a large railroading operation devoted to the task of removing logs from Cheat Mountain. Mower Lumber Company eventually was to buy all of these holdings and become the owner of one of the last logging railroads in existence in the United States. Mower closed its logging operations here in 1960.

The railroad was quickly sold for scrap value, and was saved only by the vision and fast action of a handful of concerned people and a responsive West Virginia Legislature. Purchase of the company's railroad holdings for a future state park was authorized in 1961, and the first public scenic excursion train departed the depot on June 15, 1963. Since then Cass has continuously shown visitors what life was like here during the early 1900's.

Much of the historic company town of Cass was added to the park's holdings in 1976, making this one of the most unique destination parks in the country. Although it has endured several damaging fires, three major floods, and many lean budgets through the years, Cass continues to interpret the bygone era of steam railroading and insular company towns in a way no other place can, gaining a national reputation among those knowledgeable about railroading and logging history.

With six under steam this season the railroad now boasts more operating steam locomotives than any other in the country, and is home to the largest roster of geared steam locomotives in the world. The town still holds over 80 historic structures, many of which have been restored and returned to useful purposes. The park's Company Store is the park system's largest gift shop operation. The Mountain State Railroad and Logging Historical Association, the park's foundation, consists of some 700 members from all across the country. It is an active and able ally in the quest to preserve and interpret the history here, providing assistance with major improvement projects, interpretive services and staffing, and restoration efforts.

Today this complex park offers 20 vacation rental units in the town of Cass, as well as two overnight caboose units and a wilderness cabin atop the mountain. Six houses are rented by long term residents. The Last Run Restaurant, Whittaker Refreshment Stand, and the Shay Railroad Shop are concession operated. Park owned buildings also house the US Post Office, Lefty's Barber Shop, and the oldest continuously meeting Masonic Lodge in West Virginia. The park operates the water and sewer facilities for the entire community, including East Cass and other private holdings on the west side of the river. In short, Cass is still a living town that just happens to be owned largely by the citizens of this state. Other park-owned facilities include the

Railroad and Logging History Museum, the Cass Showcase interpretive facility, and three volunteer dormitories. Park maintenance facilities and offices occupy some buildings, but there remain many structures in town still unused.

Large privately owned structures in town include the United Methodist Church and the Cass Community Center. The latter is currently in the hands of the park's foundation, and it is expected that a request will be made in the near future for the park to assume ownership of this structure.

Resource Management Issues

Steadily increasing traffic of all sorts on Rt. 66 is now eroding the historic integrity and security of the park. This road was unpaved west of Cass until recent years, but now serves as a major artery to the Snowshoe Resort area. Construction, logging and delivery traffic mingles daily with many hundreds of private vehicles and motorcycles negotiating the five 90 degree curves that wind through town, making an overnight stay or even a walk through town a less than tranquil experience. A bypass bridge just downstream of town would remedy all of these problems, allowing Cass's ambience to return. Such a bridge has been projected by the DOH to cost 8 million dollars. Without this expenditure, however, the park will be severely handicapped in fulfilling its mission.

Privately owned lots within the town proper that come on the market are pursued when possible so as to prevent inappropriate use and to protect the historic integrity of the town. These efforts should continue, and funding should be made available for such opportunities. Legislation is also in place to allow the initiation of private development restrictions that might otherwise degrade the town's appearance and historical authenticity.

Building restoration and renovation efforts continue in an effort to capitalize on demand for overnight lodging in this area. Seven new rental units, the park headquarters, and two volunteer dormitories have been opened in the last five years. Demand and the resulting revenue production supports more rental units, but staffing levels limit the amount of development and maintenance that can be undertaken.

A Save America's Treasures grant is in hand to renovate the Clubhouse, or Luke House as it is called, to a condition suitable for display. This is the largest single dwelling in the town, and one of the better constructed. It is hoped that funding may eventually be found to put it into revenue producing service as an inn or retreat center.

The accumulation of over 100 years of rail yard castoffs has placed our available track space at a premium. Much work has been accomplished in the last few years to remove salvageable metal from around the shop. Disposal of surplus rolling stock is underway in coordination with the State Agency for Surplus Property, and will hopefully free up much needed track storage space for equipment with historical relevance and practical uses.

Acquisition of rare spare parts and repair equipment is difficult at times within the state's purchasing system. The location and purchase of such items is essential to the operation of a historic railroad like Cass. Rapid decision making and payment can be crucial. Our foundation has been instrumental in certain instances like this.

Business Management Issues and Trends

Concession Operations

Cass currently has two concessionaires. Blue Roof Caterers lease the Last Run Restaurant and Whittaker Refreshment Stand, and plan to return for the 2009 season. Robert Starke leases the Shay Railroad Shop. Concession performance and relations with the park are strong.

Railroad Operations

The railroad is operating very well at this time, and although ridership is flat and even slightly decreasing, there are no major obstacles to future operations. Since the flood of 1985 destroyed the track upstream to Durbin, Cass Scenic Railroad is limited to its own 12 miles of track, and operating some on the WV Central in the Spruce area. In recent years we have run one excursion a week to this area to provide some variation to the traditional trips. The railroad would benefit from additional options for our clientele, and one possibility for the future is a spur to Shaver Lake at Snowshoe, a distance of about two miles from our present track at Old Spruce. This would open up another bit of scenic variety as well as a whole new market for the railroad.

The park has complied, even voluntarily, with the Federal Railroad Administration regulations governing railroads, track maintenance, and drug testing. The staff has been completely transparent and fully responsive during on-site inspections, and so has developed a good relationship with the many agencies providing oversight of its operations. Cass is often complimented on the professionalism of its crew, the condition of its equipment, and the orderliness of its records. The Federal Railroad Administration, the Public Service Commission, the Division of Labor, and the Board of Risk and Insurance Management, among others, have inspected the railroad within the past year, with no significant deficiencies found.

Caboose rentals, both for the day and for overnight, are a notable success at Cass, and deserve a special mention. This option has encouraged repeat visitation, even by people who may have grown somewhat jaded to the standard excursions. Rentals are strong and profitable. Overnight occupancy for the Bald Knob caboose ran at a startling 85% for the season.

Group car rentals and individual reserved seating likewise have been successful. The public is less and less willing to stand even for parts of their ride, and these options allow them to have more control over their level of comfort. The park needs to do all it can to become more motorcoach friendly, and the group car rentals have made significant inroads there.

Town Operations

The town of Cass has emerged from a crisis period during which several buildings were lost due to lack of maintenance. The park's administration was reorganized in 2003, and was allotted a position to hire its first full-time carpenter in late 2004. Since then all remaining viable structures

have been stabilized for the foreseeable future. Four standing structures which have been let go too long already will be demolished or will collapse from deterioration. This list includes the school building, a tragic loss.

In the last five years every viable structure has been shingled and painted. Dozens of other major projects, such as jacking up and repairing roofs and foundations, and installing foundation drainage systems, have been accomplished during that time, and 7 additional houses have been renovated and put on the rental list. Two more volunteer dormitories were renovated and opened, and an in-house project of replacing the town's failing water system is underway. Nearly all of this work was completed by the park's maintenance staff. The building and grounds maintenance program is back on its feet and gaining ground rapidly. The park has also worked with absentee private landowners and coordinated the demolition of three failing private structures in the south end of town in order to improve appearances.

House rentals are very strong through the summer and on winter weekends and holidays when skiing is in season. Our 42% occupancy rate includes very slow periods in spring and late fall when neither Snowshoe nor Cass is offering activities. Occupancy rates have stayed nearly level despite adding 50% more units since 2004, and we are often full during peak demand, indicating that support remains for additional units. There is a maximum potential for as many as 43 rental houses in Cass, and several more if buildings already lost are reconstructed. Our current staffing level would be able to support no more than about 24, however.

Master Plan

The park has been operating since 1997 under the guidance of a professionally prepared master plan. This plan was updated and revised in 2003. Approximately two thirds of the current plan's recommendations have been completed fully or in part.

Current/Recent Projects and Improvements

Shay #5 and #6 re-fluing and engineering documentation on boilers

Shay locomotive #4 returned to service after a 9 year repair

Grant funded acquisition of two additional locomotives, from PA and OR, for spare parts (in progress)

Acquisition by the foundation of a diesel switching locomotive (in progress)

Re-roofing and repainting of virtually every viable significant structure within the town within the last four years (76 structures completed)

DOH project to replace the existing Cass bridge on Rt. 66, along with alterations to the parking lot and railroad crossing (in progress, 10% complete)

Town water line replacement (in progress, 60% complete)

Metering and backflow prevention devices for water system outlets (in progress, 25% complete)

Acquisition of used crosstie replacement equipment (funded and in progress)

Renovation of one passenger car for reserved seating for Bald Knob train (completed) and one car for the Whittaker train (in planning/design stage)

Renovation and flexible rubber roofing on all 17 passenger cars, including cabooses (completed)

Renovation of 27 building interiors, including Whittaker concession stand, Whittaker men's restroom, museum, park headquarters, and rental houses (ongoing, two more planned for this winter)

Cass Showcase remodeling and upgrade (complete)

Hazard tree removal program (70% complete)

Construction of a passenger car siding with electric and water service in the railroad yard (complete)

Construction of a track equipment siding near in the railroad yard (50% complete)

Reconfiguration of the wye curve near Bald Knob (complete)

Installation of a locomotive watering facility at Spruce (complete)

Railroad tie replacement to comply with inspection notices (2,500 ties replaced since 2003, project is now in compliance and will continue as needed)

Oil contamination remediation and prevention measures (complete, biodegradable gear oil now in use and the railroad is in compliance with DEP objectives)

Construction of new park headquarters within house #242, with conference room, high speed internet, and new phone system (complete)

Reinforcement of the Bald Knob platform (complete)

New visitor offerings and special events including; the Friday Spruce excursions; the Murder Mystery Trains (produced in-house this season); Harvest Day; Whistles, Wings and Wildflowers; Volunteer Cleanup Weekends; Photography Workshop; the 2008 Excursion to Elkins; Irish Road Bowling; Bike Off the Mountain; overnight cabooses rentals; wilderness cabin rentals; group car rentals; day caboose rentals; dry RV camping; kennel service; children's playground and recreation equipment rentals

An enhanced historical interpretation program, including the new Railroad and Logging History Museum, more tours of the town and shops, evening programs such as visiting speakers and the Lantern Tour, improved sound equipment for railroad commentary.

