

The Honorable Mitch Carmichael, Chair

JOINT COMMITTEE ON GOVERNMENT AND FINANCE

Materials Distributed

September 16, 2018

(President Carmichael Presides)

AGENDA
JOINT COMMITTEE ON GOVERNMENT AND FINANCE
September 16, 2018

5:00 pm – 6:00 pm

Senate Finance Room

1. **Approval of June 26, 2018 minutes:**

2. **Committee Reports/Requests:**

3. **Monthly/Quarterly Reports Received:**

Status Reports on Lottery & Unemployment Compensation Fund

General Revenue Fund & State Road Fund

(**Mark Muchow**, *Deputy Cabinet Secretary, West Virginia Department of Revenue*)

Workforce WV Unemployment Compensation Trust Fund Distribution

(**Connie Kirk**, *UI Director, Workforce West Virginia*)

Monthly/Quarterly Reports from PEIA, BRIM & Real Estate Report

(**John Myers**, *Secretary, Department of Administration*)

Department of Health & Human Resources, Medicaid Report & Medicaid Waiver Report

(**Cynthia Beane**, *Commissioner of Bureau of Medical Services*)

Childrens Health Insurance Program Report,

(Representative for WVCHIP)

Investment Management Board Distribution

(**Craig Slaughter**, *Executive Director, West Virginia Investment Management Board*)

Workers Compensation

(**Allan McVey**, *Commissioner, West Virginia Offices of the Insurance Commissioner*)

Board of Treasury Report Distribution

4. **Other Business:**

5. **Adjournment:**



West Virginia Legislature

2ND SESSION OF THE 83RD LEGISLATURE



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INTERIM COMMITTEE ATTENDANCE - RESULTS

SUNDAY, SEPTEMBER 16, 2018 - 05:00 PM

JOINT COMMITTEE ON GOVERNMENT AND FINANCE

Attended:

Delegate Shott
Delegate Nelson
Delegate Miller, C.
Delegate Cowles
Delegate Boggs
Speaker Hanshaw
Senator Trump
Senator Prezioso
Senator Plymale
Senator Ferns
Senator Blair
President Carmichael

Submitter:

Rachel Miller

Phone:

304-347-4802

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JOINT COMMITTEE ON GOVERNMENT AND FINANCE
(Speaker Armstead Presided)

June 26, 2018

2:00 p.m. – 3:00 p.m.

Senate	House
Carmichael, Chair	Armstead, Chair
Blair	Cowles
Ferns (Absent)	Miller, C. (Absent)
Karnes (Absent)	Nelson, E.
Plymale (Absent)	Shott (Absent)
Prezioso	Boggs (Absent)
Trump	Miley

Speaker Armstead: “The Committee will come to order. The first item on the agenda is the approval of the May 22, 2018 minutes. I recognize President Carmichael.”

President Carmichael: “Thank you, Mr. Speaker. I move the minutes of the May 22, 2018 meeting of the Joint Committee on Government and Finance as contained in the members packets be approved.”

Speaker Armstead: “Is there discussion? If not, all in favor of President Carmichael’s motion that the minutes be approved, say aye. Those opposed no. The ayes appear to have it, the ayes do have it. I declare the minutes approved.”

Speaker Armstead: “I recognize President Carmichael for an additional motion.”

President Carmichael: “Thank you, Mr. Speaker, I move that the Parks, Recreation and Natural Resources Subcommittee be authorized to conduct a site visitation to Pipestem State Park and to Bluestone State Park on August 5, 6, and 7 of 2018, and for the members and staff be reimbursed for their expenses.”

Speaker Armstead: “You heard the President’s motion. Is there discussion? If not, all those in favor say aye, those opposed no. The ayes appear to have it, the ayes do have it. I declare the motion adopted.”

Speaker Armstead: “The next order of business before the Committee are the monthly and quarterly reports. Members will find in their packets the reports from each agency. The status on Lottery and Unemployment Compensation Fund is in our packets. Next,

we have General Revenue Fund and State Road Fund. I recognize Mark Muchow. Is Mark here? There he is. Good afternoon, Mark.”

Mark Muchow: “Good afternoon, I am Mark Muchow with the Department of Revenue. If you are interested in the May update, our collections were \$328.9M. That was \$20.2M above estimate...6.1% below the prior year. But, it was below the prior year because of the way the April calendar worked out. A highlight in the month was Appropriated Lottery Fund Transfers which were over estimate by \$7.5M. But, that’s appropriated. So, that equals 65 for the year. What that means is that the activity at the Limited Video Lottery establishments around the state were running above last year. Beyond that, Personal Income Tax continues to do well. It exceeded the estimate by \$8.5M during the month. We had a little bit of those April return payments that carried over into early May. A nice spike in what I call Non-Resident Withholding Tax Collections.

The Withholding Tax is up 4.1% for the month. For the year-to- date up 5.4%. Cumulative Collections are basically \$60.8M above estimate, about 6.4% ahead of last year which was the big item. The Sales Tax also exceeded estimate in May by about \$400,000.00, and June numbers are going to be even better than that, as we close some of the gap. Also, Severance Tax Collections were \$36.8M for the month and that was \$1.8M above estimate. Corporate Income Tax Collections were pretty strong in May and May is not a big month for Corporate Tax. But, \$5.4M in collections....8.2% ahead of last year. On the down side, the Insurance Premium Tax Collections were way below last year, but that is because we had already collected the money in April. Year-to-date we are still \$2.6M ahead on Insurance Premium and 3.7% ahead of last year. B&O Tax Collections were also above estimate by \$1.4M and collections were about \$200,000.00 above estimate for the year...2.9% above last year.

Tobacco Tax we had \$16M in collections in May. They were about \$800,000.00 below estimate. Year-to-date about \$162.3M below estimate and 8.7% below last year’s receipt. So, we definitely have a decline on the tobacco side.

State Road Fund Collections were \$71.8M, we were \$9.9M below the estimate for the month...3.7% below prior year receipts. But, again the reason these are below the prior year receipts is because of the April calendar effect especially on the Motor Fuel Tax. But, the Motor Fuel Tax Collections are still 1.1 above estimate, 11.4% ahead of last year. Registration Collections are 14.3% ahead of last year, for the month of May. And, cumulatively, they are above last year by about 50.3%. Motor Vehicle Sales Collections exceeded estimate in May by \$5.8M. Year-to-date collections were above estimate. Cumulative State Road Fund Collections were \$12.5M above the estimate for the year, and 16.5% above prior year receipts. So, the Road Fund is right on target for the revenues that are needed to support the bonds, as the bonds were issued at the end of May very successfully. Also, those funds were also being used on pay as you go basis to improve roads. I experienced that myself coming back heading south into West Virginia on 77, and there was a lot of road construction there. So, any questions?”

Speaker Armstead: “Are there any questions from Mr. Muchow? I had just one quick one. You and I had a little bit of a discussion in passing about the Sales Tax, which seems to continually be one of the things we are lagging behind on. Have you done any projections or anything as to whether that is something that is going to continue to lag? And if so, what do you attribute that to if you have any idea?”

Mark Muchow: “The numbers lagged in estimate because the recovery in the state’s economy initially started out in the energy side which has a low-level employment relative to overall and not a whole lot of Sales Tax exposure. And, now that it is expanding to construction and other activities, the Sales Tax should pick up. In fact, when the June numbers come in, and you will be, and I will be pleasantly surprised at the level of growth just for the month of June, which is basically different from May. So, I think that we will see improved collections as we get into the next fiscal year. We just had a long period of payroll stagnation. That has now lifted. The latest report from Workforce West Virginia from May shows private sector employment up about 1.4%. Labor force participation levels were up about 1.25% compared to last year. So, those are good positive indicators. A lot of the employment increases in the areas of construction, mining, and some of the surface sectors, and even the manufacturing sectors seem to be on the employment uptake recently.”

Speaker Armstead: “Alright.”

Mark Muchow: “I think the numbers are beginning to change around a bit. Demographically we are a little bit challenged. As we get older, we tend to spend a little less on taxable income and a little bit more on healthcare. So, that’s a bit of a challenge. We’ve had a little bit of a population loss through the years and that’s a challenge. The Internet Sales matter is a challenge, but, we had a recent Supreme Court decision that one way or another will stimulate additional Sales Tax Collections across the country.”

Speaker Armstead: “Just along those lines... I was trying to remember as I was asked this recently...how much do we actually collect? I know that legally, individuals who usually purchase goods out-of-state through the Internet are supposed to, it is my understanding under the current law, that they are supposed to report that on their State Income Tax. How much do we bring in? I thought it was a very manageable amount, as I was recalling. Do you have any idea of an estimate of how much we actually do bring in?”

Mark Muchow: “Not huge. The last time I looked at it was a while back, and I think it was somewhere in the \$100,000.00 neighborhood, as some of the collections come in. But, in terms of what is out there, it’s still small.”

Speaker Armstead: “Ok, alright. Delegate Miley.”

Delegate Miley: “Thank you, Mr. Speaker. Mark, on the \$60.8M excess above estimates for Personal Income Tax, are their particular segments of the economy that you could attribute a bunch of that to or is it just broad based?”

Mark Muchow: "It's broad based. But, certainly construction and employment is up considerably. That's both pipelines and roads. But, hopefully some other things in between. Mining employment is up about 5% over the last year. Manufacturing employment is up a bit. Certain key sectors of the service industry are also up. So, that's all contributing. Year-to-date, our Withholding Tax is up about 5.4% which is the strongest growth that we have had...I will have to go back five or six years to get a stronger read on the Withholding Tax. So, that's good. The Federal Tax Reform that occurred at the end of the year...and, in fact, the estimate for this year was set conservatively on the lower side, because we weren't sure what was going to happen with Federal Tax Reform, more than a year ago. When it finally hit, at least for West Virginia purposes, and actually, for most other states too, it wasn't a big matter in terms of potential revenue loss. In fact, they were faced with revenue gains associated with the Federal Tax Reform Act that they reacted to."

Delegate Miley: "To echo what the Speaker just asked you, I'm just a little slightly concerned that we had such an increase in our Income Tax Receipts, but, it doesn't seem to correlate with the spending in our local economies if you look at the Sales Tax Receipts. What do you think that would cap at?"

Mark Muchow: "No, those are two separate taxes. Personal Income Tax today is not the same tax as in my grandfather's days. A lot has changed. Back about thirty or forty years ago, most of the Personal Income Tax Receipts were salary related and pretty much individually related. Nowadays, a significant amount of business income for pass thru entities are taxed at a personal income level. So, that's a different tax than it was thirty or forty years ago, which is one of the reasons why your Corporate Income Taxes are not nearly as robust as in recent years as in the past...because a lot of those C Corporations are no longer C Corporations."

Delegate Miley: "So, you think because much of this Personal Income Tax might be attributable to business entities and that's why we are not seeing a quarterly effect of spending in our local economy?"

Mark Muchow: "We had a big down trend in Personal Income Tax a couple of years ago where the tax actually fell on us. So, a big part of that was because energy prices collapsed. When energy prices collapse, it means that the royalty checks that you and I get are smaller. The income on profits from energy are smaller. There has been a bit of a turnaround occurring in the last eighteen months where we are now exporting coal overseas again. Oil and gas prices have increased. Gas not as much as oil, but, the royalty numbers are up and I think the profits associated with energy are a bit better today than they were a couple of years ago."

Delegate Miley: "And, I appreciate that. But, I guess what I am trying to get to is, if the energy profits are being absorbed and depreciated by the companies, but, to some degree, with increased royalty rates, the individuals are the ones getting royalties who would in turn would be spending money in our local economies, wouldn't they?"

Mark Muchow: “For sure. And, again, I think it is going to happen. When the June numbers come in you will see that...if June ended yesterday, with no additional Sales Tax...that’s not a whole lot of Sales Tax coming in the last couple days...the June numbers would be up 7.1% over last year.”

Delegate Miley: “Which would put us where for the year?”

Mark Muchow: “For the year, that would put us at about 1.9. We started out back in September, we were running negative. We have been on the upward movement for the most part...sometimes a little hiccup in the way...upward movement since then. And, June numbers, there is no better month in comparison to that. You are starting to see that the employment pickup is starting to turn into sales growth.”

Delegate Miley: “And, that will be money that can be spent in our economy.”

Mark Muchow: “It lagged a bit because the initial pick-up was mainly concentrated in energy and energy prices. So, then gradually other sectors in the economy are starting to participate a little bit more over time.”

Delegate Miley: “Thank you. Thank you, Mr. Speaker.”

Speaker Armstead: “Delegate Nelson.”

Delegate Nelson: “Thank you, Mr. Speaker. A couple of questions or just two points of clarification. One on the Consumer Sales Tax...obviously we see a red number relative to estimates, but, year-to-date collections relative to last year?”

Mark Muchow: “Year-to-date...and this was through yesterday, 1.9% higher. If I add in some other tax effects, it is actually a little bit over 2%.”

Delegate Nelson: “So, we are up over last year but just not meeting some of the projections?”

Mark Muchow: “The projections are a bit higher. And, actually, the deficit at the end of May for Sales Tax year-to-date was \$26.5M. And, if we fail to collect an extra penny in the next two or three days that are left, then our deficit will be less than \$13.8M. So, in just one month, half of it disappeared. So, we are talking a pretty small deficit there, relative to the total collections. Actually, it is going to be in the neighborhood of about 1%, but we are going to meet about 99.9% of that estimate.”

Delegate Nelson: “Then, on the Internet Sales front and for the benefit of the rest of the committee members because we heard this in the Joint Finance, with the Wayfair judgement ruling in the Supreme Court, should we go to taxing Internet Sales? You felt that that would have what benefit to the state?”

Mark Muchow: “It would require some policy changes in terms of expanding nexus if folks want to do that. But, my estimate has been consistently around \$50M...maybe a little higher...a little lower than that...it depends on what the rules of the game are. And, certainly the Legislature would have a role in setting if there is any de minimis...South Dakota which won the case, has a de minimis rule that if your total contacts are less than, I believe less than two hundred customers or \$100,000.00 in sales, you don’t have to worry about collecting. The U.S. Supreme Courts partly based their decision on the fact that it wasn’t going to burden the really small sellers. And, Congress may get involved, as well. It depends on what the final rules are. It could be either higher or lower than \$50M. But, \$50M is a round-about estimate on that, with the realization that as we move forward economically, more and more businesses are engaged in e-commerce. Even the brick and mortar businesses are engaged in e-commerce. What that really means, is that for those states that have established the broader nexus, assuming that we don’t have a better case going on there...that means that people that sell e-commerce whether they are based in South Dakota or are based in West Virginia will have to collect a tax in those states that have established the nexus standards that sort of fit with that for that particular decision.”

Delegate Nelson: “Thanks, Mark. Thanks, Mr. Speaker.”

Speaker Armstead: “Any other questions for Mr. Muchow? If not, thank you very much. Oh, before you leave, I don’t want to put you on the spot on this, but, looking at this point at the end of May we were \$15M in the black. Overall, entirely do we have any idea what we think we are going to finish the fiscal year with?”

Mark Muchow: “First, I will throw a little qualifier in there. We never know what’s going to come in and sometimes we get surprised.”

Speaker Armstead: “Sure, I understand that.”

Mark Muchow: “Several years ago, when I was in the Tax Department, this goes back a ways...there was one day at the end of a month when a \$20M check came in. We usually don’t get \$20M checks. And, their account had no liability. Now, about six to eight months later they asked for the \$20M back. But, it did come in. So, you never know what’s going to come in. So, based upon normal expectations, we expect the number to be, as I mentioned yesterday, to be enough to cover the surplus appropriations for the year. Now, what that means is about \$28M. It could be a little bit less or a little bit more. And, keep in mind that whatever the surplus is on the Revenue side, will be supplemented at the end of July with expirations. So, the final budgetary surplus for the year won’t be determined until the 1st of August. And, in regard to what the revenue number is, the budgetary surplus will be a little bit higher than the revenue number.”

Speaker Armstead: “And, I understand that you can’t say we are there and I’m not trying to get you to say that.”

Mark Muchow: "I'm pretty comfortable that it would cover the surplus appropriations which would mean about a \$28M level and possibly a little higher. There's a slight chance it could be a little lower than that. I'm not talking tremendously higher."

Speaker Armstead: "You are talking about the ones we put in the budget... I know there was some opioid treatment I believe. And, there was some flood gauges, I believe and there were some fire departments. Those are what I was talking about...that list of... Alright, thank you. Any further questions? Alright. Next, we have Worker's Compensation Trust Fund Report. We have Connie Kirk. Good afternoon."

Connie Kirk: "Good afternoon, Mr. Speaker and Mr. President. I am here to give you the Trust Fund balance. Our projections for the end of June is \$137,798,525.00. I did look at today's balance on the account and today's balance is \$136,783,877.00 and the unemployment rate remains at 5.4 and it has been that way for several months now. I'm here to answer any questions you may have."

Speaker Armstead: "Okay. Thank you, are there any questions?"

President Carmichael: "Mr. Speaker, I have a question."

Speaker Armstead: "Okay, President Carmichael."

President Carmichael: "Thank you, Connie. I don't know where I read this, but there was a report ranking the various states with their unemployment compensation funds and so forth...that there was some concern by some national organization...for instance that West Virginia was ranked fairly low, as it relates to the Unemployment Compensation Trust Fund as compared to the General Revenue number. Are you familiar with that report or did you see that?"

Connie Kirk: "No, I am sorry. I did not see that. I do know that the National Office of the Department of Labor is actually doing a fund solvency report now and most states cannot meet their solvency on their trust funds and that may be what they might be referring to."

President Carmichael: "That's exactly what it was, I believe. And, Mike, are you familiar with that? McKown? You are not. Ok, I will get some more information on that and get some additional clarification."

Connie Kirk: "Well, actually if you would like me to, I could probably pull that report and could send it to you if you would like to see the report itself."

President Carmichael: "Yes, because there was a cautionary note in it...so make sure you are paying attention to these funds' states, because in an event of a downturn or something like that..."

Connie Kirk: “That’s the reason that the Department of Labor decided to start doing that was to make the states aware of solvency of the trust fund because of the recession that we had in 2008 and 2009. And, they are pushing the states to make sure that they...because a lot of states feel like their trust fund is solvent at a certain number. They are pretty much saying that that is not the case and it should probably be two to three times higher than what most states actually think the trust fund is solvent at.”

President Carmichael: “Ok.”

Connie Kirk: “But, I will be glad to send you that report.”

President Carmichael: “Yes. I would like to get that information because I saw that report and it made me think about it, as we contemplate different utilizations, for the extra money as the economy grows and we need to be cognizant of the fact that we have to keep this fund solvent and ready for any downturn.”

Connie Kirk: “I will pull the most current report that they have and then I will look to see when the next report is supposed to come out and let you know that as well.”

President Carmichael: “Alright, thank you.”

Connie Kirk: “Ok.”

Speaker Armstead: “Do we have any additional questions? If not, thank you.”

Connie Kirk: “Thank you.”

Speaker Armstead: “Next, we have the monthly and quarterly reports for PEIA, BRIM and Real Estate...Secretary Myers.”

Secretary Myers: “Good afternoon. I have submitted to you in your packets today the reports for PEIA, Real Estate and BRIM. My staff and I are here to answer any questions and my name is John Myers, Secretary of Administration. I am sorry, I forgot to do that.”

Speaker Armstead: “Are there any questions for Secretary Myers? If not, thank you very much. Now, we have the Department of Health and Human Resources, Medicaid and Medicaid Waiver Report, Cynthia Beane. Good afternoon.”

Cynthia Beane: “Good afternoon. I am Cynthia Beane with the Bureau of Medical Services. You have your report before you. Are there any questions today?”

Speaker Armstead: “We have a member absent that probably would have. Playing the role of Delegate Boggs today...Senator Trump.”

Senator Trump: “Thank you, Mr. Speaker. Is there any reduction in enrollment in Medicaid that is visible, as a result of the other improving economic numbers that we are seeing? We are seeing unemployment dropping and actual employment increasing. Are we seeing corresponding reductions in the number of people who are enrolled in the Medicaid Program?”

Cynthia Beane: “We have actually seen a reduction in our enrollment. We can’t necessarily say...people have asked me about it and I say it is two things. It is that people are getting jobs and an increase in our economy or people are moving out of state. Those are the two reasons that we can predict the reduction in the Medicaid numbers.”

Senator Trump: “Can you give us any idea...I mean I am not asking you to be exact to the person, but ballpark? We had always heard that we had about 600,000 or 550,000 to 600,000 in that neighborhood, about a third of the state enrolled in that?”

Cynthia Beane: “So, we had a reduction of around 30,000 members. The 600,000 is a unduplicated account through the course of the year. But, on average, it is around 515,000 members at any point and time.”

Senator Trump: “Ok, thank you.”

Speaker Armstead: “I would just...and I may not go into it as deeply as our colleague would have. But, where are we in terms of the Aged and Disabled Waivers at this point? How are we doing in terms of getting people off of those lists?”

Cynthia Beane: “So, the Aged and Disabled Waiver currently does not have a waitlist. So, if people apply today and you qualify, then you will receive a slot. I do anticipate that sometime in the next fiscal year that we will have to start a waitlist again. Right now, we are open and there is nobody waiting.”

Speaker Armstead: “Great. Any additional questions? If not, thank you very much.”

Cynthia Beane: “Thank you.”

Speaker Armstead: “Next, we have the Children’s Health Insurance Program Report, Ms. Stacey Shamblin.”

Stacey Shamblin: “Good afternoon, Mr. Speaker, Mr. President, and members of the committee. If you have had a chance to review your report, I can answer any questions that you have.”

Speaker Armstead: “Any questions on the report? If not, thank you very much.”

Stacey Shamblin: “Wonderful.”

Speaker Armstead: “Next, is the Investment Management Board, Craig Slaughter, Executive Director.”

Craig Slaughter: “Craig Slaughter, Director of the Investment Management Board. You have in your packet the performance report for the period ending April 30, 2018. The fiscal year numbers, as you can see, were up 8.9% through April for the fiscal year. We don’t have the May numbers in yet. But, I can tell you that we are at least even with that. I think we gained a little bit. So, it shouldn’t be anything less than 8.9% through May. June has been up and down, but it has been pretty...it looks like we are scheduled to end the year reasonably well. And, so I think we will be well above 7.5% for the fiscal year, which is all good. It was a little nerve racking, as you well know, because back in December and January we were doing a lot better to be honest with you. It has fallen off since then. What I see going forward is a little bit tougher. In my estimation, we are at the last stages of the business cycle. From an economic standpoint, that cycle may run another year or two, three years...who knows. But, from a financial asset standpoint, this is when you start to get really worried, because the stresses a growing economy create...the inflation, the wage growth...all those things put stresses on the system. And, the Fed starts responding to that. Liquidity starts being withdrawn, because they start worrying about things overheating. So, you have got competing interests. All of a sudden, those create volatility in financial assets because those financial players are trying to anticipate what is going to happen when the economy is going to end. So, this is just a time when you can fully expect the financial markets to anticipate the end of the cycle, by a year to six months or so. So, looking forward, I anticipate it is going to be a much more difficult year next year.”

Speaker Armstead: “Are there any questions for Mr. Slaughter? Delegate Nelson.”

Delegate Nelson: “Thank you, Mr. Speaker. Given your last comments, what discussions or actions have the Board or your managers begun as it relates to potential asset reclassification or remixing?”

Craig Slaughter: “Well first, as you well know, we are really focused on the long term. So, we very rarely make major shifts and we are not making any major shifts. We don’t think we are quite that smart. Because, even if you could anticipate when this downturn is going to happen, and you make a major shift, you have to anticipate when the upturn is going to happen and make another major shift. We feel that is extremely difficult to do. Over the last year, we have tried to be a little bit ahead of the curve. We reduced our public equities somewhat and invested in private credit strategies which have floating rate notes and so that anticipates rising rates. Plus, it generates income, as opposed to worrying about depreciation. Other than that, in our real estate portfolio, we have been moving in the last few years...we have been deemphasizing the more risky strategies and focusing on more core income producing strategies that have less debt embedded in them. In the hedge fund space, we’ve always structured it to try to deal with down markets. So, quite frankly, hedge funds have struggled in the last couple of years for a variety of reasons. But, we think for some of the same reasons we anticipate that they might do a

little bit better going forward. So, other than that, we just rely on our money managers to think about where the economy is and be able to be a little more defensive.”

Delegate Nelson: “I appreciate it Craig. Thank you, Mr. Speaker.”

Speaker Armstead: “I know you have given us some caution about where we are and I understand that. When was the last time you recall, and I know you have been doing this for some time, but, when was the last time you recall us having a year as positive as what we have had this past year? Has it been a while?”

Craig Slaughter: “Well, last fiscal year was great. I figure, if I recall it was up 15% or 16%. This year, knock on wood, we may come in at about 8.5% or 9%, hopefully. Since the financial crisis, we’ve had some pretty good years. You know, it’s been some not so good years thrown in there, but by in large its been a pretty good period. But, again that’s usually the way it is. You take a big hit like that. You know asset prices are way down. I mean, they are oversold in other words. To some extent, that’s what happened. So, ever since then, they have been climbing back up, but now the thing is that the Fed has been fueling the pump for nine years now, and it’s finally taking hold. But, fueling the pump is really kind of jacked up asset prices. They jacked them up artificially, so to speak, for a while and now the economy has kind of caught up. So, there will be a down period, but it will come back around and I’m confident things in the long run will be ok. Now, that’s going to be tough for the Legislature in dealing with budgets, of course, because there will be some difficult years ahead.”

Speaker Armstead: “Alright, any additional questions? If not, thank you very much, Mr. Slaughter. We now have the Workers Compensation Report by Melinda Kiss.”

Melinda Kiss: “Good afternoon, Mr. President and Mr. Speaker. We have our monthly report on the Workers Compensation Funds and if any members of the committee have any questions, I would be happy to answer them for you.”

Speaker Armstead: “Are there any questions regarding the Workers Compensation Report? If not, thank you very much. Your Treasury Report is in the packet. Is there any other business to come before the committee? If not, I recognize President Carmichael for a motion.”

President Carmichael: “Mr. Speaker, I move that we adjourn.”

Speaker Armstead: “President Carmichael moves that we adjourn. All those in favor will say aye, those opposed no. The ayes appear to have it, the ayes do have it, the meeting is 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

September 7, 2018

Executive Summary WV Lottery, Unemployment Trust, General Revenue and State Road Fund

- West Virginia Lottery as of July 31, 2018:
Gross profit year to date was \$41.8 million. Gross profit for fiscal year 2018 was \$41.2 million.
- West Virginia Unemployment Compensation Fund as of July 31, 2018:
Total disbursements were \$1.2 million lower than in fiscal year 2018. Overall ending trust fund balance was \$74 million higher on July 31, 2018 than on July 31, 2017.
- General Revenue Fund as of August 31, 2018:
The general revenue collections ended the second month of fiscal year 2019 at 111% of the estimate for the year.
- State Road Fund as of August 31, 2018:
The state road fund collections ended the second month of fiscal year 2019 at 115% of the estimate for the year.

WEST VIRGINIA LEGISLATURE
Office of the Legislative Auditor



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

MEMORANDUM

To: Honorable Chairmen and Members of the Joint Committee on
Government and Finance

From: William Spencer, CPA
Director Budget Division
Legislative Auditor's Office

Date: September 7, 2018

Re: Review of West Virginia Lottery Financial Information
As of July 31, 2018

We performed an analysis of the Statement of Revenues, Expenses and Changes in Fund Net Position for July 31, 2018, 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 \$92.5 million for July 2018. Table games accounted for \$3 million of this total. Historic Resort Hotel video lottery and table games accounted for \$680 thousand of total gross receipts. Gross lottery revenue has increased by less than 1% when compared with July of fiscal year 2017-2018. This number does not include commission and prize deductions. Gross profit (gross revenues minus commissions and prize costs) for July was \$41.8 million; for July of last fiscal year it was \$41.2 million. Expressed as a percentage, gross profit is 1.2% higher for fiscal year 2019 than for fiscal year 2018.

Lottery continued

Operating Transfers to the State of West Virginia:

A total of \$39,749,000.00 has been accrued to the state of West Virginia for fiscal year 2017-2018. This is on an accrual basis and may not correspond to the actual cash transfers made during the same time period. Amount 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:

State Lottery Fund:

Bureau of Senior Services	\$15,918,000.00
Community and Technical College	\$500,000.00
Department of Education	\$7,529,000.00
Library Commission	\$4,655,000.00
Higher Education-Policy Commission	\$2,879,000.00
Tourism	\$2,662,000.00
Department of Natural Resources	\$1,299,000.00
Division of Culture and History	\$1,657,000.00
Department of Education and Arts	\$102,000.00
General Revenue Fund	\$0.00
Economic Development Authority	\$999,000.00
School Building Authority	\$1,800,000.00
<u>SUBTOTAL BUDGETARY TRANSFERS</u>	\$40,000,000.00

Lottery continued

Excess Lottery Fund

Economic Development Fund	\$2,102,000.00
Higher Education Improvement Fund	\$1,500,000.00
General Purpose Fund	\$0.00
Higher Education Improvement Fund	\$0.00
State Park Improvement Fund	\$0.00
School Building Authority	\$1,899,000.00
Refundable Credit	\$0.00
WV Racing Commission	\$0.00
WV DHHR	\$0.00
Teacher's Retirement Savings	\$0.00
Division of Human Services	\$0.00
WV Lottery Statutory Transfers	\$0.00
General Revenue	\$0.00
Excess Lottery Surplus	\$0.00
WV Infrastructure Council Fund	\$600,000.00
Total State Excess Lottery Revenue Fund	\$6,101,000.00

Total Budgetary Distributions:	\$46,101,000.00
Veterans Instant Ticket Fund	\$52,000.00
TOTAL TRANSFERS	*\$46,153,000.00

* CASH BASIS

Lottery continued

Total Accrued last FY 2018:	\$120,860,000.00
Total Cash Distributions FY 2019:	\$46,153,000.00
Applied to FY 2018:	\$46,153,000.00
Applied to FY 2019:	\$0.00
Accrued for FY 2018 as of July 31:	\$74,707,000.00
Accrued for FY 2019 as of July 31:	\$39,749,000.00



P.O. BOX 2067
CHARLESTON, WV 25327

ALAN H. LARRICK
DIRECTOR

PHONE: 304.558.0500
wvlottery.com

MEMORANDUM

TO: Joint Committee on Government and Finance
FROM: Alan H. Larrick, Director

RE: Monthly Report on Lottery Operations
Month Ending July 31, 2018

A handwritten signature in blue ink, appearing to be "ALH", is written over the "RE:" line of the memorandum.

DATE: August 16, 2018

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

Financial statements of the Lottery for the month ending July 31, 2018 are attached. Lottery revenue, which includes on-line, instant, video lottery sales, table games, and historic resort, was \$92,542,354 for the month of July.

Transfers of lottery revenue totaling \$46,153,330 made for the month of July to the designated state agencies per Senate Bill 160, 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 10 on pages 18 and 19 of the attached financial statements.

The number of traditional and limited retailers active as of July 31, 2018 was 1,469 and 1,309 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.

AHL
Attachment

pc: Honorable Jim Justice, Governor
Dave Hardy, Cabinet Secretary – Dept. of Revenue
John Perdue, Treasurer
J. B. McCuskey, Auditor
Members of the West Virginia Lottery Commission

MEMORANDUM

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Attachment

pc: Honorable Jim Justice, Governor
Dave Hardy, Cabinet Secretary – Dept. of Revenue
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Members of the West Virginia Lottery Commission



WEST VIRGINIA LOTTERY

STATE OF WEST VIRGINIA

**FINANCIAL STATEMENTS
-UNAUDITED-**

July 31, 2018

WEST VIRGINIA LOTTERY

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WEST VIRGINIA LOTTERY
STATEMENT OF NET POSITION
(In Thousands)
-Unaudited-

	July 31, 2018	June 30, 2018
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 143,236	\$ 146,661
Accounts receivable	31,240	32,136
Inventory	653	529
Other assets	1,180	1,175
Total Current Assets	<u>176,309</u>	<u>180,501</u>
Capital assets	61,552	61,552
Less accumulated depreciation and amortization	<u>(13,645)</u>	<u>(13,505)</u>
Net Capital Assets	<u>47,907</u>	<u>48,047</u>
Total Noncurrent Assets	<u>47,907</u>	<u>48,047</u>
Total Assets	<u>\$ 224,216</u>	<u>\$ 228,548</u>
Deferred outflows of resources	<u>\$ 1,036</u>	<u>\$ 1,036</u>
Total assets and deferred outflows	<u>\$ 225,252</u>	<u>\$ 229,584</u>
Current Liabilities:		
Accrued nonoperating distributions to the State of West Virginia	\$ 114,456	\$ 120,860
Estimated prize claims	14,632	15,783
Accounts payable	1,947	1,581
Other accrued liabilities	39,653	36,796
Total Current Liabilities	<u>170,688</u>	<u>175,020</u>
Deferred inflows	<u>\$ 762</u>	<u>209</u>
Net Position:		
Net Investment in capital assets	47,907	48,047
Unrestricted	5,895	6,308
Total Net Position	<u>53,802</u>	<u>54,355</u>
Total net position, liabilities, and deferred inflows	<u>\$ 225,252</u>	<u>\$ 229,584</u>

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

WEST VIRGINIA LOTTERY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE ONE MONTH PERIOD ENDED JULY 31, 2018
(In Thousands)
-Unaudited-

	CURRENT MONTH		YEAR TO DATE	
	2019	2018	2019	2018
Lottery revenues				
On-line games	\$ 6,704	\$ 6,085	\$ 6,704	\$ 6,085
Instant games	6,687	7,052	6,687	7,052
Racetrack video lottery	44,514	46,758	44,514	46,758
Limited video lottery	30,721	28,459	30,721	28,459
Table games	3,235	3,226	3,235	3,226
Historic resort	680	527	680	527
	<u>92,541</u>	<u>92,107</u>	<u>92,541</u>	<u>92,107</u>
Less commissions				
On-line games	478	430	478	430
Instant games	467	493	467	493
Racetrack video lottery	24,422	25,654	24,422	25,654
Limited video lottery	15,053	13,945	15,053	13,945
Table games	1,372	1,368	1,372	1,368
Historic resort	356	319	356	319
	<u>42,148</u>	<u>42,209</u>	<u>42,148</u>	<u>42,209</u>
Less on-line prizes	3,611	3,233	3,611	3,233
Less instant prizes	4,626	4,631	4,626	4,631
Less ticket costs	65	97	65	97
Less vendor fees and costs	338	697	338	697
	<u>8,640</u>	<u>8,658</u>	<u>8,640</u>	<u>8,658</u>
Gross profit	<u>41,753</u>	<u>41,240</u>	<u>41,753</u>	<u>41,240</u>
Administrative expenses				
Advertising and promotions	300	545	300	545
Wages and related benefits	636	642	636	642
Telecommunications	68	45	68	45
Contractual and professional	510	274	510	274
Rental	26	28	26	28
Depreciation and amortization	140	100	140	100
Other administrative expenses	240	108	240	108
	<u>1,920</u>	<u>1,742</u>	<u>1,920</u>	<u>1,742</u>
Other Operating Income	<u>288</u>	<u>148</u>	<u>288</u>	<u>148</u>
Operating Income	<u>40,121</u>	<u>39,646</u>	<u>40,121</u>	<u>39,646</u>
Nonoperating income (expense)				
Investment income	253	180	253	180
Distributions to municipalities and counties	(602)	(558)	(602)	(558)
Distributions -capital reinvestment	(23)	(23)	(23)	(23)
Distributions to the State of West Virginia	(39,749)	(39,245)	(39,749)	(39,245)
	<u>(40,121)</u>	<u>(39,646)</u>	<u>(40,121)</u>	<u>(39,646)</u>
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net position, beginning of period	<u>54,355</u>	<u>53,019</u>	<u>54,355</u>	<u>53,019</u>
Net position, end of period	<u>\$ 54,355</u>	<u>\$ 53,019</u>	<u>\$ 54,355</u>	<u>\$ 53,019</u>

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

WEST VIRGINIA LOTTERY

**STATEMENTS OF CASH FLOWS
FOR THE ONE MONTH PERIOD ENDED JULY 31, 2018**

(In Thousands)

-Unaudited-

	2019	2018
Cash flows from operating activities:		
Cash received from customers and other sources	\$ 93,725	\$ 86,093
Cash payments for:		
Personnel costs	(636)	(643)
Suppliers	(640)	(1,031)
Other operating costs	(49,269)	(47,483)
Cash provided by operating activities	<u>43,180</u>	<u>36,936</u>
Cash flows from noncapital financing activities:		
Nonoperating distributions to the State of West Virginia	(46,153)	(45,978)
Distributions to municipalities and counties	(612)	(548)
Distributions to racetrack from racetrack cap. reinv. fund	(88)	(17)
Cash used in noncapital financing activities	<u>(46,853)</u>	<u>(46,543)</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	<u>-</u>	<u>(19)</u>
Cash flows from investing activities:		
Investment earnings received	<u>248</u>	<u>150</u>
Cash provided by investing activities	<u>248</u>	<u>150</u>
Increase (decrease) in cash and cash equivalents	(3,425)	(9,476)
Cash and cash equivalents - beginning of period	146,661	156,550
Cash and cash equivalents - end of period	<u>\$ 143,236</u>	<u>\$ 147,074</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 40,121	\$ 39,646
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation and amortization	140	100
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	896	(6,162)
(Increase) decrease in inventory	(124)	(35)
(Increase) decrease in other assets	-	14
Increase (decrease) in estimated prize claims	(1,151)	95
Increase (decrease) in accounts payable	366	(239)
Increase (decrease) in other accrued liabilities	2,932	3,517
Cash provided by operating activities	<u>\$ 43,180</u>	<u>\$ 36,936</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 November 30, 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 basis 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; Mega Millions®, a multi-state “jackpot” 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.