Major Needs

Capital Improvements

Company Store heating system (funded) -

Luke House renovation (partially funded)

Maintenance building for town

Rt. 66 bypass bridge (would be a DOH project, not funded by the park)

Spur rail line to Snowshoe's Shaver Lake

In-house laundry

Restoration/decoration of 4 additional rental houses

Renovation/redecoration of 4 existing rental houses

Reconstruct railroad coal dock

Construct performance amphitheater at Whittaker Station

Refurbish company store elevator

Locomotive/Train Equipment

Wheel set replacement

Motor cars

Equipment

- Vehicle replacement. Two 4WD pickup trucks needed immediately
- Diesel fuel storage tank and pump
- Company store point of sale system inventory/register system
- 2nd backhoe
- Manlift

Major Repairs and Alterations

- Painting of locomotive shop roof
- Repainting and security fencing for public water supply reservoir.
- Picnic verandah for company store

Personnel

The staff numbers anywhere from 46 in the winter to a peak of 95 in the summer. The park operates with 28 full-time personnel covering operations ranging from administrative to railroad operations, town maintenance, utilities, and housekeeping. The superintendent shares time between Seneca State Forest and Cass. An assistant superintendent lives on site and focuses on management of the town operations. The trainmaster functions much like another assistant superintendent and focuses on railroad operations. It is important to note that both of these assistants have independently managed state recreation areas in the past. Up to 55 seasonal employees include maintenance staff, housekeeping, track maintenance, brakemen, ticket agents, office staff and historical interpreters. The staff is augmented by a small crew of inmate labor an average of three days per week. Mountain State Railroad and Logging Historical Association provides two historical interpreters, in addition to the four paid by the park, and the county provides a contact representative in the depot during the railroad operating season.

The unique nature of the park calls for individuals experienced in maintaining and operating steam locomotives as well as restoration of historic buildings and facilities. Cass is faced with competing for employees with the likes of local hardwood products manufacturers and Snowshoe Mountain Ski Resort. The park is struggling to attract and retain dependable seasonal and full time employees, particularly with skills or potential to develop skills, resulting in excessive training time and chronic vacancies. Over the past 20 months the park has experienced a 36% turnover rate among its *full time* staff, a rate which threatens depletion of the unique skills and knowledge needed to safely and successfully operate. To illustrate, it generally takes 4-6 years for a locomotive fireman to develop sufficiently to become a locomotive engineer, and we have not been retaining firemen that long.

Superintendent's Comments

For many years, Cass relied on the attraction of the steam trains to draw visitors, but the tourists of today want more. The park has been moving in the direction of providing additional free or low cost activities and interpretive opportunities, and promoting the good value that it all represents. There is still much work to do to get this word out. A steady investment in

advertising is crucial for Cass, since our fellow railroads invest so heavily in it. To grow beyond current attendance levels we must somehow offer even more variety, particularly in our excursion schedule.

For several years now our building maintenance staff has been concentrating their efforts on high quality workmanship and preventive maintenance. Recent work will reap benefits for many years into the future by freeing our staff to perform other duties. One example of many I could offer would be that we have been installing foundation drains under houses as repairs are completed, to insure that the job need not be done again for the foreseeable future. Much work remains and Cass will always present maintenance challenges, but we have come so far-so fast that I am steadfastly optimistic about the future of the town and the park as a whole.

Cass is about preserving a vital part of West Virginia's heritage; the logging railroad and the company town. The task of managing a large railroad operation simultaneously with a town well past its intended life is daunting and expensive. Cass's houses, along with some of its infrastructure, are up to 107 years old and were originally built to last perhaps 40 years. The venerable Shay #5, the official state steam locomotive and our oldest at 103 years since manufacture, operates as all of our excursion locomotives do, on technology that is nearly forgotten. We ask the park's rental houses to meet the needs and expectations of guests accustomed to modern conveniences and standards. Despite all of the challenges and costs represented in these statements, the rewards are even greater. Cass has clearly demonstrated this over its 45 years as a state park, hauling enthralled passengers by the hundreds of thousands, housing guests in its endearingly simple accommodations, and providing a positive visual image of West Virginia and its citizens for countless people from all over the world.

Statistical Trends

Cass Scenic Railroad State Park	FY 2007	FY 2006	FY 2005
Attendance	68,167	70,849	71,624
Cabin Occupancy	48.83%	48.90%	47.15%
Operating Revenue	1,505,466	1,423,493	1,460,437
Operating Expenditures	2,219,504	2,156,700	2,088,812
Surplus/(Subsidy)	(714,038)	(733,208)	(628,376)
Self-Sufficiency	68%	66%	70%

Three-Year Revenue Comparison Cass Scenic Railroad State Park

Revenue	FY 2007	FY 2006	FY 2005
Cabin Rentals	281,171	246,164	242,049
Camp Site Rentals	498	496	830
Cot Rentals	8	5	20
Equipment Rentals	4,277	2,482	3,244
Facility Use Rental	3,282	3,118	3,250
Gift Shop Sales	332,083	368,083	380,285
Insurance Payments			
Miscellaneous Collections	22,635	15,554	24,691
Miscellaneous Concessions	1,121	1,845	1,498
Railroad Fares	844,259	760,374	779,500
Residence Rentals	12,324	13,500	12,112
Restaurant Concession	-	8,271	9,449
Vending Machines	3,809	3,601	3,507
TOTAL OPERATING REVENUE	1,505,466	1,423,493	1,460,437

Three-Year Expense Comparison Cass Scenic Railroad State Park

Expense	FY 2007	FY 2006	FY 2005
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Total Personal Services	1,091,781	1,049,494	1,055,799
Total Employee Benefits	387,728	406,234	360,015
CURRENT EXPENSE			
Office/Postal/Freight	5,459	7,820	7,853
Printing/Binding	3,216	726	2,468
Rental Expense	-	(1,116)	-
Utilities	105,801	101,559	81,876
Telephone	16,507	13,180	14,552
Contract/Professional	72,006	75,676	69,937
Travel	2,045	3,200	3,336
Vehicle Rental	-	6,730	-
Machine Rentals	3,784	5,093	5,331
Association Dues	83	83	83
Clothing/Household	39,876	38,186	41,473
Advertising	2,192	1,431	1,457
Vehicle Maintenance Expense	113,053	113,883	130,087
Research/Education/Medical	947	1,325	2,032
Maintenance Contracts	279	-	-
Merchandise for Resale	164,701	181,933	175,521
Hospitality	499	366	365
Miscellaneous	1,395	4,538	10,300
Credit Card Processing Fees	17,582	13,895	13,468
Training	707	2,537	872
Miscellaneous Equipment Purchases	25,785	1,741	944
TOTAL CURRENT EXPENSE	595,906	572,783	561,955
REPAIRS AND ALTERATIONS			
Office Equipment	1,659	3,4481	955
Building/Household/Comm Repairs	21,812	12,138	5,376
Building Repairs and Alterations	26,480	19,928	10,704
Vehicle Repairs	65,743	56,119	52,983
	7,782	13,260	27,233

Ground Improvements			
Farm/Construction Equipment	6,229	4,279	2,673
Other Repairs and Alterations	8,133	13,416	6,875
TOTAL REPAIRS AND ALTERATIONS	137,839	122,621	106,798
EQUIPMENT			
Office/Comm Equip	-	5,568	345
Household Equip/Furn	-	-	3,900
Vehicles	-	-	-
Livestock/Farm/Const	-	-	-
Other Equipment	6,250	-	-
TOTAL EQUIPMENT	6,250	5,568	4,245
TOTAL OPERATING EXPENSES	2,219,504	2,156,700	2,088,812

SUMMARY OF OPERATIONS

Seneca State Forest

Background Information

The first land purchases for Seneca, West Virginia's oldest state forest, were made in 1924. The impressive virgin white pine of the area had been logged much earlier than surrounding land, and the area was well into recovery while logging operations continued in the early 1900s. The most active period of development was during the Civilian Conservation Corps era of 1933-1938. Camp Seneca, as the area was known then, was located near the site of the present day forest office. The CCC development included construction of the road and trail system, a dam and lake, picnic shelters, support buildings and eight cabins, four of which are still in operation. Seneca was first opened to hunting in 1938 and to this day hunting and fishing remain a major draw for visitors although an ever growing number of guests visit simply to relax and enjoy nature.

Although four of the original CCC cabins no longer exist, Seneca offers eight pioneer cabins, three of which were built in 1954, and a new accessible cabin was added in 1999. The forest has 23 miles of well marked hiking/biking/horseback riding trails in addition to being adjacent to the Greenbrier River Trail. A section of the Allegheny Trail runs through the forest and a ten-site rustic campground, four-acre lake, group camp/picnic area and playground round out the recreational opportunities. The lake receives trout stockings in the spring and fall.

Resource Management Issues

Large tracts of Seneca's nearly 12,000 acres remain undeveloped and are under an active forest management program administered by the Division of Forestry. Recent timber cuts have been successful, generated little or no controversy, and have in fact enhanced appearances and recreational opportunities on the forest. The latest timbering, in 2007, incorporated the development of a "savannah" area, and resulted in an opportunity to develop the forest's first roadside overlook.

A privately owned tract of land adjacent to the picnic area, near the heart of the developed facilities, should be pursued when it becomes available. Additional development and revenue enhancement opportunities obviously exist, but should be pursued only to the extent that they do not damage the unique and tranquil nature that makes Seneca attractive to the modern visitor.

Unrestricted night training/hunting with dogs causes some conflict with overnight guests in both the camping and cabin areas. The Hemlock Woolly Adelgid is attacking hemlocks in the forest, and is rapidly changing the appearance of some sensitive areas, including the lake and campground.