Video lottery is a self-activated video version of lottery games which is operated by an authorized licensee. 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 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 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. WV Lottery statutes have established specific requirements for video lottery and imposed certain restrictions limiting the licensing for operation of video lottery games to horse and dog racetracks in West Virginia (subject to local county elections permitting the same), limited licensed retailer areas restricted for adult amusement, and licensed historic resort hotels as defined by WV Code.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The legislation further stipulates the distribution of revenues from video lottery games, and requires any video lottery licensee to be responsible for acquiring the necessary equipment and bearing the risk associated with the costs of operating and marketing 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), and licensed historic resort hotels as defined by WV Code. Each licensee 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 licensee 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 in an external investment pool maintained by the West Virginia Board of Treasury Investments (BTI). The BTI pool is a 2a-7 like pool carried at amortized cost which approximates fair value of the underlying securities.

INVENTORY – Inventory consists of instant game tickets available for sale to approved Lottery retailers and is carried at cost as determined by the specific identification method.

OTHER ASSETS – Other assets consist of deposits restricted for payment of certain Multi-State Lottery Association activities and prepaid expenses.

CAPITAL ASSETS – The Lottery has adopted a policy of capitalizing assets with individual amounts exceeding \$25,000. These assets include leasehold improvements 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.

ADVERTISING AND PROMOTIONS – The Lottery expenses the costs of advertising and promotions as they are incurred.

COMPENSATED ABSENCES – The Lottery has accrued \$631,080 and \$573,725 of at June 30, 2018 and 2017, respectively, for estimated obligations that may arise in connection with compensated absences for vacation at the current rate of employee pay. Employees fully vest in all earned but unused vacation. To the extent that accumulated sick leave is expected to be converted to benefits on termination or retirement, the Lottery participates in another postemployment benefits plan (see Note 16).

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NET POSITION – Net position is presented as restricted, unrestricted and net investment in capital assets which represent the net book value of all property and equipment of the Lottery. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, restricted resources are applied first.

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 July 31, 2018 the carrying amounts of deposits (overdraft) with financial institutions were \$489 thousand with a bank balance (overdraft) of \$526 thousand. Of this balance \$250 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):

	July 31, 2018	June 30, 2018
Deposits with financial institutions	\$ 489	\$ 489
Cash on hand at the Treasurer's Office	4,986	5,022
Investments with BTI reported as cash equivalents	137,761	141,150
	\$ 143,236	\$ 146,661

The deposits with the BTI are part of the State of West Virginia's consolidated investment cash liquidity pool. 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.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 4 – CAPITAL ASSETS

A summary of capital asset activity for the month ended July 31, 2018 is as follows (in thousands):

Capital Assets:

	Historical Cost At June 30, 2018	Additions	Deletions	Historical Cost At July 31, 2018
Construction in Progress	\$ 629	\$ -	\$ -	\$ 629
Buildings	48,243	-	-	48,243
Land	1,681	-	-	1,681
Equipment	10,999	-	-	10,999
	<u>\$ 61,552</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,552</u>

Accumulated Depreciation:

	Historical Cost At June 30, 2018	Additions	Deletions	Historical Cost At July 31, 2018
Buildings	\$ 6,466	\$ 103	\$ -	\$ 6,569
Equipment	7,039	37	-	7,076
	<u>\$ 13,505</u>	<u>\$ 140</u>	<u>\$ -</u>	<u>\$ 13,645</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, the LOTTO AMERICA® game, and the MEGA MILLIONS® jackpot game on behalf of participating state lotteries. MUSL is currently comprised of 33 member state lotteries, including the District of Columbia and the United States Virgin Islands. MUSL is managed by a Board of Directors, which is comprised of the lottery directors or their designee from each of the party states. The Board of Directors' responsibilities to administer the Multi-State Lottery Powerball, Lotto America, and Mega Millions games are performed by advisory committees or panels staffed by officers and independent contractors appointed by the board. These officers and consultants serve at the pleasure of the board and the board prescribes their powers, duties and qualifications. The Executive Committee carries out the budgeting and financing of MUSL, while the board contracts the annual independent audit. A copy of the audit may be obtained by writing to the Multi-State Lottery Association, 1701-48th Street, Suite 210, West Des Moines, Iowa 50266-6723.

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®, LOTTO AMERICA®, and MEGA MILLIONS® is 50% of each drawing period's sales, with minimum jackpot levels. The Lottery's revenues and expenses from MUSL games participation for the month ended July 31, 2018 and fiscal year-to-date is as follows:

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

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

<u>Revenues</u>	<u>Month</u>	<u>Y-T-D</u>
Powerball	\$ 1,989,284	\$ 1,989,284
Lotta America	346,707	346,707
Mega Millions	2,547,754	2,547,754
Total	\$ 4,883,745	\$ 4,883,745

<u>Expenses (Prizes)</u>	<u>Month</u>	<u>Y-T-D</u>
Powerball	\$ 994,642	\$ 994,642
Lotta America	173,354	173,354
Mega Millions	1,324,846	1,324,846
Total	\$ 2,492,842	\$ 2,492,842

MUSL places a percentage of game sales from each game in separate prize reserve funds that serve as a contingency reserve to protect the respective MUSL Product Groups from unforeseen prize liabilities. 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. The applicable sales percentage contribution as well as the reserve fund limit for the MUSL games is as follows:

	<u>PowerBall</u>	<u>Lotto America</u>	<u>Mega Millions</u>
Required Contribution (% of sales)	2%	3%	1%
Reserve Fund Cap	\$125,000,000	\$9,000,000	\$45,000,000

At July 31, 2018, the Lotteries share of the prize reserve fund balances were as follows:

<u>Game</u>	<u>Total Prize Reserve</u>	<u>Lottery Share</u>
Powerball	\$ 115,706,037	\$ 1,504,429
Lotto America	1,116,666	78,871
Mega Millions	62,986,743	780,169
Total	<u>\$ 179,809,446</u>	<u>\$ 2,363,469</u>

Lottery prize reserves held by the MUSL are invested according to a Trust agreement the Lottery has with MUSL outlining investment policies. The policies restrict investments to direct obligations of the United States Government, perfected repurchase agreements, and obligations issued or guaranteed as to payment of

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

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

principal and interest by agencies or instrumentalities of the United States Government, and mutual funds of approved investments. The average portfolio maturity is never more than one year, except that up to one third of the portfolio may have an average maturity of up to two years. The maximum maturity for any one security does not exceed five years.

The interest earned on prize reserve fund monies is used to pay MUSL operating expenses and any amounts over and above that are credited to an unreserved fund. The Lottery records this as interest when earned. This fund had a balance of \$15,072,214 at July 31, 2018, of which the Lottery's share was \$1,350,652.

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 and has been amended again by HB 101 as passed during the first extraordinary session of 2014. For a complete summary of the impacts of HB 101, see Note 11 titled "Summary Impact of Recent Legislation." Initially, four percent (4%) of gross terminal revenue is allocated for lottery administrative costs. Sixty-six percent (57%) of net terminal revenue (gross less 4%) is allocated in lieu of commissions to: the racetracks (46.5%); other private entities associated with the racing industry (8.7%); and the local county and municipal governments (2%). The remaining revenues (42.8%) 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 10 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, 49% of net terminal revenue is allocated in lieu of commissions to: the racetracks (42%); other private entities associated with the racing industry (5%); and the local county and incorporated municipality governments (2%).

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 6 - RACETRACK VIDEO LOTTERY (continued)

The remaining net terminal revenue (51%) is allocated for distribution to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in Note 10.

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 Ohio, Rhode Island, Maryland, 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 .74% of the amount wagered. A summary of racetrack video lottery revenues for the month ended July 31, 2018 and fiscal year-to-date follows (in thousands):

	Current Month		Year-to-Date	
	2019	2018	2019	2018
Total credits played	\$ 490,980	\$ 520,321	\$ 490,980	\$ 520,321
Credits (prizes) won	(440,035)	(466,741)	(440,035)	(466,741)
Promotional credits played	(6,431)	(6,819)	(6,431)	(6,819)
MWAP Contributions	-	(3)	-	(3)
Gross terminal income	44,514	46,758	44,514	46,758
Administrative costs	(1,781)	(1,870)	(1,781)	(1,870)
Net Terminal Income	42,733	44,888	42,733	44,888
Less distribution to agents	(24,422)	(25,654)	(24,422)	(25,654)
Racetrack video lottery revenues	\$ 18,311	\$ 19,234	\$ 18,311	\$ 19,234

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

	July 31, 2018	Year-to-Date
State Lottery Fund	\$ 12,820	\$ 12,820
State Excess Lottery Revenue Fund	5,491	5,491
Capital Reinvestment Fund	-	-
Total nonoperating distributions	\$ 18,311	\$ 18,311

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 7 - LIMITED VIDEO LOTTERY (continued)

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 July 31, 2018 and fiscal year-to-date follows (in thousands):

	Current Month		Year-to-Date	
	2019	2018	2019	2018
Total credits played	\$ 384,053	\$ 350,936	\$ 384,053	\$ 350,936
Credits (prizes) won	(353,332)	(322,477)	(353,332)	(322,477)
Gross terminal income	\$ 30,721	\$ 28,459	\$ 30,721	\$ 28,459
Administrative costs	(615)	(569)	(615)	(569)
Gross Profit	30,106	27,890	30,106	27,890
Commissions	(15,053)	(13,945)	(15,053)	(13,945)
Municipalities and Counties	(602)	(558)	(602)	(558)
Limited video lottery revenues	\$ 14,451	\$ 13,387	\$ 14,451	\$ 13,387

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 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. Transfer three 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:

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 8 – TABLE GAMES (continued)

- 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 Excess Lottery Revenue Fund.

The cash transferred to the State Excess Lottery Revenue Fund in the current month is included in Note 10-Nonoperating Distributions to the State of West Virginia. The table games adjusted gross receipts for the month and year ended July 31, 2018 were \$9,243,647 and \$9,243,647, respectively. The following table shows the month and year totals of the privilege tax and the accrued distributions (in thousands) to be transferred in the subsequent month:

	Current Month		Year-to-Date	
	2019	2018	2019	2018
Table Games Privilege Tax	\$ 3,235	\$ 3,226	\$ 3,235	\$ 3,226
Interest on Table Games Fund	7	4	7	4
Administrative costs	(277)	(277)	(277)	(277)
Total Available for Distribution	2,965	2,953	2,965	2,953
<u>Less Distributions:</u>				
Racetrack Purse Funds	208	207	208	207
Thoroughbred & Greyhound Development Funds	166	166	166	166
Racing Association Pension Plan	82	81	82	81
Municipalities/ Counties	916	914	916	914
Total Distributions	1,372	1,368	1,372	1,368
Excess Lottery Fund	\$ 1,593	\$ 1,585	\$ 1,593	\$ 1,585

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 9 – HISTORIC RESORT HOTEL

In 2009, the Legislature passed Senate Bill 575 which permits video lottery and table games at a licensed historic resort hotel which is defined as “a resort hotel registered with the United States Department of the Interior as a national historic landmark in its National Registry of Historic Places having not fewer than five hundred guest rooms under common ownership and having substantial recreational guest amenities in addition to the gaming facility.”

Historic Resort Video Lottery

According to Senate Bill 575, thirty six percent (36%) of gross terminal income is allocated to Historic Resort Hotel Fund and seventeen percent (17%) of gross terminal income is allocated to the Human Resource Benefit Fund. The remaining forty-seven percent (47%) of gross terminal income is then subject to a ten percent (10%) surcharge which is allocated to separate capital reinvestment funds for each licensed historic resort hotel. The remaining forty-two and three-tenths percent (42.3%) of gross terminal income is retained by the historic resort hotel.

A summary of historic resort hotel video lottery revenues for the month ended July 31, 2018 and fiscal year-to-date follows (in thousands):

	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Total credits played	\$ 6,811	\$ 7,923	\$ 6,811	\$ 7,923
Credits (prizes) won	(6,252)	(7,391)	(6,252)	(7,391)
Promotional credits played	(75)	(45)	(75)	(45)
Gross terminal income	<u>484</u>	<u>487</u>	<u>484</u>	<u>487</u>
Capital reinvestment	(23)	(23)	(23)	(23)
Excess Lottery Fund	(4)	(4)	(4)	(4)
Administrative costs	(26)	(26)	(26)	(26)
Hotel commissions	<u>(205)</u>	<u>(206)</u>	<u>(205)</u>	<u>(206)</u>
Net terminal income	226	228	226	228
Historic Resort Hotel Fund	144	145	144	145
Human Resource Benefit Fund	82	83	82	83

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 9 – HISTORIC RESORT HOTEL (continued)

Historic Resort Table Games

Each historic resort hotel licensee is subject to a privilege tax of thirty five percent (35%) of adjusted gross receipts, of which thirty percent (30%) is deposited directly into the Historic Resort Hotel Fund and five percent (5%) is deposited directly into the Human Resource Benefit Fund. The historic resort hotel table games adjusted gross receipts for the month and year ended July 31, 2018 were \$559,074 and \$559,074, respectively.

The following table shows the month and fiscal year -to- date totals of the privilege tax and the accrued distributions (in thousands) to be transferred in the subsequent month:

	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Table games privilege tax	\$ 196	\$ 40	\$ 196	\$ 40
Administrative Costs	<u>(25)</u>	<u>(5)</u>	<u>(25)</u>	<u>(5)</u>
Total Available for Distribution	171	35	171	35
Historic Resort Hotel Fund	143	29	143	29
Human Resource Benefit Fund	28	6	28	6

Historic Resort Hotel Fund

Of the monies deposited into the Historic Resort Hotel Fund, fifteen percent (15%) is allocated for lottery administrative costs. The remaining Historic Resort Hotel Fund net income (gross deposits less 15%) is distributed as follows:

- 1) Eighty-six percent (86%) is paid to the State Excess Lottery Revenue Fund;
- 2) Four percent (4%) is paid to the county where the gaming facility is located;
- 3) Two and one-half percent (2.5%) is paid to the municipality where the gaming facility is located as prescribed by statute;
- 4) Two and one-half percent (2.5%) is divided and paid in equal shares to the remaining municipalities in the county where the gaming facility is located;
- 5) Two and one-half percent (2.5%) is divided and paid in equal shares, to each county commission in the state where the gaming facility is not located;
- 6) Two and one-half percent (2.5%) is divided and paid in equal shares, to each municipality in the state not already receiving a distribution as described in item five (5) or item six (6) above.

A summary of Historic Resort Hotel Fund revenues and related distributions is as follows (in thousands):

	<u>Current Month</u>	<u>Year-to-Date</u>
Historic Resort Hotel Video Lottery	\$ 144	\$ 144
Historic Resort Table Games	143	143
Interest on Historic Resort Hotel Fund	<u>1</u>	<u>1</u>
Historic Resort Hotel Fund Net Income	288	288
Municipalities/ Counties	41	41
Excess Lottery Fund	<u>247</u>	<u>247</u>
Total Distributions	<u>\$ 288</u>	<u>\$ 288</u>

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 10- 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 July 31, 2019 the State Legislature budgeted \$129,298,650 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, \$1,000,000, and \$500,000 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 \$5,300,000 per month for the first ten months of each fiscal year. 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. For the month ended July 31, 2018 the Lottery has accrued additional distributions of \$114,455,989. The Lottery is a non-appropriated state agency and therefore does not have a legally adopted annual budget.

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

<u>BUDGETARY DISTRIBUTIONS</u>	<u>July 31, 2018</u>	<u>Year-to-Date</u>
<u>State Lottery Fund:</u>		
Community and Technical College	\$ 500	\$ 500
Bureau of Senior Services	15,918	15,918
Department of Education	7,529	7,529
Library Commission	4,655	4,655
Higher Education-Policy Commission	2,879	2,879
Tourism	2,662	2,662
Natural Resources	1,299	1,299
Division of Culture & History	1,657	1,657
Department of Education & Arts	102	102
Economic Development Authority	999	999
School Building Authority	1,800	1,800
Total State Lottery Fund	<u>\$ 40,000</u>	<u>\$ 40,000</u>

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

State Excess Lottery Revenue Fund:

Economic Development Fund	\$ 2,102	\$ 2,102
Higher Education Improvement Fund	1,500	1,500
General Purpose Account		-
Higher Education Improvement Fund		-
State Park Improvement Fund		-
School Building Authority	1,899	1,899
Refundable Credit		-
WV Racing Commission		-
WV Department of Health and Human Resources		-
Teacher's Retirement Savings		-
Division of Human Services		-
WV Lottery Statutory Transfers		-
General Revenue		-
Excess Lottery Surplus		-
West Va. Infrastructure Council	600	600
Total State Excess Lottery Revenue Fund	<u>\$ 6,101</u>	<u>\$ 6,101</u>
Total Budgetary distributions:	<u>\$ 46,101</u>	<u>\$ 46,101</u>
Veterans Instant Ticket Fund	\$ 52	\$ 52
Total nonoperating distributions to the State of West Virginia (cash basis)	\$ 46,153	\$ 46,153
Accrued nonoperating distributions, beginning	(120,860)	(120,860)
Accrued nonoperating distributions, end	<u>114,456</u>	<u>114,456</u>
	<u>\$ 39,749</u>	<u>\$ 39,749</u>

NOTE 11 – LEASES

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 cancelable operating leases. Rental expense for the fiscal year-to-date ended July 31, 2018 and July 31, 2017 approximated \$26,072 and \$27,707 respectively.

The Lottery leases office space under the terms of a non-cancellable operating lease to various tenants. Rental revenues for the fiscal year-to-date ended July 31, 2018 and July 31, 2017 approximated \$78,327 and \$86,401 respectively.

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 12 – COMMITMENTS

For the years ended June 30, 2018 and 2017 the Lottery Commission has not designated any unexpended administrative funds for the acquisition of capital assets. As of June 30, 2018 and 2017, \$9,414,970 and \$9,460,433, respectively, are included in unrestricted net position and net investment in capital assets for this purpose.

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, 4101 MacCorkle Ave. S.E., Charleston, West Virginia 25304-1636.

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.

Covered employees hired prior to July 1, 2015 are required to contribute 4.5% of their salary to the PERS. Covered employees hired on or after July 1, 2015 will contribute 6.0% of their salary to the PERS Tier II. The Lottery is required to contribute 13.5% 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 month ending July 31, 2018 and fiscal year-to-date are as follows (in thousands):

	<u>July 31, 2018</u>	<u>Year-to-Date</u>
Employee contributions	\$ 28	\$ 28
Lottery contributions	74	74
Total contributions	<u>\$ 102</u>	<u>\$ 102</u>

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

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 has 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.

WORKERS' COMPENSATION INSURANCE

The Lottery carries workers compensation insurance coverage through a commercial insurance carrier. The commercial insurance carrier is paid a monthly rated premium to provide compensation for injuries sustained in the course of employment.

PUBLIC EMPLOYEES' INSURANCE AGENCY (PEIA)

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

WEST VIRGINIA LOTTERY
NOTES TO FINANCIAL STATEMENTS
-Unaudited-

NOTE 15– OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Lottery participates in the West Virginia Other Postemployment Benefits Plan (OPEB Plan) of the West Virginia Retiree Health Benefit Trust Fund (Trust), a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the West Virginia Public Employee Insurance Agency (WVPEIA). The OPEB Plan provides retiree post-employment health care benefits for participating state and local government employers. The provisions of the Code of West Virginia, 1931, as amended (the Code), assigns the authority to establish and amend benefit provisions to the WVPEIA board of trustees. The WVPEIA issues a publicly available financial report that includes financial statements and required supplementary information for the OPEB Plan. That report may be obtained by writing to Public Employees Insurance Agency, 601 57th Street, South East, Suite 2, Charleston, West Virginia, or by calling 1-888-680-7342.

Funding Policy

The Code requires the OPEB Plan bill the participating employers 100% of the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. State of West Virginia plan employers are billed per active health policy per month.

The ARC rate is \$357 and \$429 per employee per month for the years ending June 30, 2017 and 2016 respectively. Through June 30, 2017 and 2016, the Lottery has paid premiums of \$288,942 and \$284,421. As of June 30, 2017 and 2016, the Lottery has recorded a liability of \$5,206,989 and \$4,990,361 on its balance sheet for OPEB.

**SCHEDULE OF REVENUES AND NET REVENUES OF THE
LOTTERY FUND AND EXCESS LOTTERY FUND
FOR THE ONE MONTH PERIOD ENDED JULY 31, 2018
(In Thousands)**

	CURRENT MONTH		FISCAL YEAR	
	<u>Actual</u>	<u>Projected</u>	<u>Actual</u>	<u>Projected</u>
Gross Revenues				
Instant games	6,687	7,500	6,687	7,500
On-line games	6,704	5,033	6,704	5,033
Racetrack video lottery	44,515	40,372	44,515	40,372
Limited video lottery	30,721	28,834	30,721	28,834
Racetrack table games	3,235	2,664	3,235	2,664
Historic resort	680	447	680	447
Total gross revenues	<u>92,542</u>	<u>84,850</u>	<u>92,542</u>	<u>84,850</u>
Net Revenues - Lottery Fund and Excess Lottery Fund				
Lottery Fund				
Instant games	657	871	657	871
On-line games	1,705	1,444	1,705	1,444
Racetrack Video Lottery	12,860	11,627	12,860	11,627
Total Lottery Fund net revenues	<u>15,222</u>	<u>13,942</u>	<u>15,222</u>	<u>13,942</u>
Excess Lottery Fund				
Racetrack Video Lottery	5,538	4,981	5,538	4,981
Limited Video Lottery	14,563	13,563	14,563	13,563
Limited Video Lottery Fees	22	-	22	-
Racetrack table games	1,592	1,306	1,592	1,306
Historic resort	252	180	252	180
Total Excess Lottery Fund Net Revenues	<u>21,967</u>	<u>20,030</u>	<u>21,967</u>	<u>20,030</u>
Total Net Revenues	<u>37,189</u>	<u>33,972</u>	<u>37,189</u>	<u>33,972</u>

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 Chairmen and Members of the Joint Committee on
Government and Finance

From: William Spencer, C.P.A.
Director, Budget Division
Legislative Auditor's Office

Date: September 7, 2018

Re: Status of General Revenue Fund and State Road Fund as of
August 31, 2018 (FY 19)

We have reviewed the cash flow of the West Virginia general revenue fund as of August 31, 2018 which is the end of the second month of the fiscal year. The status of the fund collections for the month is as follows:

The net collections were 111% of the estimate for the fiscal year. Total collections were \$65.9 million above the estimate for the fiscal year.

Personal Income Tax collections were \$14.3 million above the estimate for the fiscal year.

Consumer sales and use tax collections were \$16.1 million above the estimate for the year.

Severance Tax was \$30.3 million above the estimate for the fiscal year.

Corporate Income and Business Franchise Tax collections were \$900 thousand below the estimate for the fiscal year.

State Road Fund

The state road fund collections were 115% of the estimate for the fiscal year. Total collections were \$22.7 million above the estimate for the fiscal year.

Rainy Day and Personal Income Tax Reserve *

Revenue Shortfall Reserve **Fund A** (Rainy Day Fund) had a cash balance of \$287,301,252.52 as of August 31, 2018.

Balance July 1, 2018	268,964,086.07
Loan-General Revenue Fund 7-1-18	60,000,000.00
Loan Payment 8-31-18	(60,000,000.00)
Fiscal year 18 surplus	18,066,528.88
Earnings	270,637.57
Balance August 31, 2018	287,301,252.52

Revenue Shortfall Reserve **Fund B** (Tobacco Settlement Monies) had a cash balance of \$442,032,464.82 as of August 31, 2018.

Balance July 1, 2018	440,709,603.60
Earnings	1,322,861.22
Balance August 31, 2018	442,032,464.82

The **Personal Income Tax Reserve** Fund had a \$11 million cash balance as of August 31, 2018.

Balance July 1, 2018	11,000,000.00
Balance August 31, 2018	11,000,000.00

GENERAL REVENUE FUND FY 2017-2018

By Source and by Month

Monthly Revenue Estimates

as of August 31, 2018 OASIS

	MONTH ESTIMATES	NET MONTH COLLECTIONS	FINAL MONTHLY COLLECTIONS OVER ESTIMATES	YTD ESTIMATES	NET YTD COLLECTIONS	YEARLY COLLECTIONS OVER ESTIMATES
Personal Income Tax	135,000,000	139,179,958	4,179,958	270,400,000	284,674,110	14,274,110
Consumer Sales Tax & Use Tax	111,800,000	119,004,765	7,204,765	190,000,000	206,059,668	16,059,668
Severance Tax	33,400,000	50,131,080	16,731,080	32,500,000	62,758,035	30,258,035
Corporate Net Income Tax	2,000,000	1,862,606	-137,394	6,800,000	5,883,013	-916,987
Insurance Tax	700,000	395,126	-304,874	28,300,000	29,183,582	883,582
Tobacco Products Tax	15,300,000	18,913,334	3,613,334	31,200,000	32,478,735	1,278,735
Business and Occupation	8,900,000	9,327,137	427,137	18,000,000	19,506,320	1,506,320
Liquor Profit Transfers	1,500,000	1,759,750	259,750	3,000,000	4,375,844	1,375,844
Departmental Collections	1,300,000	1,478,698	178,698	2,400,000	2,738,341	338,341
Property Transfer Tax	960,000	1,086,296	126,296	1,960,000	2,402,812	442,812
Property Tax	360,000	290,739	-69,261	460,000	447,805	-12,195
Beer Tax and Licenses	650,000	734,295	84,295	1,340,000	1,437,406	97,406
Miscellaneous Transfers	400,000	82,475	-317,525	450,000	82,475	-367,525
Interest Income	1,400,000	1,227,722	-172,278	2,600,000	2,180,545	-419,455
Refundable Credit Reimb Liability	300,000	575,727	275,727	300,000	575,727	275,727
HB 102 - Lottery Transfers	4,600,000	5,289,233	689,233	4,600,000	5,289,233	689,233
Miscellaneous	200,000	234,355	34,355	350,000	403,344	53,344
Business Franchise Fees	64,000	58,750	-5,250	114,000	119,135	5,135
Estate & Inheritance Tax	0	0	0	0	0	0
Liquor License Renewal	0	0	0	0	0	0
Special Revenue Transfers	0	636,402	636,402	5,300,000	5,259,153	-40,847
Charter Tax	0	195	195	0	1,249	1,249
Video Lottery Transfers	0	11,458	11,458	0	28,718	28,718
July-Dec Retro Rev Adj	0	0	0	0	0	0
Cash Flow Transfer	0	-60,000,000	-60,000,000	0	0	0
SUBTOTALS	318,834,000	292,280,103	-26,553,897	600,074,000	665,885,251	65,811,251
Less: Cash Flow Transfer	0	-60,000,000	-60,000,000	0	0	0
Less: Special Revenue Transfer	0	636,402	636,402	5,300,000	5,259,153	-40,847
TOTALS	318,834,000	351,643,701	32,809,701	594,774,000	660,626,098	65,852,098

Percent of Estimates

110.29%

111.07%

Collections this day

18,128,420

STATE ROAD FUND FY 2017-2018
By Source and by Month
Monthly Revenue Estimates
as of August 31, 2018 OASIS

	MONTH ESTIMATES	NET MONTH COLLECTIONS	FINAL MONTHLY COLLECTIONS OVER ESTIMATES	YTD ESTIMATES	NET YTD COLLECTIONS	YEARLY COLLECTIONS OVER ESTIMATES
Motor Fuel Tax	39,400,000	27,198,147	-12,201,853	83,900,000	91,958,455	8,058,455
Sales/Privilege Tax	20,483,000	22,827,277	2,344,277	36,808,000	43,376,514	6,568,514
Licenses & Registration	13,066,000	18,069,449	5,003,449	25,607,000	34,077,180	8,470,180
Miscellaneous	1,851,000	2,369,922	518,922	3,672,000	3,250,149	-421,851
Highway Litter Control	143,000	185,550	42,550	326,000	327,147	1,147
Federal Reimbursement	56,701,000	34,872,041	-21,828,959	102,748,000	79,028,992	-23,719,008
SUBTOTALS	131,644,000	105,522,387	-26,121,613	253,061,000	252,018,437	-1,042,563
Less: Federal Reimbursement	56,701,000	34,872,041	-21,828,959	102,748,000	79,028,992	-23,719,008
TOTALS	74,943,000	70,650,346	-4,292,654	150,313,000	172,989,445	22,676,445

Percent of Estimates 94.27% 115.09%

Collections this day 16,131,015

REVENUE SHORTFALL RESERVE FUND 7005, Part A as of July 31, 2018 : \$ 209,177,085.13

\$60 million loaned to General Revenue Fund 7/1/2018 for beginning of year cash flow.

REVENUE SHORTFALL RESERVE FUND 7006, Part B as of July 31, 2018: \$438,710,673.93

PERSONAL INCOME TAX REFUND RESERVE FUND as of July 31, 2018: \$11,000,000.00

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 Chairmen and Members of the Joint Committee on
Government and Finance

From: William Spencer, C.P.A.
Director Budget Division
Legislative Auditor's Office

Date: September 7, 2018

Re: West Virginia Unemployment Compensation Trust Fund

We have reviewed the July 31, 2018 monthly report of the Unemployment Compensation Trust Fund we received from WorkForce West Virginia.

As of July 31, 2018 of fiscal year 2018-2019, the trust fund cash flow was as follows:

Trust Fund Beginning Cash Balance 7-1-2018	\$ 137,204,403.33
Receipts July 1, 2018 thru June 30, 2019	\$ 31,386,941.77
Disbursements July 1, 2018 thru June 30, 2019	\$ 11,838,194.66
Balance July 31, 2018	\$ 156,753,150.44

ITEMS OF NOTE:

Regular benefits paid for July 2018 were \$ 1.2 million less than July 2017.

Federal emergency benefits totaled \$ -6 thousand for July 2017. For July 2018, federal emergency benefits totaled \$ -16 hundred.

Total disbursements were \$ 1.2 million less in July 2018 than the preceding July 2017.

Receipts as of July 2018, were \$ 4 million more than in July 2017. Overall ending trust fund balance was \$ 74 million higher on July 31, 2018 than on July 31, 2017.

Seasonally adjusted unemployment rates for July 2018 were 5.4 percent for West Virginia and 3.9 percent nationally.

Since July 2017, employment has increased by 7,200. Employment gains included 1,700 in educational and health services, 400 in mining and logging, 2,500 in construction, 1,600 in trade, transportation, and utilities, 1,100 in leisure and hospitality, 500 in professional and business services, and 1,000 in government. Employment declines included 100 in manufacturing, 1,000 in other services and 500 in information. Employment in financial activities was unchanged over the year.

August 8, 2018

William Spencer
Budget Division
Office of the Legislative Auditor
Building 1, Room 332-West Wing
1900 Kanawha Boulevard East
Charleston, WV 25305-0590

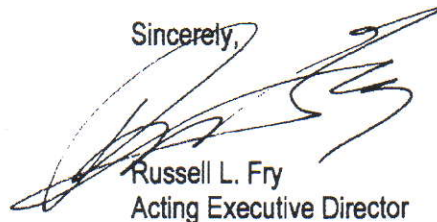
RE: Monthly Status Report

Dear Mr. Spencer:

Please find attached, the Monthly Status Report for the Joint Committee on Government and Finance, Unemployment Compensation Trust Fund for the month of July 2018.

If you have any questions or need any additional information, please feel free to contact Michelle Painter at 304-558-2631 or Michelle.Painter@wv.gov.