Experimental use of the underutilized picnic area as a group camp this season has been successful, generating considerable additional use and revenue without creating any conflicts.

Current/Recent Projects and Improvements

- Renovation of the garage building, including new concrete floor and roll-up doors (100% complete)
- Installation of bear-proof plastic trash receptacles at all facilities (100% complete)
- Preparation and repainting of the exterior of the 20,000 gallon above ground water reservoir (100% complete)
- Insulating and installing interior paneling in cabins (50% complete)
- Applying veneer stone to structure foundations 15% complete)
- Boundary marking (80% complete)
- Michael Mountain trail system construction (50% complete)
- Procuring playground equipment for the picnic area and campground (5% complete)
- Development of an overlook on Big Thorny Creek Mountain (30% complete)

Major Needs

Capital Improvements

- 20-site campground with hookups, large enough to accommodate RV's and horse trailers
- Additional pioneer cabins
- Sewage treatment system (funded)

Equipment

- Farm tractor, with attachments

Major Repairs and Alterations

- Construction of an addition to the shop, with a vehicle lift (procurement underway)

Personnel

Seneca operates with four full time salaried personnel for superintendent, office and maintenance duties. Seneca's resident superintendent also serves as the superintendent of Cass Scenic Railroad State Park, 13 miles away. Seasonal hourly staff consists of five positions for maintenance, cabin cleaning, and office work.

The combined experience of the current superintendent, assistant superintendent, and building maintenance mechanic comes to 94 years at Seneca alone. There is concern among the current staff for the lack of a "next generation" to learn the skills and knowledge necessary to maintain the facilities. There has been an inability to attract and retain young hourly employees for a number of years now.

Superintendent's Comments

Seneca's staff takes great pride in the quality, safety and accessibility of the facilities we provide. We maintain the facilities and equipment as though it were our own, such as the farm tractor that is nearly 40 years old, and the pickup truck that is 27 years old, both of which are still used on a daily basis. We emphasize maximizing our revenue potential within the rustic framework of the facilities, while minimizing our costs. Nearly all of our building and equipment maintenance, welding, and repair is performed in-house. The staff is sufficiently skilled to perform almost any task possible with our small numbers.

We also readily accept our responsibility as public servants, committing ourselves to providing any way we can for the enjoyment and well being of our guests. The benefits of the philosophy are readily apparent. Our campground, though rustic in nature, is frequently complimented by tent campers as one of the best they've ever seen. Our popular cabins surprise the first-time visitor with their cleanliness and comfort, despite the absence of electricity and running water and that the original CCC cabins are over 70 years old.

Seneca is becoming more and more appreciated as a place where one can go to enjoy a vanishing privilege, that being privacy, serenity and the peace and quiet of a more basic way of life. Guest satisfaction and loyalty is strong. One family has been coming regularly for 60 years. Many others visit multiple times per year. Seneca is fulfilling the missions for which it was created. Our challenge here is to find ways to continue to maintain and build on our current success.

Statistical Trends

Seneca State Forest	FY 2007	FY 2006	FY 2005
Attendance	32,400	33,623	29,895
Cabin Occupancy	66.59%	64.75%	59.63%
Campsite Occupancy	28.87%	25.98%	31.68%
Operating Revenue	99,989	98,113	89,626
Operating Expenditures	202,820	199,603	178,879
Surplus/(Subsidy)	(102,831)	(101,491)	(89,253)
Self-Sufficiency	49%	49%	50%

Three-Year Revenue Comparison Seneca State Forest

Revenue	FY 2007	FY 2006	FY 2005
Arts and Crafts	(129)	-	(357)
Boat Rental	242	325	254
Cabin Rentals	58,890	82,729	74,707
Campsite Rentals	6,750	6,926	7,935
Coin Laundry Machines	223	279	172
Cot Rental	1,620	1,940	1,380
Equipment Rental	-	1	3
Firewood Sales	959	846	1,091
Gift Shop Sales	1,248	1,377	1,077
Magazine Sales	23	13	9
Miscellaneous Collections	54	179	(156)
Picnic Shelter Fees	150	180	180
Vending Machines	2,960	3,318	3,333
TOTAL OPERATING REVENUE	99,989	98,113	89,626

Three-Year Expense Comparison

Seneca State Forest

Expense	FY 2007	FY 2006	FY 2005
Total Personal Services	111,896	115,646	106,896
Total Employee Benefits	38,701	38,403	34,542
CURRENT EXPENSE			
Office/Postal/Freight	393	1,748	1,115
Printing/Binding	365	97	-
Utilities	22,914	10,011	8,219
Telephone	1,674	1,874	1,731
Contract/Professional	51	2,381	375
Travel	284	284	-
Machine Rentals	56	75	75
Clothing/Household	5,767	4,524	7,227
Advertising			
Vehicle Maintenance Expense	5,653	3,930	4,529
Research/Education/Medical	2	-	-
Merchandise for Resale	1,362	1,957	446
Hospitality	64	36	-
Miscellaneous	991	1,162	585
Credit Card Processing Fees	1,175	959	839
Training	214	-	333
Miscellaneous Equipment Purchases	4,656	8,343	97
TOTAL CURRENT EXPENSE	45,619	37,378	25,582
REPAIRS AND ALTERATIONS			
Office Equipment	4	160	130
Building/Household/Comm	315	542	403
Building Repairs/Alterations	4,800	4,899	5,798
Vehicle Repairs	36	-	178
Ground Improvements	1,014	1,413	1,091
Farm/Construction Equipment	195	259	617

Expense	FY 2007	FY 2006	FY 2005
Other Repairs/Alterations	239	903	941
TOTAL REPAIRS AND ALTERATIONS	6,604	8,177	9,158
EQUIPMENT			
Office/Communication Equipment	-	-	-
Household Equipment/Furnishings	-	-	2,700
Vehicles	-	-	-
Other Equipment	-	-	-
Credit Card Purchases Equipment	-	-	-
TOTAL EQUIPMENT	-	-	2,700
TOTAL OPERATING EXPENSES	202,820	199,603	178,879

SUMMARY OF OPERATIONS

Watoga State Park

Background Information

Watoga is one of West Virginia's five original state parks along with Droop Mountain Battlefield, Babcock, Cacapon and Lost River. Officially opened on July 1, 1937, Watoga is the largest state park in the system. Facilities consist of 34 cabins, 100 campsites, swimming pool, recreation hall, game courts, lake, rental boats, hiking trails and picnic areas. The Administration Building, standard cabins, pool and bathhouse, maintenance buildings and two residences were built by the Civilian Conservation Corps during the mid to late 1930s. The CCC operated out of three separate camps located within the current Watoga boundary. Many of the park roads, stone walls, culvert heads, bridges and other less showy features were also constructed by the CCC. Several periods of development since the CCC days include the addition of modern, year-round cabins built in the 1950s, 1980s and 1990s, additional campsites and facilities, water distribution and wastewater treatment systems.

Resource Management Issues

Sewage lagoon renovated
Swimming pool de-chlorination/backwash system installed
Sewage treatment lift station replaced at Riverside Campground
Metal water reservoir scraped and painted – Riverside

Current/Recent Projects and Improvements

Major playground equipment purchase -- 9 locations
Electric extended to 19 additional sites at Riverside Campground
Dishwashing stations added to all (3) campground bathhouses
All park buildings painted/stained
New furnaces purchased for 9 modern cabins
Air conditioning added to all (10) modern cabins
New furniture purchased for all (24) standard cabins
New curtains purchased for all (24) standard cabins
Stuffed furniture reupholstered in 9 modern cabins
Major repairs made to crawlspaces under 8 modern cabins
Cabin kitchen and bathroom renovations continued
Cabin and facility roof replacements continued
Major repairs and addition to Beaver Creek Campground Check-in Station
Several maintenance/support type buildings repaired and renovated
Bridge/culvert replacement and paving projects by DOH continued
CCC stone walls and bridge abutments repaired
Sidewalks poured to ADA fishing pier

Sidewalks poured to several cabins

Major Needs

Capital Improvements

- Cabin area water line replacement (Pine Run Cabin Area)
- Riverside Campground expansion
- Develop equestrian camping at Beaver Creek Campground (Airstrip Section)
 - Construct "Outdoor" stalls – covered and/or uncovered
 - Construct pasture areas
 - Construct additional "pull-through" campsites
 - Add "electric" to 10 campsites, plus any new sites constructed
 - Construct additional bathhouse
- Linen storage/cabin cleaner storage building
- ADA pool bathhouse renovations
- ADA Recreation Hall renovations

Equipment

- Dump truck
- Small bulldozer
- 4WD pickup
- Sewer pumps
- Cabin equipment – refrigerators, ranges, microwaves, water heaters, curtains

Major Repairs and Alterations

- ADA pool bathhouse renovations
- ADA Recreation Building renovations
- Park office expansion
- Cabin Replacement Windows
- Continue cabin improvements

Personnel

Watoga operates with 13 full-time personnel for all administrative and maintenance functions. This staff is augmented by ten seasonal and 17 summer employees for the busy season operation of the campgrounds, recreation areas, pool, cabin cleaning and maintenance. The park also takes advantage of the availability of inmate labor from the Denmar Correctional Center.

Superintendent's Comments

I seldom run into a West Virginian that is not familiar with Watoga State Park. It seems that almost every State native has been to Watoga at some time during their life – most, many times. Watoga is often referred to as the “epitome of a state park.” The “rustic” nature of the CCC structures, now almost 75 years old, which are nestled into the natural landscape in such a way as to seem as if they are actually a part of that landscape, combined with the abundance of flora and fauna make Watoga one of West Virginia’s natural treasures.

I am extremely pleased with the accomplishments of Watoga’s staff since the last subcommittee visit in 2002. Cabin and facility improvements have been many and have helped to increase annual revenues to more than \$600,000 annually. Park visitors seem pleased with the upgrades and progress, and many comment on how unchanged the park seems despite the improvements.