Sincerely,



Russell L. Fry
Acting Executive Director

RLF/gew

Enclosure

pc: Jim Justice

MONTHLY STATUS REPORT FOR THE JOINT COMMITTEE ON GOVERNMENT AND FINANCE
FOR THREE MONTHS STARTING MAY 2017 AND MAY 2018

	MAY 2017	JUNE 2017	JULY 2017	MAY 2018	JUNE 2018	JULY 2018	THREE MONTH TOTAL VARIANCE *	
Balance Forward	<u>\$62,043,102.87</u>	<u>\$76,524,585.04</u>	<u>\$68,378,244.21</u>	<u>\$115,215,751.65</u>	<u>\$144,363,535.32</u>	<u>\$137,204,403.33</u>	<u>\$189,837,758.18</u>	
Add Receipts:								
1. Bond Assessment	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	1. Bond Assessment
2. Regular Contributions:	\$76,515,247.65	\$1,149,639.82	\$27,364,632.48	\$39,605,123.32	\$1,127,179.73	\$31,247,111.67	(\$33,050,105.23)	2. Regular Contributions:
3. Federal Emergency Benefits (EUC08)	\$0.00	(\$129,871.00)	\$0.00	\$0.00	(\$45,000.00)	\$0.00	\$84,871.00	3. Federal Emergency Be
4. Federal Share Extended Benefits (EB)	\$0.00	(\$1,000.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$1,000.00	4. Federal Share Extended E
5. Temp Federal Additional Comp (FAC)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	5. Temp Federal Addition
6. UCFE (Federal Agencies)	\$59,034.96	\$53,325.34	\$70,041.58	\$67,965.12	\$64,049.38	\$86,766.91	\$36,379.53	6. UCFE (Federal Agenci
7. Special Administrative Transfer	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	7. Special Administrative
8. Reed Act Funds**	\$0.00	\$549,468.24	\$0.00	\$0.00	\$0.00	\$0.00	(\$549,468.24)	8. Reed Act Funds
9. UC Modernization Incentive	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	9. UC Modernization Ince
10. Treasury Interest Credits	\$0.00	\$383,958.15	\$0.00	\$0.00	\$659,995.06	\$0.00	\$276,036.91	10. Treasury Interest Cre
11. UCX (Military Agencies)	\$67,205.24	\$49,273.43	\$57,012.65	\$61,437.67	\$51,542.31	\$53,063.19	(\$7,448.15)	11. UCX (Military Agencie
12. WV Senate Bill 558	(\$50,000,000.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$50,000,000.00	12. WV Senate Bill 558
13. CMIA Receipts	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	13. CMIA Receipts
Total Monthly Receipts	<u>\$26,641,487.85</u>	<u>\$2,054,793.98</u>	<u>\$27,491,686.71</u>	<u>\$39,734,526.11</u>	<u>\$1,857,766.48</u>	<u>\$31,386,941.77</u>	<u>\$16,791,265.82</u>	Total Monthly Receipts
Less Disbursements:								Less Disbursements:
Debt Bond Repayment	(Retired)	(Retired)	(Retired)	(Retired)	(Retired)	(Retired)	(Retired)	Debt Bond Repayment
Regular Benefits:	\$12,050,869.57	\$10,102,421.00	\$12,912,529.83	\$10,462,794.48	\$8,895,352.27	\$11,692,602.89	(\$4,015,070.76)	Regular Benefits:
Federal Emergency Benefits (EUC08)	(\$4,955.00)	(\$4,925.21)	(\$6,400.88)	(\$2,679.13)	(\$1,985.00)	(\$1,684.00)	\$9,932.96	Federal Emergency Ben
Federal Share Extended Benefits (EB)	(\$295.00)	(\$100.00)	(\$15.00)	(\$65.00)	(\$15.00)	\$0.00	\$330.00	Federal Share Extended
Emergency Benefits (TEUC)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	Emergency Benefits (TE
Temp Federal Additional Comp (FAC)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	Temp Federal Additional
UCFE (Federal Workers) Benefits	\$53,209.30	\$53,539.89	\$72,860.60	\$70,471.61	\$68,977.72	\$89,298.09	\$49,137.63	UCFE (Federal Workers)
UCX (Military Workers) Benefits	\$61,176.81	\$50,199.13	\$56,036.70	\$56,220.48	\$54,568.48	\$57,977.68	\$1,354.00	UCX (Military Workers) E
Reed Act Funds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	Reed Act Funds
Special Administrative Transfer**	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	Special Administrative Tr
Total Monthly Disbursements	<u>\$12,160,005.68</u>	<u>\$10,201,134.81</u>	<u>\$13,035,011.25</u>	<u>\$10,586,742.44</u>	<u>\$9,016,898.47</u>	<u>\$11,838,194.66</u>	<u>(\$3,954,316.17)</u>	Total Monthly Disbur
Trust Fund Balance	<u>\$76,524,585.04</u>	<u>\$68,378,244.21</u>	<u>\$82,834,919.67</u>	<u>\$144,363,535.32</u>	<u>\$137,204,403.33</u>	<u>\$156,753,150.44</u>	<u>\$210,583,340.17</u>	Trust Fund Balance

* 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.

****Note:** UI Trust Fund Balance Includes Trust Fund Loan from the Revenue Shortfall Reserve Fund per Senate Bill 558 passed March 9, 2016:

Borrowed on 3/11/2016	38,000,000.00
Repaid on 5/17/2016	(38,000,000.00)
Borrowed on 12/5/2016	50,000,000.00
Repaid on 5/4/2017	(50,000,000.00)
Outstanding Loan from Revenue Shortfall Reserve Fund	<u>\$0.00</u>

****Note:** Reed Act funds of \$549,468.24 previously drawn down were unexpended and returned to Trust Fund on deposit with the U.S. Treasury.

UC TRUST FUND BALANCES & PROJECTIONS - 2018

September 6, 2018

Month	Receipts	Disbursements	Trust Fund Balance
2017			
Balance 1/1/2017			\$ 31,555,110
January	\$ 15,548,229	\$ 22,205,764	\$ 24,897,575
February	\$ 7,902,487	\$ 18,214,907	\$ 14,585,155
March	\$ 1,765,440	\$ 14,720,577	\$ 1,630,018
April	\$ 25,313,026	\$ 14,899,941	\$ 12,043,103
May	\$ 76,641,488	\$ 12,160,006	\$ 76,524,585
June	\$ 2,054,794	\$ 10,201,135	\$ 68,378,244
July	\$ 27,491,687	\$ 13,035,011	\$ 82,834,920
August	\$ 18,912,434	\$ 10,571,989	\$ 91,175,365
September	\$ 1,493,202	\$ 8,350,803	\$ 84,317,764
October	\$ 19,641,158	\$ 10,656,054	\$ 93,302,868
November	\$ 11,449,630	\$ 9,823,071	\$ 94,929,427
December	\$ 1,381,472	\$ 13,510,713	\$ 82,800,186
Totals - 2017	\$ 209,595,047	\$ 158,349,971	\$ 82,800,186

2018			
January	\$ 15,854,972	\$ 18,180,779	\$ 80,474,379
February	\$ 8,964,249	\$ 16,063,060	\$ 73,375,568
March	\$ 1,556,203	\$ 12,890,572	\$ 62,041,199
April	\$ 67,692,592	\$ 14,518,039	\$ 115,215,752
May	\$ 39,734,526	\$ 10,586,743	\$ 144,363,535
June	\$ 1,857,766	\$ 9,016,898	\$ 137,204,403
July	\$ 31,386,942	\$ 11,838,195	\$ 156,753,150
August	\$ 18,869,535	\$ 8,366,775	\$ 167,255,910
September	\$ 1,572,043	\$ 7,622,613	\$ 161,205,340
October	\$ 20,678,211	\$ 9,726,846	\$ 172,156,705
November	\$ 12,054,170	\$ 8,966,499	\$ 175,244,376
December	\$ 1,454,414	\$ 12,332,579	\$ 164,366,211
Totals - 2018	\$ 221,675,623	\$ 140,109,598	\$ 164,366,211

PEIA

September Interim Talking Points

- **PEIA and RHBT preliminary financial results for June 2018 are available for your review.**
- **PEIA preliminary numbers show PEIA finishing the year ahead of plan by \$30 million. This is primarily due to lower than forecast expenses.**
- **RHBT preliminary numbers show RHBT finishing the year ahead of plan by \$74 million. This is attributable to higher than forecast investment income and favorable claims experience.**
- **The 2018 year-end reserve for the State Fund and non-State Fund is projected to be \$152 and \$46 million respectively.**
- **These reserve levels represent 22% and 34% of the respective funds' expenses. The required reserve for the State Fund is 14% of expenses.**

Jim Justice
Governor



Ted Cheatham
Director

WV Toll-free: 1-888-680-7342 • Phone: 1-304-558-7850 • Fax: 1-304-558-2470 • Internet: www.wvpeia.com

September 7, 2018

Joint Committee on Government and Finance
Senate Finance – 451M
State Capitol Complex
Charleston, WV 25305

1. The Fiscal Year 2018 3/31/18 Quarterly Report page A-1 indicates the June 30, 2018 fund balances will be as follows:

	PEIA		RHBT
	State Fund	Non-State Fund	OPEB Fund
June 30, 2018	\$152,065,098	\$46,935,640	\$952,066,729

2. Per §5-16-25 the statutorily required reserve for the purposes of offsetting unanticipated claims losses (current FY costs) is the actuarial recommended reserve.

The current recommendation is 14% of the fiscal year expenses for PEIA and RHBT. Per the Quarterly Report, the percentage will be as follows at year end:

June 30, 2018	State Fund Reserve	Non-State Fund Reserve	Total
Reserve Balance	\$152,065,098	\$46,935,640	\$199,000,738
Percentage	21.8%	33.6%	23.7%
	reserve/current FY costs		

3. The objective of the OPEB Reserve is to reach a fully funded status of the actuarially accrued liability (AAL). Therefore, the target is 100%. The reserve balance represents 28% of the actuarially required balance:

	RHBT
June 30, 2018	OPEB Reserve
Reserve Balance	\$952,066,729
Percentage	28%
	OPEB Reserve/Actuarial Accrued Liability

4. Anticipated events that may significantly reduce or increase the amount of funds:

The primary anticipated reduction events are the ongoing forecast increases in the cost of healthcare. The below chart indicates the actuarial projected increases in costs for the medical and prescription drugs of the plan. These increased costs represent a total increase of \$362 million over the next four years, requiring an average of \$90 million a year in either increased premiums or benefit reductions.

	FY 2019	FY 2020	FY 2021	FY 2022
Medical Trend	8.0%	9.5%	9.0%	9.5%
Rx Trend	12.0%	12.5%	13.0%	13.5%

5. Total amount of benefit payments paid for the month:

	PEIA	RHBT	Total
April 2018	\$60,449,000	\$6,852,000	\$67,301,000

Sincerely,



Jason A. Haught, CPA
Chief Financial Officer

West Virginia Retiree Health Benefit Trust Fund
STATEMENT OF CHANGES IN PLAN NET POSITION
For the Twelve Months Ending Saturday, June 30, 2018
In Thousands
Preliminary

ACTUAL	BUDGET	PRIOR YR	BUDGET VARIANCE	PRIOR YR VARIANCE
			\$ %	\$ %
ADDITIONS				
Employer Premiums:				
	\$ 3,082	\$ 3,310	(\$228)	(7%)
	17,316	18,136	0	0%
	148,837	153,087	(4,250)	(3%)
		148,909		
	30,000	30,000	0	(0%)
				0%
	5,000	5,000	0	(0%)
	0	0	0	0%
	71			
204,235	208,713	205,315	(4,478)	(2%)
			(1,080)	(1%)
Other Additions:				
	1,100	1,200	(100)	(8%)
	67,853	45,243	22,610	50%
273,188	255,156	305,319	18,032	7%
			(32,131)	(11%)
DEDUCTIONS				
	117,059	135,428	34,295	23%
	23,189	22,544	382	2%
	57,332	73,949	16,617	22%
	26,377	34,735	8,358	24%
	8	32	24	74%
	0	184	0	0%
	1,342	1,061	(281)	(27%)
	(68,088)	(71,944)	(3,856)	5%
	(23,227)	(23,919)	(692)	3%
	2,745	4,257	1,512	36%
	0	0	0	0%
136,737	193,096	167,076	56,359	29%
			30,339	18%
NET POSITION INCREASE (DECREASE)				
136,451	62,060	138,243	74,391	120%
			(1,792)	(1%)
Net Position Restricted for Post Employment Benefits				
	823,911	823,911	0	0%
		685,668		
			138,243	20%
End of Period Total Net Position				
\$960,362	\$885,971	\$823,911	\$74,391	8%
			\$136,451	17%

	ACTIONAL	BUDGET	PRIOR YR		BUDGET VARIANCE	PRIOR YR VARIANCE
					\$	%
OPERATING REVENUE						
Premium Revenue						
Health Insurance - State Gov. - Employers					(\$16,579)	(4%)
Health Insurance - State Gov. - Employees					(2,981)	(2%)
Health Insurance - Local Gov. - All					7,163	8%
Administrative Fees, Net of Refunds					(512)	(10%)
Other Premium Revenue					630	38%
Total Operating Revenue	608,084	620,363	622,724		(12,279)	(2%)
NON-OPERATING REVENUE						
Life Insurance	1,359	1,319	1,261		40	3%
Direct Transfer	10,000	10,000	10,000		0	0%
Interest and Investment Income	7,525	6,051	12,808		1,474	24%
WV RHBT Pay Go Premiums	0	153,087	0		(153,087)	(100%)
Total Non-Operating Revenue	18,884	170,457	24,069		(151,573)	(89%)
TOTAL REVENUE	626,968	790,820	646,793		(163,852)	(21%)
EXPENSES						
Claims Expense - Medical	393,220	434,581	396,168		41,361	10%
Claims Expense - Drugs	133,192	135,019	138,549		1,827	1%
Payments to Managed Care Org.	43,220	44,297	41,700		1,077	2%
Administrative Service Fees	11,222	8,879	10,542		(2,343)	(26%)
Wellness and Disease Management	949	1,457	1,520		508	35%
Other Operating Expenses	4,789	3,136	3,371		(1,653)	(53%)
Life Insurance Expense	1,237	1,319	1,261		82	6%
ACA Comparative Effectiveness Fee	379	323	655		(56)	(17%)
ACA Reinsurance Contribution	0	0	2,111		0	0%
WV RHBT Pay Go Premiums	0	153,087	0		153,087	100%
TOTAL EXPENSES	588,208	782,098	595,877		193,890	25%
YTD Surplus (Deficit)	38,760	8,722	50,916		30,038	344%
Total Net Position, Beginning of Period	149,044	149,044	98,130			0%
Total Net Position, End of Period	\$187,804	\$157,766	\$149,046		\$30,038	19%

**West Virginia Board of Risk and Insurance Management
UNAUDITED BALANCE SHEET AND INCOME STATEMENT
For the Month Ending July 31, 2018**

Talking Points for September 2018 Interim Joint Committee Meeting

1. **Premium Revenue** reflects the premiums earned for the first month of the fiscal year.
2. **Claims Expense** reflects claims payments made thru July. The total claims payments made for the first month of this year are higher when compared to the same month a year ago. Actual claims payments can vary considerably from month to month.
3. **Investment Income** for fiscal year 2018 reflects net positive returns but lower than the same month last year.
4. BRIM has no un-funded liability and continues to pursue pro-active loss control initiatives.

West Virginia Board of Risk and Insurance Management

Statements of Net Position

For the One Month Ended July 31st

	2018	2017
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 32,719	\$ 31,506
Advance deposits with insurance company and trustee	195,202	190,645
Receivables	8,591	8,392
Prepaid insurance	1,016	1,040
Restricted cash and cash equivalents	13,699	10,286
Premiums due from other entities	878	643
Total current assets	252,105	242,511
Noncurrent assets:		
Equity position in internal investments pools	96,980	92,800
Restricted investments	56,006	53,592
Total noncurrent assets	152,986	146,391
Total assets	405,091	388,902
Deferred Outflows of Resources	438	458
Liabilities		
Current liabilities:		
Estimated unpaid claims and claims adjustment expense	50,453	47,713
Unearned premiums	15,506	14,624
Agent commissions payable	1,516	1,369
Claims Payable	1	-
Accrued expenses and other liabilities	1,140	2,443
Total current liabilities	68,616	66,149
Estimated unpaid claims and claims adjustment expense net of current portion	116,848	117,506
Compensated absences	122	107
Net pension liability	331	766
Total noncurrent liabilities	117,301	118,379
Total liabilities	185,917	184,528
Deferred Inflows of Resources	330	37
Net position:		
Restricted by State code for mine subsidence coverage	61,063	61,063
Unrestricted	155,592	138,265
Net Assets (Deficiency)	2,627	5,466
Net position	\$ 219,282	\$ 204,794

Unaudited

West Virginia Board of Risk and Insurance Management

Statements of Revenues, Expenses, and Changes in Net Position

For the One Month Ended July 31st

	2018	2017
	<i>(In Thousands)</i>	
Operating revenues		
Premiums	\$ 6,773	\$ 6,671
Less coverage/reinsurance programs	(115)	(528)
Net operating revenues	6,658	6,144
Operating expenses		
Claims and claims adjustment expense	4,819	3,436
General and administrative	346	343
Total operating expenses	5,165	3,779
Operating income (loss)	1,493	2,365
Nonoperating revenues		
Investment income	1,134	3,102
Net nonoperating revenues	1,134	3,102
Changes in net position	2,627	5,466
Total net position, beginning of year	216,655	199,328
Total net position, end of period	\$ 219,282	\$ 204,794

Unaudited

Department of Administration Real Estate Division Leasing Report

For the period of June 1 - 30, 2018

There is a total of 17 leasing changes for this period and they are as follows:

- 2 – New Contract of Lease – DOA OWNED
- 7 – Straight Renewal – DOA OWNED
- 4 – Straight Renewal
- 1 – Renewal with Increase in Rent
- 1 – Renewal with Decrease in Square Feet – DOA OWNED
- 1 – Renewal with Increase in Square Feet – DOA OWNED
- 1 – Cancellation

Department of Administration Real Estate Division Leasing Report
For the period of June 1, 2018 through June 30, 2018

NEW CONTRACT OF LEASE – DOA OWNED

DIVISION OF PROTECTIVE SERVICES

DPS-003 New Contract of Lease for 4 years consisting of 3,937 square feet of office space at the annual per square foot rate of \$7.10 (1ST year), \$8.17 (2ND year), \$9.39 (3rd year) \$10.80 (4th year), annual cost \$27,952.70 (1st year), \$32,165.29 (2nd year), \$36,968.43 (3rd year), \$42,519.60 (4th year), full service, Capitol Complex Building #4, 112 California Avenue, in the City of Charleston, Kanawha County, West Virginia.

GENERAL SERVICES DIVISION

GSD-016 New Contract of Lease for 2 months consisting of 12,856 square feet of office space at the annual per square foot rate of \$11.00, annual cost \$141,416.00, full service, Capitol Complex Building #4, 112 California Avenue, in the City of Charleston, Kanawha County, West Virginia.

STRAIGHT RENEWAL – DOA OWNED

DIVISION OF REHABILITATION SERVICES

DRS-082 Renewal for 3 years consisting of 7,832 square feet of office space at the current annual per square foot rate of \$17.00, annual cost \$133,143.96, 2699 Park Avenue, Building #32 in the City of Huntington, Cabell County, West Virginia.

DIVISION OF MOTOR VEHICLES

DMV-050-SUB Renewal for 1 year consisting of 6,099 square feet of office space at the current annual per square foot rate of \$17.00, annual cost \$103,683.00, full service, 100 Municipal Plaza, in the City of Weirton, Hancock County, West Virginia.

FLEET MANAGEMENT OFFICE

FMO-001-619 Renewal for 1 year consisting of 1,944 square feet of office space at the current annual per square foot rate of \$11.00, annual cost \$21,384.00, full service, Capitol Complex Building #17, 2101 Washington Street, East, in the City of Charleston, Kanawha County, West Virginia.

DEPARTMENT OF ADMINISTRATION

DOA-002-621 Renewal for 3 years consisting of 3,939 square feet of office space at the current annual per square foot rate of \$10.72, annual cost \$42,226.08, full service, Capitol Complex Building #1, 1900 Kanawha Boulevard, East, in the City of Charleston, Kanawha County, West Virginia.

STRAIGHT RENEWAL – DOA OWNED - CONTINUED

WORKFORCE WEST VIRGINIA

WWV-004-619 Renewal for 1 year consisting of 10,089 square feet of office space at the current annual per square foot rate of \$17.00, annual cost \$171,513.00, full service, 2699 Park Avenue, in the City of Huntington, Cabell County, West Virginia.

WWV-036-SUB Renewal for 1 year consisting of 6,255 square feet of office space at the current annual per square foot rate of \$19.00, annual cost \$118,845.00, full service, 416 Adams Street, in the City of Fairmont, Marion County, West Virginia.

GENERAL SERVICES DIVISION

GSD-009-619 Renewal for 1 year consisting of 3,296 square feet of office space at the current annual per square foot rate of \$9.73, annual cost \$32,070.08, full service, Capitol Complex Building #7, 1900 Kanawha Boulevard, East, in the City of Charleston, Kanawha County, West Virginia.

STRAIGHT RENEWAL

DEPARTMENT OF ENVIRONMENTAL PROTECTION

DEP-085 Renewal for 1 year consisting of 2,587 square feet of office space at the current annual per square foot rate of \$12.00, annual cost \$31,044.00, full service, 2311 Ohio Avenue, in the City of Parkersburg, Wood County, West Virginia.

DEPARTMENT OF HEALTH AND HUMAN RESOURCES

HHR-159 Renewal for 3 years consisting of 1,298 square feet of office space at the current annual per square foot rate of \$5.55, annual cost \$7,203.96, 210 Main Street, in the City of Middlebourne, Tyler County, West Virginia.

BOARD OF RESPIRATORY CARE

BRC-001 Renewal for 18 months, consisting of 1,200 square feet of office space at the current annual per square foot rate of \$13.25, annual cost \$15,900.00, full service, 106 Dee Drive, in the City of Charleston, Kanawha County, West Virginia.

WORKFORCE WEST VIRGINIA

WWV-035-723 Renewal for 5 years consisting of 2,640 square feet of storage space at the current annual per square foot rate of \$5.00, annual cost \$13,200.00, full service, 1339 Lewis Street, in the City of Charleston, Kanawha County, West Virginia.

RENEWAL WITH INCREASE IN RENT

DIVISION OF JUVENILE SERVICES

DJS-024 Renewal for 3 years consisting of 3,000 square feet of office/classroom space with an increase in the annual per square foot rate from \$13.00 to \$13.50, annual cost \$40,500.00, 1186 North Mildred Street, in the City of Ranson, Jefferson County, West Virginia.

RENEWAL WITH DECREASE IN SQUARE FEET – DOA OWNED

GENERAL SERVICES DIVISION

GSD-015-621 Renewal for 3 years with a decrease of square feet from 1,026 square feet to 258 square feet of office space at the current annual per square foot rate of \$12.00, annual cost \$3,096.00, full service, 1124 Smith Street, in the City of Charleston, Kanawha County, West Virginia.

RENEWAL WITH INCREASE IN SQUARE FEET – DOA OWNED

WORKFORCE WEST VIRGINIA

WWV-008-SUB Renewal for 1 year with an increase of square feet from 3,537 square feet to 4,008 square feet of office space at the current annual per square foot rate of \$17.00, annual cost \$68,136.00, full service, 100 Municipal Plaza, in the City of Weirton, Hancock County, West Virginia.

CANCELLATION

WORKFORCE WEST VIRGINIA

WWV-040-SUB Lease cancellation consisting of 471 square feet of office space, at the annual per square foot rate of \$13.00 annual cost \$6,123.00, full service, 100 Municipal Plaza, in the City of Weirton, Hancock County, West Virginia.

Real Estate Division
Monthly Summary of Lease Activity
June 1 - 30, 2018

# of Transactions	Agency	Lease #	County	Square Feet	Rental Rate	Annual Rent	Term in years	Total Aggregate
1	Division of Protective Services	DPS-003	Kanawha	3,937	7.10	27,953	1	27,953
	Division of Protective Services	DPS-003	Kanawha	3,937	8.17	32,165	1	32,165
	Division of Protective Services	DPS-003	Kanawha	3,937	9.39	36,968	1	36,968
	Division of Protective Services	DPS-003	Kanawha	3,937	10.80	42,520	1	42,520
2	General Services Division	GSD-016	Kanawha	12,856	11.00	141,416	0.1666	23,560
3	Division of Rehabilitation Services	DRS-082	Cabell	7,832	17.00	133,144	3	399,432
4	Division of Motor Vehicles	DMV-050	Hancock	6,099	17.00	103,683	1	103,683
5	Fleet Management Office	FMO-001	Kanawha	1,944	11.00	21,384	1	21,384
6	Department of Administration	DOA-002	Kanawha	3,939	10.72	42,226	3	126,678
7	Workforce West Virginia	WWV004	Cabell	10,089	17.00	171,513	1	171,513
8	Workforce West Virginia	WWV-036	Marion	6,255	19.00	118,845	1	118,845
9	General Services Division	GSD-009	Kanawha	3,296	9.73	32,070	1	32,070
10	Department of Environmental Protection	DEP-085	Wood	2,587	12.00	31,044	1	31,044
11	Department of Health and Human Resources	HHR-159	Tyler	1,298	5.55	7,204	3	21,612
12	Board of Respiratory	BRC-001	Kanawha	1,200	13.25	15,900	1.5	23,850
13	Workforce West Virginia	WWV-035	Kanawha	2,640	5.00	13,200	5	66,000
14	Division of Juvenile Services	DJS-024	Jefferson	3,000	13.50	40,500	3	121,500
15	General Services Division	GSD-015	Kanawha	258	12.00	3,096	3	9,288
16	Workforce West Virginia	WWV-008	Hancock	4,008	17.00	68,136	1	68,136

226.21
Total Rentable Square Feet 83,049
Average Annual Rental Rate 11.91
Total Annual Rent 1,082,967

CANCELLATIONS

# of Transactions	Agency	Lease #	County	Square Feet	Rental Rate	Annual Rent
1	Workforce West Virginia	WWV-040	Hancock	471	13.00	6,123

Total Rentable Square Feet 471
Total Annual Rent 6,123

Department of Administration Real Estate Division Leasing Report
For the period of July 1 - 31, 2018

There is a total of 24 leasing changes for this period and they are as follows:

- 2 – New Contract of Lease
- 5 – Straight Renewal – DOA OWNED
- 5 – Straight Renewal
- 1 – Renewal with Increase in Rent
- 1 – Renewal with Decrease in Square Feet – DOA OWNED
- 1 – Renewal with Increase in Square Feet – DOA OWNED
- 2 – Renewal with Increase in Rent and Square Feet
- 2 – Reassignment of Tower Leases
- 5 – Cancellation

Department of Administration Real Estate Division Leasing Report

For the period of July 1, 2018 through July 31, 2018

NEW CONTRACT OF LEASE

STATE ATHLETIC COMMISSION

SAC-001 New Contract of Lease for 5 years consisting of 365 square feet of office space at the annual per square foot rate of \$12.50, annual cost \$4,563.52, full service, 900 Pennsylvania Avenue, in the City of Charleston, Kanawha County.

DIVISION OF FORESTRY

FOR-093-619 New Contract of Lease for 1 year consisting of 213 square feet of office space at the annual per square foot rate of \$14.00, annual cost \$2,982.00, full service, 87 Ollie Lane, in the City of Mount Clare, Harrison County, West Virginia.

STRAIGHT RENEWAL – DOA OWNED

WEST VIRGINIA OFFICE OF TECHNOLOGY

OOT-005 (Previously F&A-029) Renewal for 3 years consisting of 3,842 square feet of office space at the current annual per square foot rate of \$9.73, annual cost \$37,382.66, full service, Capitol Complex, Building #7, 1900 Kanawha Boulevard East, in the City of Charleston, Kanawha County, West Virginia.

OOT-004 (Previously F&A-026) Renewal for 3 years consisting of 3,043 square feet of office at the current annual per square foot rate of \$11.00, annual cost \$33,473.00, full service, 311 Jefferson Road, Building #33, in the City of Charleston, Kanawha County, West Virginia.

WEST VIRGINIA LOTTERY COMMISSION

LOT-009 Renewal for 1 year consisting of 3,003 square feet of office/storage space at the current annual per square foot rate of \$17.00, annual cost \$51,051.00, full service, Building #34, 100 Municipal Plaza, in the City of Weirton, Hancock County, West Virginia.

OFFICES OF THE INSURANCE COMMISSIONER

INS-021 Renewal for 1 year consisting of 1,201 square feet of office/storage space at the current annual per square foot rate of \$17.00, annual cost \$20,417.00, full service, Building #32, 2699 Park Avenue, in the City of Huntington, Cabell County, West Virginia.

DIVISION OF NATURAL RESOURCES

NAT-131-619 Renewal for 1 year consisting of 35,460 square feet of office space at the current annual per square foot rate of \$11.00, annual cost \$390,060.00, full service, 318-324 Fourth Avenue, in the City of South Charleston, Kanawha County, West Virginia.

STRAIGHT RENEWAL

WEST VIRGINIA STATE POLICE

PSA-070 Renewal for 2 years consisting of tower/monitoring space at the current monthly rate of \$125.00, annual cost \$1,500.00, Morton Hill/Lane, in the Cross Creek District, Brooke County, West Virginia.

OFFICES OF THE INSURANCE COMMISSIONER

INS-035 Renewal for 5 years consisting of 8,045 square feet of office and storage space at the current annual per square foot rate of \$12.50, annual cost \$100,562.50, full service, 900 Pennsylvania Avenue, in the City of Charleston, Kanawha County, West Virginia.

INS-034 Renewal for 5 years consisting of 37,241 square feet of office and storage space at the current annual per square foot rate of \$12.50, annual cost \$465,512.50, full service, 900 Pennsylvania Avenue, in the City of Charleston, Kanawha County, West Virginia.

WEST VIRGINIA LOTTERY COMMISSION

LOT-005 Renewal for 2 years consisting of 386 square feet of office space at the current annual per square foot rate of \$6.56, annual cost \$2,532.12, full service, Mountaineer Casino Racetrack and Resort, Route 2 South, in Hancock County, West Virginia.

DIVISION OF NATURAL RESOURCES

NAT-132-918 Renewal for 2 months consisting of 60 square feet of storage space at the current monthly rate of \$101.00, annual cost \$1,212.00, full service, 200 Piedmont Road, in the City of Charleston, Kanawha County, West Virginia.

RENEWAL WITH INCREASE IN RENT

WORKFORCE WEST VIRGINIA

WWV-042-820 Renewal for 2 years consisting of 7,210 square feet of office space with an increase in the annual per square foot rate from \$10.98 to \$11.08, annual cost \$79,886.80, 300 Lakeview Center, in the City of Parkersburg, Wood County, West Virginia.

RENEWAL WITH DECREASE IN SQUARE FEET – DOA OWNED

DEPARTMENT OF REVENUE

REV-001 Renewal for 1 year with a decrease of square feet from 3,391 square feet to 3,103 square feet of office space (removal of Room 319) at the current annual per square foot rate of \$10.72, annual cost \$33,264.00, full service, 1900 Kanawha Boulevard, East, Building #1, in the City of Charleston, Kanawha County, West Virginia.

RENEWAL WITH INCREASE IN SQUARE FEET – DOA OWNED

DEPARTMENT OF REVENUE

REV-030 Renewal for 1 year with an increase of square feet from 4,722 square feet to 5,010 square feet of office space (addition of Room 319) at the current annual per square foot rate of \$10.72, annual cost \$53,707.20, full service, 1900 Kanawha Boulevard, East, Building #1, in the City of Charleston, Kanawha County, West Virginia.

RENEWAL WITH INCREASE IN RENT AND SQUARE FEET

WORKFORCE WEST VIRGINIA

WWV-009-623 Renewal for 5 years with an increase of square feet from 29,164 square feet to 31,209 square feet of office space and an increase in the annual per square foot rate of from \$13.25 to \$29.37, cost \$76,384.02, for the first month, then a decrease to \$16.68, annual cost \$520,565.88, for months 2-13, then reverts to the base rent of \$13.99, annual cost \$436,613.91, for months 14 through 60, full service, 1321 Plaza East, in the City of Charleston, Kanawha County, West Virginia.

DIVISION OF MOTOR VEHICLES

DMV-053-229 Renewal for 10 years with an increase of square feet from 62,491 square feet to 63,736 square feet of office, retail and storage space and an increase in the annual per square foot rate of from \$13.70 to \$14.20 for years 1-5, annual cost \$905,051.20, and \$14.20 to \$14.70 for years 6-10, provided the parking lot is completely resurfaced, annual cost \$936,919.20, 5707 MacCorkle Avenue, in the City of Charleston, Kanawha County, West Virginia.

REASSIGNMENT OF TOWER LEASES

DEPARTMENT OF HEALTH AND HUMAN RESOURCES

DHS-158 Lease reassignment from Department of Health and Human Resources to Division of Homeland Security and Emergency Management, consisting of tower/monitoring space, at the monthly rate of \$800.00, annual cost \$9,600.00, 235 Craig Road, in the City of Wayne, Wayne County, West Virginia.

HHR-237 Lease reassignment from Department of Health and Human Resources to Division of Homeland Security and Emergency Management, consisting of tower/monitoring space, at the annual cost \$1,500.00, 235 Ward Rock Mountain, in the City of Logan, Logan County, West Virginia.

CANCELLATION

DIVISION OF REHABILITATION

DRS-098 Lease cancellation consisting of 3,600 square feet of office space, at the annual per square foot rate of \$15.87, annual cost \$57,132.00, 9001 A Fayette Landings, in the City of Oak Hill, Fayette County, West Virginia.

CANCELLATION - CONTINUED

DEPARTMENT OF HEALTH AND HUMAN RESOURCES

HHR-217 Lease cancellation consisting of 4,575 square feet of office/tower/monitoring space, at the annual per square foot rate of \$14.00, annual cost \$64,050.00, full service, 190 Hart Field Road, in the City of Morgantown, Monongalia County, West Virginia.

DEPARTMENT OF VETERANS ASSISTANCE

VET-008 Lease cancellation consisting of 405 square feet of office space, at the annual per square foot rate of \$8.59, annual cost \$3,480.00, full service, 51 Eleventh Street, in the City of Wheeling, Ohio County, West Virginia.

VET-014 Lease cancellation consisting of 578 square feet of office space, at the annual per square foot rate of \$10.38, annual cost \$6,000.00, full service, 90 Howard Street, in the City of Welch, McDowell County, West Virginia.

VET-040 Lease cancellation consisting of 360 square feet of office space, at the annual per square foot rate of \$15.49, annual cost \$5,575.00, full service, 99 Everlasting Lane, in the City of Morgantown, Monongalia County, West Virginia.