Maintenance crews have replaced the roofs on 22 more cabins and other facilities, renovated 14 cabin kitchens and 14 cabin bathrooms, and varnished all cabin floors several times since 2002. Several cabins have also received new sidewalks, and all standard cabins have new furniture and curtains, while all modern cabins have new furnaces, air conditioning and have had the furniture reupholstered. Park staffers have also made major improvements in the two main campgrounds, renovating the bathhouse and check-in station at Beaver Creek, converting 19 more sites at Riverside to electric and adding outside dishwashing stations at all bathhouses in both campgrounds.

Contractors have performed major improvements on the park including the replacement of a sewage lift station and the painting of the water tank at Riverside Campground, and much needed crawlspace repairs under all eight 1950’s era modern cabins. A major playground equipment project, which should be in place by next summer, will be a very welcome and much needed addition to the park.

Statistical Trends

Watoga State Park	FY 2007	FY 2006	FY 2005
Attendance	230,710	241,187	270,126
Cabin Occupancy	62.41%	61.18%	62.34%
Campsite Occupancy	35.24%	36.91%	37.60%
Operating Revenue	569,788	560,865	538,765
Operating Expenditures	845,173	808,621	752,015
Surplus/(Subsidy)	(275,385)	(247,755)	(213,250)
Self-Sufficiency	67%	69%	72%

Three-Year Revenue Comparison Watoga State Park

Revenue	FY 2007	FY 2006	FY 2005
Boat Rental	4,774	5,067	4,835
Cabin Rentals	434,388	410,789	398,421
Campsite Rentals	108,625	114,217	111,934
Coin Laundry	1,401	1,548	1,214
Coin Machine Concession	213	753	880
Comm/Snacks/Souvenir	113	86	-
Cot Rental	5,900	6,631	5,010
Firewood Sales	8,439	8,128	8,849
Games	162	215	92
Gas/Oil Lease Royalties	-	-	191
Magazine Sales	65	65	58
Miscellaneous Collections	(4,853)	869	(5,205)
Miscellaneous Concessions	400	886	1,042
Picnic Shelter Fees	1,065	1,164	1,210
Restaurant Concession	3,070	2,974	3,260
Riding Stables	-	1,937	1,836
Swimming Fees	5,380	5,179	4,669
Tennis	53	133	58
Vending Machines	594	225	410
TOTAL OPERATING REVENUE	569,788	560,865	538,765

Three-Year Expense Comparison Watoga State Park

Expense	FY 2007	FY 2006	FY 2005
Total Personal Services	382,979	385,631	376,399
Total Employee Benefits	161,140	158,244	141,849
CURRENT EXPENSE			
Office/Postal/Freight	5,880	5,088	6,892
Printing/Binding	-	413	48
Utilities	78,763	80,858	67,034
Telephone	11,130	11,092	9,050
Contract/Professional	42,436	41,010	43,786
Travel	1,355	500	381
Vehicle Rental			
Machine Rentals	3,077	4,044	4,229
Clothing/Household	42,831	35,669	43,260
Advertising	229	815	561
Vehicle Maintenance Expense	44,080	32,694	28,877
Research/Education/Medical	1,425	39	54
Maintenance Contracts	1,097	268	-
Merchandise for Resale	4,440	6,205	4,278
Hospitality	30	75	98
Miscellaneous	1,470	454	1,396
Credit Card Processing Fees	6,453	5,632	5,489
Training	411	514	1,123
Miscellaneous Equipment Purchases	5,558	6,070	675
TOTAL CURRENT EXPENSE	250,666	231,471	217,231
REPAIRS AND ALTERATIONS			
Office Equipment	192	460	723
Building/Household/Comm Repairs	789	1,901	691

Expense	FY 2007	FY 2006	FY 2005
Building Repairs/Alterations	27,738	301	-
Vehicle Repairs	4,332	6,674	5,847
Ground Improvements	13,627	11,060	-
Farm/Construction Equipment	29	462	2,277
Other Repairs/Alterations	312	1,252	3,662
TOTAL REPAIRS AND ALTERATIONS	47,019	22,110	13,199
EQUIPMENT			
Office/Comm Equipment	-	-	3,377
Household Equipment/Furnishings	-	4,165	-
Vehicles	-	-	-
Livestock/Farm/Construction	1,153	-	-
Other Equipment	2,217	6,999	-
TOTAL EQUIPMENT	3,370	11,164	3,337
TOTAL OPERATING EXPENSES	845,173	808,621	752,015

SUMMARY OF OPERATIONS

Watters Smith Memorial State Park

Background Information

This 532 acre historical park stands as a memorial to the pioneer spirit of Watters Smith who settled here in 1796. In early 1949, land totaling 236 acres near Lost Creek, West Virginia was willed to the state by Burr Smith to be used as a memorial park honoring his great-great grandfather. The property included several 19th-century buildings including the Smith home built in 1876. In the 1950's development included picnic areas, water lines and other minor improvements. In 1964 and 1965 the museum and swimming pool were opened. Two picnic shelters were built in 1972 and 1974, along with related facilities including a playground, parking, rest room and fire pit. An additional 252 acres, which included several homes and furnishings, were willed to the state in 1975 by another descendent of Watters Smith, more than doubling the size of the park. The Smith home was restored in the early 1980's and opened as a museum.

Current/Recent Projects and Improvements

- Completion of historically accurate herb garden
- Computer system upgrade
- Purchase of a fax machine
- Rewired display cases and lights at the Gift Shop
- Pole sheds constructed at residence and maintenance building for storage and equipment
- Installed new gas stove in filter building at pool area
- Repaired stable barn, removed horse stalls
- Re-roofed carpenter shed and well building with hand-split shingles in historical area
- Old House Museum painted and restored to historical correct era
- Acquired new backhoe
- Installation of new de-chlorination system at sewage plant
- Resurfaced parking lots at swimming area and Gift Shop
- Replaced rotten logs on Activity building and historical log cabin
- Installed air conditioning in Old House Museum and Gift Shop
- Re-roofed outbuildings in historical area
- Re-roofed swimming pool filter building

Major Needs

Capital Improvements

- Pool renovations
- New stables building
- Climate controlled museum artifact storage building
- Need for a study on the stabilizing foundations of the historical barns for preservation
- Rewiring of the Old House Museum.
- Replacing of the main water lines throughout the park

Equipment

- Dixie Chopper riding lawn mower
- Backhoe attachment
- Grounds maintenance equipment
- Shop maintenance equipment

Major Repairs and Alterations

- Wood shingles for historical buildings
- Roofing tin for barn structure

Personnel

Watters Smith operates with three full time personnel including a superintendent and two maintenance workers. Summer/seasonal staff of nine includes pool staff, museum and gift shop staff, an office worker, laborer and a night watchman. The park also takes advantage of the CWEP program to provide additional labor during the demanding summer months when workers are available.

Superintendent's Comments

The original 112 acres of the park were purchased by Watters Smith in 1792 for the sum of \$266. In 1796, he settled on the land with his wife and they began their life on the edge of what was then the vast wilderness of early America. Watters Smith Memorial State Park serves as a window to the past, allowing visitors to get a glimpse of rugged pioneer life in the 19th century, a lifestyle that is hard to imagine for those of us used to modern conveniences.

The staff is proud to be a part of preserving the history of not only the state of West Virginia, but the history of the nation as the pioneering spirit led settlers to push west from the early settlements along the eastern seaboard.

Statistical Trends

Watters Smith Memorial State Park	FY 2007	FY 2006	FY 2005
Attendance	57,641	67,020	99,000
Operating Revenue	27,462	28,096	20,886
Operating Expenditures	206,551	186,362	184,853
Surplus/(Subsidy)	(179,090)	(158,266)	(163,968)
Self-Sufficiency	13%	15%	11%

**Three-Year Revenue Comparison
Watters Smith Memorial State Park**

Revenue	FY 2007	FY 2006	FY 2005
Facility Use Rental	2,540	2,075	2,325
Gas/Oil Lease Royalties	12,335	14,626	10,380
Gift Shop Sales	33	-	-
Gifts & Bequests	37	-	-
Investment Income	4,095	2,055	1,110
Miscellaneous Collections	13	(77)	10
Picnic Shelter Fees	2,276	2,736	2,340
Swimming Fees	6,075	6,681	4,721
Vending Machines	59	-	-
TOTAL OPERATING REVENUE	27,462	28,096	20,886

Three-Year Expense Comparison Watters Smith Memorial State Park

Expense	FY 2007	FY 2006	FY 2005
Total Personal Services	108,770	103,352	102,893
Total Employee Benefits	47,244	46,649	43,387
CURRENT EXPENSE			
Office/Postal/Freight	575	560	646
Utilities	18,157	15,250	14,124
Telephone	2,195	1,761	1,521
Contractual/Professional	147	1,144	1,738
Travel	136	209	203
IS&C/WVNet	-	17	119
Machine Rental	916	997	931
Clothing/Household	2,020	2,314	2,948
Advertising	-	-	21
Vehicle Maintenance Expense	6,135	3,919	3,409
Research/Education/Medical	-	306	-
Maintenance Contracts	37	-	-
Merchandise for Resale	2,633	-	-
Hospitality	-	-	36
Miscellaneous	997	401	1,950
Training	196	-	-
Miscellaneous Equipment	1,084	2,086	598
TOTAL CURRENT EXPENSE	35,227	28,964	28,244
REPAIRS AND ALTERATIONS			
Office Equipment			
Bldg/Household/Comm Repairs	1,865	(127)	654
Building Repairs/Alterations	2,168	1,477	3,905

Vehicle Repairs	231	125	-
Ground Improvements	1,910	4,240	4,023
Farm/Construction Equipment	1,079	1,000	656
Other Repairs/Alterations	3332	681	1,091
TOTAL REPAIRS AND ALTERATIONS	7,685	7,397	10,330
EQUIPMENT			
Office/Communications Equip.	-	-	-
Vehicles	-	-	-
Livestock/Farm/Construction	7,725	-	-
Other Equipment	-	-	-
TOTAL EQUIPMENT	7,725	0	0
TOTAL OPERATING EXPENSES	206,551	186,362	184,853

JOINT COMMITTEE ON PENSIONS AND RETIREMENT

Interim Report to the Joint Committee on Government and Finance

February 10, 2009

Senate Members:

Dan Foster, Chair
Larry Edgell
Brooks McCabe
Mike Oliverio
Robert Plymale
Frank Deem
Mike Hall

House Members:

Sharon Spencer, Chair
Dave Pothtel, Vice Chair
Roy Givens
Doug Reynolds
Larry Williams
Ray Canterbury
Walter Duke

Introduction

During the 2008-2009 interim period, the Joint Committee on Government and Finance directed the Joint Committee on Pensions and Retirement to consider:

SCR 6 - Requesting Joint Committee on Government and Finance study Universal Voluntary Accounts Program

SCR 60 - Requesting Joint Committee on Government and Finance study armed forces retirement service credit

SB 650 - Relating to the Emergency Medical Services Retirement System; making a correction to the time period for which the Joint Committee on Government and Finance shall conduct an interim study on the potential effects of the implementation of this plan

HCR 52 - Requesting the Joint Committee on Government and Finance authorize the study of the creation of a new retirement system for correctional officers

HCR 119 - Requesting the Joint Committee on Government and Finance authorize the study of the financial stability and investment strategies of the police and fire pension funds

The Committee heard testimony on several topics, including: TDC-TRS merger, Universal Voluntary Retirement Accounts, Emergency Medical Services Personnel retirement system, creation of a retirement system for correctional officers, armed forces retirement credit and municipal pension systems.