Real Estate Division
Monthly Summary of Lease Activity
July 1 - 31, 2018

# of Transactions	Agency	Lease #	County	Square Feet	Rental Rate	Annual Rent	Term in years	Total Aggregate
1	State Athletic Commission	SAC-001	Kanawha	365	12.50	4,563	5	22,813
2	Division of Forestry	FOR-093	Harrison	213	14.00	2,982	1	2,982
3	West Virginia Office of Technology	OOT-005	Kanawha	3,842	9.73	37,383	3	112,148
4	West Virginia Office of Technology	OOT-004	Kanawha	3,043	11.00	33,473	3	100,419
5	West Virginia Lottery Commission	LOT-009	Hancock	3,003	17.00	51,051	1	51,051
6	Offices of the Insurance Commissioner	INS-021	Cabell	1,201	17.00	20,417	1	20,417
7	Division of Natural Resources	NAT-131	Kanawha	35,460	11.00	390,060	1	390,060
8	West Virginia State Police	PSA-070	Brooke			1,500	2	3,000
9	Offices of the Insurance Commissioner	INS-035	Kanawha	8,045	12.50	100,563	5	502,813
10	Offices of the Insurance Commissioner	INS-034	Kanawha	37,241	12.50	465,513	5	2,327,563 *
11	West Virginia Lottery Commission	LOT-005	Hancock	386	6.56	2,532	2	5,064
12	Division of Natural Resources	NAT-132	Kanawha	60	0.00	1,212	0.16666	202
13	Workforce West Virginia	WWV-042	Wood	7,210	11.08	79,887	2	159,774
14	Department of Revenue	REV-001	Kanawha	3,103	10.72	33,264	1	33,264
15	Department of Revenue	REV-030	Kanawha	5,010	10.72	53,707	1	53,707
16	Workforce West Virginia	WWV-009	Kanawha	31,209	29.37	916,608	0.08333	76,384
	Workforce West Virginia	WWV-009	Kanawha	31,209	16.68	520,566	1	520,566
	Workforce West Virginia	WWV-009	Kanawha	31,209	13.99	436,614	1.96666	858,671
17	Division of Motor Vehicles	DMV-053	Kanawha	63,736	14.20	905,051	5	4,525,256 *
	Division of Motor Vehicles	DMV-053	Kanawha	63,736	14.70	936,919	5	4,684,596 *
18	Department of Health and Human Resources	DHS-158	Wayne			9,600	2	19,200
19	Department of Health and Human Resources	HHR-237	Logan			1,500	17	25,500

245.25
Total Rentable Square Feet 329,281
Average Annual Rental Rate 13.63
Total Annual Rent 5,004,964

*Indicates the total will be over \$1,000,000.00 during the term of the lease.

CANCELLATIONS

# of Transactions	Agency	Lease #	County	Square Feet	Rental Rate	Annual Rent
1	Department of Veterans Assistance	VET-014	McDowell	578	10.38	6,000
2	Department of Veterans Assistance	VET-040	Monongalia	360	15.49	5,575
3	Department of Veterans Assistance	VET-008	Ohio	405	8.59	3,480
4	Division of Rehabilitation Services	DRS-098	Fayette	3,600	15.87	57,132
5	Department of Health and Human Resources	HHR-217	Monongalia	4,575	14.00	64,050

Total Rentable Square Feet 9,518
Total Annual Rent 136,237

Department of Administration Real Estate Division Leasing Report
For the period of August 1 - 31, 2018

There is a total of 17 leasing changes for this period and they are as follows:

- 1 – New Contract of Lease
- 4 – Straight Renewal – DOA OWNED
- 8 – Straight Renewal
- 1 – Renewal with Increase in Rent
- 1 – Renewal with Increase in Square Feet
- 2 – Cancellation

Department of Administration Real Estate Division Leasing Report
For the period of August 1, 2018 through August 31, 2018

NEW CONTRACT OF LEASE

DIVISION OF FORESTRY

FOR-094 New Contract of Lease for 1 year consisting of 156 square feet of office space at the annual per square foot rate of \$19.23, annual cost \$3,000.00, full service, 89 Richard D. Minnich Drive, in the City of Sutton, Braxton County, West Virginia.

STRAIGHT RENEWAL – DOA OWNED

GENERAL SERVICES DIVISION

GSD-005 Renewal for 1 year consisting of 2,574 square feet of office space at the current annual per square foot rate of \$11.00, annual cost \$28,314.00, full service, Building #33, 311 Jefferson Street, in the City of Charleston, Kanawha County, West Virginia.

GSD-016 Renewal for 3 years consisting of 11,424 square feet of office space at the current annual per square foot rate of \$11.00, annual cost \$125,664.00, full service, Building #4, 112 California Avenue, in the City of Charleston, Kanawha County, West Virginia.

WORKFORCE WEST VIRGINIA

WWV-008 Renewal for 1 year consisting of 4,008 square feet of office space at the current annual per square foot rate of \$17.00, annual cost \$68,136.00, full service, Building #34, 100 Municipal Plaza, in the City of Weirton, Hancock County, West Virginia.

DEPARTMENT OF HEALTH AND HUMAN RESOURCES

HHR-206 Renewal for 1 years consisting of 79,227 square feet of office space at the current annual per square foot rate of \$11.00, annual cost \$871,497.00, full service, Building #36, One Davis Square, in the City of Charleston, Kanawha County, West Virginia.

STRAIGHT RENEWAL

DIVISION OF CORRECTIONS AND REHABILITATION

COR-030 Renewal for 1 year consisting of 1,532 square feet of office space at the current annual per square foot rate of \$10.94, annual cost \$16,760.08, full service, 1025 Main Street, in the City of Wheeling, Ohio County, West Virginia.

DIVISION OF NATURAL RESOURCES

NAT-112 Renewal for 3 months consisting of 1,000 square feet of office and storage space at the current annual per square foot rate of \$8.20, annual cost \$8,200.00, full service, 1200 Harrison Avenue, in the City of Elkins, Randolph County, West Virginia.

STRAIGHT RENEWAL - CONTINUED

DEPARTMENT OF AGRICULTURE

AGR-054 Renewal for 1 year consisting of 1,200 square feet of office space at the current annual per square foot rate of \$6.00, annual cost \$7,200.00, 408 Jones Avenue, in the City of Oak Hill, Fayette County, West Virginia.

GENERAL SERVICES DIVISION

GSD-010 Renewal for 1 year consisting of 158 parking spaces at the current rate of \$25.00 per space, annual cost \$47,400.00, full service, 405 Adams Street, in the City of Fairmont, Marion County, West Virginia.

WORKFORCE WEST VIRGINIA

WWV-017 Renewal for 1 year consisting of 224 square feet of office space at the current annual per square foot rate of \$40.18, annual cost \$9,000.00, full service, 404 Main Street, in the City of Point Pleasant, Mason County, West Virginia.

DEPARTMENT OF AGRICULTURE

AGR-046 Renewal for 2 months consisting of 900 square feet of office space at the current annual per square foot rate of \$12.00, annual cost \$10,800.00, 3453 University Avenue, in the City of Star City, Monongalia County, West Virginia.

DEPARTMENT OF VETERANS ASSISTANCE

VET-001 Renewal for 1 year consisting of 332 square feet of office space at the current annual per square foot rate of \$5.20, annual cost \$1,728.00, full service, Main Street Courthouse, in the City of Summersville, Nicholas County, West Virginia.

OFFICES OF THE INSURANCE COMMISSIONER

INS-026 Renewal for 2 years consisting of 6,238 square feet of office space at the current annual per square foot rate of \$14.17, annual cost \$88,392.46, full service, 1207 Quarrier Street, in the City of Charleston, Kanawha County, West Virginia.

RENEWAL WITH INCREASE IN RENT

DEPARTMENT OF VETERANS ASSISTANCE

VET-033 Renewal for 2 years consisting of 700 square feet of office space with an increase in the annual per square foot rate from \$15.99 to \$16.31, annual cost \$11,417.00, full service, 115-16 Aikens center, in the City of Martinsburg, Berkeley County, West Virginia.

RENEWAL WITH INCREASE IN SQUARE FEET

DIVISION OF NATURAL RESOURCES

NAT-102 Renewal for 3 years and 3 months with an increase of square feet from 241 square feet to 341 square feet of office space at the current annual per square foot rate of \$12.00, annual cost \$4,092.00, full service, 145 Pilgrim Street, in the City of Inwood, Berkeley County, West Virginia.

CANCELLATION

DIVISION OF NATURAL RESOURCES

NAT-129 Lease cancellation consisting of 165 square feet of office space, at the annual per square foot rate of \$14.55 annual cost \$2,400.00, full service, One Avenue, in the City of Madison, Boone County, West Virginia.

NAT-112 Lease cancellation consisting of 1,000 square feet of office and storage space at the current annual per square foot rate of \$8.20, annual cost \$8,200.00, full service, 1200 Harrison Avenue, in the City of Elkins, Randolph County, West Virginia.

Real Estate Division
Monthly Summary of Lease Activity
August 1 - 31, 2018

# of Transactions	Agency	Lease #	County	Square Feet	Rental Rate	Annual Rent	Term in years	Total Aggregate
1	Division of Forestry	FOR-094	Braxton	156	19.23	3,000	1	3,000
2	General Services Division	GSD-005	Kanawha	2,574	11.00	28,314	1	28,314
3	General Services Division	GSD-016	Kanawha	11,424	11.00	125,664	3	376,992
4	Workforce West Virginia	WWV-008	Hancock	4,008	17.00	68,136	1	68,136
5	Department of Health and Human Resources	HHR-206	Kanawha	79,227	11.00	871,497	1	871,497
6	Division of Corrections and Rehabilitation	COR-030	Ohio	1,532	10.94	16,760	1	16,760
7	Division of Natural Resources	NAT-112	Randolph	1,000	8.20	8,200	0.25	2,050
8	Department of Agriculture	AGR-054	Fayette	1,200	6.00	7,200	1	7,200
9	General Services Division	GSD-010	Marion	158	25.00	47,400	1	47,400
10	Workforce West Virginia	WWV-017	Mason	224	40.18	9,000	1	9,000
11	Department of Agriculture	AGR-046	Monongalia	900	12.00	1,212	0.16666	202
12	Department of Veterans Assistance	VET-001	Nicholas	332	5.20	1,727	1	1,727
13	Offices of the Insurance Commissioner	INS-026	Kanawha	6,238	14.17	88,392	2	176,785
14	Department of Veterans Assistance	VET-033	Berkeley	700	16.31	11,417	2	22,834
15	Division of Natural Resources	NAT-102	Berkeley	341	12.00	4,092	3.25	13,299

219.23

Total Rentable Square Feet 110,014

Average Annual Rental Rate 14.62

Total Annual Rent 1,292,011

CANCELLATIONS

# of Transactions	Agency	Lease #	County	Square Feet	Rental Rate	Annual Rent
1	Division of Natural Resources	NAT-129	Boone	165	14.55	2,401
2	Division of Natural Resources	NAT-112	Randolph	1,000	8.20	8,200

Total Rentable Square Feet 1,165

Total Annual Rent 10,601

Joint Committee on Government and Finance

September 2018

Department of Health and Human Resources

MEDICAID REPORT
June 2018 Data

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES
BUREAU FOR MEDICAL SERVICES
EXPENDITURES BY PROVIDER TYPE
SFY2018

MONTH OF JUNE 2018

EXPENDITURES:

	ACTUALS	TOTAL	ACTUALS	ESTIMATE	ACTUALS	Difference
	SFY2017	SFY2018	Current Month Ended 06/30/18	Current Month Ended 06/30/18	Year To-Date Thru 6/30/18	Budget vs 06/30/18
Inpatient Hospital - Reg. Payments	141,892,118	79,122,814	7,741,225	5,867,180	92,090,458	(12,967,644)
Inpatient Hospital - DSH	54,140,231	54,000,000	-	4,485,699	53,388,507	611,493
Inpatient Hospital - Supplemental Payments	109,348,510	13,443,469	-	1,200,229	18,315,895	(4,872,426)
Inpatient Hospital - GME Payments	8,211,278	5,543,536	-	158,715	9,637,536	(4,094,000)
Mental Health Facilities	57,563,254	41,802,957	2,174,824	3,438,119	41,029,150	773,807
Mental Health Facilities - DSH Adjustment Payments	18,878,878	19,000,000	-	1,594,706	18,875,284	124,716
Nursing Facility Services - Regular Payments ⁽¹⁾	642,716,564	668,129,443	55,846,478	54,850,685	671,174,433	(3,044,989)
Nursing Facility Services - Supplemental Payments	-	-	-	-	-	-
Intermediate Care Facilities - Public Providers	-	-	-	-	-	-
Intermediate Care Facilities - Private Providers	68,638,994	72,429,100	5,403,407	6,218,939	68,595,148	3,833,952
Intermediate Care Facilities - Supplemental Payments	-	-	-	-	-	-
Physicians Services - Regular Payments	72,513,494	40,593,136	2,756,866	3,681,071	39,101,453	1,491,682
Physicians Services - Supplemental Payments	22,615,437	2,780,376	-	(410,145)	5,241,246	(2,460,870)
Physician and Surgical Services - Evaluation and Management	3,028	2,400	-	385	93	2,307
Physician and Surgical Services - Vaccine Codes	-	-	-	-	-	-
Outpatient Hospital Services - Regular Payments	72,863,760	40,439,473	3,589,977	3,521,634	41,747,845	(1,308,371)
Outpatient Hospital Services - Supplemental Payments	217,795,914	26,776,155	-	942,083	21,123,658	5,652,497
Prescribed Drugs	208,527,799	874,100,228	51,830,044	99,260,791	620,330,421	253,769,807
Drug Rebate Offset - National Agreement	(183,668,526)	(361,441,697)	(15,186,822)	(50,214,796)	(208,692,503)	(152,749,194)
Drug Rebate Offset - State Sidebar Agreement	(7,530,775)	(19,598,573)	(733,207)	(2,768,831)	(15,373,691)	(4,224,882)
Drug Rebate Offset - MCO National	(236,294,808)	(60,753,263)	(1,290,127)	11,237,357	(149,026,953)	88,273,690
Drug Rebate Offset - MCO State Sidebar Agreement	(10,567,359)	(2,009,216)	(44,646)	1,435,675	(11,602,820)	9,593,603
Dental Services	13,832,447	11,544,365	706,977	993,592	10,667,057	877,308
Other Practitioners Services - Regular Payments	6,492,548	4,336,150	209,869	386,730	4,115,407	220,742
Other Practitioners Services - Supplemental Payments	-	-	-	-	-	-
Clinic Services	2,024,001	1,454,644	110,522	113,207	1,514,502	(59,858)
Lab & Radiological Services	14,824,783	8,032,059	630,701	624,608	8,977,073	(945,014)
Home Health Services	34,416,617	19,349,700	1,979,119	1,114,216	25,072,019	(5,722,319)
Hysterectomies/Sterilizations	61,552	43,000	4,720	1,881	55,843	(12,843)
Pregnancy Terminations (2)	326,102	350,700	24,405	31,853	346,043	4,657
EPSDT Services	1,552,044	1,385,662	96,689	108,788	1,411,597	(25,935)
Rural Health Clinic Services	5,544,926	3,073,135	416,241	125,361	4,480,297	(1,407,162)
Medicare Health Insurance Payments - Part A Premiums	18,956,782	19,557,254	1,687,910	1,603,681	20,115,325	(558,071)
Medicare Health Insurance Payments - Part B Premiums	110,218,602	114,952,633	9,493,422	9,468,075	114,914,746	37,887
120% - 134% Of Poverty	8,849,389	9,229,482	755,244	777,350	9,100,320	129,162
135% - 175% Of Poverty	-	-	-	-	-	-
Coinurance And Deductibles	11,080,319	11,635,392	907,168	1,112,254	11,432,888	202,504

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES
BUREAU FOR MEDICAL SERVICES
EXPENDITURES BY PROVIDER TYPE
SFY2018

MONTH OF JUNE 2018

	ACTUALS	TOTAL	ACTUALS	ESTIMATE	ACTUALS	Difference
	SFY2017	SFY2018	Current Month Ended 06/30/18	Current Month Ended 06/30/18	Year To-Date Thru 6/30/18	Budget vs 06/30/18
Medicaid Health Insurance Payments: Managed Care Organizations (MCO)	1,776,593,830	1,755,736,548	238,505,018	172,161,526	1,592,796,041	162,940,507
Medicaid MCO - Evaluation and Management	-	-	-	-	-	-
Medicaid MCO - Vaccine Codes	-	-	-	-	-	-
Medicaid Health Insurance Payments: Prepaid Ambulatory Health Plan	-	-	-	-	-	-
Medicaid Health Insurance Payments: Prepaid Inpatient Health Plan	-	-	-	-	-	-
Medicaid Health Insurance Payments: Group Health Plan Payments	657,626	679,300	65,704	68,266	659,533	19,767
Medicaid Health Insurance Payments: Coinsurance	-	-	-	-	-	-
Medicaid Health Insurance Payments: Other	-	-	-	-	-	-
Home & Community-Based Services (MR/DD)	310,492,734	382,486,200	24,044,069	38,212,295	306,190,101	76,296,099
Home & Community-Based Services (Aged/Disabled)	103,840,769	110,289,297	8,040,415	10,108,687	99,402,919	10,886,378
Home & Community-Based Services (Traumatic Brain Injury)	1,488,193	1,511,600	121,367	125,735	1,500,251	11,349
Home & Community-Based Services (State Plan 1915(i) Only)	-	-	-	-	-	-
Home & Community-Based Services (State Plan 1915(j) Only)	-	-	-	-	-	-
Community Supported Living Services	-	-	-	-	-	-
Programs Of All-Inclusive Care Elderly	-	-	-	-	-	-
Personal Care Services - Regular Payments	73,980,196	79,356,029	5,233,394	7,346,064	69,387,577	9,968,452
Personal Care Services - SDS 1915(j)	-	-	-	-	-	-
Targeted Case Management Services - Com. Case Management	-	-	-	-	-	-
Targeted Case Management Services - State Wide	2,360,158	2,152,607	255,464	99,271	2,768,851	(616,244)
Primary Care Case Management Services	36	-	-	-	-	-
Hospice Benefits ⁽³⁾	26,276,477	24,926,457	2,477,891	1,903,669	28,742,764	(3,816,306)
Emergency Services Undocumented Aliens	496,071	507,245	20,077	4,384	660,126	(152,881)
Federally Qualified Health Center	18,358,792	9,518,587	768,778	793,330	9,865,504	(346,916)
Non-Emergency Medical Transportation	35,431,782	36,856,203	2,809,321	3,272,122	34,192,632	2,663,571
Physical Therapy	1,905,207	1,124,844	83,690	106,011	999,248	125,596
Occupational Therapy	680,426	402,384	44,394	24,093	632,758	(230,375)
Services for Speech, Hearing & Language	478,404	286,408	41,866	19,855	336,441	(50,033)
Prosthetic Devices, Dentures, Eyeglasses	1,463,138	883,770	60,524	73,736	859,918	23,852
Diagnostic Screening & Preventive Services	437,675	225,171	7,524	19,563	169,078	56,093
Nurse Mid-Wife	136,524	146,453	5,699	15,700	112,942	33,511
Emergency Hospital Services	(77)	-	-	-	-	-
Critical Access Hospitals	34,698,879	19,515,585	1,477,513	1,002,907	24,141,480	(4,625,894)
Nurse Practitioner Services	3,220,367	2,024,085	178,077	178,802	2,263,595	(239,510)
School Based Services	12,819,369	12,999,994	310,818	(2,921,395)	34,870,042	(21,870,048)
Rehabilitative Services (Non-School Based)	64,792,629	53,725,474	5,385,846	3,651,326	61,351,913	(7,626,439)
Private Duty Nursing	7,552,577	5,105,500	477,234	361,706	5,533,239	(427,739)
Freestanding Birth Centers	-	-	-	-	-	-
Health Home for Enrollees w Chronic Conditions	263,932	224,565	144,332	(17,790)	883,711	(659,146)
Other Care Services	19,658,448	12,701,841	1,229,756	829,631	15,448,541	(2,746,700)
Less: Recoupments	-	-	(539,007)	91,925	(2,389,998)	2,389,998
NET EXPENDITURES:	3,983,912,063	4,212,690,662	420,360,770	398,492,512	3,819,537,482	393,153,180

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES
BUREAU FOR MEDICAL SERVICES
EXPENDITURES BY PROVIDER TYPE
SFY2018

MONTH OF JUNE 2018

Collections: Third Party Liability (line 9A on CMS-64)
Collections: Probate (line 9B on CMS-64)
Collections: Identified through Fraud & Abuse Effort (line 9C on CMS-64)
Collections: Other (line 9D on CMS-64)

NET EXPENDITURES and CMS-64 ADJUSTMENTS:

Plus: Medicaid Part D Expenditures
Plus: State Only Medicaid Expenditures
Plus: Money Follow the Person Expenditures

TOTAL MEDICAID EXPENDITURES

Plus: Reimbursables ⁽⁴⁾
Plus: NATCEP/PASARR/Eligibility Exams
Plus: HIT Incentive Payments

TOTAL EXPENDITURES

ACTUALS	TOTAL	ACTUALS	ESTIMATE	ACTUALS	Difference
SFY2017	SFY2018	Current Month Ended 06/30/18	Current Month Ended 06/30/18	Year To-Date Thru 6/30/18	Budget vs 06/30/18
(8,663,735)	-	-	-	(4,109,713)	4,109,713
(513,508)	-	-	-	(268,387)	268,387
(338,612)	-	-	-	(182,558)	182,558
(21,817,774)	-	-	-	(12,457,769)	12,457,769
3,952,578,434	4,212,690,662	420,360,770	398,492,512	3,802,519,054	410,171,607
42,112,339	44,357,292	3,542,251	3,722,114	43,197,126	1,160,166
211,494	275,000	12,000	25,386	628,208	(353,208)
1,896,869	2,126,650	189,713	163,010	2,101,617	25,033
\$ 3,996,799,136	\$ 4,259,449,604	\$ 424,104,734	\$ 402,403,022	\$ 3,848,446,006	\$ 411,003,598
3,888,247	-	305,730	-	4,491,826	(4,491,826)
265,071	288,422	36,236	31,764	223,954	64,469
3,894,001	5,000,000	-	604,105	2,131,934	2,868,066
\$ 4,004,846,454	\$ 4,264,738,026	\$ 424,446,700	\$ 403,038,891	\$ 3,855,293,720	\$ 409,444,306

- (1) Of the amount in the 'Nursing Facility Services - Regular Payments' line, \$18,146,977 is the amount paid to State Facilities year to date.
(2) Pregnancy Terminations are State Only expenditures and are not currently claimed.
(3) Of the amount in the 'Hospice Benefits' line, \$28,626,361 is the amount paid to Nursing Facilities for Hospice Benefits year to date.
(4) This amount will revert to State Only if not reimbursed.

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES
BUREAU FOR MEDICAL SERVICES
MEDICAID CASH REPORT
SFY2018

	12 Months Actuals		0 Months Remaining		
MONTH OF JUNE 2018	ACTUALS	ACTUALS	ACTUALS	Difference	TOTAL
	SFY2017	Current Month Ended 6/30/18	Year-To-Date Thru 6/30/18	Budget vs Actual	SFY2018
REVENUE SOURCES					
Beg. Bal. (5084/1020 prior mth)	22,715,798	104,717,263	86,992,634		86,992,634
MATCHING FUNDS					
General Revenue (0403/189)	394,899,115	37,825,591	368,772,081	79,760,000	448,532,081
MRDD Waiver (0403/466)	88,753,483	9,762,883	88,753,483	(0)	88,753,483
Rural Hospitals Under 150 Beds (0403/940)	2,596,000	216,334	2,596,000	-	2,596,000
Tertiary Funding (0403/547)	6,356,000	529,666	6,356,000	-	6,356,000
Traumatic Brain Injury (0403/835)	800,000	88,000	800,000	-	800,000
Title XIX Waiver for Seniors (0403-533)	13,593,620	1,495,299	13,593,620	1	13,593,620
Medical Services Surplus (0403/633)	5,500,000		30,021,770	0	30,021,770
Waiver for Senior Citizens Surplus (0403/526)	-		-	-	-
Lottery Waiver (Less 550,000) (5405/539)	21,824,274		12,382,692	-	12,382,692
Lottery Waiver (0420/539)	12,142,184		21,583,766	-	21,583,766
Lottery Transfer (5405/871)	8,670,000		14,502,312	-	14,502,312
Excess Lottery (5365/189)	31,377,985	24,506,170	34,406,170	(9,900,000)	24,506,170
Lottery Surplus (5405/68199)	8,000,000		15,500,000	-	15,500,000
Lottery Surplus (5365/68100)	30,000,000		26,900,000	-	26,900,000
Trust Fund Appropriation (5185/189)	131,250,000	-	8,914,540	63,987,986	72,902,526
Provider Tax (5090/189)	196,831,229	41,344,161	213,058,153	1,243,694	214,301,847
NSGO UPL (5084/6717)	1,210,392		68,035	1,173,368	1,241,403
Certified Match	9,870,547	-	15,583,714	(167,896)	15,415,818
Reimbursables - Amount Reimbursed	4,460,819	1,089,274	4,371,388	(4,371,388)	-
Other Revenue (MWIN, Escheated Warrants, etc.) 5084/4010 & 4015	627,152	55,619	956,436	(56,436)	900,000
CHIP State Share	-		-	-	-
CMS - 64 Adjustments	(973,293)		(306,072)	306,072	-
TOTAL MATCHING FUNDS	990,505,306	221,630,259	965,806,721	131,975,401	1,097,782,122
FEDERAL FUNDS	3,098,950,199	324,584,746	2,991,755,848	321,637,692	3,313,393,540
TOTAL REVENUE SOURCES	4,089,455,505	546,215,006	3,957,562,570	453,613,093	4,411,175,663
TOTAL EXPENDITURES:					
Provider Payments	4,004,846,454	424,446,700	3,855,293,720	409,444,306	4,264,738,026
TOTAL	84,609,050	121,768,306	102,268,850		146,437,637

Note: FMAP (71.80% applicable Jul. - Sep. 2017) (73.24% applicable Oct. 2017 - Jun. 2018)

Joint Committee on Government and Finance

September 2018

Department of Health and Human Resources

**MEDICAID WAIVER REPORT
June 2018 Data**

**WV Department of Health and Human Resources
Bureau for Medical Services AD Waiver Program Report**

Aged & Disabled Waiver Reported Jun 30, 2018		FY 2017 YTD	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 18	Feb 18	Mar 18	Apr 18	May 18	Jun 18	FY 2018 YTD
Slots Approved By CMS (1)		6,151	5,752	5,752	5,752	5,752	5,752	5,752	5,752	5,752	5,752	5,752	5,752	5,752	5,752
-Slots Available for Traditional (non TMH-WV) enrollees		6,078	5,662	5,662	5,662	5,662	5,662	5,662	5,662	5,662	5,662	5,662	5,662	5,662	5,662
-Slots reserved for Take Me Home-WV (TMH-WV) enrollees		73	90	90	90	90	90	90	90	90	90	90	90	90	90
Total number of members served YTD (unduplicated slots used) (2) YTD Column reflects most recent month's count		6,151	5,324	5,449	5,523	5,566	5,590	5,610	5,627	5,944	6,239	6,365	6,394	6,419	6,419
Applicants determined eligible this month and added to MEL (3)		1,440	98	119	116	112	106	93	83	93	118	135	155	173	1,401
Applicants determined ineligible		98	12	12	7	8	8	7	6	9	7	7	5	8	96
ACTIVE MEMBERS															
Active members at the end of the month (unduplicated slots active) YTD Column reflects most recent month's count		5,349	5,302	5,373	5,395	5,381	5,338	5,291	5,256	5,486	5,685	5,758	5,708	5,661	5,661
Active members enrolled during the calendar month		877	28	150	95	65	40	30	57	313	289	135	42	20	1,264
-Total Active Traditional members enrolled during the calendar month		805	22	138	88	58	32	20	50	310	284	124	35	17	1,178
-Total Active TMH-WV members enrolled during the calendar month		72	6	12	7	7	8	10	7	3	5	11	7	3	86
Members discharged during the calendar month		1,099	75	79	73	79	83	77	92	83	90	62	92	67	952
ADW Members whose case was closed by reason	Member is deceased	600	40	39	36	45	45	44	55	45	57	34	56	37	533
	Other (4)	499	35	40	37	34	38	33	37	38	33	28	36	30	419
MANAGED ENROLLMENT LIST (MEL)															
# Eligible applicants closed during the calendar month (removed from MEL)		951	341	87	60	41	54	28	879	24	83	17	19	501	2,134
ADW Applicants removed from the MEL	Applicant offered a slot (Traditional + MFP)	626	325	79	41	29	39	10	858	16	65	8	7	486	1,963
	Applicant became deceased	114	14	7	8	9	8	10	7	7	12	7	3	8	100
	Other (5)	211	2	1	11	3	7	8	14	1	6	2	9	7	71
Applicants on the MEL who are in a nursing facility YTD Column reflects average # members in setting		32	28	28	33	36	N/A	40	0	0	3	2	15	1	1
Applicants on the MEL receiving Personal Care YTD Column reflects average # members in setting		36	52	34	31	32	N/A	96	0	6	13	16	45	7	7
Applicants on the MEL at the end of the month		763	520	552	608	679	731	796	0	69	104	222	358	30	30
Days -Longest time spent on the MEL to date (6) YTD Column reflects average # of days		242	272	283	261	272	248	226	0	22	30	60	91	106	156

(1) Of the 5,752 slots approved by CMS, 90 are reserved for the Money Follows the Person and Rebalancing Demonstration Grant. When it is identified that slots cannot be used for MFP transitions, these slots are made available for traditional (non-MFP) enrollees.

(2) Unduplicated slots used refers to the total number of members who accessed services during the fiscal year.

(3) Monthly number added to MEL is being reported in the month an applicant is determined medically eligible; however, the individual's placement date on the managed enrollment list will be based on their initial application date.

(4) Other reason for closing a case may include, but is not limited to: No services for 180 days, unsafe environment, member non-compliance with program, member no longer desires services, member no longer a WV resident, member no longer medically or financially eligible.

(5) "Other" includes those who are no longer a WV resident, voluntarily decline the program, etc.

(6) Reported in actual number of days on the MEL.

NOTE: All data reported by Utilization Management Contractor is effective as of the transpire date in the web-based system. Data is point-in-time.

**WV Department of Health and Human Resources
Bureau for Medical Services I/DD Waiver Program Report**

Intellectual/Developmental Disabilities Waiver Reported June 30, 2018		FY 2016	July-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	YTD 2018
Slots approved by CMS		4,634	4,634	4,634	4,634	4,634	4,634	4,634	4,634	4,634	4,634	4,634	4,634	4,634	4,634
Total number of members served YTD (unduplicated slots used) (1)		4,634	4,568	4,568	4,567	4,567	4,619	4,623	4,625	4,625	4,626	4,626	4,627	4,633	4,633
Applicants determined eligible (2)		207	12	14	20	32	14	19	20	18	11	13	21	24	218
Applicants determined ineligible (3)		202	18	10	14	12	19	13	17	12	12	23	25	19	194
ACTIVE MEMBERS															
# of active members at the end of the month (unduplicated slots active) (1)		4,503	4,565	4,553	4,549	4,579	4,587	4,584	4,569	4,562	4,553	4,549	4,542	4,536	4,536
Discharged members at the end of the calendar month		147	5	12	6	8	7	7	18	8	10	5	8	12	106
Discharged members who were discharged by reason	Deceased	72	3	6	4	6	4	4	8	4	4	2	3	4	52
	Left program to enter a facility	21	2	3	0	0	2	1	3	1	5	1	2	2	22
	a. Hospital	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	b. ICF/IID	2	1	1	0	0	2	1	3	0	1	1	0	1	11
	c. Nursing Facility	11	0	2	1	0	0	0	0	1	4	0	2	1	11
	d. Psychiatric Facility	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	e. Rehabilitation Facility	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	f. Other Facility	1	0	0	0	0	0	0	0	0	0	0	0	0	0
Other (6)		53	1	3	1	2	1	2	7	2	1	2	3	6	31
MANAGED ENROLLMENT LIST (MEL)															
Total number of applicants on the MEL at the end of the month		1,317	1,256	1,262	1,278	1,267	1,265	1,278	1,292	1,306	1,316	1,316	1,333	1,343	1,343
Number of applicants added to the MEL (4)		207	12	14	20	32	14	19	20	18	11	13	21	24	218
Applicants enrolled (removed from the MEL)		116	67	0	2	38	15	4	3	1	1	1	1	6	139
Applicants removed from the MEL due to Death (5)		7	0	2	0	2	0	1	3	2	0	0	0	0	10
Applicants removed from the MEL due to Other (6)		27	6	6	2	3	1	1	0	1	0	12	3	8	43
Applicants on the MEL who are in a Nursing Facility (9)		0	0	3	9	10	N/A	7	6	7	5	5	12	2	2
Applicants on the MEL who are in an ICF/IID Group Home (9)		22	24	26	22	49	N/A	103	104	111	112	117	122	112	112
Applicants on the MEL receiving Personal Care Services each month (8) (9)		70	65	75	9	9	N/A	84	84	85	88	93	86	87	87
Longest on the MEL to date (7)		1494 Days	1,470	1,491	1,521	1,552	1,581	1,612	1,640	1,668	1,585	1,575	1,604	1,634	1,634

(1) Unduplicated slots used refers to the total number of members who accessed services during the fiscal year.

(2 and 3) Numbers determined medically eligible and ineligible reflect the activity for the month reported. Financial eligibility is not determined until after slot release.

(4) Monthly managed enrollment is being reported in the month an applicant is determined medically eligible; however, the individual's placement date on the managed enrollment list will be based on the date the Medical Eligibility Contract Agent (MECA) determines medical eligibility.

(5) Currently there is no way to track other reasons why someone may leave the MEL for reasons such as moved out of state, decided not to participate in program, etc.

(6) Other reason for program discharge may include, but is not limited to, member is no longer financial or medically eligible, moved out of state, no longer wants the service, etc.

(7) Longest number of days an applicant has been on the MEL.

**WV Department of Health and Human Resources
Bureau for Medical Services TBI Waiver Program Report**

Traumatic Brain Injury Waiver Reported June 30, 2018		FY 2017 YTD	Jul 17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	FY 2018 YTD
Slots Approved By CMS (1)		70	66	66	66	66	66	66	66	66	66	66	66	66	66
-Slots Available for Traditional (non TMH-WV) enrollees		70	56	56	56	56	56	56	56	56	56	56	56	56	56
-Slots reserved for Take Me Home-WV (TMH-WV) enrollees		0	10	10	10	10	10	10	10	10	10	10	10	10	10
Total number of members served YTD (unduplicated slots used) (2) YTD Column reflects most recent month's count		69	62	62	62	62	63	63	66	76	81	83	84	84	84
Applicants determined eligible this month and added to MEL (3)		27	3	2	0	0	3	1	0	0	0	2	1	2	14
Applicants determined ineligible		2	1	0	0	0	2	0	0	0	0	0	1	0	4
ACTIVE MEMBERS															
Active members at the end of the month (unduplicated slots active) YTD Column reflects most recent month's count		61	62	62	62	59	60	59	62	71	75	74	73	71	71
Active members enrolled during the calendar month		9	2	0	0	0	1	0	3	10	5	2	1	0	24
-Total Active Traditional members enrolled during the calendar month		8	1	0	0	0	0	0	2	10	4	2	1	0	20
-Total Active TMH-WV members enrolled during the calendar month		1	1	0	0	0	1	0	1	0	1	0	0	0	4
Members discharged during the calendar month		11	1	0	0	3	0	1	0	1	1	3	2	2	14
TBIW Members whose case was closed by reason	Member is deceased	1	0	0	0	3	0	0	0	0	1	1	1	0	6
	Other (4)	10	1	0	0	0	0	1	0	1	0	2	1	2	8
MANAGED ENROLLMENT LIST (MEL)															
# Eligible applicants closed during the calendar month (removed from MEL)		15	0	0	0	0	0	0	19	0	0	1	1	0	21
TBIW Applicants removed from the MEL	Applicant offered a slot	14	0	0	0	0	0	0	18	0	0	1	1	0	20
	Applicant became deceased	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Other (5)	1	0	0	0	0	0	0	2	0	0	0	0	0	2
Applicants on the MEL who are in a nursing facility		1	0	0	0	0	0	0	0	0	0	0	0	0	0
Applicants on the MEL receiving Personal Care		0	1	1	0	0	1	1	0	0	0	0	0	0	0
Applicants on the MEL at the end of the month		12	13	15	15	15	18	19	0	0	0	1	1	2	2
Days -Longest time spent on the MEL to date (6) YTD Column reflects average # of days		170	368	399	429	460	490	521	0	0	0	10	1	31	226

(1) Of the 66 slots approved by CMS, 10 are reserved for the Money Follows the Person and Rebalancing Demonstration Grant. Beginning SFY 2017-2018, the program was over the number of slots available for Traditional enrollees. There are no available Traditional slots beginning SFY 2017-2018, therefore medically eligible applicants that are Traditional will be placed on the MEL.

(2) Unduplicated slots used refers to the total number of members who accessed services during the fiscal year.

(3) Monthly number added to MEL is being reported in the month an applicant is determined medically eligible; however, the individual's placement date on the managed enrollment list will be based on their initial application date.

(4) Other reason for closing a case may include, but is not limited to: No services for 180 days, unsafe environment, member non-compliance with program, member no longer desires services, member no longer a WV resident, member no longer medically or financially eligible.

(5) "Other" includes those who are no longer a WV resident, voluntarily decline the program, etc.

(6) Reported in actual number of days on the MEL.

NOTE: All data as reported by the Utilization Management Contractor is point-in-time

Joint Committee on
Government and Finance
Report

SEPTEMBER 2018

Department of Health and Human Resources

State Children's Health Insurance Program
UPDATE



West Virginia Children's Health Insurance Program
Comparative Statement of Revenues, Expenditures and Changes in Fund Balances
For the Twelve Months Ending June 30, 2018 and June 30, 2017
(Modified Accrual Basis)

	June 30, 2018	June 30, 2017	Variance	
Beginning Operating Fund Balance	6,046,042	6,546,839	(500,798)	-8%
Revenues				
Federal Grants	48,467,254	46,582,253	1,885,001	4%
State Appropriations	0	0	0	
Premium Revenues	1,487,065	1,395,272	91,793	7%
Investment Income:				
Investment Earnings	67,277	90,918	(23,641)	-26%
Total Revenues	50,021,596	48,068,443	1,953,154	4%
Expenditures:				
Claims:				
Physicians & Surgical	13,020,275	12,142,053	878,222	7%
Prescribed Drugs	9,139,437	9,251,732	(112,295)	-1%
Outpatient Services	8,284,941	7,059,652	1,225,289	17%
Dental	6,782,829	7,189,315	(406,486)	-6%
Inpatient Hospital Services	4,164,367	4,469,551	(305,184)	-7%
Other Services	2,316,051	1,641,363	674,688	41%
Therapy	2,016,378	1,548,733	467,645	30%
Inpatient Mental Health	801,204	687,623	113,581	17%
Vision	686,215	630,907	55,308	9%
Durable & Disposable Med. Equip.	411,725	455,354	(43,629)	-10%
Medical Transportation	422,479	299,783	122,696	41%
Outpatient Mental Health	472,826	275,557	197,269	72%
Less: Other Collections**	(70,740)	(191,216)	120,476	-63%
Drug Rebates	(1,353,267)	(1,253,819)	(99,447)	8%
Total Claims	47,094,720	45,460,407	1,634,313	4%
General and Admin Expenses:				
Salaries and Benefits	567,254	550,238	17,016	3%
Program Administration	3,357,242	3,415,056	(57,814)	-2%
Eligibility	10,813	0	10,813	
Outreach & Health Promotion	10,190	82,702	(72,512)	-88%
Current	57,726	160,794	(103,068)	-64%
Total Administrative	4,003,225	4,208,790	(205,565)	-5%
Total Expenditures	51,097,945	49,669,197	1,428,748	3%
Adjustments	571,627	1,103,793		
Ending Fund Balance 6/30/18:	5,541,320	6,049,877	(508,557)	-8%
Money Market	1,034,261	519,093	515,168	99%
Bond Pool	4,354,040	5,300,179	(946,138)	-18%
Cash on Deposit	153,019	230,605	(77,587)	-34%
Accrual Adjustments:				
Beginning IBNR	5,142,540	9,102,904	(3,960,364)	-44%
Ending IBNR	5,240,000	12,620,000	(7,380,000)	-58%
Net IBNR	97,460	3,517,096	(3,419,636)	-97%
Beginning Payables	869,982	1,183,820	(313,838)	-27%
Ending Payable	351,728	869,982	(518,254)	-60%
Net Payables	(518,254)	(313,838)	(204,416)	65%
Unrealized Gain/Loss on Investment	(31,948)	(12,578)	(19,370)	154%
Ending Fund Balance (Accrued Basis) 6/30/28	5,930,165	2,834,041	3,096,124	109%

** Collections are primarily subrogations

PRELIMINARY FINANCIAL STATEMENTS

Unaudited - For Management Purposes Only - Unaudited

West Virginia Children's Health Insurance Program
Budget to Actual Statement
State Fiscal Year 2018
For the 12 Months Ending June 30, 2018

	<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>Actual Amt Jun-18</u>	<u>Actual Amt May-18</u>	<u>Actual Amt Apr-18</u>
Projected Cost	\$50,205,506	\$50,205,506	\$50,029,239	\$176,267	0%	\$4,183,792	\$4,073,227	\$5,000,288	\$3,427,503
Premiums	2,403,240	\$2,403,240	\$1,487,065	(\$916,175)	-38%	\$200,270	\$120,093	\$135,467	\$130,545
Subrogation & Rebates	<u>1,398,828</u>	<u>\$1,398,828</u>	<u>\$1,446,330</u>	<u>\$47,502</u>	<u>3%</u>	<u>\$116,569</u>	<u>\$1,252</u>	<u>\$331,289</u>	<u>\$1,776</u>
Net Benefit Cost	\$46,403,438	\$46,403,438	\$47,095,844	(\$692,406)	-1%	\$3,973,808	\$3,951,882	\$4,533,532	\$3,295,182
Salaries & Benefits	\$702,625	\$702,625	\$567,254	\$135,371	19%	\$58,552	\$43,819	\$43,754	\$42,694
Program Administration	\$2,626,570	\$2,626,570	\$3,357,242	(\$730,672)	-28%	\$218,881	\$353,737	\$355,127	\$267,768
Eligibility	\$326,676	\$326,676	\$10,813	\$315,863	97%	\$27,223	\$833	\$0	\$2,371
Outreach & Health Prom.	\$392,012	\$392,012	\$10,190	\$381,822	97%	\$32,668	\$0	\$0	\$0
Current Expense	<u>\$326,676</u>	<u>\$326,676</u>	<u>\$57,726</u>	<u>\$268,950</u>	<u>82%</u>	<u>\$27,223</u>	<u>\$8,956</u>	<u>\$4,756</u>	<u>\$7,955</u>
Total Admin Cost	\$4,374,559	\$4,374,559	\$4,003,226	\$371,333	8%	\$364,547	\$407,344	\$403,637	\$320,788
Total Program Cost	<u>\$50,777,997</u>	<u>\$50,777,997</u>	<u>\$51,099,070</u>	<u>(\$321,073)</u>	<u>-1%</u>	<u>\$4,338,355</u>	<u>\$4,359,226</u>	<u>\$4,937,169</u>	<u>\$3,615,970</u>
Federal Share 100%	\$50,777,997	\$50,777,997	\$51,099,070	(\$321,073)	-1%	\$4,338,355	\$4,359,226	\$4,937,169	\$3,615,970
State Share 0%	<u>0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0%</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Program Cost **	<u>\$50,777,997</u>	<u>\$50,777,997</u>	<u>\$51,099,070</u>	<u>(\$321,073)</u>	<u>-1%</u>	<u>\$4,338,355</u>	<u>\$4,359,226</u>	<u>\$4,937,169</u>	<u>\$3,615,970</u>

* Positive percentages indicate favorable variances

** Budgeted Year Based on CCRC Actuary 6/30/2017 Report.

Unaudited - Cash Basis For Management Purposes Only - Unaudited

WVCHIP Enrollment Report

ATTACHMENT 1

August 2018

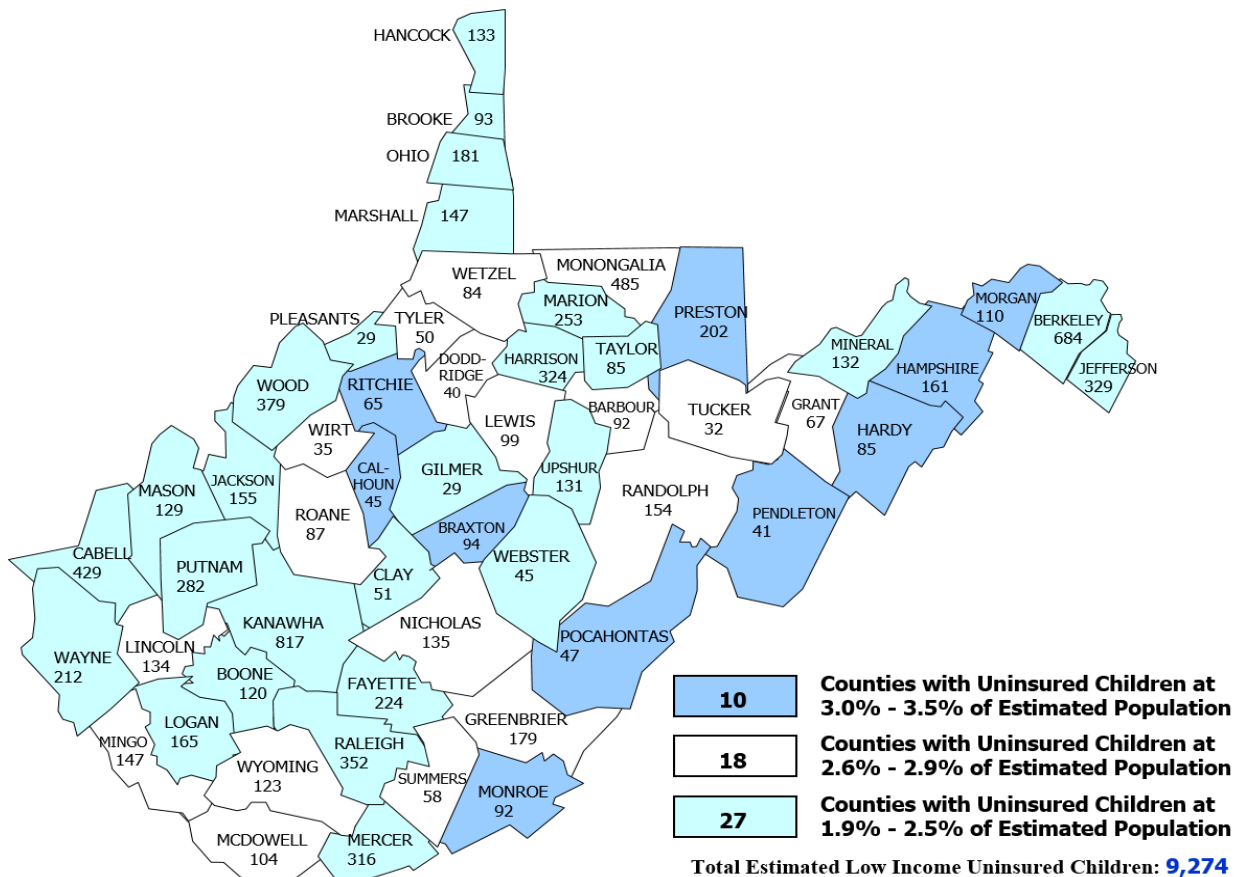
County	County Pop. 2016 Est. (0-18 Yrs)	Total CHIP Enrollment Aug-18	Total Medicaid Enrollment Aug-18	Total CHIP/Medicaid Enrollment	CHIP/Medicaid Enrollment % of Population	2016 Est. Uninsured 3%	2016 # Children Uninsured Ranking*
Barbour	3,470	238	1,595	1,833	52.8%	104	33
Berkeley	27,800	1,685	11,690	13,375	48.1%	834	2
Boone	5,087	236	3,057	3,293	64.7%	153	27
Braxton	2,947	152	1,508	1,660	56.3%	88	39
Brooke	4,185	1	777	778	18.6%	126	31
Cabell	19,601	891	8,829	9,720	49.6%	588	3
Calhoun	1,427	93	754	847	59.4%	43	51
Clay	2,041	135	1,282	1,417	69.4%	61	44
Doddridge	1,479	85	729	814	55.0%	44	49
Fayette	9,297	662	5,025	5,687	61.2%	279	12
Gilmer	1,212	75	598	673	55.5%	36	54
Grant	2,343	128	1,169	1,297	55.4%	70	42
Greenbrier	7,018	581	3,590	4,171	59.4%	211	16
Hampshire	4,619	257	2,237	2,494	54.0%	139	30
Hancock	5,876	517	3,516	4,033	68.6%	176	20
Hardy	2,847	233	1,463	1,696	59.6%	85	40
Harrison	15,199	852	6,306	7,158	47.1%	456	7
Jackson	6,506	331	2,869	3,200	49.2%	195	18
Jefferson	13,304	660	3,880	4,540	34.1%	399	9
Kanawha	38,824	2,055	18,981	21,036	54.2%	1,165	1
Lewis	3,432	253	1,796	2,049	59.7%	103	35
Lincoln	4,849	255	3,009	3,264	67.3%	145	28
Logan	7,095	382	4,339	4,721	66.5%	213	15
Marion	11,654	591	5,154	5,745	49.3%	350	11
Marshall	6,478	282	2,757	3,039	46.9%	194	19
Mason	5,798	237	2,882	3,119	53.8%	174	21
McDowell	3,994	171	3,001	3,172	79.4%	120	32
Mercer	12,774	769	7,807	8,576	67.1%	383	10
Mineral	5,626	279	2,299	2,578	45.8%	169	23
Mingo	5,632	248	3,747	3,995	70.9%	169	22
Monongalia	17,905	910	5,243	6,153	34.4%	537	5
Monroe	2,781	232	1,153	1,385	49.8%	83	41
Morgan	3,367	259	1,405	1,664	49.4%	101	36
Nicholas	5,271	393	2,892	3,285	62.3%	158	25
Ohio	8,365	416	3,472	3,888	46.5%	251	14
Pendleton	1,269	90	581	671	52.9%	38	52
Pleasants	1,473	81	623	704	47.8%	44	50
Pocahontas	1,517	135	782	917	60.4%	46	48
Preston	6,658	385	3,108	3,493	52.5%	200	17
Putnam	13,446	631	4,363	4,994	37.1%	403	8
Raleigh	16,494	984	8,804	9,788	59.3%	495	6
Randolph	5,586	445	2,914	3,359	60.1%	168	24
Ritchie	2,034	119	1,056	1,175	57.8%	61	45
Roane	3,116	244	1,710	1,954	62.7%	93	38
Summers	2,225	177	1,398	1,575	70.8%	67	43
Taylor	3,449	193	1,595	1,788	51.8%	103	34
Tucker	1,199	99	556	655	54.6%	36	55
Tyler	1,848	82	783	865	46.8%	55	46

WVCHIP Enrollment Report

ATTACHMENT 1

August 2018

County	County Pop. 2016 Est. (0-18 Yrs)	Total CHIP Enrollment Aug-18	Total Medicaid Enrollment Aug-18	Total CHIP/Medicaid Enrollment	CHIP/Medicaid Enrollment % of Population	2016 Est. Uninsured 3%	2016 # Children Uninsured Ranking*
Upshur	5,197	322	2,880	3,202	61.6%	156	26
Wayne	8,809	388	4,707	5,095	57.8%	264	13
Webster	1,787	111	1,256	1,367	76.5%	54	47
Wetzel	3,255	164	1,784	1,948	59.8%	98	37
Wirt	1,245	65	648	713	57.3%	37	53
Wood	18,641	1,002	8,932	9,934	53.3%	559	4
Wyoming	4,707	285	2,537	2,822	60.0%	141	29
Totals	384,058	21,546	181,828	203,374	53.0%	11,522	

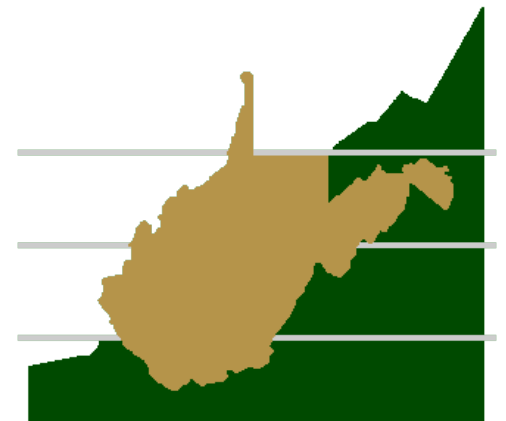


The above map shows the most recent 2016 county level data provided by the U.S. Census Bureau Small Area Health Insurance Estimates (SAHIE) for children under 19 years. While the statewide average for children under 19 is now about 3%, the SAHIE data reflects more accurately the variation from county to county depending on the availability of employer sponsored insurance and should be a more accurate way to target outreach than in previous years.

WEST VIRGINIA INVESTMENT MANAGEMENT BOARD

Participant Plan Performance Report

July 31, 2018



Participant Plans Allocation & Performance Net of Fees - Preliminary

Period Ending: July 31, 2018

	6/30/2018		7/31/2018		Performance %							
	Asset (\$000)	%	Asset (\$000)	%	1 Month	3 Month	FYTD	1 Year	3 Year	5 Year	10 Year	20 Year
WVIMB Fund Assets	19,391,600	100.0	19,590,379	100.0								
Pension Assets	15,687,508	80.9	15,866,942	81.0								
Public Employees' Retirement System	6,672,393	34.4	6,763,647	34.5	1.5	1.5	1.5	8.5	8.5	8.8	8.0	6.9
Teachers' Retirement System	7,639,510	39.5	7,710,273	39.4	1.5	1.5	1.5	8.5	8.4	8.8	7.8	6.7
EMS Retirement System	78,382	0.4	79,602	0.4	1.5	1.5	1.5	8.4	8.5	8.8	8.0	
Public Safety Retirement System	678,242	3.5	684,319	3.5	1.5	1.5	1.5	8.5	8.4	8.8	8.0	7.0
Judges' Retirement System	203,078	1.0	205,777	1.1	1.5	1.5	1.5	8.5	8.5	8.8	8.0	6.9
State Police Retirement System	187,622	1.0	191,207	1.0	1.5	1.5	1.5	8.5	8.5	8.8	8.0	6.9
Deputy Sheriffs' Retirement System	217,866	1.1	221,343	1.1	1.5	1.5	1.5	8.5	8.5	8.8	8.0	
Municipal Police & Firefighter Retirement System	7,791	0.0	8,124	0.0	1.5	1.5	1.5	8.2	8.2	8.5		
Municipal Model A	1,504	0.0	1,514	0.0	1.5	1.6	1.5	8.5	8.4	8.7		
Municipal Model C	1,120	0.0	1,136	0.0	1.5	1.0	1.5					
Insurance Assets	2,779,327	14.3	2,796,301	14.3								
Workers' Compensation Old Fund	1,185,505	6.0	1,184,552	5.9	0.9	0.5	0.9	4.3	5.1	4.8	4.8	
Workers' Comp. Self-Insured Guaranty Risk Pool	33,908	0.2	34,121	0.2	0.9	0.6	0.9	4.5	4.8	5.0	4.3	
Workers' Comp. Self-Insured Security Risk Pool	53,204	0.3	53,383	0.3	0.9	0.6	0.9	4.5	4.9			
Workers' Comp. Uninsured Employers' Fund	12,881	0.1	13,001	0.1	0.9	0.6	0.9	4.6	4.6	4.8	4.0	
Pneumoconiosis	245,797	1.3	246,649	1.3	0.9	0.6	0.9	4.5	4.8	5.0	5.3	5.8
Board of Risk & Insurance Management	151,588	0.8	152,986	0.8	0.9	0.6	0.9	4.5	4.7	4.9	5.8	
Public Employees' Insurance Agency	198,826	1.0	200,375	1.0	0.8	0.6	0.8	4.1	4.5	4.9	5.4	
WV Retiree Health Benefit Trust Fund	897,618	4.6	911,234	4.7	1.5	1.5	1.5	8.4	8.5	8.8	8.8	
Endowment Assets	924,765	4.8	927,136	4.7								
Berkeley County Development Authority	7,689	0.0	7,805	0.0	1.5	1.5	1.5	8.5				
Wildlife Fund	63,386	0.3	64,327	0.3	1.5	1.5	1.5	8.4	8.5	8.8	7.9	7.4
Prepaid Tuition Trust	42,256	0.2	38,376	0.2	0.3	0.2	0.3	3.4	6.1	6.5	6.9	
Revenue Shortfall Reserve Fund	167,666	0.9	167,650	0.9	0.0	0.3	0.0	0.6	2.0	2.1	2.4	
Revenue Shortfall Reserve Fund - Part B	438,711	2.4	442,032	2.3	0.8	0.3	0.8	2.8	4.7	4.6	4.3	
WV DEP Trust	9,658	0.0	9,098	0.0	1.8	0.7	1.8	7.8	7.5	7.9		
WV DEP Agency	195,399	1.0	197,848	1.0	1.3	0.6	1.3	5.1	5.7			

Composite Asset Allocation & Performance Net of Fees - Preliminary

Period Ending: July 31, 2018

	Asset (\$000)	%	Performance %							
			1 Month	3 Month	FYTD	1 Year	3 Year	5 Year	10 Year	20 Year
Investment Pools Composite	19,600,991	100.00								
Total Equity Composite	9,397,164	47.94	2.77	0.74	2.77	10.18	10.12	10.19	8.61	7.36
+/- Total Equity Base Index (b)			0.02	(1.75)	0.02	(1.30)	0.56	0.58	1.34	0.86
Domestic Equity Composite	4,624,047	23.59	3.30	6.04	3.30	16.36	11.74	12.76	10.69	7.95
+/- Russell 3000 Index			(0.02)	(0.89)	(0.02)	(0.03)	(0.44)	(0.07)	0.01	0.86
International Equity Composite	4,773,117	24.35	2.26	(4.10)	2.26	4.54	8.41	7.47	6.30	6.99
+/- MSCI AC World ex US IMI Index (c)			0.08	(2.25)	0.08	(2.12)	1.53	1.12	2.53	1.50
Fixed Income Composite	3,462,236	17.66	0.48	0.14	0.48	0.52	2.99	3.21	4.67	5.30
+/- Bloomberg Barclays Capital Universal (d)			0.27	(0.47)	0.27	1.08	1.00	0.61	0.57	0.42
Core Fixed Income Composite	1,050,002	5.36	(0.07)	0.51	(0.07)	(0.64)	1.75	2.59		
+/- Bloomberg Barclays Capital Aggregate			(0.09)	(0.10)	(0.09)	0.16	0.26	0.34		
Total Return Fixed Income Composite (k)	2,412,234	12.30	0.72	(0.02)	0.72	1.01	3.53	3.47	5.09	5.80
+/- Bloomberg Barclays Capital Universal			0.51	(0.63)	0.51	1.57	1.54	0.87	0.99	0.88
TIPS Composite	389,427	1.99	(0.47)	0.39	(0.47)	1.22	1.70	1.43		
+/- Bloomberg Barclays Capital U.S. TIPS			0.01	0.05	0.01	0.05	0.01	0.00		
Cash Composite	201,659	1.03	0.16	0.45	0.16	1.39	0.73	0.48	0.39	2.12
+/- Citigroup 90 Day T-Bill (e)			0.00	(0.01)	0.00	(0.02)	0.04	0.04	(0.03)	0.05
Private Equity Composite	1,719,491	8.77	0.58	6.94	0.58	15.60	14.25	15.08	10.91	
+/- Russell 3000 + 3% (f, g)								(0.84)	(3.65)	
Real Estate Composite	1,792,748	9.15	(0.09)	2.44	(0.09)	8.25	8.97	9.72	6.73	
+/- NCREIF + 1% (f)								(1.20)	(0.41)	
Hedge Fund Composite	2,187,007	11.16	(0.04)	1.20	(0.04)	5.45	2.29	4.14	4.34	
+/- HFRI FOF + 1% (h)			(0.37)	0.50	(0.37)	0.13	(0.66)	0.45	0.18	
Opportunistic Income Composite	451,259	2.30	0.01	1.59	0.01	3.57				
+/- CS Leveraged Loan + 2.5%			(1.02)	(0.15)	(1.02)	(3.65)				

Participant Plans Allocation vs. Strategy - Preliminary

Period Ending: July 31, 2018

	Domestic Equity		Int'l Equity		Fixed Income		Private Equity		Real Estate		Hedge Funds		Opportunistic Income		Cash	
	Actual %	Strategy %	Actual %	Strategy %	Actual %	Strategy %	Actual %	Strategy %	Actual %	Strategy %	Actual %	Strategy %	Actual %	Strategy %	Actual %	Strategy %

Pension Assets

Public Employees' Retirement System	25.3	27.5	26.2	27.5	13.8	15.0	10.3	10.0	10.7	10.0	10.7	10.0	2.7	0.0	0.3	0.0
Teachers' Retirement System	25.2	27.5	26.0	27.5	13.6	15.0	10.2	10.0	10.6	10.0	10.6	10.0	2.7	0.0	1.1	0.0
EMS Retirement System	25.4	27.5	26.1	27.5	14.0	15.0	10.2	10.0	10.6	10.0	10.6	10.0	2.7	0.0	0.4	0.0
Public Safety Retirement System	24.5	27.5	25.4	27.5	13.1	15.0	10.0	10.0	10.4	10.0	10.4	10.0	2.6	0.0	3.6	0.0
Judges' Retirement System	25.4	27.5	26.2	27.5	13.9	15.0	10.3	10.0	10.7	10.0	10.7	10.0	2.7	0.0	0.1	0.0
State Police Retirement System	25.4	27.5	26.0	27.5	14.0	15.0	10.2	10.0	10.6	10.0	10.6	10.0	2.7	0.0	0.5	0.0
Deputy Sheriffs' Retirement System	25.4	27.5	26.1	27.5	14.0	15.0	10.2	10.0	10.6	10.0	10.7	10.0	2.7	0.0	0.3	0.0
Municipal Police & Firefighter Retirement System	24.6	27.5	25.2	27.5	13.6	15.0	9.7	10.0	10.2	10.0	10.1	10.0	2.6	0.0	4.0	0.0
Municipal Model A	25.7	27.5	26.3	27.5	13.4	15.0	10.2	10.0	10.7	10.0	10.6	10.0	2.7	0.0	0.4	0.0
Municipal Model C	23.9	25.0	24.4	25.0	27.3	30.0	5.1	5.0	5.3	5.0	10.7	10.0	1.3	0.0	2.0	0.0

Insurance Assets

Workers' Compensation Old Fund	14.9	15.0	15.4	15.0	49.8	50.0	0.0	0.0	0.0	0.0	16.6	15.0	0.0	0.0	3.3	5.0
Workers' Comp. Self-Insured Guaranty Risk Pool	14.6	15.0	15.1	15.0	44.0	45.0	0.0	0.0	0.0	0.0	21.7	20.0	0.0	0.0	4.6	5.0
Workers' Comp. Self-Insured Security Risk Pool	15.1	15.0	15.3	15.0	43.8	45.0	0.0	0.0	0.0	0.0	21.9	20.0	0.0	0.0	3.9	5.0
Workers' Comp. Uninsured Employers Fund	14.8	15.0	15.2	15.0	38.5	40.0	0.0	0.0	0.0	0.0	21.6	20.0	0.0	0.0	9.9	10.0
Pneumoconiosis	14.9	15.0	15.3	15.0	43.6	45.0	0.0	0.0	0.0	0.0	21.8	20.0	0.0	0.0	4.4	5.0
Board of Risk & Insurance Mgmt.	15.1	15.0	15.2	15.0	43.2	45.0	0.0	0.0	0.0	0.0	21.6	20.0	0.0	0.0	4.9	5.0
Public Employees' Insurance Agency	12.5	12.5	13.0	12.5	52.9	55.0	0.0	0.0	0.0	0.0	21.6	20.0	0.0	0.0	0.0	0.0
WV Retiree Health Benefit Trust Fund	25.4	27.5	26.2	27.5	14.1	15.0	10.2	10.0	10.7	10.0	10.7	10.0	2.7	0.0	0.0	0.0

Endowment Assets

Berkeley County Development Authority	25.5	27.5	26.2	27.5	14.1	15.0	10.1	10.0	10.7	10.0	10.7	10.0	2.7	0.0	0.0	0.0
Wildlife Fund	24.6	27.5	25.6	27.5	13.7	15.0	10.0	10.0	10.3	10.0	10.4	10.0	2.6	0.0	2.8	0.0
Prepaid Tuition Trust	0.0	22.0	0.0	18.0	100.0	60.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Shortfall Reserve Fund	0.0	0.0	0.0	0.0	100.0	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Shortfall Reserve Fund - Part B	11.2	11.3	11.4	11.3	77.4	77.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
WV DEP Trust	31.8	32.5	32.8	32.5	13.9	15.0	0.0	0.0	0.0	0.0	21.5	20.0	0.0	0.0	0.0	0.0
WV DEP Agency	19.9	20.0	20.1	20.0	38.4	40.0	0.0	0.0	0.0	0.0	21.6	20.0	0.0	0.0	0.0	0.0

- (a) As of January 2014, the PERS Base is 30% Russell 3000, 30% MSCI ACW ex USA (IMI), and 40% Bloomberg Barclays Capital Universal. From April 2008 to December 2013, the PERS Base was 30% Russell 3000, 30% MSCI ACW ex USA (Standard), and 40% Bloomberg Barclays Capital Universal. Prior periods were 42% Russell 3000, 18% MSCI ACW ex USA, and 40% Bloomberg Barclays Capital Aggregate.
- (b) As of January 2014, the Total Equity Base Index is 50% Russell 3000 and 50% MSCI ACW ex USA (IMI). From April 2008 to December 2013, the Total Equity Base Index was 50% Russell 3000 and 50% MSCI ACW ex USA (Standard). Prior periods were 40% S&P 500, 30% Russell 2500, and 30% MSCI ACW ex USA.
- (c) Prior to January 2014, the index was the MSCI ACW ex USA (Standard).
- (d) Prior to April 2008, the index was Bloomberg Barclays Capital Aggregate.
- (e) Prior to January 2014, the index was Citigroup 90 Day T-Bill plus 15 basis points.
- (f) The Private Equity Composite and Real Estate Composite are long-term programs whose benchmarks are only reported for 5 years and beyond.
- (g) Prior to January 2014, the index was S&P 500 plus 500 basis points.
- (h) Prior to January 2014, the index was Libor plus 400 basis points.
- (i) Franklin Benchmark is 50% JPM EMBI Global Diversified and 50% JPM GBI EM Diversified.
- (j) Prior to April 2008, the index was a custom index.
- (k) From October 2015, to March 2017, performance returns from the Opportunistic Income Pool are included in the Total Return Fixed Income Composite.

Note: Participant returns are net of fees. Portfolio returns are net of management fees. Returns shorter than one year are unannualized.

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Status Report: Workers' Compensation

Joint Committee on Government & Finance

September 2018

Provided by the West Virginia Offices of the Insurance Commissioner



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Introduction

With the passage of S.B. 1004 in January 2005, significant changes were made to workers' compensation insurance in West Virginia. The State administered monopolistic fund effectively ended when a new domestic mutual insurance company, "BrickStreet", was formed to issue workers' compensation insurance on a going forward basis. BrickStreet began writing new workers' compensation insurance liabilities effective January 2006. (They also retained the workers' compensation insurance premium and incurred liability starting in July 2005.) The West Virginia workers' compensation insurance market was later opened to competition beginning in July 2008.

At the time when the domestic mutual insurance company was formed in order to begin to privatize the workers' compensation insurance market in West Virginia, a large legacy liability existed stemming from the historical operation of the State administered monopolistic fund. Subsequent to privatization, this legacy liability was retained by the State of West Virginia in what is now known as the "Old Fund." The Old Fund consists of all historical claims with dates of injuries or last exposure through June 30, 2005. Apart from those sections which specifically reference other "funds," the "private market," or the "self-insured" community (which began in July 2004), this report concerns the workers' compensation legacy liability of the State of West Virginia, i.e. the Old Fund.

At January 2008, there were 47,961 active Old Fund workers' compensation insurance claims. The first Workers' Compensation Status Report to the Joint Committee on Government and Finance was issued in June 2008. The following pages update the status of the various workers' compensation funds and the activities associated with the administration of the workers' compensation responsibilities transitioned to the Offices of the Insurance Commissioner.

Definitions:

Appeal (BOR): A formal procedure conducted by the Board of Review at which a decision of an administrative law judge (OOJ) having presided over a matter of workers' compensation (Old Fund or Privately Insured) is to be afforded additional consideration. An appeal may be filed by any aggrieved party, such as a claimant, employer, dependent of a claimant, private insurance carrier, etc.