Guest Speakers

Anne Lambright, Executive Director of the West Virginia Consolidated Public Retirement

Board, and Harry Mandel, Actuary for the Consolidated Public Retirement Board, were in attendance for most committee meetings to make presentations on each topic and to respond to questions from the committee members.

During the May interim meeting, Jim Rubenstein (Commissioner, Division of Corrections), Dale Humphreys (Director, Division of Juvenile Services) and Cedric Green (Deputy Director, Regional Jail and Correctional Facility Authority) shared with the committee their thoughts on the creation of a retirement system for correctional officers.

The committee toured the Clarksburg Fire Station for the September interim meeting and discussed the municipal pensions issue with several of the fire fighters and city leaders. Clarksburg is one of the few cities in the State who are in good financial standing in regards to police and fire pensions. Committee members had the opportunity to find out why Clarksburg has been successful in their financial endeavors, and the firefighters and civic leaders were able to discuss their concerns about previously introduced legislation regarding municipal pensions.

Alex Rivera and Mike Kivi of Gabriel Roeder Smith & Company delivered a presentation on the actuarial evaluation of municipal police and fire pensions funds at the November meeting. According to the report, municipal pensions in the state continue to be largely unfunded.

During the January meeting, Diana Stout (Counsel, State Treasurer's Office) and Treasurer John Perdue addressed the committee regarding the creation of a Voluntary Employee Savings Accounts program. The Treasurer has recognized that the lack of retirement savings is becoming an epidemic in this country. A V.E.S.A program would enable a small business owner to offer low cost benefits to its workers through a state-sponsored system.

Conclusions

The Committee requested additional information from several of the aforementioned presenters and all handouts and information contained in the minutes for the meetings are on file in the office of the Joint Committee on Pensions and Retirement. The committee will continue to monitor legislation regarding armed forces retirement credit, the condition of municipal pension systems and the status of the creation of a V.E.S.A. program.

Respectfully Submitted,


Senator Dan Foster, Co-Chair


Delegate Sharon Spencer, Co-Chair



WEST VIRGINIA LEGISLATURE
STATE CAPITOL
CHARLESTON, WEST VIRGINIA 25305

Legislative Select Committee B Veterans' Issues

Interim Report to the
West Virginia Legislature's Joint Committee on Government and Finance
February 10, 2009

Senate Members

Senator Hunter, Co-Chairman
Senator Foster
Senator Jenkins
Senator Wells
Senator Barnes
Senator Deem

House Members

Delegate Iaquinta, Co-Chairman
Delegate Fleischauer, Co-Chairwoman
Delegate Longstreth
Delegate Stephens
Delegate Yost
Delegate Azinger
Delegate Tansill

The West Virginia Legislature's Joint Committee on Government and Finance requested that Legislative Select Committee B- Veterans' Issues study the following resolution during the 2008-2009 interim period and report its findings to the Joint Committee on Government and Finance:

Senate Concurrent Resolution No. 56: Requesting that the Joint Committee on Government and Finance study certain veterans' eligibility for the Veterans Memorial Monument.

Legislative Select Committee B met each month during the interim period to conduct business regarding the State of West Virginia's veterans including post-deployment issues, educational opportunities, and the status of veteran mental health care.

The Committee received and considered testimony from various state agencies and other organizations as follows:

Dr. Joseph Scotti

West Virginia University

Dr. Scotti appeared before the Committee multiple times to present his latest findings regarding the Statewide Veterans' Survey as commissioned by the Committee in 2007. The survey included a

questionnaire to establish the overall status, effectiveness, and the usage levels of available programs aimed at aiding veterans in their post deployment life.

Deborah Basham

West Virginia Division of Culture and History

Ms. Basham presented to the Committee history and information regarding the West Virginia Veterans' Monument on the State Capitol Complex.

Brian Noland, Chancellor

West Virginia Higher Education Policy Commission

Skip Gebhart

Office of Veterans Education and Training Programs

Chancellor Noland and Mr. Gebhart presented information to the Committee on the impact of education benefits established by the federal G.I. Bill and other educational assistance to veterans.

Keith Gwinn, Director

West Virginia Division of Veterans' Affairs

Director Gwinn appeared multiple times before the Committee to provide updates on projects that the Division of Veterans' Affairs is engaged in.

M. E. Gamble

Small Business Development Center, West Virginia Development Office

Ms. Gamble presented information to the Committee on business and entrepreneurial opportunities for veterans with assistance from the West Virginia Development Office.

Kevin Crickard, Administrator

West Virginia Veterans' Nursing Home Facility

Mr. Crickard appeared before the Committee and gave detailed information about the West Virginia Veterans' Nursing Home Facility in Bridgeport, West Virginia.

Dr. Jeane Meade, DVM

Dr. Meade presented the Committee her project of using service dogs to help in the rehabilitation of recently returned veterans that were wounded or otherwise incurred a handicap during their service.

Lt. Suzanne Jenkins, Mental Health Director

Huntington VA Medical Facility

Lt. Jenkins presented information to the Committee regarding her work and additional mental health services available to veterans.

Corey Payne, Veterans' Coordinator

Marshall University

Mr. Payne appeared before the Committee to present the education benefits and programs for veterans at Marshall University.

Legislative Select Committee B- Veterans' Issues considered and reported the following resolutions for consideration by the West Virginia Joint Committee on Government and Finance and recommends their passage:

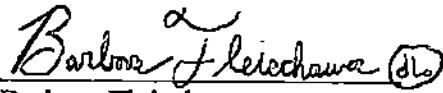
HCR/SCR **: Requesting that public and private colleges and universities in the state of West Virginia submit plans to the Joint Committee on Government and Finance on how their campuses can be made more military and veteran friendly;

HCR/SCR **: Requesting the Joint Committee on Government and Finance to continue studying the needs, challenges, and issues facing West Virginia veterans.

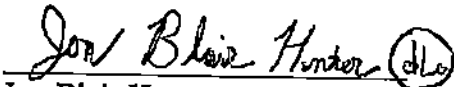
Respectfully Submitted,



Richard J. Iaquinta
House of Delegates Co-Chairman



Barbara Fleischauer
House of Delegates Co-Chairwoman



Jon Blair Hunter
Former Senate Co-Chairman



WEST VIRGINIA LEGISLATURE
STATE CAPITOL
CHARLESTON, WEST VIRGINIA 26305

Legislative Select Committee C Infrastructure

Interim Report to the
West Virginia Legislature's Joint Committee on Government and Finance
February 10, 2009

Senate Members

Senator Unger, Co-Chairman
Senator Bailey
Senator Fanning
Senator Jenkins
Senator Facemyer

House Members

Delegate Hrutkay, Co-Chairwoman
Delegate Barker
Delegate Boggs
Delegate Cann
Delegate Kominar
Delegate Reynolds
Delegate Stephens
Delegate Swartzmiller
Delegate Yost
Delegate Cowles
Delegate Miller, C.
Delegate Miller, J.

The West Virginia Legislature's Joint Committee on Government and Finance requested that Legislative Select Committee C- Infrastructure study the following resolutions during the 2008-2009 interim period and report its findings to the Joint Committee on Government and Finance:

House Concurrent Resolution 109: Requesting the Joint Committee on Government and Finance study the cost benefit analysis of engineering services and engineer retention within the West Virginia Department of Highways;

House Concurrent Resolution 111: Requesting the Joint Committee on Government and Finance study the condition, fitness, and safety of bridges in the state.

Legislative Select Committee C- Infrastructure met each month during the interim period to conduct business regarding transportation construction, funding, safety of transportation facilities,

and various human resource issues.

The Committee received and considered testimony from various state agencies and other organizations as follows:

Paul Mattox, Cabinet secretary
West Virginia Department of Transportation

Sec. Mattox appeared before the Committee multiple times to discuss various agency related topics including financing, employee retention, and the overall status of the Department.

Tom Smith, Division Administrator
Federal Highway Administration

Mr. Smith presented information to the Committee regarding the retention, replacement, and recruitment of highway engineers/personnel at the federal level and across the nation.

Tari Crouse, Deputy Director for Employee Communications and Information
West Virginia Division of Personnel

Ms. Crouse presented to the Committee the protocol for employment applications and the Division of Personnel's attempts at recruiting and retaining of specialized positions within the Department of Transportation.

Anne Lambright, Director
West Virginia Consolidated Public Retirement Board

Director Lambright appeared before the Committee to discuss the feasibility and process of rehiring retired Division of Highways engineers.

Robert Ferguson, Cabinet Secretary
West Virginia Department of Administration

Secretary Ferguson appeared before the Committee multiple times to discuss the wage increase processes found throughout the state workforce, especially within the Department of Transportation.