Board of Review: (BOR) A three judge panel that serves as an intermediate appellate tribunal in workers' compensation litigation. Specifically, the Board of Review reviews all appeals taken from any final decision of the Office of Judges. The BOR may reverse, vacate, modify or remand a decision of the Office of Judges. Any appeal taken from a Board of Review final order must be filed with the West Virginia Supreme Court of Appeals.

Claim Reserve: individual claim level cost estimate that is projected on the ultimate probable exposure; must be the best projection based on the facts and findings of the claim. This function is to capture the key components that impact the range of any impending cost in workers' compensation claims. No discounting is applied. The Indemnity Reserve is adjusted to cover the cost of loss or exposure both on a temporary and permanent basis. The reserve should also be adjusted to include the projected cost of any death and/or dependent benefits when appropriate. The Medical Reserve covers medical cost, hospital stays, specialized treatment, rehabilitation, durable medical equipment, and medications, etc. The Expense Reserve is placed for the cost of legal defense and investigations, etc. The reserves may be reduced based on the findings of early mortality factors.

Coal Workers' Pneumoconiosis Fund (CWP): State managed fund into which FBL premiums previously received are held, and out of which FBL benefits are paid. This fund was closed to future liabilities as of 12/31/2005. Because of the latency period between the date of last exposure and the onset of disease, new FBL claims will occur.

Fatal: claim under which the worker died as a result of injury or illness.

FBL: claim for Occupational Pneumoconiosis (Black Lung) benefits under Title IV of the federal Coal Mine Health and Safety Act of 1969, i.e. Federal Black lung, or FBL.

FBL Awarded Claim: an FBL claim that has been awarded but has not yet been accepted by the responsible operator/insurer

FBL Claim Notice: an FBL claim for which not initial decision has yet been made, but evidence in the claims indicates the potential for an award

FBL Non-active Claim: an FBL claim for which an award had been sought but was not afforded. Federal statutes permit an appeal process which lasts for 1 year, so the claim would be reopened for consideration upon appeal. Denied FBL claims are closed administratively after 6 months, as the TPA's bill for claims management services monthly on an open claims basis.

FBL Paying Claim: an FBL claim for which an award has been made and the responsible operator/insurer has accepted liability. Payments are being made to the claimant or dependents.

Indemnity: statutory wage replacement benefits awarded as a result of a worker's occupational illness or injury.

Med Only: claim under which only the payment of medical benefits was sought or awarded, i.e. no payment of wage replacement benefits (indemnity) is being made.

Office of Judges: (OOJ) An office comprised of administrative law judges who are charged with resolving protests or appeals to workers' compensation claims management decisions. The Office of Judges conducts hearings, receives and weighs evidence and arguments, and issues written decisions on protests or appeals from initial claim management decisions. Any final decision of the Office of Judges may be appealed to the workers' compensation Board of Review. The OOJ hears protests involving Old Fund claims as well as those arising from the private market (private carrier or privately insured.)

Old Fund: The residual assets and liabilities of the former Worker's Compensation Fund are now reported in a fund known as the Workers' Compensation Old Fund. Disbursements from the Old Fund are related to the liabilities and appropriate administrative expenses necessary for the administration of all claims, actual and incurred but not reported, for any claims with a date of injury on or before June 30, 2005.

OP/OD: claim of Occupational Pneumoconiosis or Occupational Disease. An OP claim could be considered the State level equivalent of an FBL claim; however, State OP claims provide for varying percentages of impairment where the FBL applicant must prove total impairment to be eligible. (State OP claims are awarded more frequently than FBL but afford lesser benefits.) An example of an OD claim would be occupational hearing loss.

Protest (OOJ): An objection to a ruling of a workers' compensation claim administrator (Old Fund or Private Market) which prompts the initiation of the adjudication process at the Office of Judges.

PPD: (Permanent Partial Disability) paid to compensate an injured worker for permanent impairment that results from an occupational injury or disease. The American Medical Association defines permanent impairment as impairment that has become static or well stabilized with or without medical treatment and is not likely to remit despite medical treatment. It should be noted, some injuries that are total loss by severance have statutory impairment ratings that are defined per WV Code §23-4-6(f). Payment for PPD is based upon 4 weeks of compensation for each one percent of disability.

PTD: (Permanent Total Disability) A disability which renders a claimant unable to engage in gainful employment requiring skills or abilities which can be acquired, or which are comparable to those of any gainful employment in which the claimant previously engaged with some regularity. While the comparison of pre-injury income and post-disability income is not a factor to be considered in determining whether or not a claimant is permanently and totally disabled, the geographic availability of gainful employment should be considered. Specifically, the geographic availability of gainful employment within a 75-mile driving distance of the claimant's home, or within the distance from the claimant's home to his or her pre-injury employment, whichever is greater, is a factor to be considered in determining whether or not a claimant is PTD.

Self-Insured: an employer who has met certain specific guidelines, and who is then permitted to guarantee their own payment and handling of workers' compensation claims to their employees in accordance with WV statutes.

Self-Insured Guaranty Fund: State managed fund consisting of those funds transferred to it from the guaranty pool created pursuant to 85 CSR §19 (2004) and any future funds collected through continued administration of that exempt legislative rule as administered by the WVOIC and out of which workers' compensation benefits may be paid. Covers claims liabilities of bankrupt or defaulted self-insured employers with dates of injury or last exposure after 07/01/2004.

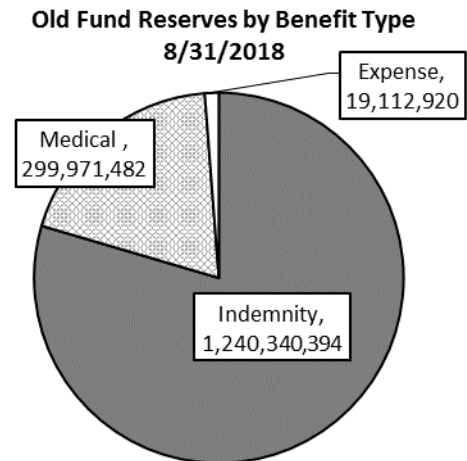
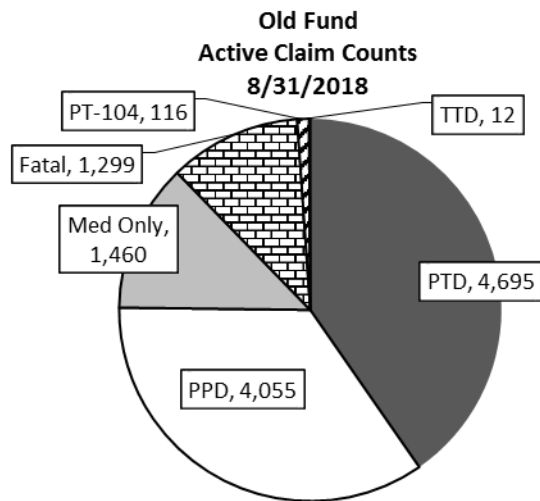
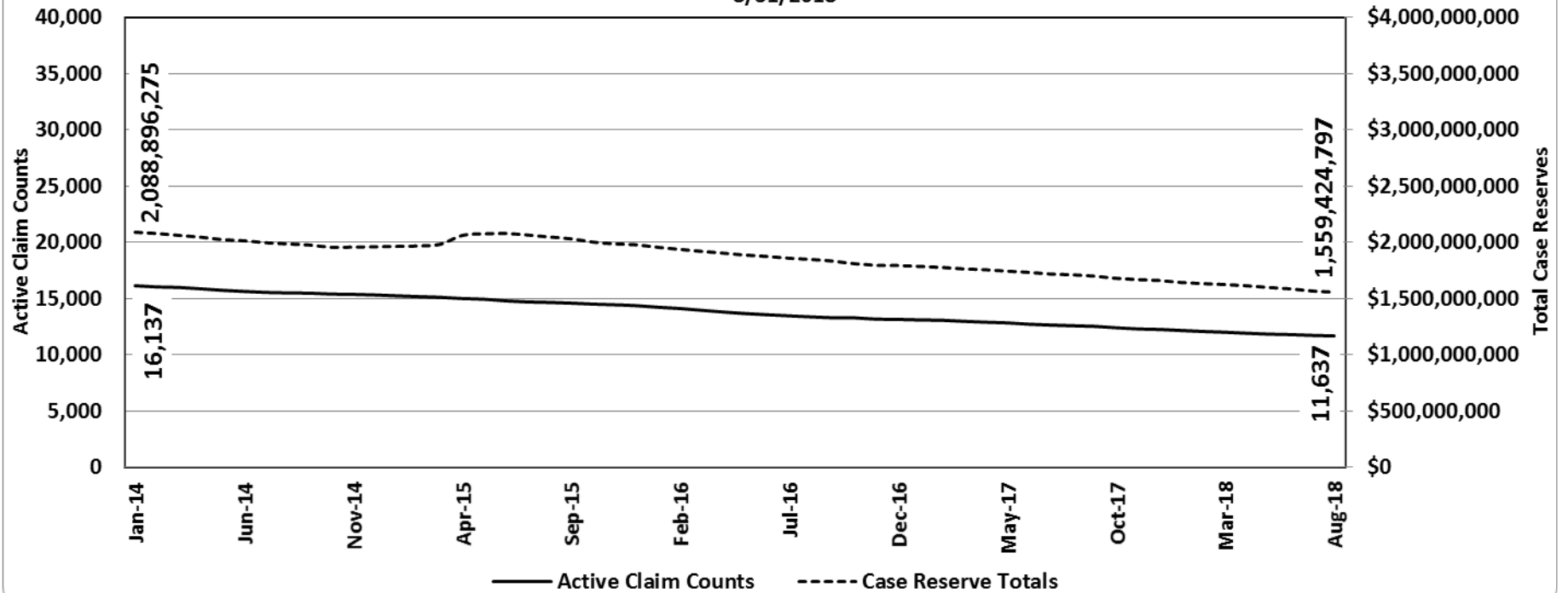
Self-Insured Security Fund: State managed fund consisting of those funds paid into it thru the WVOIC's administration of 85 CSR §19 (2004), and out of which workers' compensation benefits may be paid. Covers claims liabilities of bankrupt or defaulted self-insured employers with dates of injury or last exposure before 07/01/2004. This fund is limited to claimants of those self-insured employers who have defaulted on their claims obligations after 12/31/2005.

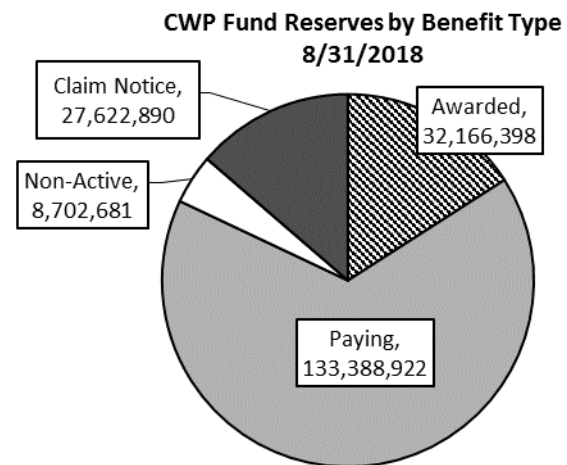
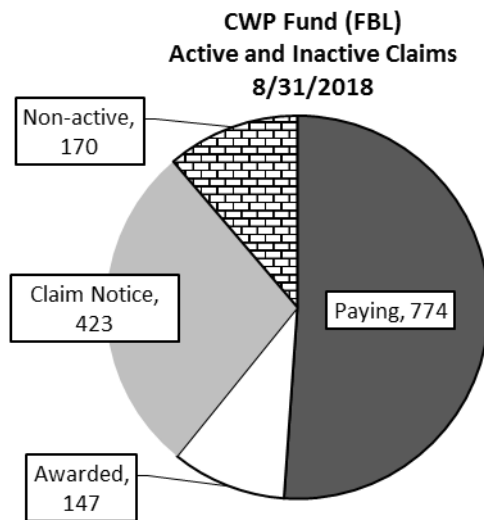
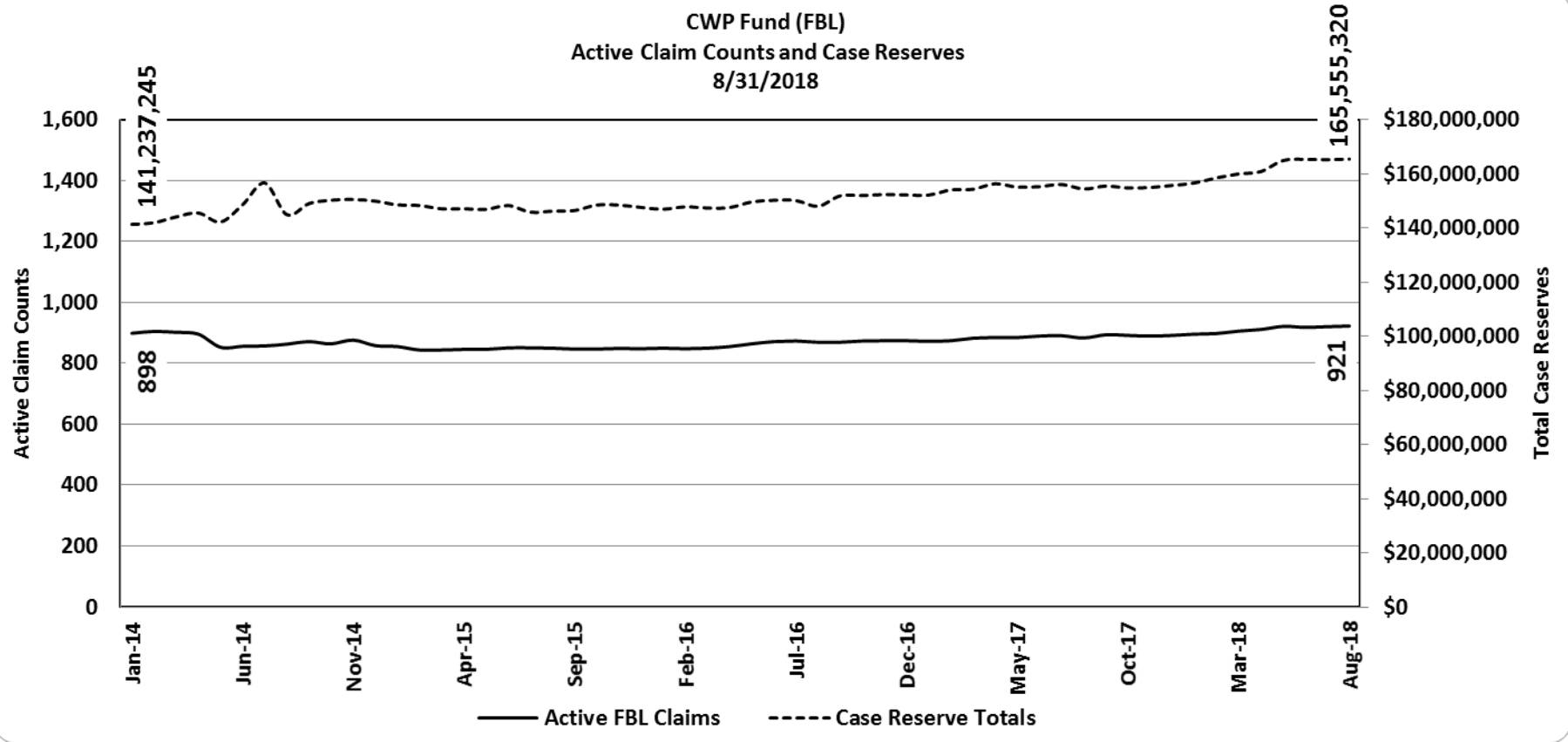
TPD: (Temporary Partial Disability) also referred to as TPR, is paid when an injured worker is released to return to work with restrictions or modifications that restrict he/she from obtaining their pre-injury wages. The TPD benefit is paid at seventy percent of the difference between the average weekly wage earnings earned at the time of injury and the average weekly wage earnings earned at the new employment.

TTD: (Temporary Total Disability) an inability to return to substantial gainful employment requiring skills or activities comparable to those of one's previous gainful employment during the healing or recovery period after the injury. In order to receive TTD benefits, the injured worker must be certified disabled due to the compensable injury by his/her treating physician.

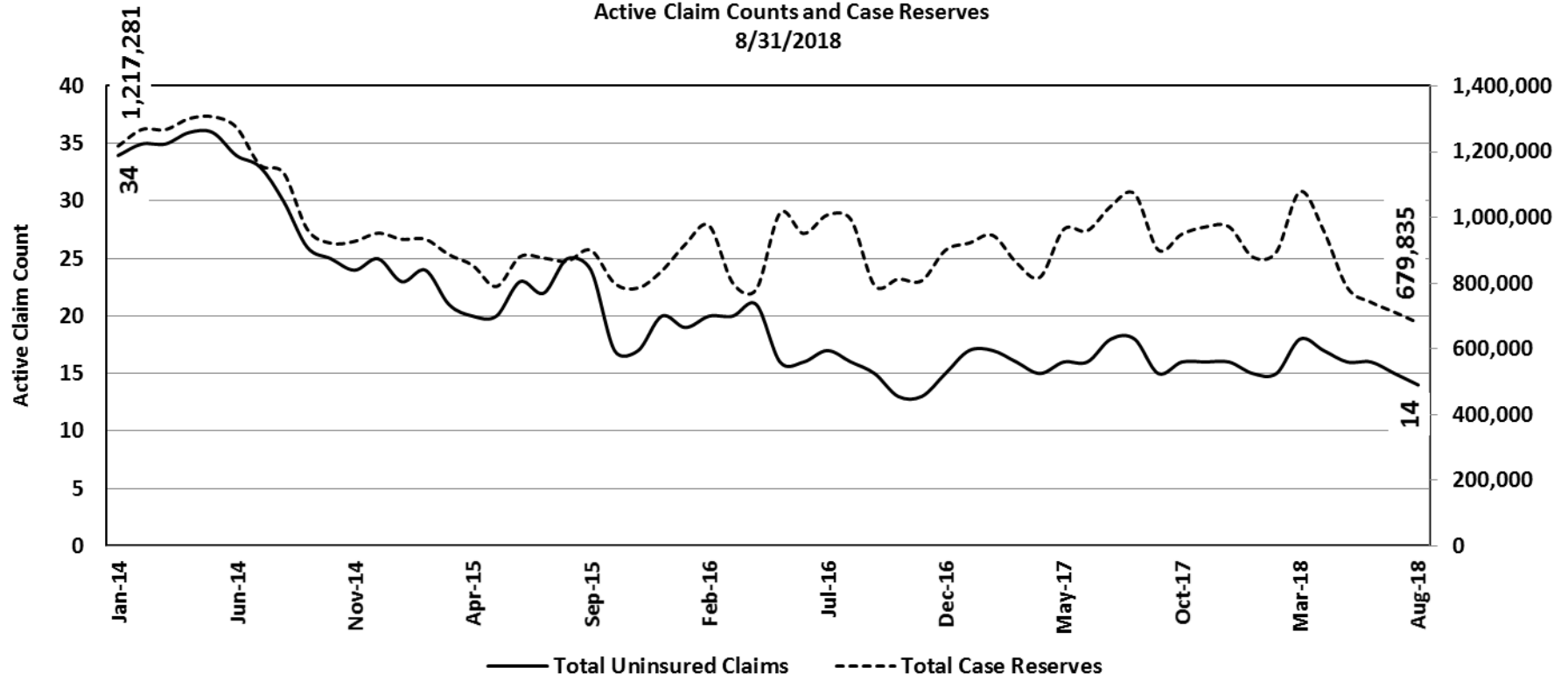
Uninsured Fund: State managed fund into which assessments to carriers or employers received are held, and out of which workers' compensation benefits may be paid to claimant employees of employers who were uninsured if the date of injury or date of last exposure is January 1, 2006 or later.

**Old Fund
Active Claim Counts and Case Reserves
8/31/2018**

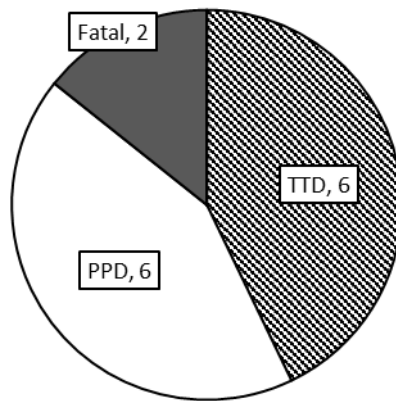




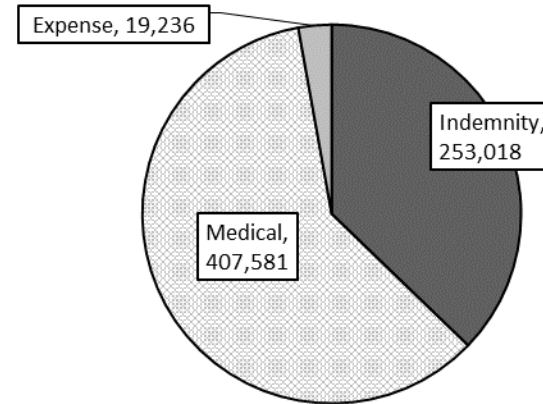
**Uninsured Fund
Active Claim Counts and Case Reserves
8/31/2018**



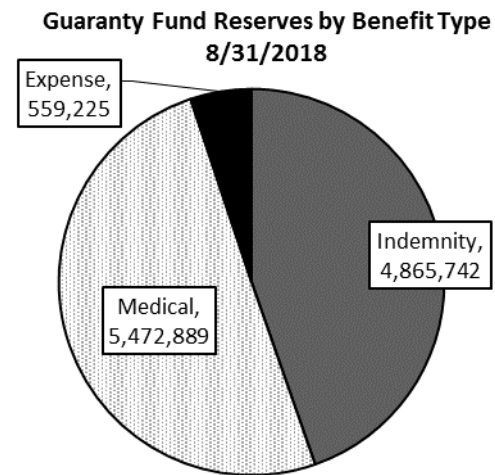
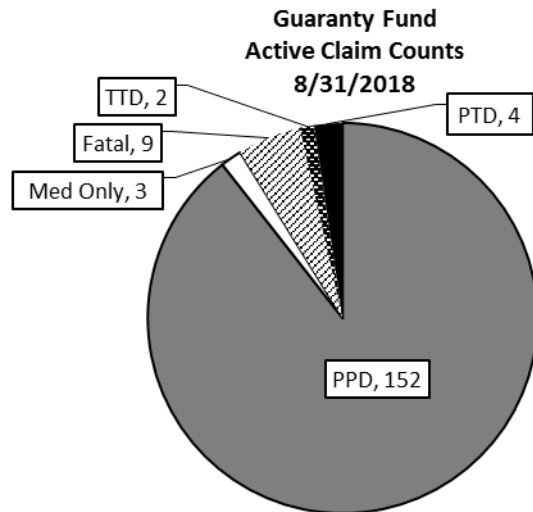
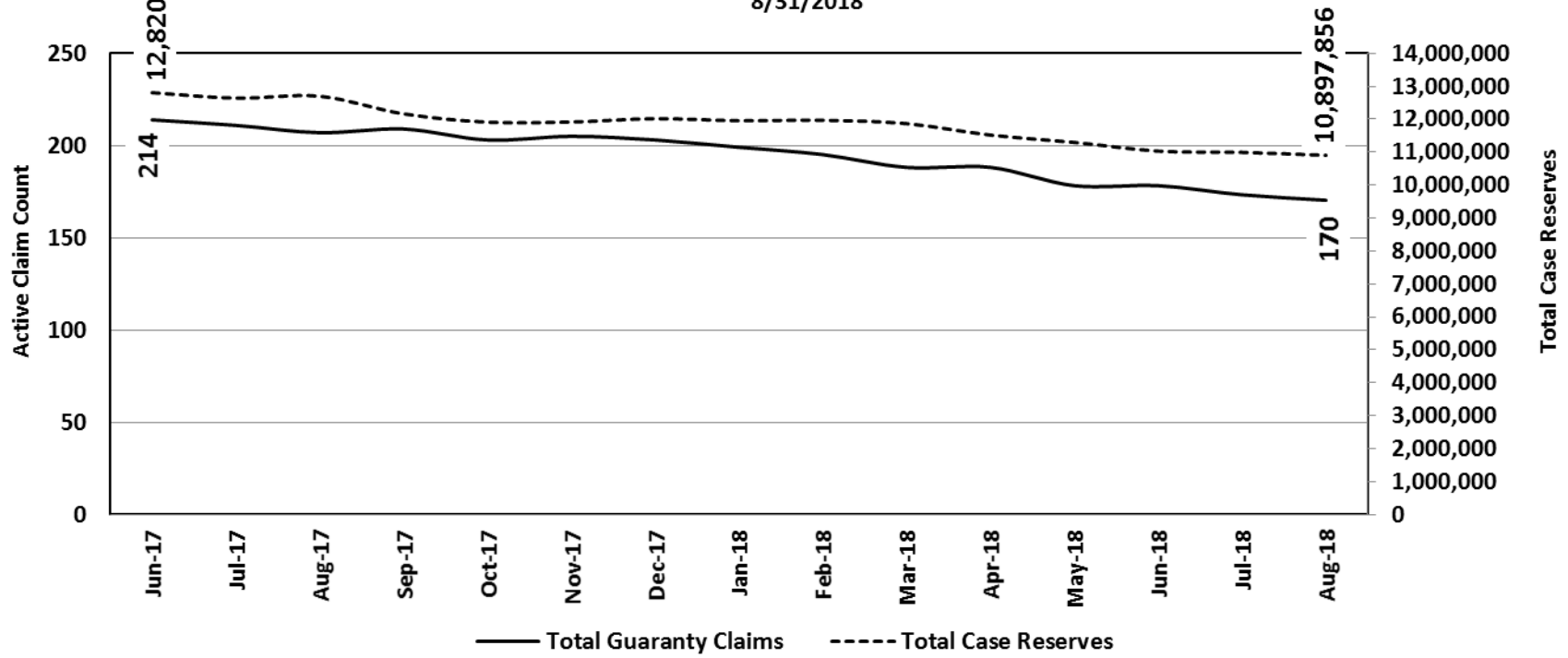
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Active Claim Counts
8/31/2018**



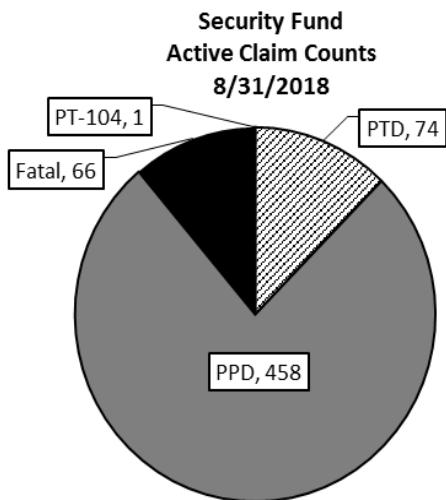
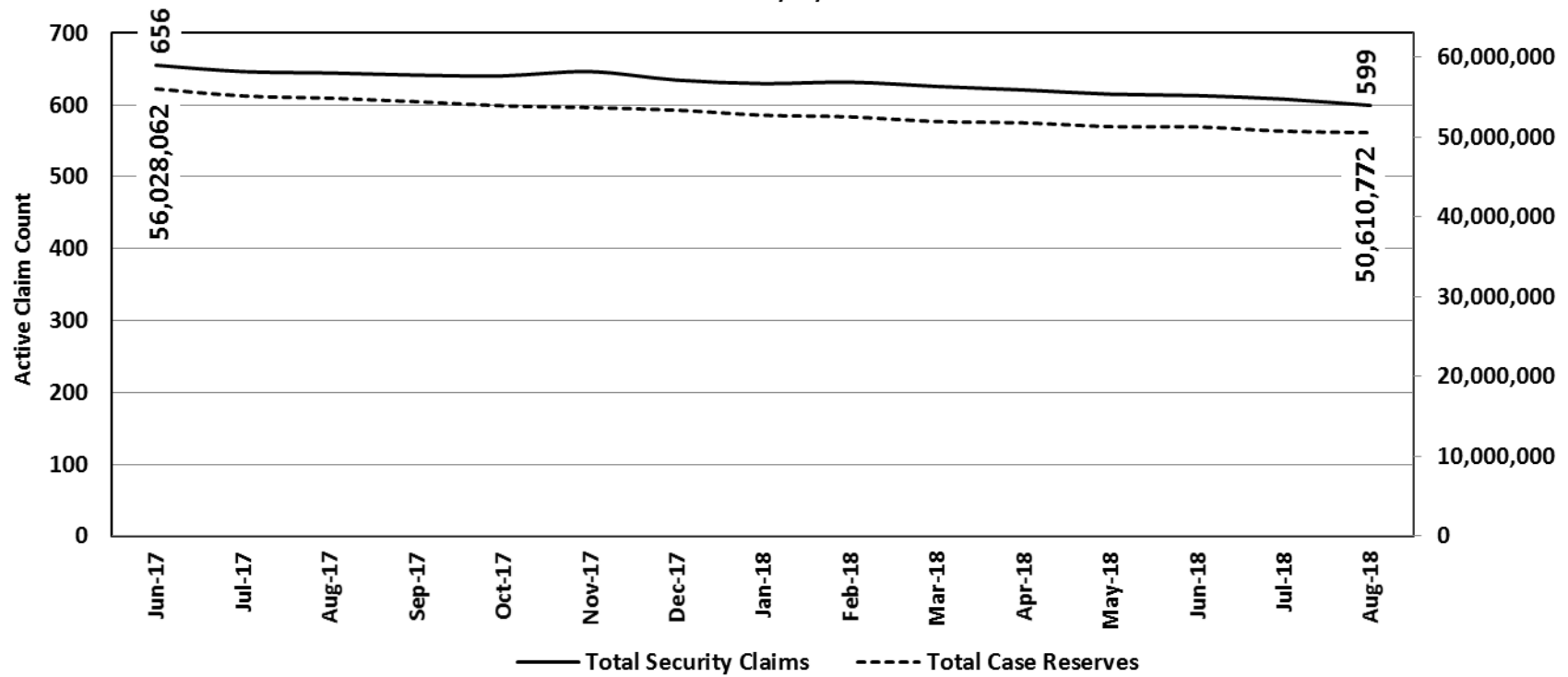
**Uninsured Fund Reserves by Benefit Type
8/31/2018**



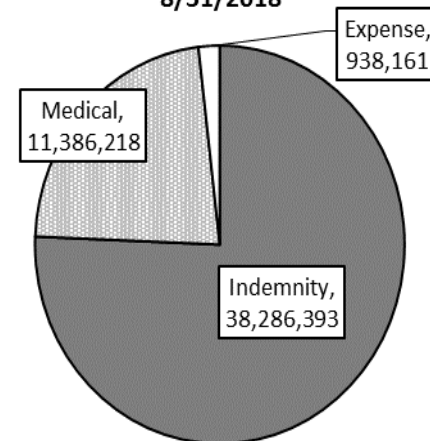
**Guaranty Fund
Active Claim Counts and Case Reserves
8/31/2018**



**Security Fund
Active Claim Counts and Case Reserves
8/31/2018**



**Security Fund Reserves by Benefit Type
8/31/2018**



OLD FUND CASH STATEMENT

August 31, 2018

Three Year History for years ended:

	YTD FY2019	YTD FY2018	Change	FY2018	FY2017	FY2016
Cash Beginning Balances	1,190,163,510	1,263,372,448	(73,208,938)	1,263,372,448	1,280,647,632	1,311,653,269
Revenues						
Personal Income Tax	-	-	-	-	-	42,400,000
Severance Tax	812,164	-	812,164	-	13,887,551	73,068,796
Debt Reduction Surcharge	1,236,338	1,505,356	(269,018)	6,668,291	12,336,645	25,211,458
Self-Insured Debt Reduction Surcharge	516,713	357,794	158,920	2,130,127	4,346,111	6,209,330
Video Lottery	-	-	-	2,750,000	5,500,000	6,734,934
Employer Premium	13,704	16,816	(3,112)	513,387	62,806	111,955
Other Income - Return of Unclaimed Property	-	73,888	(73,888)	273,871	354,423	184,888
Operating Revenues	2,578,919	1,953,854	625,065	12,335,675	36,487,535	153,921,361
Investment / Interest Earnings (Losses)	6,002,366	20,690,664	(14,688,298)	67,551,779	112,116,554	(5,981,504)
Total Revenues	8,581,284	22,644,518	(14,063,233)	79,887,454	148,604,089	147,939,857
Expenditures						
Claims Benefits Paid:						
Medical	4,256,992	4,048,675	208,317	25,531,399	27,437,375	26,890,541
Permanent Total Disability	13,883,452	14,815,248	(931,795)	86,779,468	92,140,733	98,784,921
Permanent Partial Disability	39,358	44,294	(4,936)	301,824	336,015	232,699
Temporary Disability	23,996	4,939	19,057	18,268	-	8,554
Fatals	3,433,575	3,659,314	(225,739)	21,608,332	22,990,499	24,098,586
104 weeks death benefit	800,266	617,179	183,087	5,182,930	5,825,439	6,990,581
Settlements	399,051	791,296	(392,245)	7,058,622	11,716,131	12,718,425
Loss Adjustment Expenses	255,686	215,561	40,125	1,324,887	1,446,808	1,970,779
Total	23,092,375	24,196,506	(1,104,131)	147,805,732	161,893,000	171,695,087
Less: Claims credits and overpayments	546,834	618,855	(72,022)	2,877,784	5,080,389	3,044,395
Total Benefits Paid	22,545,542	23,577,651	(1,032,109)	144,927,948	156,812,611	168,650,692
Administrative Expenses	640,992	750,918	(109,926)	8,168,444	9,066,663	10,294,801
Total Expenditures	23,186,533	24,328,569	(1,142,036)	153,096,392	165,879,274	178,945,493
Excess (Deficiency) of Revenues over Expenditures	(14,605,249)	(1,684,051)	(12,921,198)	(73,208,938)	(17,275,184)	(31,005,636)
Cash Ending Balances	1,175,558,261	1,261,688,396	(86,130,136)	1,190,163,510	1,263,372,448	1,280,647,632

Note: The purpose of this report is to enhance the user's ability to monitor the cash activities of the Old Fund. The Old Fund assets consist of cash and investments with the WV Investment Management Board. Investment earnings are presented in the month in which the State Treasurer records the earnings in the statewide accounting system, wvOASIS. The liabilities of the Old Fund consist of the worker's compensation claims and related expenses for all claims, actual and incurred but not reported for claims with dates of injury on or before June 30, 2005. This report is intended to provide a summary of the cash-based transactions related to the Fund's assets and liabilities and is not an accrual based presentation. The Old Fund Cash Statement is unaudited information.