Joe Smith, Assistant to the Governor
Office of Governor Joe Manchin

Mr. Smith presented to the Committee information regarding issues facing the State with regard to the state workforce.

Greg Barr, Executive Director
West Virginia Parkways and Economic Development Authority

Mr. Barr appeared before the Committee to discuss the major accident and subsequent traffic delay on the West Virginia turnpike during the summer of 2008.

Otis Cox, Director
Division of Personnel

Director Cox appeared before the Committee to present information related to the retention and replacement of Division of Highways engineers and other state employees.

Legislative Select Committee C- Infrastructure extensively considered and discussed the following legislation:

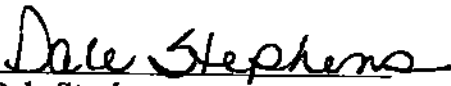
SB/HB **:** Creating the West Virginia Transportation Infrastructure Bank.

Due to a lack of Senate members present, a quorum of both houses was not established and the Committee could take no action on the legislation.

Respectfully submitted,


John Unger
Senate Co-Chairman

Lidella Hrutkay
Former House of Delegates Co-Chairwoman


Dale Stephens
House of Delegates Vice-Chairman

WEST VIRGINIA LEGISLATURE

SELECT COMMITTEE D ON HEALTH

2008- 2009 Interims

SENATE MEMBERS

Senator Roman W. Prezioso, Jr. Chair
Senator Dan Foster
Senator Evan Jenkins
Senator Ron Stollings
Senator Don Caruth
Senator Vic Sprouse

HOUSE MEMBERS

Delegate Don Perdue, Chair
Delegate Barbara Hatfield
Delegate Charlene Marshall
Delegate Harold Michael
Delegate Cliff Moore
Delegate Ralph Rodighiero
Delegate Larry Border

Final Report of

SELECT COMMITTEE "D" ON HEALTH

Select Committee D on Health was reappointed by the Joint Committee on Government and Finance, following the 2008 Regular Session of the 78th Legislature. The Committee was tasked with a review of existing health care delivery services in West Virginia. Additionally, the Committee continued its work on review of the certificate of need process in West Virginia.

The Committee REPORTS as follows:

Health System Redesign

The Committee continued its work on health system redesign through the continuation of a contract with Dr. Kenneth Thorpe. Dr. Thorpe advised the formation of an Executive Committee for the redesign effort and four (4) work groups to assist with recommendations to the Committee for changes to the health care delivery system in West Virginia. Four work groups chairs were appointed and over 400 volunteers participated in these groups. Additionally, there were two (2) public forums to seek input from the public on their issues and concerns. One was held at Fairmont State University in conjunction with the September interims that were held in Bridgeport. The second public forum was held on the campus of Marshall University immediately following the October interims.

The four groups and their chairs were:

1. Administrative Simplification - Carl Callison, Chair.
2. Health System Redesign - Tom Susman, Chair
3. Chronic Care/Information Systems - Dr. James Comerçi, Chair
4. Wellness and Prevention - Keri Kennedy, Chair.

Each of the work groups met at least twice per month during the 2008 interim period. The chairs appeared monthly to give status reports to the Committee. Following those meetings the chairs complied these recommendations, met with Dr. Thorpe and committee staff and coordinated these recommendations.

In November, the four work groups made recommendations based upon the input of their members. Dr. Thorpe took these recommendations and compiled them into a comprehensive final report to Select Committee D. The recommendations were presented in December to the Executive Committee who recommended all of the work group findings and Dr. Thorpe's report be forwarded to the membership of Select Committee D for further action.

Dr. Thorpe presented the report to the Committee at January interims. Following discussion during the January meeting, the Committee voted to advance all of the recommendations of the work groups as presented by Dr. Thorpe. A copy of Dr. Thorpe's final report is attached and is incorporated in this final report. Additionally, any copies of draft legislation necessary to effectuate the recommendations contained in the report are also attached.

Certificate of Need:

The Co-Chairs of Select Committee D determined that the work of the Subcommittee on certificate of need was not completed. The Subcommittee was subsequently reauthorized for the 2008-2009 interim period. The membership was as follows:

Certificate of Need

Senate Members

Dan Foster, Chair
Evan Jenkins
Vic Sprouse

House Members

Harold Michael, Chair
Charlene Marshall
Clif Moore

The Subcommittee on certificate of need heard from various entities, advocacy groups and government agencies. Sonia Chambers, Chair of the Health Care Authority provided the Subcommittee with a great deal of insight into the certificate of need process. Additionally, the Subcommittee heard and accepted recommendations from the West Virginia Hospital Association.

The Subcommittee submitted a final report to the full Committee. A copy of that report is attached to this report and is incorporated into this report. A number of pieces of legislation were recommended by the Subcommittee for passage. Draft copies of those are also attached. They further recommended that the Subcommittee be continued during the next interim period to address this issue further.

Respectfully submitted,

Senator Roman W. Prezioso, Jr.
Co-Chair

Delegate Don C. Perdue
Co-Chair



WEST VIRGINIA LEGISLATURE
STATE CAPITOL
CHARLESTON, WEST VIRGINIA 25305

Legislative Select Committee E Broadband

Interim Report to the
West Virginia Legislature's Joint Committee on Government and Finance
February 10, 2009

Senate Members

Senator Unger, Co-Chairman
Senator Bailey
Senator Fanning
Senator Jenkins
Senator Facemyer

House Members

Delegate Browning, Co-Chairman
Delegate Boggs
Delegate Campbell
Delegate Craig
Delegate Swartzmiller
Delegate Walters

The West Virginia Legislature's Joint Committee on Government and Finance requested that Legislative Select Committee E- Broadband study the following resolution during the 2008-2009 interim period and report its findings to the Joint Committee on Government and Finance:

Senate Concurrent Resolution No. 16: Requesting the Joint Committee on Government and Finance study the elimination of wireless coverage dead spots.

Legislative Select Committee E- Broadband met each month during the interim period to conduct business regarding wireless telephone coverage dead spots that can be found throughout the State of West Virginia. The Committee also continued its work into monitoring Governor Manchin's *Broadband and Technology Deployment Initiative*, current and future broadband infrastructure, and other areas of broadband technology.

The Committee received and considered testimony from various state agencies and other organizations as follows:

Jimmy Gianato, Director

West Virginia Division of Homeland Security and Emergency Management

Director Gianato appeared before the Committee multiple times to discuss the status of various

projects including the West Virginia Broadband Deployment Council, the West Virginia Tower Access Fund Review Committee, and the West Virginia Wireless Communications Interoperability program.

Byron Harris, Director

Consumer Advocate Division of the West Virginia Public Service Commission

Director Harris appeared before the Committee to present information and details about wireless telephone and communication dead spots and possible solutions for eliminating or reducing these areas.

Kelley Goes, Cabinet Secretary

West Virginia Department of Commerce

Secretary Goes appeared before the Committee multiple times to provide the Committee with updates on the West Virginia Broadband Deployment Council.

Paul Espinosa

Frontier Communications

Larry Hannigan

Time Warner Cable

John Golden

Verizon

Drew Pomeroy

City Net

These individuals met with the Committee to present and discuss their organizations' efforts to expand and provide broadband internet access within their service areas.

Larry Malone, Chairman

West Virginia Telehealth Alliance

Chairman Malone presented information to the Committee about the status and overall progress of the West Virginia Telehealth Alliance.

Don Smith, Chairman of the Advisory Board

SkyWayUSA

Ed Knudson, Vice-President of Sales and Marketing

Wild Blue Communications

Harry Thibedeau, Rural Development Executive

Hughes Net


These individuals met with the Committee to present information regarding their organizations' services and technology involving satellite broadband internet access.

Legislative Select Committee E- Broadband considered and reported the following legislation for consideration by the West Virginia Joint Committee on Government and Finance and recommends its passage:


SB/HB **:** Increasing the total amount of funding available for the West Virginia Tower Access Assistance Fund;

SB/HB **:** Relating to including broadband projects in infrastructure projects eligible for funding from the West Virginia Infrastructure Fund.

Respectfully submitted,



Senator John Unger
Senate Co-Chairman



Senator Richard Browning
Former House of Delegates Co-Chairman

West Virginia Legislature
Select Committee F – Volunteer Fire Departments
2008 - 2009 Interims

Senate Members:

Senator Chafin, *Chair*
Senator Bowman
Senator Green
Senator Love†
Senator Sypolt

House Members:

Delegate Caputo, *Chair*
Delegate Tucker†
Delegate Burdiss†
Delegate D. Poling
Delegate Proudfoot‡
Delegate Spencer
Delegate Rowan
Delegate Schadler

†Term expired

‡In Memoriam

FINAL REPORT OF

Select Committee F – Volunteer Fire Departments

TO THE JOINT COMMITTEE ON GOVERNMENT AND FINANCE

February 10, 2009

Your Select Committee F – Volunteer Fire Departments was appointed following the 2008 Regular Session of the 78th Legislature and assigned the following topics for study during the interim period:

SCR50 - Requesting Joint Committee on Government and Finance study recruitment and retention of volunteer firefighters.

HCR17 - Requesting the Joint Committee on Government and Finance to study the recruitment, retention and value of volunteer firefighters in the State of West Virginia

HCR 83 - Requesting that the Joint Committee on Government and Finance authorize a study of meeting and conference rights for members of certain fire departments

During the 2008-2009 legislative interim period, Select Committee F met and received information on these topics of study from state agencies and federal agencies, political subdivisions

and their representatives, a workers' compensation insurance provider, representatives of firefighters, numerous firefighters from throughout the State, and other sources. Select Committee **F REPORTS** as follows:

Members of Volunteer Fire Departments provide immeasurable, often heroic, service to their local communities. By volunteering their time and efforts, some under the most extreme emergency circumstances, they protect the lives and property of their fellow citizens from the hazards of fire and other dangers where their local governments have not provided a paid fire department to do so. There are more than 10,000 volunteer firefighters serving with more than 400 Volunteer Fire Departments located in communities throughout the State, but as is happening throughout the United States, communities are experiencing a significant decline in the retention of veteran firefighters and the recruitment of new firefighters to serve on a voluntary basis.

During your Committee's review of the retention and recruitment issues in this State, it became apparent that although Volunteer Fire Departments are local entities primarily providing local service, the West Virginia Legislature has over the years enacted legislation to assist volunteer firefighters and volunteer fire departments throughout the State. The provisions of those enactments include:

FUNDING

- On a quarterly basis, the State distributes a percentage of insurance premium taxes to Volunteer Fire Departments. In 2008, more than \$17.2 million was distributed, with approximately \$40,000 distributed to most of the more than 400 Volunteer Fire Departments.
- Each county has been given statutory authority to financially support Volunteer Fire Departments:

(1) any county may impose a fire fee on those who benefit from fire protection services:

(2) any county may directly, or through a special levy, fund the operation of Volunteer Fire Departments; and

(3) any county may authorize Volunteer Fire Departments to charge reimbursement fees for their services.

- Each municipality has been given statutory authority to support Volunteer Fire Departments (1) by providing a firehouse, fire-fighting equipment, necessary paid personnel and incidental requirements to maintain them and (2) by paying Volunteer Fire Departments fire service fees collected from its residents.

- Volunteer Fire Departments may use the state's Investment Management Board or its Board of Treasury investments to invest their funds.

OTHER FUNDING NOTE: In addition to funds raised locally from private fund raising activities, Volunteer Fire Departments are also eligible to and do receive grants on an individual basis from the state Office of Emergency Services and from the federal Department of Homeland Security.

BENEFITS

- The State pays a \$50,000 death benefit to survivors of Volunteer Firefighters killed in performance of their duties.

- The State pays up to \$8,000 for funeral/burial expenses of a Volunteer Firefighter killed while carrying out official duties.

- The State provides free tuition and fees at state public colleges and universities for surviving spouse and children of a Volunteer Firefighter killed in the line of duty.

FEDERAL BENEFIT NOTE: The federal government also provides benefits to West Virginia Volunteer Firefighters. The Public Safety Officer's Benefit Program provides a death benefit for the survivors of Volunteer Firefighters killed who die in the line of duty after October 1, 2008, in the amount of \$315,746, as well as education benefits for their spouses and children, and also provides disability benefits for Volunteer Firefighters permanently injured in the line of duty.

WORKERS' COMPENSATION

- Volunteer Fire Departments are required to provide its Volunteer Firefighters workers' compensation coverage.
- County commissions have the statutory authority to pay their Volunteer Fire Departments' workers' compensation coverage.

OTHER INSURANCE AND IMMUNITY FROM LIABILITY

- Accident and sickness insurers are statutorily authorized to issue group policies to Volunteer Fire Departments.
- Volunteer Fire Departments are statutorily authorized to obtain personal injury and property liability insurance from the West Virginia Bureau of Risk and Insurance Management, or to self insure and/or pool together with other Volunteer Fire Departments and/or other political subdivisions for purposes obtaining such coverage.
- Volunteer Fire Departments and their Volunteer Firefighters are statutorily provided immunity from personal injury and property liability arising out of their functions.
- Volunteer Firefighters are immune from personal injury and property liability when fighting forest fires.

TAXES, FEES AND REGULATION

- Volunteer Fire Department fund-raising and other sales are exempt from the state sales tax West Virginia Code.

- Volunteer Fire Department motor vehicle purchases are exempt from the state sales tax.

- Volunteer Fire Department motor vehicles are exempt from motor vehicle registration fees.

- Volunteer Fire Department fuel purchases are exempt (refundable) from the motor fuel tax.

- Volunteer Fire Department vehicles are exempt from the jurisdiction of the Public Service Commission.

EMPLOYMENT

- Volunteer Firefighters are protected from being fired for not making it to work while responding to an emergency as a Volunteer Firefighter.

- Special provisions of law permit a youth to become a Volunteer Firefighter at age 16 years.

- Special provisions of law permit a 16 year old Volunteer Firefighter to assist the Volunteer Fire Departments' bingo games.

OTHER

- The facilities and services of the state's Purchasing Division of the Department of Administration are available to Volunteer Fire Departments.

- The Purchasing Division is authorized to acquire property from federal agencies and distribute it to Volunteer Fire Departments.

Despite these legislative enactments, the number of Volunteer Firefighters in the State is declining, much as those numbers are declining throughout the nation. Your Committee has examined the causes for these declines as well as the efforts of other states to improve the retention and recruitment of Volunteer Firefighters. Particular thanks are extended to the numerous Volunteer

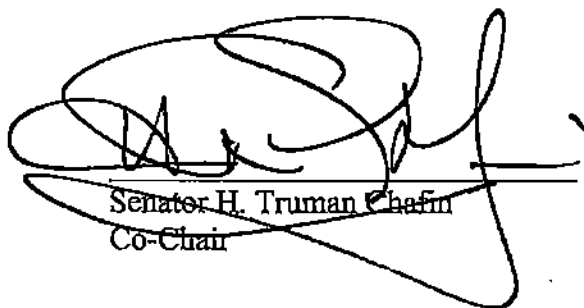
Firefighters and others in their behalf who traveled to committee meetings throughout the year to share their valuable insights, as well as to the State Fire Marshal for his research of other state action on these issues and his expert guidance to the Committee. Of particular value has been the extensive review of these issues and potential solutions to them compiled and published by the U.S. Fire Administration, an entity of the Federal Emergency Management Agency (FEMA), entitled *Retention and Recruitment for the Volunteer Emergency Services - Challenges and Solutions FA-310/May 2007*, which may be found at:

<http://www.usfa.dhs.gov/downloads/pdf/publications/fa-310.pdf>.

As a result of its study, Your Committee **RECOMMENDS** the introduction and enactment of legislation to provide Volunteer Fire Departments the opportunity to access state funding to supplement their efforts to provide their members the benefits of a Length of Service Awards Program (LOSAP), a retirement plan for Volunteer Firefighters which provides a monthly benefit after a period of service to a Volunteer Fire Department. Each Volunteer Fire Department may, individually or in conjunction with other Volunteer Fire Departments or political subdivisions, provide a LOSAP to its members. To provide funding for LOSAP programs, the premium surcharges on each fire insurance policy or casualty insurance policy issued in this state would be increased by two tenths of one percent (increasing the premium tax from .55% of premium to .75%). A bill to be introduced for this purpose would create a new fund for the new revenues. The revenues would be allocable on an equal basis to all of the Volunteer Fire Departments, but a Volunteer Fire Department would only receive its annual share if it is providing LOSAP approved by the State Fire Marshal to its members. These new revenues may only be used for LOSAPs, except as described below. The State Fire Marshal would administer the new fund and receive an

administrative fee from the new revenues to do so. The State Fire Marshal would also establish criteria for the type of LOSAPs that will qualify the Volunteer Fire Departments for a distribution, and would distribute the funds to those Volunteer Fire Departments that qualify. Annually, the share of each Volunteer Fire Department that does not qualify, as well as any portions of shares unneeded for a qualified Volunteer Fire Department's participation in its LOSAP, would be transferred to the currently existing Fire Protection Fund and distributed in the manner other premium tax moneys are now distributed to Volunteer Fire Departments, thus supplementing distributions made by the State under current law for other Volunteer Fire Department operational needs. It is anticipated that each Volunteer Fire Department would have access to approximately \$12,000 annually for the purpose of providing its members a LOSAP. A copy of the proposed legislation is attached.

Your Subcommittee further **RECOMMENDS** that the Legislature continue to examine this issue during the 2009 Regular Session to consider additional statutory proposals to enhance the retention and recruitment of Volunteer Firefighters.



Senator H. Truman Chafin
Co-Chair

Respectfully Submitted,



Delegate Mike Caputo
Co-Chair

WEST VIRGINIA LEGISLATURE

LEGISLATIVE OVERSIGHT COMMISSION ON WORKFORCE INVESTMENT FOR ECONOMIC DEVELOPMENT

2008- 2009 Interims

SENATE MEMBERS

Brooks McCabe, Chair
Senator Jeffrey V. Kessler
Senator Ron Stollings
Senator Vic Sprouse

HOUSE MEMBERS

Delegate Kenneth Tucker, Chair
Delegate Orphy Klempa
Delegate Douglas K. Stalnaker
Delegate Bill Hamilton
Delegate Craig Blair, (nonvoting)

Final Report of

LEGISLATIVE OVERSIGHT COMMISSION ON WORKFORCE INVESTMENT FOR ECONOMIC DEVELOPMENT

The Legislative Oversight Commission on Workforce Investment for Economic Development was appointed pursuant to the provisions of West Virginia Code §5B-2B-7, *et seq*, following the 2007 Regular Session of the 78th Legislature. Pursuant to their statutory charge the Commission was to make a continued investigation, study and review of the practices, policies and procedures of the workforce investment strategies and programs implemented in the state.

During the course of the 2008 - 2009 interim period the Legislative Oversight Commission on Workforce Investment for Economic Development met and received information on these practices, policies and procedures and other important issues from state agencies, political subdivisions, advocacy groups and other pertinent sources. The Commission **REPORTS** as follows:

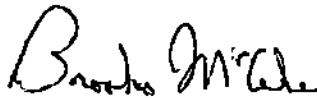
Counsel to the Commissioner presented an overview at the initial Commission meeting of the Commission's statutory charge so they were fully aware of their mission. To meet this obligation, the Commission heard at various times throughout the year from Ron Radcliff, the Director of WorkForce West Virginia. Mr. Radcliff provided a financial overview of WorkForce West Virginia. The Commission also heard from Jerry Berry, Acting Chair of the WV Workforce Investment Council and Melissa Aguilar, Director, Region 1 Workforce Investment Board. At various times, the Commission also heard from Executive Director's of the regional Workforce Investment Boards.