COAL WORKERS PNEUMOCONIOSIS FUND

August 31, 2018

				Three Year History for years ended:		
				FY2018	FY2017	FY2016
	YTD FY2019	YTD FY2018	Change			
Cash Beginning Balances	246,768,365	251,313,328	(4,544,963)	251,313,328	245,945,240	264,657,327
Revenues						
Investment Earnings (Losses)	1,321,783	4,025,689	(2,703,907)	13,912,317	22,100,417	(5,091,164)
Other Income - Return of Unclaimed Property	-	-	-	645	8,353	3,797
Total Revenues	1,321,783	4,025,689	(2,703,907)	13,912,961	22,108,770	(5,087,367)
Expenditures						
Claims Benefits Paid:						
Medical	691,121	627,262	63,859	6,709,112	4,032,649	2,830,426
PTD and Fatal Indeminty	1,444,678	1,343,025	101,653	7,945,389	8,174,289	7,548,752
Loss Adjustment Expenses	793,991	554,230	239,761	3,165,542	3,783,923	2,629,468
Total	2,929,790	2,524,517	405,273	17,820,043	15,990,861	13,008,646
Less: Claims Credits and Overpayments	21,326	142,491	(121,164)	268,646	125,895	130,620
Total Benefits Paid	2,908,464	2,382,027	526,437	17,551,397	15,864,966	12,878,025
Administrative Expenses	161,788	141,088	20,700	906,527	875,715	746,696
Total Expenditures	3,070,252	2,523,115	547,137	18,457,924	16,740,681	13,624,721
Excess (Deficiency) of Revenues over Expenditures	(1,748,469)	1,502,574	(3,251,044)	(4,544,963)	5,368,089	(18,712,088)
Cash Ending Balances	245,019,896	252,815,902	(7,796,005)	246,768,365	251,313,328	245,945,240

Note: The Coal Worker's Pneumoconiosis Fund (CWP Fund) ceased operations December 31, 2005 and is in run-off status under the administrative oversight of the Insurance Commissioner. Established in 1973, the CWP Fund existed to provide insurance coverage to companies for liabilities incurred as a result of the Federal Coal Mine Health and Safety Act of 1969. Participation in the CWP Fund was voluntary for employers. The current revenues of the CWP Fund are limited to the earnings from invested assets. Assets of the CWP Fund are invested with the WV Investment Management Board. The investment earnings are presented in the month in which the State Treasurer records the earnings. The liabilities of the CWP Fund consist of the claims for coal miners who are totally disabled or beneficiaries of coal miners who have died as a result of coal worker's pneumoconiosis. To be eligible for benefits from the CWP Fund, the date of last exposure of the coal miner must be on or before December 31, 2005. The Coal Workers Cash Statement is unaudited information.

SELF-INSURED GUARANTY RISK POOL

August 31, 2018

				Three Year History for years ended:			
	Cash Beginning Balances	YTD FY2019 34,042,831	YTD FY2018 33,836,322	Change 206,509	FY2018 33,836,322	FY2017 33,462,454	FY2016 16,014,340
Revenues							
Guaranty Risk Pool Assessments		(354)	-	(354)	-	-	18,684
Collateral Proceeds		-	-	-	-	-	19,422,025
Investment Earnings (Losses)		178,887	538,713	(359,826)	1,873,190	3,012,508	(155,883)
Total Revenues		178,533	538,713	(360,180)	1,873,190	3,012,508	19,284,826
Expenditures							
Claims Benefits Paid:							
Medical		91,252	58,677	32,575	239,490	503,912	309,470
Permanent Total Disability		17,065	10,620	6,445	181,821	63,717	43,638
Permanent Partial Disability		61,677	110,668	(48,991)	522,798	972,712	612,823
Temporary Disability		-	15,892	(15,892)	56,649	375,328	303,724
Fatals		37,801	46,168	(8,367)	253,055	277,011	257,806
104 Weeks Death Benefit		-	-	-	-	-	-
Settlement Agreements		-	-	-	170,000	3,800	-
Non Awarded Partial Disability		-	-	-	10,904	4,407	9,377
Loss Adjustment Expenses		28,672	19,687	8,985	123,706	255,219	163,819
Total		236,468	261,713	(25,245)	1,558,423	2,456,105	1,700,657
Less: Claims Credits and Overpayments		205	-	205	12,868	2,723	17,176
Total Benefits Paid		236,263	261,713	(25,450)	1,545,555	2,453,382	1,683,481
Administrative Expenses		7,919	11,955	(4,036)	121,127	185,258	153,231
Total Expenditures		244,182	273,668	(29,486)	1,666,682	2,638,640	1,836,711
Excess (Deficiency) of Revenues over Expenditures		(65,649)	265,046	(330,694)	206,509	373,868	17,448,114
Cash Ending Balances		33,977,182	34,101,368	(124,185)	34,042,831	33,836,322	33,462,454

The Self-Insured Guaranty Risk Pool covers the claims liabilities of bankrupt or defaulted self-insured employers with dates of injury subsequent to July 1, 2004. The revenues of the Self-Insured Guaranty Fund are comprised of the guaranty risk pool assessments levied on all self-insured employers and the earnings on invested assets. The assets of the Self-insured Guaranty Risk Pool are invested with the WV Investment Management Board. Investment earnings are presented in the month in which the State Treasurer records the earnings in the statewide accounting system, wvOASIS. The Self-Insured Guaranty Cash Statement is unaudited information.

SELF-INSURED SECURITY RISK POOL

August 31, 2018

	YTD FY2019	YTD FY2018	Change	Three Year History for years ended:		
				FY2018	FY2017	FY2016
Cash Beginning Balances	53,404,259	54,448,203	(1,043,944)	54,448,203	53,859,338	9,208,803
Revenues						
Security Risk Pool Assessments	-	-	-	-	-	230,340
Collateral Proceeds	-	-	-	-	-	47,503,193
Investment Earnings (Losses)	286,971	875,939	(588,968)	3,015,368	4,914,238	201,775
Total Revenues	286,971	875,939	(588,968)	3,015,368	4,914,238	47,935,308
Expenditures						
Claims Benefits Paid:						
Medical	92,795	237,643	(144,848)	802,935	778,632	479,295
Permanent Total Disability	253,218	255,191	(1,973)	1,603,037	1,576,942	1,163,198
Permanent Partial Disability	2,705	-	2,705	-	-	7,560
Temporary Disability	-	-	-	-	-	-
Fatals	191,586	216,408	(24,822)	1,230,799	1,333,911	1,183,728
104 Weeks Death Benefit	-	12,190	(12,190)	37,804	134,935	92,595
Settlement Agreements	2,094	2,094	-	207,565	14,165	21,177
Loss Adjustment Expenses	19,325	16,300	3,026	88,371	151,558	54,047
Total	561,724	739,826	(178,102)	3,970,511	3,990,143	3,001,600
Less: Claims Credits and Overpayments	763	836	(73)	223,585	38,143	4,925
Total Benefits Paid	560,961	738,991	(178,030)	3,746,926	3,952,000	2,996,676
Administrative Expenses	24,874	26,426	(1,552)	312,386	373,374	288,097
Total Expenditures	585,835	765,417	(179,582)	4,059,312	4,325,374	3,284,773
Excess (Deficiency) of Revenues over Expenditures	(298,864)	110,523	(409,387)	(1,043,944)	588,865	44,650,535
Cash Ending Balances	53,105,395	54,558,726	(1,453,331)	53,404,259	54,448,203	53,859,338

The Self-Insured Security Risk Pool is liable for the worker's compensation claims of bankrupt or defaulted self-insured employers with dates of injury prior to July 1, 2004. However, the obligations of this Fund are limited to the exposures of self-insured employers who default subsequent to December 31, 2005. The assets of the Self-insured Security Risk Pool are invested with the WV Investment Management Board. Investment earnings are presented in the month in which the State Treasurer records the earnings in the statewide accounting system, wvOASIS. The Self-Insured Security Cash Statement is unaudited information.

UNINSURED EMPLOYERS FUND

August 31, 2018

Three Year History for years ended:

	YTD FY2019	YTD FY2018	Change	FY2018	FY2017	FY2016
Cash Beginning Balances	12,989,971	12,760,544	229,426	12,760,544	11,864,792	12,125,188
Revenues						
Fines and Penalties	164,674	61,732	102,941	436,728	595,742	625,093
Investment Earnings (Losses)	69,873	185,663	(115,789)	660,537	962,646	(205,615)
Total Revenues	234,547	247,395	(12,848)	1,097,265	1,558,387	419,478
Expenditures						
Claims Benefits Paid:						
Medical	109,190	1,583	107,607	164,187	30,783	47,718
Permanent Total Disability	-	-	-	-	-	-
Permanent Partial Disability	9,191	4,056	5,135	33,025	51,760	4,738
Temporary Disability	14,079	13,366	713	104,582	25,414	113,212
Fatals	8,338	8,338	-	50,030	50,030	52,164
104 Weeks Death Benefit	-	-	-	-	-	-
Settlement Agreements	3,500	-	3,500	344,000	255,715	228,577
Loss Adjustment Expenses	9,964	968	8,995	5,846	6,969	5,868
Total	154,262	28,311	125,950	701,671	420,672	452,276
Less: Claims Credits and Overpayments	4,266	-	4,266	47,333	33,341	1,558
Total Benefits Paid	149,996	28,311	121,684	654,338	387,331	450,719
Administrative Expenses	1,088	1,088	-	213,501	275,304	229,156
Total Expenditures	151,084	29,399	121,684	867,839	662,635	679,875
Excess (Deficiency) of Revenues over Expenditures	83,463	217,996	(134,532)	229,426	895,753	(260,397)
Cash Ending Balances	13,073,434	12,978,540	94,894	12,989,971	12,760,544	11,864,792

The Uninsured Employer's Fund (UEF) was established January 1, 2006 to provide worker's compensation benefits to injured workers of uninsured WV employers. The revenues of the UEF consist of fines levied on uninsured employers and the earnings on invested assets. The assets of the UEF are invested with the WV Investment Management Board. Investment earnings are presented in the month in which the State Treasurer records the earnings in the statewide accounting system, wvOASIS. The Insurance Commissioner has the right to levy assessments on employers in order to maintain the solvency of the Fund. The Commissioner may recover all payments made from this fund, including interest, from an uninsured employer who is found liable for benefits paid from the UEF. The Uninsured Cash Statement is unaudited information.

WEST VIRGINIA BOARD OF TREASURY INVESTMENTS

CALENDAR NOTE

Board Meeting
August 08, 2018

OPERATING REPORT MAY 2018

Board of Treasury Investments

315 70th Street, SE
Charleston WV
25304
(304) 340-1564
www.wvbtli.com

Board of Directors

John D. Perdue,
State Treasurer,
Chairman

James C. Justice II,
Governor

John B. McCuskey,
State Auditor

Glenda Probst
Appointed by the
Governor

Michael L. Glasser,
Esq. Attorney
Appointed by the
Governor

Executive Staff

Executive
Director

Kara K. Hughes,
CPA, MBA, CFE

Chief Financial
Officer

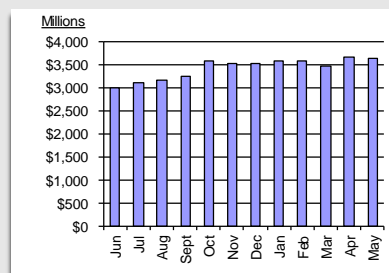
Karl Shanholtzer,
CFA, CPA, CIA

Total Net Assets Under Management

\$3,638,988,000

Last Month
\$3,664,719,000

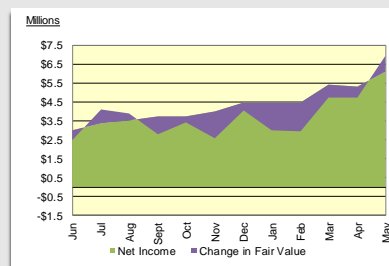
Beginning of Fiscal Year
\$2,999,927,000



**Net Assets for the Past
12 Months**

Total Net Income & Changes in Fair Value

Fiscal Year
\$43,286,000



**Monthly Net Income &
Changes in Fair Value for
the Past 12 Months**

Money Market Pools As of May 31, 2018

<u>Pool</u>	<u>30-Day Avg. Yield *</u>	<u>W.A.M. **</u>	<u>Net Assets</u>
WV Money Market	1.9854%	33 Days	\$2.5 Billion
WV Gov't Money Market	1.6931%	20 Days	\$204.2 Million

* Yields represent the simple money market yield net of fees.

** W.A.M. is the weighted average maturity.

WEST VIRGINIA BOARD OF TREASURY INVESTMENTS

THE ECONOMIC STATE

MAY 2018

Volatility a Mainstay

Market Results

Volatility remained a mainstay in May amid festering trade tensions between the US and China and Italy's struggle to form a new government. The US dollar strengthened 2% relative to a basket of major currencies, fueling declines of 2.2% and 3.5% in the MSCI EAFE and MSCI Emerging Markets indexes, respectively. In contrast, the S&P 500 Index gained 2.4% last month.

Within fixed income, safe-haven asset classes edged up modestly. The yield curve shifted downward slightly with the 10-year declining nine basis points to 2.86%, despite hitting 3.1% during the month, and the 30-year falling 10 basis points to 3.03%. As a result, the Barclays Long US Treasury and Barclays Long Credit indexes increased 2.1% and 0.5%, respectively. Outside the US, European government bond yields broadly declined with the 10-year German Bund yield falling 22 basis points to 0.34%. The spread between 10-year German and Italian sovereign debt touched 2.53%—the highest since 2013—amid political turmoil in Italy. In emerging markets, weakening local currencies fueled declines of 5% in the JPM GBI-EM Index.

Liquid real assets maintained their winning streak as oil prices, bolstered by OPEC production cuts, geopolitical instability in some oil-producing regions and strong global demand, touched \$80 per barrel — a first since 2014. Additionally, the Alerian MLP Index continued to rebound – increasing 5.0% for the month.

Market Outlook

At NEPC, we expect underlying market conditions to remain supportive for international and emerging market equities. With the potential for continued volatility, we encourage the addition of safe-haven fixed-income exposure to mitigate the impact of potential market drawdowns. We remind clients to stay committed to a risk-balanced approach and to evaluate market opportunities should larger short-term dislocations occur.

West Virginia Board of Treasury Investments Financial Highlights as of May 31, 2018

WV Short Term Bond Pool

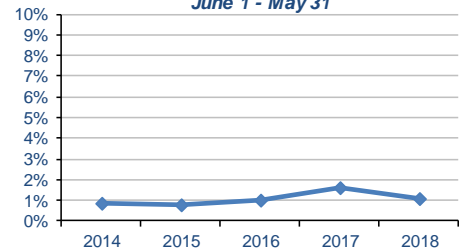
Rates of Return for the Past 12 Months *Net of All Fees*

<u>June 1 - May 31</u>	<u>Return</u>	<u>Net Assets At May 31 (In Millions)</u>
2018	1.1%	\$ 708.9
2017	1.6%	\$ 750.5
2016	1.0%	\$ 790.3
2015	0.8%	\$ 769.0
2014	0.8%	\$ 773.8

Prior to July 2007, the WV Short Term Bond Pool was known as the Enhanced Yield Pool

WV Short Term Bond Pool Rates of Return

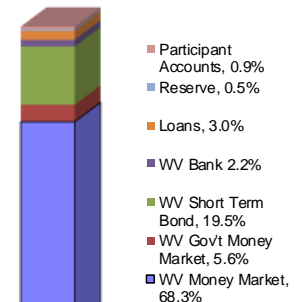
*Past 12 Months
June 1 - May 31*



Summary of Value and Earnings *(In Thousands)*

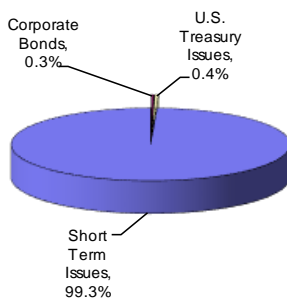
<u>Pool</u>	<u>Net Asset Value</u>	<u>May Net Income (Loss)</u>	<u>Fiscal YTD Net Income (Loss)</u>
WV Money Market	\$ 2,484,062	\$ 4,190	\$ 30,634
WV Gov't Money Market	204,162	330	2,547
WV Short Term Bond	708,891	2,133	7,603
WV Bank	81,516	123	992
Loans	109,949	81	919
Reserve	19,093	32	239
Participant Accounts	31,315	42	352
	<u>\$ 3,638,988</u>	<u>\$ 6,931</u>	<u>\$ 43,286</u>

Percent of Total Net Asset Value

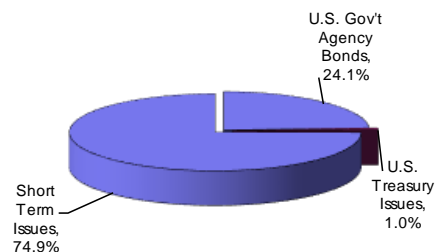


Securities by Type for Operating Pools *(Percentage of Asset Value)*

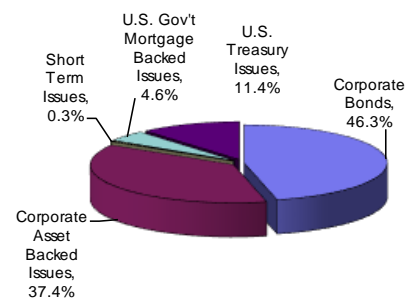
WV Money Market



WV Gov't Money Market



WV Short Term Bond



WEST VIRGINIA BOARD OF TREASURY INVESTMENTS
SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION – UNAUDITED
MAY 31, 2018

(IN THOUSANDS)

	<u>WV Money Market Pool</u>	<u>WV Government Money Market Pool</u>	<u>WV Short Term Bond Pool</u>	<u>WV Bank Pool</u>	<u>Other Pools</u>	<u>Participant Directed Accounts</u>	<u>Total</u>
Assets							
Investments:							
At amortized cost	\$ 2,502,342	\$ 204,169	\$ -	\$ 81,148	\$ 128,932	\$ -	\$ 2,916,591
At fair value	-	-	708,182	-	-	31,203	739,385
Other assets	2,224	63	2,355	373	116	112	5,243
Total assets	<u>2,504,566</u>	<u>204,232</u>	<u>710,537</u>	<u>81,521</u>	<u>129,048</u>	<u>31,315</u>	<u>3,661,219</u>
Liabilities							
Accrued expenses, dividends payable & payables for investments purchased	<u>20,504</u>	<u>70</u>	<u>1,646</u>	<u>5</u>	<u>6</u>	<u>-</u>	<u>22,231</u>
Total liabilities	<u>20,504</u>	<u>70</u>	<u>1,646</u>	<u>5</u>	<u>6</u>	<u>-</u>	<u>22,231</u>
Net Position							
Held in trust for investment pool participants	2,484,062	204,162	708,891	81,516	129,042	-	3,607,673
Held in trust for individual investment account holders	-	-	-	-	-	31,315	31,315
Total net position	<u>\$ 2,484,062</u>	<u>\$ 204,162</u>	<u>\$ 708,891</u>	<u>\$ 81,516</u>	<u>\$ 129,042</u>	<u>\$ 31,315</u>	<u>\$ 3,638,988</u>
Additions							
Investment income:							
Interest and dividends	\$ 2,061	\$ 151	\$ 1,414	\$ 126	\$ 116	\$ 38	\$ 3,906
Net (amortization) accretion	2,280	194	(3)	-	-	(7)	2,464
Provision for uncollectible loans	-	-	-	-	-	-	-
Total investment income	<u>4,341</u>	<u>345</u>	<u>1,411</u>	<u>126</u>	<u>116</u>	<u>31</u>	<u>6,370</u>
Investment expenses:							
Investment advisor, custodian bank & administrative fees	<u>151</u>	<u>15</u>	<u>78</u>	<u>3</u>	<u>3</u>	<u>-</u>	<u>250</u>
Total investment expenses	<u>151</u>	<u>15</u>	<u>78</u>	<u>3</u>	<u>3</u>	<u>-</u>	<u>250</u>
Net investment income	4,190	330	1,333	123	113	31	6,120
Net realized gain (loss) from investments	-	-	(23)	-	-	-	(23)
Net increase (decrease) in fair value of investments	<u>-</u>	<u>-</u>	<u>823</u>	<u>-</u>	<u>-</u>	<u>11</u>	<u>834</u>
Net increase (decrease) in net position from operations	4,190	330	2,133	123	113	42	6,931
Participant transaction additions:							
Purchase of pool units by participants	825,892	37,012	-	104	29	-	863,037
Reinvestment of pool distributions	4,190	330	1,206	123	113	-	5,962
Contributions to individual investment accounts	-	-	-	-	-	110	110
Total participant transaction additions	<u>830,082</u>	<u>37,342</u>	<u>1,206</u>	<u>227</u>	<u>142</u>	<u>110</u>	<u>869,109</u>
Total additions	834,272	37,672	3,339	350	255	152	876,040
Deductions							
Distributions to pool participants:							
Net investment income	4,190	330	1,333	123	113	-	6,089
Net realized gain (loss) from investments	-	-	(23)	-	-	-	(23)
Total distributions to pool participants	<u>4,190</u>	<u>330</u>	<u>1,310</u>	<u>123</u>	<u>113</u>	<u>-</u>	<u>6,066</u>
Participant transaction deductions:							
Redemption of pool units by participants	848,083	40,837	-	104	2,406	-	891,430
Withdrawals from individual investment accounts	-	-	-	-	-	4,275	4,275
Total participant transaction deductions	<u>848,083</u>	<u>40,837</u>	<u>-</u>	<u>104</u>	<u>2,406</u>	<u>4,275</u>	<u>895,705</u>
Total deductions	<u>852,273</u>	<u>41,167</u>	<u>1,310</u>	<u>227</u>	<u>2,519</u>	<u>4,275</u>	<u>901,771</u>
Net increase (decrease) in net position from operations	(18,001)	(3,495)	2,029	123	(2,264)	(4,123)	(25,731)
Inter-pool transfers in	-	-	-	2,900	-	-	2,900
Inter-pool transfers out	<u>(2,900)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,900)</u>
Net inter-pool transfers in (out)	<u>(2,900)</u>	<u>-</u>	<u>-</u>	<u>2,900</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	(20,901)	(3,495)	2,029	3,023	(2,264)	(4,123)	(25,731)
Net position at beginning of period	2,504,963	207,657	706,862	78,493	131,306	35,438	3,664,719
Net position at end of period	<u>\$ 2,484,062</u>	<u>\$ 204,162</u>	<u>\$ 708,891</u>	<u>\$ 81,516</u>	<u>\$ 129,042</u>	<u>\$ 31,315</u>	<u>\$ 3,638,988</u>

WEST VIRGINIA BOARD OF TREASURY INVESTMENTS

CALENDAR NOTE

Board Meeting
August 08, 2018

OPERATING REPORT JUNE 2018

Board of Treasury Investments

315 70th Street, SE
Charleston WV
25304
(304) 340-1564
www.wvbtli.com

Board of Directors

John D. Perdue,
State Treasurer,
Chairman

James C. Justice II,
Governor

John B. McCuskey,
State Auditor

Glenda Probst
Appointed by the
Governor

Michael L. Glasser,
Esq. Attorney
Appointed by the
Governor

Executive Staff

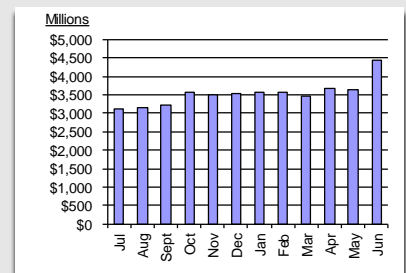
Executive
Director
Kara K. Hughes,
CPA, MBA, CFE
Chief Financial
Officer
Karl Shanholtzer,
CFA, CPA, CIA

Total Net Assets Under Management

\$4,429,483,000

Last Month
\$3,638,988,000

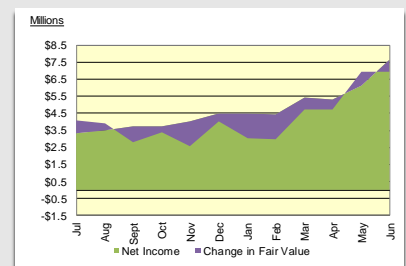
Beginning of Fiscal Year
\$2,999,927,000



**Net Assets for the Past
12 Months**

Total Net Income & Changes in Fair Value

Fiscal Year
\$50,223,000



**Monthly Net Income &
Changes in Fair Value for
the Past 12 Months**

Money Market Pools As of June 30, 2018

<u>Pool</u>	<u>30-Day Avg. Yield *</u>	<u>W.A.M. **</u>	<u>Net Assets</u>
WV Money Market	2.0575%	34 Days	\$3.3 Billion
WV Gov't Money Market	1.7619%	21 Days	\$212.4 Million

* Yields represent the simple money market yield net of fees.

** W.A.M. is the weighted average maturity.

WEST VIRGINIA BOARD OF TREASURY INVESTMENTS

THE ECONOMIC STATE

JUNE 2018

Unchanged Global Outlook

Market Results

Equities saw no respite from volatility in June as trade concerns weighed on markets. Despite the uncertainty, the S&P 500 Index eked out gains of 0.6% for the month – ending the quarter up 3.4%. However, markets outside the US fared worse. Roiled by a strengthening US dollar—the yuan, for instance, fell 4.2% versus the dollar—the MSCI EAFE and MSCI Emerging Markets indexes declined 1.2% and 4.2%, respectively.

Last month, the Federal Reserve raised rates for the second time in 2018 and signaled the likelihood of two additional hikes this year. In contrast, the European Central Bank, on the back of disappointing economic data and low core inflation, said it would not increase interest rates until at least the end of summer 2019. However, in a move towards tightening monetary policy, the ECB confirmed it would end its quantitative easing program by the end of this year.

While most US safe-haven fixed-income assets were in the black, long credit-based indexes declined as long credit spreads increased 10 basis points in June. As a result, the Barclays Long Credit Index fell 1.2% last month. Additionally, emerging market debt indexes declined amid fund outflows and currency weakness, with the JPM EMBI Global Diversified and the JPM GBI-EM Global Diversified indexes falling 1.2% and 2.9%, respectively.

In real assets, oil continued its run – ending the month up 10.6%. That said, the Bloomberg Commodity Index declined 3.5% during the month as agriculture and metals weighed on returns.

Market Outlook

Despite the recent volatility, our global outlook remains broadly unchanged amid a supportive economic backdrop for international and emerging market equities. With the potential for continued trade-related volatility, we encourage the addition of safe-haven fixed-income exposure to mitigate the impact of potential market drawdowns. We remind clients to stay committed to a risk-balanced approach and to evaluate market opportunities should larger short-term dislocations occur.

West Virginia Board of Treasury Investments

Financial Highlights as of June 30, 2018

WV Short Term Bond Pool

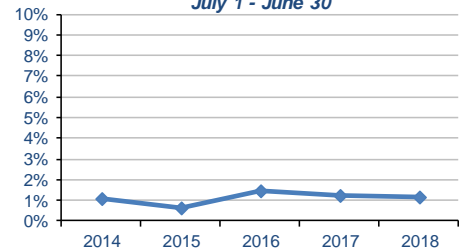
Rates of Return for the Past 12 Months *Net of All Fees*

<u>July 1 - Jun 30</u>	<u>Return</u>	<u>Net Assets At Jun 30 (In Millions)</u>
2018	1.1%	\$ 709.5
2017	1.3%	\$ 753.7
2016	1.5%	\$ 791.1
2015	0.7%	\$ 761.5
2014	1.1%	\$ 773.6

Prior to July 2007, the WV Short Term Bond Pool was known as the Enhanced Yield Pool

WV Short Term Bond Pool Rates of Return

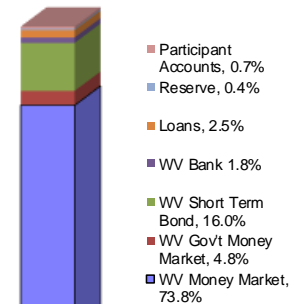
*Past 12 Months
July 1 - June 30*



Summary of Value and Earnings *(In Thousands)*

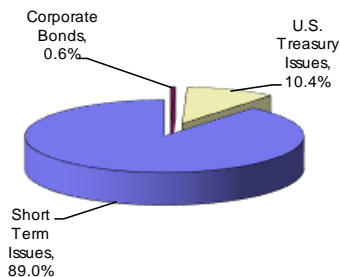
<u>Pool</u>	<u>Net Asset Value</u>	<u>Jun Net Income (Loss)</u>	<u>Fiscal YTD Net Income (Loss)</u>
WV Money Market	\$ 3,266,593	\$ 5,662	\$ 36,296
WV Gov't Money Market	212,354	319	2,866
WV Short Term Bond	709,479	692	8,296
WV Bank	81,448	132	1,123
Loans	109,145	77	996
Reserve	19,126	33	272
Participant Accounts	31,338	23	374
	<u>\$ 4,429,483</u>	<u>\$ 6,938</u>	<u>\$ 50,223</u>

Percent of Total Net Asset Value

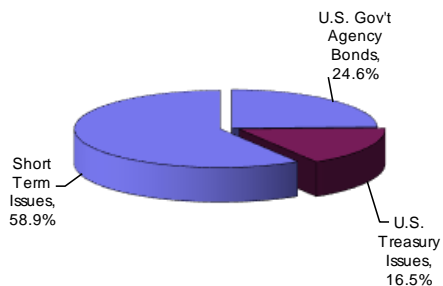


Securities by Type for Operating Pools *(Percentage of Asset Value)*

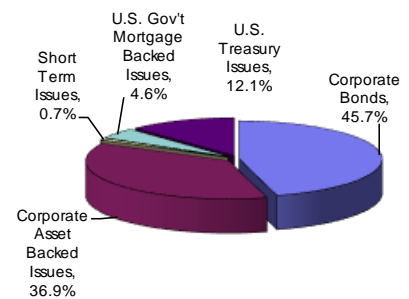
WV Money Market



WV Gov't Money Market



WV Short Term Bond



WEST VIRGINIA BOARD OF TREASURY INVESTMENTS
SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION – UNAUDITED
JUNE 30, 2018
(IN THOUSANDS)

	WV Money Market Pool	WV Government Money Market Pool	WV Short Term Bond Pool	WV Bank Pool	Other Pools	Participant Directed Accounts	Total
Assets							
Investments:							
At amortized cost	\$ 3,264,060	\$ 212,304	\$ -	\$ 81,060	\$ 128,160	\$ -	\$ 3,685,584
At fair value	-	-	712,582	-	-	31,195	743,777
Other assets	2,899	94	2,481	391	115	143	6,123
Total assets	3,266,959	212,398	715,063	81,451	128,275	31,338	4,435,484
Liabilities							
Accrued expenses, dividends payable & payables for investments purchased	366	44	5,584	3	4	-	6,001
Total liabilities	366	44	5,584	3	4	-	6,001
Net Position							
Held in trust for investment pool participants	3,266,593	212,354	709,479	81,448	128,271	-	4,398,145
Held in trust for individual investment account holders	-	-	-	-	-	31,338	31,338
Total net position	\$ 3,266,593	\$ 212,354	\$ 709,479	\$ 81,448	\$ 128,271	\$ 31,338	\$ 4,429,483
Additions							
Investment income:							
Interest and dividends	\$ 2,547	\$ 156	\$ 1,474	\$ 135	\$ 113	\$ 33	\$ 4,458
Net (amortization) accretion	3,302	177	(3)	-	-	(2)	3,474
Provision for uncollectible loans	-	-	-	-	-	-	-
Total investment income	5,849	333	1,471	135	113	31	7,932
Investment expenses:							
Investment advisor, custodian bank & administrative fees	188	14	78	3	3	-	286
Total investment expenses	188	14	78	3	3	-	286
Net investment income	5,661	319	1,393	132	110	31	7,646
Net realized gain (loss) from investments	1	-	(7)	-	-	-	(6)
Net increase (decrease) in fair value of investments	-	-	(694)	-	-	(8)	(702)
Net increase (decrease) in net position from operations	5,662	319	692	132	110	23	6,938
Participant transaction additions:							
Purchase of pool units by participants	1,961,607	14,250	-	123	32	-	1,976,012
Reinvestment of pool distributions	5,661	319	1,333	132	110	-	7,555
Contributions to individual investment accounts	-	-	-	-	-	-	-
Total participant transaction additions	1,967,268	14,569	1,333	255	142	-	1,983,567
Total additions	1,972,930	14,888	2,025	387	252	23	1,990,505
Deductions							
Distributions to pool participants:							
Net investment income	5,661	319	1,393	132	110	-	7,615
Net realized gain (loss) from investments	1	-	(7)	-	-	-	(6)
Total distributions to pool participants	5,662	319	1,386	132	110	-	7,609
Participant transaction deductions:							
Redemption of pool units by participants	1,184,937	6,377	51	123	913	-	1,192,401
Withdrawals from individual investment accounts	-	-	-	-	-	-	-
Total participant transaction deductions	1,184,937	6,377	51	123	913	-	1,192,401
Total deductions	1,190,599	6,696	1,437	255	1,023	-	1,200,010
Net increase (decrease) in net position from operations	782,331	8,192	588	132	(771)	23	790,495
Inter-pool transfers in	2,700	-	-	2,500	-	-	5,200
Inter-pool transfers out	(2,500)	-	-	(2,700)	-	-	(5,200)
Net inter-pool transfers in (out)	200	-	-	(200)	-	-	-
Change in net position	782,331	8,192	588	(68)	(771)	23	790,495
Net position at beginning of period	2,484,062	204,162	708,891	81,516	129,042	31,315	3,638,988
Net position at end of period	\$ 3,266,593	\$ 212,354	\$ 709,479	\$ 81,448	\$ 128,271	\$ 31,338	\$ 4,429,483

WEST VIRGINIA BOARD OF TREASURY INVESTMENTS

CALENDAR NOTE

Board Meeting
October 25, 2018

OPERATING REPORT JULY 2018

Board of Treasury Investments

315 70th Street, SE
Charleston WV
25304
(304) 340-1564
www.wvbt.com

Board of Directors

John D. Perdue,
State Treasurer,
Chairman

James C. Justice II,
Governor

John B. McCuskey,
State Auditor

Glenda Probst
Appointed by the
Governor

Michael L. Glasser,
Esq. Attorney
Appointed by the
Governor

Executive Staff

Executive
Director
Kara K. Hughes,
CPA, MBA, CFE

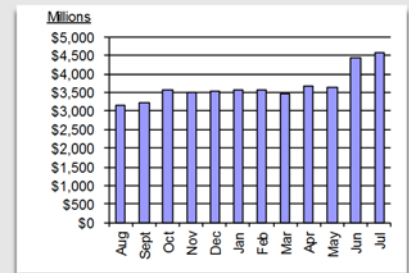
Chief Financial
Officer
Karl Shanholtzer,
CFA, CPA, CIA

Total Net Assets Under Management

\$4,583,591,000

Last Month
\$4,429,483,000

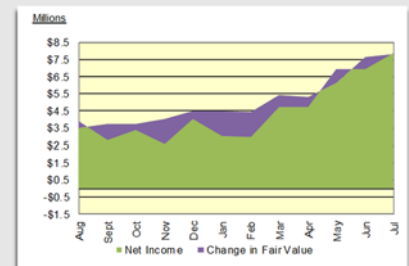
Beginning of Fiscal Year
\$4,429,483,000



Net Assets for the Past
12 Months

Total Net Income & Changes in Fair Value

Fiscal Year
\$7,855,000



Monthly Net Income &
Changes in Fair Value for
the Past 12 Months

Money Market Pools As of July 31, 2018

Pool	30-Day Avg. Yield *	W.A.M. **	Net Assets
WV Money Market	2.1551%	31 Days	\$3.4 Billion
WV Gov't Money Market	1.8577%	21 Days	\$221.2 Million

* Yields represent the simple money market yield net of fees.