The Commission expressed an interest in developing an Associate Degree program within the Community College system in conjunction with labor union training. Both Jim Skidmore, Chancellor of Community and Technical College Education, and Roy Smith, Secretary-Treasurer of the WV State Building and Construction Trades Council, gave their thoughts on this issue to the Commission.

During the September interims in Bridgeport, the Commission met with representatives of Community College of Allegheny County, PA, who operate such a program. Judy Savolskis, Interim President of the Southern Campus of the Community College of Allegheny County (Pennsylvania) and Dean of Workforce Development and Ron Logreco, Assistant Dean, presented their approach to working with labor unions to develop an associate degree that grants credit for certain training necessary in labor apprenticeship programs. They discussed the necessity of developing a triangle of cooperation between the community colleges, the labor unions and the Builder's Guild. They related to the Commission that this was a "major positive" for union members. They also indicated the necessity of working from the union program rather than asking the unions to tailor their programs to fit in the degree program.

The Commission **RECOMMENDS** that they continue to work with Chancellor Skidmore and representatives of the labor unions to develop a program that grants credit for training in labor union apprenticeships toward an associate degree.

Respectfully submitted



Brooks F. McCabe, Jr.
Senate Chair



Kenneth Tucker
House Chair

WEST VIRGINIA LEGISLATURE

LEGISLATIVE OVERSIGHT COMMISSION ON HEALTH AND HUMAN RESOURCES ACCOUNTABILITY

2008- 2009 Interlms

SENATE MEMBERS

Senator Roman W. Prezioso, Jr. Chair
Senator Dan Foster
Senator Jon Blair Hunter
Senator William R. Sharpe
Senator Ron Stollings
Senator Donna J. Boley
Senator Don Caruth

HOUSE MEMBERS

Delegate Don Perdue, Chair
Delegate Brent Boggs
Delegate Barbara Hatfield
Delegate Marshall Long
Delegate Margaret Staggers
Delegate Larry Border
Delegate Cliff Moore - *nonvoting*
Delegate Ricky Moyer - *nonvoting*
Delegate Ralph Rodighiero - *nonvoting*
Delegate Lock Wysong - *nonvoting*
Delegate Jack Yost - *nonvoting*

Final Report of

LEGISLATIVE OVERSIGHT COMMISSION ON HEALTH AND HUMAN RESOURCES ACCOUNTABILITY

The Legislative Oversight Commission on Health and Human Resources Accountability was appointed pursuant to the provisions of West Virginia Code §16-29E-1, *et seq*, following the 2007 Regular Session of the 78th Legislature.

During the course of the 2008- 2008 interim period the Legislative Oversight Commission on Health and Human Resources Accountability met and received information on various topics of study and other important healthcare issues from state agencies, political subdivisions, advocacy groups and other pertinent sources. While there were no Resolutions or specific study topics assigned to the Commission, the Commission revisited topics set forth from the 2008-2009 Interim period. The Commission **REPORTS** as follows:

MR/DD WAIVER

The Commission heard from Marsha Morris, Commissioner, Bureau for Medical Services, Department of Health and Human Resources and Pat Winston, Director of Developmental Disabilities, WV Bureau for Behavioral Health & Health Facilities, updated the Commission on the ME/DD Waiver expansion plans.

AUTISM SERVICES

Jeff Johnson, Committee Co-Counsel; presented an overview of a bill from the 2007 Regular Session relating to insurance coverage for autism services. James N. Bolder, MPA, presented a cost analysis relating to insurance coverage for autism. Ginny Gattlieb a parent of an adult son with autism, spoke about needs that families have, specifically the need for training and presented the Commission with information from the Judevine Center for Autism. Angela Patnaik a parent of an adult with autism, spoke about issues that adults with autism face and the importance of Direct Care Staff.

BEHAVIORAL HEALTH

The Commission heard from John Bianconi, Commissioner of the Bureau for Behavioral Health and Health Facilities for an update of the population, understaffing and funding issues at Bateman Hospital and Sharpe Hospital. Carl D. Hadsell, Ed.D., Professional Associate, The Center for Entrepreneurial Studies and Development, Inc., provided a summary of the Final Report of the Behavioral Health Commission

VICE CHANCELLOR OF HEALTH SCIENCES, PERSONNEL ISSUES AND NON-EMERGENCY MEDICAL TRANSPORTATION

The Commission heard from Dr. Robert Walker, new Vice-Chancellor of Health Sciences with the Higher Education Policy Commission, spoke on his new role and goals he hopes to achieve.

Tari Crouse, Manager of Employee Communications and Information, Division of Personnel, spoke on ninety (90) day temporary employee issue discussed at the July meeting when Commissioner Bianconi spoke and how to resolve the problem.

Jason Najmulski, Commissioner of the Bureau of Children and Families, Department of Health and Human Resource, spoke on non-emergency medical transportation (NEMT).

ANALYSIS ON MEDICAID REFORM

Joan C. Alker, Deputy Executive Director of the Georgetown Center for Children and Families and a Research Associate Professor at the Health Policy Institute of Georgetown University. Ms. Alker reported on the recent analysis on Medicaid Reform done at Georgetown University.

Shelley Baston, Deputy Commissioner/Policy Coordination, Bureau for Medical Services, Department of Health and Human Resources. Ms. Baston spoke in response to the recent analysis on Medicaid Reform done at Georgetown University.

END OF LIFE

Alvin H. Moss, MD, Professor of Medicine at WVU and the Director of the Center for Health Ethics and Law spoke about the need for legislation that would update the definition of pain. Karen Nichols, Executive Director of Mountain Hospice talked about the work of the Hospice programs in WV and the ongoing work with the nursing homes to bring hospice care to all patients who need it.

PERINATAL PROJECT

Robert C. Nerhood, MD, Chair, West Virginia Perinatal Partnership - Central Advisory Council, Professor and Chair, Department of Obstetrics and Gynecology, Marshall University, Joan C. Edwards School of Medicine, for a presentation regarding Perinatal Wellness and their recommendations to the Legislature.

PARTNERSHIP FOR COMMUNITY WELL BEING

Mike Lacey President, Partnership for Community Well Being and Wayne Coombs, Ph.D, Director, WV Prevention Resource Center; Partnership for Community Well Being; discussion of substance abuse and the work of the Partnership for Community Well Being

The Commission **RECOMMENDS** the following actions and legislation to the Joint Committee:

- that the topic of the ME/DD waiver be continued for the next Interim period and that the Legislature receive additional reports and testimonies regarding the availability problem and any proposed solutions, but take no immediate action at the current time.
 - that the topic of medicaid redesign be continued to allow this commission to review the evaluations being done and any actions taken in response to that feedback and to review the outcome of the court case concerning the medicaid redesign;
 - that legislation (see attached) to enable the Personnel Division to extend the 90 period for a temporary employee be introduced;
 - That the Finance Committee place an additional two million dollars in the budget for the Autism Center at Marshall to reduce the current waiting list and that \$500,000 be used to bring in a nationally recognized expert to provide training to all individuals who provide services to persons with autism.
 - that the bill entitled the Uniform Maternal Risk Screening Act(see attached) be reintroduced and supported for passage;
 - that a letter to the Secretary of DHHR be sent by the chairs supporting the department in submitting a family planning waiver to CMS if determined beneficial and cost effective and to consider expanding coverage for pregnant women to 200% of the federal poverty level if resources are freed up by the family planning waiver service;
 - that a resolution (see attached) be introduced to identify one or more "model" counties of good perinatal health education in the schools. The teen population has the worst perinatal birth outcomes in the state so it would be beneficial to look at CDC curriculums and determine which schools have the best programs and report back to LOCHHRA..
- That the Commission send a letter of support to the two Education chairs for funding for the Perinatal Project to be continued under the Chancellor of the Higher Education Policy Commission for \$150,000 the first year and \$200,000 in each future year;
- that the Legislature support any legislation offered by the Behavioral health Commission in their first phase of redesigning the system;
 - that the Legislature support the codification of the Partnership for Community Well-Being; and
 - that the Legislature support the bill(see attached) concerning the redefining of pain offered by the End of Life Center and the Partnership for Community Well-being

Respectfully submitted:

Senator Roman W. Prezioso, Jr.
Co-Chair

Delegate Don C. Perdue
Co-Chair

**West Virginia Legislature
Commission on Interstate Cooperation**

**2008-2009 Interims
February 10, 2009**

Senate Members

Senator Evan H. Jenkins, Chair
Senator Dan Foster, Vice Chair
Senator Joseph M. Minard
Senator Ron Stollings
Senator Erik Wells
Senator Donald T. Caruth
Senator Dave Sypolt

President Earl Ray Tomblin,
Ex-Officio, Non-Voting Member

House Members

Delegate John Pino, Chair
Delegate Eustace Frederick, Vice Chair
Delegate Nancy Peoples Guthrie
Delegate Melvin Kessler
Delegate Doug Reynolds
Delegate Craig P. Blair
Delegate Ron Walters

Speaker Richard Thompson,
Ex-Officio, Non-Voting Member

Final Report of the

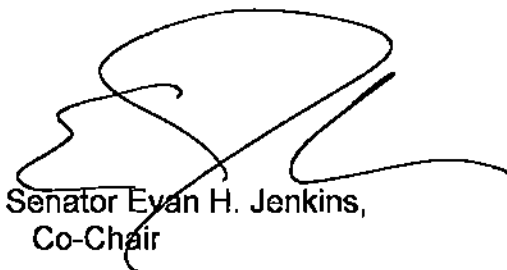
Joint Commission on Interstate Cooperation

Your Joint Commission on Interstate Cooperation established pursuant to West Virginia Code §29-1B-1, *et seq.*, has had under consideration the Uniform Principal and Income Act and Uniform Adult Guardianship and Protective Proceedings Jurisdiction Act.

On the issue of the Uniform Principal and Income Act and Uniform Adult Guardianship, your Commission **recommends** the passage of legislation.

On the issue of the Uniform Adult Guardianship and Protective Proceedings Jurisdiction Act, your Commission **recommends** the passage of this legislation.

Respectfully submitted,



Senator Evan H. Jenkins,
Co-Chair

Delegate John Pino,
Co-Chair