** W.A.M. is the weighted average maturity.

WEST VIRGINIA BOARD OF TREASURY INVESTMENTS

THE ECONOMIC STATE

JULY 2018

Unchanged Global Outlook

Market Results

Developed market equities forged ahead in July as robust economic data and strong corporate earnings offset concerns around escalating trade tensions between the United States and China. The S&P 500 returned 3.7% last month as US GDP growth hit 4.1% in the second quarter. A healthy earnings season pushed the MSCI Europe Index up 3.3%. Emerging market equities rebounded, up 2.2%, according to the MSCI EM Index; despite these gains, emerging markets posted their worst quarter since 2015 with losses of nearly 8% in the second quarter, as a stronger US dollar eroded returns and concerns swirled around election results in Turkey and Mexico. In fixed income, the 10-year US Treasury yield rose to 2.96% in July, up 10 basis points from the previous month. Still, the spread between the 10-year and two-year Treasuries continued to narrow, ending the month at 0.28% -- the smallest differential since 2007. Yields also rose on German and Japanese 10-year bonds, increasing 14 and three basis points, respectively. Emerging market bonds were in the black with gains of 2.6% and 1.9%, according to the JPM EMBI Global Diversified and JPM GBI-EM Global Diversified indexes, respectively. The oil rally came to an end last month amid concerns around oversupply, causing spot prices to decline 7.3% in July. In contrast, master limited partnerships (MLPs) maintained their winning streak, returning 6.6% on the month, as the industry continues to consolidate and streamline.

Market Outlook

Our global outlook remains intact. We support the addition of international and emerging market equities, particularly as the sustainability of US earnings and economic growth comes into question. We believe short-term volatility is likely here to stay as trade discussions are in flux. We recommend adding safe-haven fixed-income exposure to mitigate the impact of potential market draw-downs.

West Virginia Board of Treasury Investments Financial Highlights as of July 31, 2018

WV Short Term Bond Pool

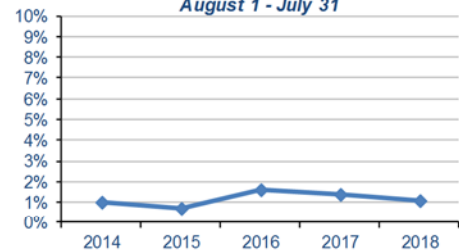
Rates of Return for the Past 12 Months *Net of All Fees*

<u>Aug 1 - July 31</u>	<u>Return</u>	<u>Net Assets At July 31 (In Millions)</u>
2018	1.1%	\$ 710.9
2017	1.4%	\$ 752.3
2016	1.6%	\$ 782.7
2015	0.7%	\$ 803.3
2014	1.1%	\$ 775.7

Prior to July 2007, the WV Short Term Bond Pool was known as the Enhanced Yield Pool

WV Short Term Bond Pool Rates of Return

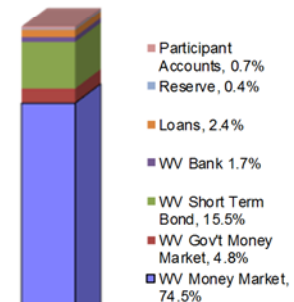
*Past 12 Months
August 1 - July 31*



Summary of Value and Earnings *(In Thousands)*

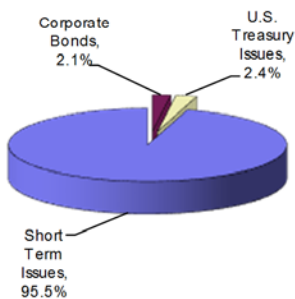
<u>Pool</u>	<u>Net Asset Value</u>	<u>Jul Net Income (Loss)</u>	<u>Fiscal YTD Net Income (Loss)</u>
WV Money Market	\$ 3,412,474	\$ 6,002	\$ 6,002
WV Gov't Money Market	221,218	339	339
WV Short Term Bond	710,867	1,372	1,372
WV Bank	78,581	133	133
Loans	109,823	(45)	(45)
Reserve	19,160	34	34
Participant Accounts	31,468	20	20
	<u>\$ 4,583,591</u>	<u>\$ 7,855</u>	<u>\$ 7,855</u>

Percent of Total Net Asset Value

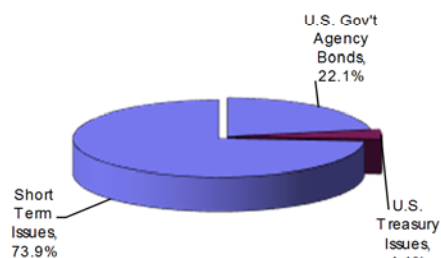


Securities by Type for Operating Pools *(Percentage of Asset Value)*

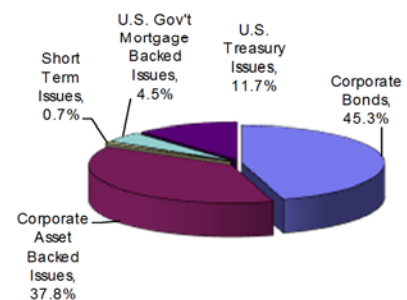
WV Money Market



WV Gov't Money Market



WV Short Term Bond



WEST VIRGINIA BOARD OF TREASURY INVESTMENTS
SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION – UNAUDITED
JULY 31, 2018
(IN THOUSANDS)

	WV Money Market Pool	WV Government Money Market Pool	WV Short Term Bond Pool	WV Bank Pool	Other Pools	Participant Directed Accounts	Total
Assets							
Investments:							
At amortized cost	\$ 3,410,654	\$ 223,199	\$ -	\$ 78,190	\$ 128,808	\$ -	\$ 3,840,851
At fair value	-	-	710,322	-	-	31,296	741,618
Other assets	2,374	70	2,080	397	182	173	5,276
Total assets	<u>3,413,028</u>	<u>223,269</u>	<u>712,402</u>	<u>78,587</u>	<u>128,990</u>	<u>31,469</u>	<u>4,587,745</u>
Liabilities							
Accrued expenses, dividends payable & payables for investments purchased	554	2,051	1,535	6	7	1	4,154
Total liabilities	<u>554</u>	<u>2,051</u>	<u>1,535</u>	<u>6</u>	<u>7</u>	<u>1</u>	<u>4,154</u>
Net Position							
Held in trust for investment pool participants	3,412,474	221,218	710,867	78,581	128,983	-	4,552,123
Held in trust for individual investment account holders	-	-	-	-	-	31,468	31,468
Total net position	<u>\$ 3,412,474</u>	<u>\$ 221,218</u>	<u>\$ 710,867</u>	<u>\$ 78,581</u>	<u>\$ 128,983</u>	<u>\$ 31,468</u>	<u>\$ 4,583,591</u>
Additions							
Investment income:							
Interest and dividends	\$ 2,867	\$ 165	\$ 1,413	\$ 136	\$ 181	\$ 31	\$ 4,793
Net (amortization) accretion	3,321	188	(3)	-	-	(1)	3,505
Provision for uncollectible loans	-	-	-	-	(189)	-	(189)
Total investment income	<u>6,188</u>	<u>353</u>	<u>1,410</u>	<u>136</u>	<u>(8)</u>	<u>30</u>	<u>8,109</u>
Investment expenses:							
Investment advisor, custodian bank & administrative fees	187	14	77	3	3	-	284
Total investment expenses	<u>187</u>	<u>14</u>	<u>77</u>	<u>3</u>	<u>3</u>	<u>-</u>	<u>284</u>
Net investment income	6,001	339	1,333	133	(11)	30	7,825
Net realized gain (loss) from investments	1	-	(73)	-	-	-	(72)
Net increase (decrease) in fair value of investments	<u>-</u>	<u>-</u>	<u>112</u>	<u>-</u>	<u>-</u>	<u>(10)</u>	<u>102</u>
Net increase (decrease) in net position from operations	6,002	339	1,372	133	(11)	20	7,855
Participant transaction additions:							
Purchase of pool units by participants	820,927	14,270	-	132	756	-	836,085
Reinvestment of pool distributions	6,002	339	1,393	133	(11)	-	7,856
Contributions to individual investment accounts	-	-	-	-	-	110	110
Total participant transaction additions	<u>826,929</u>	<u>14,609</u>	<u>1,393</u>	<u>265</u>	<u>745</u>	<u>110</u>	<u>844,051</u>
Total additions	832,931	14,948	2,765	398	734	130	851,906
Deductions							
Distributions to pool participants:							
Net investment income	6,001	339	1,333	133	(11)	-	7,795
Net realized gain (loss) from investments	1	-	(73)	-	-	-	(72)
Total distributions to pool participants	<u>6,002</u>	<u>339</u>	<u>1,260</u>	<u>133</u>	<u>(11)</u>	<u>-</u>	<u>7,723</u>
Participant transaction deductions:							
Redemption of pool units by participants	684,047	5,745	117	132	33	-	690,074
Withdrawals from individual investment accounts	-	-	-	-	-	-	-
Total participant transaction deductions	<u>684,047</u>	<u>5,745</u>	<u>117</u>	<u>132</u>	<u>33</u>	<u>-</u>	<u>690,074</u>
Total deductions	<u>690,049</u>	<u>6,084</u>	<u>1,377</u>	<u>265</u>	<u>22</u>	<u>-</u>	<u>697,797</u>
Net increase (decrease) in net position from operations	142,882	8,864	1,388	133	712	130	154,109
Inter-pool transfers in	3,000	-	-	-	-	-	3,000
Inter-pool transfers out	-	-	-	(3,000)	-	-	(3,000)
Net inter-pool transfers in (out)	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>(3,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	145,882	8,864	1,388	(2,867)	712	130	154,109
Net position at beginning of period	3,266,592	212,354	709,479	81,448	128,271	31,338	4,429,482
Net position at end of period	<u>\$ 3,412,474</u>	<u>\$ 221,218</u>	<u>\$ 710,867</u>	<u>\$ 78,581</u>	<u>\$ 128,983</u>	<u>\$ 31,468</u>	<u>\$ 4,583,591</u>

WEST VIRGINIA LEGISLATURE
JOINT COMMITTEE ON GOVERNMENT AND FINANCE
JOINT LEGISLATIVE COMMITTEE ON FLOODING
(Joint Meeting)

July 12, 2018
9:00 a.m.

Senate Members:

Senator Ed Gaunch, Chair
Senator Stephen Baldwin
Senator Craig Blair
Senator Glenn Jeffries
Senator Chandler Swope
President Mitch Carmichael
Senator Ryan Ferns (Joint Committee)*
Senator Robert Karnes (Joint Committee)
Senator Robert Plymale (Joint Committee)*
Senator Roman Prezioso (Joint Committee)
Senator Charles Trump (Joint Committee)*

*Denotes Absence

House Members:

Delegate Roger Hanshaw, Chair
Delegate George Ambler
Delegate Kayla Kessinger
Delegate Dana Lynch
Delegate Dave Pethtel
Speaker Tim Armstead
Delegate Brent Boggs (Joint Committee)
Delegate Daryl Cowles (Joint Committee)*
Delegate Tim Miley (Joint Committee)*
Delegate Carol Miller (Joint Committee)*
Delegate Eric Nelson (Joint Committee)
Delegate John Shott (Joint Committee)

Senator Gaunch: “Quorum has been established. The first item on our Agenda is the adoption of the minutes from our previous meeting. I will look to the Co-Chair for a motion.”

Delegate Hanshaw: “Thank you, Mr. Chairman, the minutes have been made available and distributed prior to the meeting and they are available for public inspection and I move that they be approved as distributed.”

Senator Gaunch: “Question then, is on the approval of the minutes. All those in favor signify by saying aye. Those opposed no, the minutes are adopted. The next item on our agenda is Delegate Boggs from Braxton County who wishes to make some remarks.”

Delegate Boggs: “Thank you, Mr. Chairman. While this is a joint committee meeting on the Joint Committee on Government and Finance and the Joint Committee on Flooding, as a member of the Joint Committee on Government and Finance, I know within the hour that the Judiciary Committee will be beginning some very important work and it’s going to be quite time consuming. And, considering that we are in recess mode, if possible, I would like to ask one or both of the Chairs, the Co-Chairs of the Joint Committee, about compensation for the Judiciary Committee as they are going to be apparently doing lengthy work. I know that they are going to receive per diem pay and per diem expenses, but, considering the amount and scope of their work it seems appropriate that they would be compensated at the Interim rate of pay, because people have jobs and they are down

here on their own, and I believe that that would be appropriate. I certainly would like your input, but I would certainly also like to respectfully make a motion to that effect to the Joint Committee.”

President Carmichael: “Thank you. First I have heard of this inquiry. So, obviously you have the right to make a motion at any point in time, but, I would like to refer to the ... maybe the Counsel for Joint Committee for input as to whether or not that can even be accomplished with simply a motion.”

Senator Gaunch: “Looks like we have Counsel approaching.”

Rich Olsen: “Yes, sir. My name is Rich Olsen and I am the Director of Legislative Services. I have looked into this issue. Now, Judiciary is doing their impeachment hearings under the auspices of the extraordinary session. And, under § 4-2A-3, compensation for members of the Legislature during any extension of regular session or during extraordinary session, members may be paid on each day upon which the Senate or House is actually called to order during each extension or regular session or during extraordinary session of the Legislature. So, now while this committee and the Joint Committee are meeting here today under the auspices of the Interim, the Judiciary Committee, those members will only be able to be paid for a regular day if the House was called to order. If the House is not called order, then, they can be paid their per diem and their travel.”

Delegate Boggs: “Well, just to clarify and make it clear, I do not serve on the Judiciary Committee, so I don’t feel like this is self-serving in any way. But, still we have a lot of Judiciary members that are sacrificing a lot of time and energy on this important issue. I would ask if this is within the scope of the Joint Committee to make a decision on this at this meeting?”

Rich Olsen: “The Joint Committee would technically have the power. Under § 4-1-1, the Interim Committee and Sub-Committee meetings, the Joint Committee could approve of regular standing committees of the House or the Senate to meet during the Interim. But, since this is actually under extraordinary session, as called by the Governor, and the impeachment hearings can only proceed under a regular extraordinary session, the Joint Committee has no authority on that...on that term, because the impeachment has to take place in the extraordinary session and the Judiciary is meeting under that. They are not actually meeting in the Interim.”

Delegate Boggs: “To the Senate President and the Speaker and the Co-Chairs of the Joint Committee, while I hear the explanation, and appreciate it, would a motion to approve that, would that be in order or would that be ruled out of order?”

President Carmichael: “It appears to me it would be out of order based on what the counsel has just conveyed.”

Delegate Boggs: “Well, I will make that motion but I will leave the ruling to you and the Speaker, whether we would have a vote on that or not.”

President Carmichael: “I don’t see how we would have a vote.”

Rich Olsen: “I just don’t see how we can. For the impeachment proceedings to move along as they need to, for the protection of the proceedings as a whole, I think that they need to move along as they are supposed to under the constitution and that requires them to be under a regular extraordinary session. And, that was what necessitated the Governor to call the Special Session to do those. And, therefore, I don’t think the Joint Committee can approve that because the language of § 4-2A-3 clearly states that if it is a regular extraordinary session, the House has to be called to order.”

President Carmichael: “Having heard that, I will rule that the motion is out of order then.”

Delegate Boggs: “I understand, but I will say that I believe that the work that is going to be involved by the Judiciary Committee I think needs to be recognized and it will be a hardship for many people to be here to take time away from their employment. Everyone is not retired ...everyone is not in a position to leave their employment, and in many cases, that is just a small bit of compensation, as compared to what they may be making. But, I wanted to bring that before the Committee today. Certainly, I would like to have a vote on it, but if you are ruling that my motion is out of order...then, I don’t like the ruling, but I respect the ability to bring it up and bring it before the Joint Committee. And, I would just further ask if that is something that we could possibly look at, because possibly when we come back into session, because I do believe that these members of the Judiciary Committee are going above and beyond in areas of time and skills that we need to recognize.”

President Carmichael: “Thank you, and I appreciate your perspective on that, and I will respectfully rule the motion out of order. So, thank you very much. So, moving on.”

Delegate Boggs: “Mr. Chairman, thank you.”

Senator Gaunch: “You are welcome. I believe our Co-Chair, the Delegate from the 33rd, Delegate Hanshaw has some remarks before we move on with the agenda.”

Delegate Hanshaw: “Sure, Mr. Chairman. Thank you. I want to begin the meeting this morning by just thanking all of those who are in attendance today from both the committees, which have come together to talk about the issues before the committee today. We have said from the outset that the charge undertaken by this Committee is preparedness and that our objective is to conclude these hearings at the point of which we do so with recommendations to the full Legislature for how we find ourselves better prepared for what happens the next time we face a flooding event. Realizing that since the event that gave rise to these hearings, we have already had no less than three major

flooding events in various parts of the state. So, as we ask our questions this morning and as we talk about how we bring this hearing both forward from today and toward its logical conclusion, we want to remind everyone in attendance today, that our objective as a committee, is to honor our charge and produce a report that puts the state in a position to be better prepared for the almost inevitable situation that happens the next time we find ourselves facing one of these disasters. So, with that Mr. Chairman, I thank everyone for being here this morning.”

Senator Gaunch: “Thank you, sir. Let’s proceed on the agenda, then we have representatives from the State Auditor’s Office, Marty Wright and James Messick are here to make a presentation. If you gentlemen would approach the podium. Mr. Wright, if you would, raise your right hand. Do you solemnly swear that the testimony you are about to give before this committee will be the truth, the whole truth and nothing but the truth?”

Marty Wright: “I do.”

Senator Gaunch: “Thank you. Please proceed.”

Marty Wright: “Good morning, my name is Marty Wright. I am the General Counsel of the State Auditor’s Office as well as the Director of the Auditor’s Public Integrity and Fraud Unit. With me today is a member of the Auditor’s Forensic Financial Team, James Messick and we are kind of splitting up duties. Real quick, I’ll begin with the first in recognizing that time is of the essence in terms of the amount of agendas and other meetings going on. We were tasked with providing a brief summary of two items. The first, that being a preliminary timeline of the contract and expenditures related to the WV Flood/RISE Program. In particular, various purchasing construction contracts. Each of you should have been given a copy of this when you came in. In addition, and this is what Mr. Messick will be handling, is a review of the expenditures that have been obtained with respect to those community and development block grant/disaster relief. You will hear the moniker many times CDBG-DR and that is the Community Development Block Grant Disaster Relief. With that we will go ahead and just begin briefly as to the time-line. Many of you should have this. It is a multi-paged item and, briefly, what you are looking at, is we tried to identify significant items with respect to when contracts were entered into, signed, and ultimately paid. As you flip through the various pages, you will see things are marked in red and purple. And, just so you know what you’re looking at those items identified in purple ...those are the HORNE contracts and in purple, these are the dates that they were entered into. As you carry forward, you will see things going into kind of a brownish color that would be a HORNE pay date. And those are when the actual checks are cut to HORNE. Similarly, you will see situations in blue and green and, also in a dark maroon red, those are various contractors and vendors who have been paid. In particular, you will see one that is referencing Thompson Construction Group, Danhill Construction Group, as well as Stonehill Retail Marketing. Those are various vendors. The purpose of bringing this to you is again...they asked that we present to you kind of a working draft preliminary findings of what we found for various states and contracts. We were also asked to kind of establish in a time-line the so-called pause that had taken place and in

attempting to ascertain that, we tried to establish a time-line within this, for you all, to kind of give the exact dates of when this pause occurred. And, as you all know, one of the main reasons asserted for the delay in homes being built was this pause in the entire program. I can say that in trying to ascertain the exact dates, it was difficult. The one we kind of worked in the back was the June 4, 2018 press conference from the Governor when he announced that the pause, I guess, was being lifted and that he was appointing General Hoyer to oversee the program. That kind is an easy demarcation for a date to establish and therefore June 4, is listed in the time-line here as the end of the so-called pause. However, looking back and trying to ascertain when the actual pause began, was much more difficult. And, as we began looking at various press conferences held by the Governor, there were varying dates and varying points of events that kind of got conflated. And, in all due respect, I know he does a lot of presentations without notes and things can kind of get compounded. But, we really had a difficult time, at least from the presentations that were given at press conferences to finding a date for the beginning of the "pause." So, we then tried to look for any kind of written documentation and the one documentation that has been publicly put out there was a RISE internal memorandum for the Department of Commerce. And, in this there was a denotation where a memo from Mr. Andrew Mihallik to Mary Jo Thompson and Russell Tarry, and in this although dated March 26, 2018, the memo states that on February 28, 2018 the RISE Discovery Housing Program was directed to cease operations pending the Governor's Office review. In light of this being the public documentation that has been put out there, we have used that as the documented date of the pause going into effect, that being February 28, 2018. Therefore, to kind of wrap that aspect of it up, utilize the same exact dates of the pause, you have a time frame going from February 28, 2018, which is the documented date, to the June 4, 2018 date that the Governor held this press conference. The difficulty and the reason for this question mark is, when reviewed on the timeline you have in front of you, payments to construction vendors and marketing continued during this alleged paused time frame. In particular, I draw your attention to the end of page three and page four, which I have highlighted on the screen above you, where we start the February 28, program you will notice ongoing payments of significant amounts to various vendors who had been charged and are contracted to build houses. That being Thompson Construction Group and Danhill Construction Group. In addition, you will see various marketing incidents. These continue on-going all the way until and including a June 1, 2018. Hence, the notion that there was questions now with respect to the exact time and/or if there really was a pause. I would note that there does appear to be a slow down or stopping as of April 4, which is when the date that the purchasing group...the purchasing department rejected the HORNE contracts. So, but, during that time April 4, 2018 and June 4, 2018, you still had payments being made on June 1, 2018 which is the Friday before the Governor's Press Conference. And, in the month of May to various marketing groups. I present this to you not to draw a firm conclusion of a date, but, I did want to draw attention that during the alleged pause, you still had significant payments ongoing. And, it does raise questions as to the voracity of the dates, as well as to why these people were still being paid if there's was a full operational pause? I did want to note that for you all because we were tasked with trying to determine those dates and bring those to your attention. With that, because of time, I will go ahead and bring up Mr.

Messick, again he is our financial forensic team member who has been involved in trying to retrace and capture all of these funds. And, in the outset I will just preliminarily note that has been a gargantuan task which has involved over five individuals full time to trying to ascertain this. I will let him explain in detail why that is, but, the nature of the way that these funds were coded, more importantly, that they were comingled altogether with other community development block grant funds, this became a gargantuan task, that still to this day, very difficult to capture all of the expenditures. With that, I will bring up Mr. Messick."

Senator Gaunch: "Thank you, Mr. Messick. Please raise your right hand. Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth in the testimony that you are about to give, so help you God?"

James Messick: "I do."

Senator Gaunch: "Please identify yourself for the record."

James Messick: "I am James Messick. I am a financial forensic examiner for the Auditor's Office. Thank you, Mr. Chairman. Thank you, members of the committee. Our team was tasked with the task of going into wvOasis and examining all expenditures from the Department of Commerce. When we began this task, we realized that this was going to be a very large task as funds from the CBDG-DR, as Marty mentioned earlier, had been comingled with funds for CBDG small city block grants and other administrative expenses. We had to go line by line through multiple transactions examining source documents and such, trying to evaluate if these expenditures were for RISE WV, if they were for the flood, and if they were for just the regular block grants. Like I said, we had a lot of difficulty determining this. Some of the documents had very limited source documentation, especially the ones related to the flood. But, we were able to put together a spreadsheet based on the detailed transaction listing found on Oasis with what we believe, preliminarily are the expenditures from RISE.

The 8746 Fund that is your block grant fund. That's where all of these monies flowed into from HUD. The monies flowed in from HUD and were expended out in two different accounts is the word I use; 7431 and 7432. 7431 is your administrative expenses, whereas 7432 is just regular grant expenses. The grant expenses would also include your small city block grants. Like I said, 7431 is Administrative Expenses and that includes travel for anybody involved with the Department of Commerce, in particular from this fund. Phones, rent, office supplies, P-Card expenditures, printing from Komax and such. The 7432 on the other hand, is grant expenditures. This is where you are going to find payments to construction companies, such as Danhill and Thompson, as well as what we found are temporary relocation assistance, is what it is termed and that's one of the expenditures towards the RISE account.

This document here as you'll see on the power point is our excel sheet that we made up. We got it off of OASIS and added some comments and added vendors and such that we

made available to the Flood Committee that outlines each vendor, how much they were paid, the dates they were paid and that is off of wvOasis. And, those are all ones related to the flood that we were able to determine. And, the underlining factor is this. Of the \$149M that were designated the CDBG-DR, we were only able to find approximately \$1.4M had been spent of that money on flood related expenditures. This is a breakdown of the administration expenditures, as well as the payments of the contracts, or the construction vendors and the payments to individuals. The payments to individuals, the only ones we were able to find were, as I mentioned before, the temporary relocation. That was 41 individuals that received \$1,000.00 for what was termed temporary relocation. There was one individual that received \$2,500.00 for temporary relocation. The construction vendors, that is Danhill and Thompson Construction, they received the \$784,000.00 you see there. And, the administrative miscellaneous expenses are the printing, travel, yard signs which we will talk about later that were made for the RISE account.

Like I said before, only 41 individuals and another individual received monies out of the personal relocation. The administrative expenses, as the previous slides showed, \$562,000.00, of that, HORNE was paid \$541,000.00. I will like to note that this covers only from July 1, 2017 to present. If there were transactions before that date, we did not look at those in depth, as we did with this fiscal year 2018. Of the administration expenses, there was an expense that was of note and it was almost \$16,000.00 for a multi-day meeting at Stonewall Resort. The documentation that we provided the flood committee has source documentation for that, which you can look over at your leisure. There was also marketing expenses of almost \$10,000.00. These were printings, yard signs, as mentioned here...there was a little over \$6,000.00 spent on 100 yard signs. And, there was some personal business cards that were purchased as well. The source documentation and where we got this information is from OASIS. We prepared the spread sheet, as mentioned before, and that has been made available to the committee. We would like to stress the difficulty we had in determining which transactions involved the flood. When we went into this task, we were not prepared for the amount of comingling that had been...was in place. It was extremely difficult. We had to go line by line with each transaction and examine document descriptions, check descriptions, examine source documentation extremely in minute levels. We had to, even...even farther than that, certain invoices were divided out among different funds. It was very difficult to determine which ones were for RISE and which ones were just regular grant awards that were being expended for sewer and water and such. The other thing we would like to stress is the amount of personal payments to individuals. The \$43,500.00 of the \$149M, only \$43,500.00 could we determine had been paid out to individuals in West Virginia. Having said that, we are also examining revenues from HUD...the revenue accounts of the preliminary investigation that we are engaged in right now. We are examining Governor contingency funds, as well as any FEMA monies that have flowed into this state. We are working on that right now and are trying to get some totals for that. But, in this case, we are only examining the HUD monies that have come into the 8746, which is a CDBG block grant account. With that, if you have any questions I can answer any of those, or Marty Wright will be happy to, as well."

Senator Gaunch: “Thank you, Mr. Wright and Mr. Messick. Members of the committee, if you do have questions, I would ask that you would press the bar on your mic stand. That will allow us to acknowledge you. Delegate from the 32nd, Delegate Kessinger.”

Delegate Kessinger: “Thank you, Mr. Chairman. Thank you so much for being here. First of all, I want to thank you all and the Auditor, and the State Auditor’s Office for all the work you guys have put into this. I know that there are a lot of people who have a lot of questions about this program and you guys have provided a lot of answers. The first question I have...you keep talking about these comingled funds. Do we have any idea why they were comingled?”

James Messick: “From what we were led to believe, that was a Legislature decision, oh that was not. Sorry.”

Marty Wright: “No, sorry, that was a decision made by the Commerce Department when they received these funds. They can choose to set up and establish their own account or they can, is what they have done here, combine multiple monies into a single account. One of the things that we noted on the power point was the absence of a separate designated account that was significant and noteworthy. It would have made transparency and the ability to find these things more readily apparent. The other aspect of this thing that they did, that we determined, was that on certain payments, they separated them and coded them differently for different accounts. So, you may have...hypothetically, let’s say you had a \$10,000.00 larger payment to someone, but it had actually been spread out into three or four different payments of \$2,500.00 and they are located in four different accounts. So, that’s what has been difficult with the nature of how this was done at the agency level by Commerce. When they receive these monies, they chose to pull into a massive pot, which definitely took away the transparency and ease and ability to find these things, when it could have been simply designated into a single account, that all of these monies went into.”

Delegate Kessinger: “Gotcha, Ok. My next question is about the pause placed on the program. So, I did...and I’m no mathematician and math is not my best subject, but, I did a calculation on the amount of money spent during the pause. There were over \$300,000.00 spent during the pause, from February 28, to June 4.”

Marty Wright: “That’s correct. And, just a more finer point, it appears that Thompson group was paid \$207,000.00. Danhill was paid just shy a \$100,000.00 and the rest would be for Stonewall Resort and Stonewall retail.”

Delegate Kessinger: “Ok, so the pause did not necessarily mean that payments would be made, it just meant that houses were not going to be built?”

Marty Wright: “Again, I go back to what the Governor’s initial press conference stated that there had been a program pause and we calculate it back to February which

presumably was an explanation as to why there were no homes being built. But, yet, their payments continued to vendors to build homes.”

Delegate Kessinger: “Ok.”

Marty Wright: “It definitely raises a significant question which you are raising which is why are we paying people if homes weren’t being built. Or, if there were really homes being built, why was there a pause? Those are questions we do not know the answers to. But, I just wanted to bring those to your attention because you were asking for timelines.”

Delegate Kessinger: “Ok, just a couple more questions. I know that we were going over a lot of those numbers up there and other than the payments to HORNE and the contractors, what else has been the next highest expense?”

James Messick: “That would cumulatively, most likely would be...and that’s off the top of my head, and not looking at the spreadsheet...probably the \$43,000.00 to the temporary relocation or it very well could be administrative expenses. Well, the travel, the yard signs as you saw, the business cards, those would add up to more than the personal expenses, the \$43,500.00. But, if you are looking at one particular category, it would be the personal expenses. But, altogether, administrative would be more.”

Delegate Kessinger: “Ok, a quick question about the yard signs. \$6,000.00 on 100 yard signs?”

James Messick: “Yes mam.”

Delegate Kessinger: “I really hope that those are 4x8’s. Do you have any idea of what kind of signs they are?”

James Messick: “We have only a source document that describes 100 yard signs that was for \$6,000.00. That’s all we have.”

Delegate Kessinger: “Ok. The conference at Stonewall Jackson Resort. I was going through some of these expenses the other day, and I saw that there were three banquets every single day, correct? Breakfast, lunch, and dinner, I would assume, for both days.”

James Messick: “I believe so.”

Delegate Kessinger: “And, then there were a couple of expenses for in-room dining. Can you explain what that was about?”

Marty Wright: “You are correct. There was banquets and money paid towards...now, whether the purpose of it...there were definitely food expenses. And, there we did note that some of the individuals who were members or employees of the Commerce

Department, did have in-room dining charges to the room that was reflected on the invoices that we found.”

Delegate Kessinger: “Ok, I have a lot more questions, but I will let the rest of the committee ask those.”

Senator Gaunch: “Senator from Marion, Senator Prezioso.”

Senator Prezioso: “Thank you, Mr. Chairman. My questions are similar to Delegate Kessinger’s. First of all, when I look at the timeline that you submitted, between February 28, and June 8, who called for the pause?”

Marty Wright: “I can only refer to public comments that have been made by the Governor’s Office and have been in various press conferences and then, that memo that was done a month into the pause, the March 26th memo, the internal Commerce memo, which documents what had been ongoing on for a month.”

Senator Prezioso: “So, who signed that?”

Marty Wright: “That was from Andrew Mahallik to, I don’t have that right in front of me, to Mary Jo Thompson and Russel Tarry.”

Senator Prezioso: “So, they had the authority to call a pause or time-out where no activity should have been going on?”

Marty Wright: “Again, I don’t know the particulars or the authority to issue it. The only thing we have is a source document from internal Commerce individuals talking to one another saying that the Governor’s Office had put a pause in effect as of February 28. Now, the authority for that, or who did what, is beyond the scope of the document we had in front of us.”

Senator Prezioso: “So, in essence, it would seem that there were a pause and that no activity should have been conducted?”

Marty Wright: “Based upon the statements that have been made through various press conferences, it appears that there was an operational pause and as referenced in this memo as an operational pause, which means no conducting of activity for the RISE Program.”

Senator Prezioso: “So, there was no pause, in essence if there was activity conducted? So, I know you can’t answer that. But, it seems awfully funny to me that someone in the Administration calls for a pause and nothing happens, business as usual. Who submitted invoices from Thompson, Danhill and Stonewall? Or were there invoices submitted during the time of the pause by those companies?”

Marty Wright: “And, James may have a better handle on this, but generally speaking, when an agency desires to have a pay-out to a vendor, they will submit some kind of documentation that we call source documents or some kind of invoice directing payment. So, that would have been entered and put through by Commerce and put into the Oasis system seeking to be paid. Unfortunately, we are left to the devices, whatever is put in by the Commerce, James may be able to elaborate more, but, the typical source documents you would look for, they were void of a lot of information. That’s about the best way to put it.”

Senator Prezioso: “So, if an order was submitted in the scope of a pause, I would assume that the vendors received this memo?”

Marty Wright: “I can’t speak to that. Only thing I can speak to is that these invoices if there were some were put in through the system directing that these various companies become paid and the reflection on the Oasis and the payment system were that they were paid a check in the amounts reflected on the timeline.”

Senator Prezioso: “So, do we know if this work was done during the pause or before the pause?”

Marty Wright: “I can’t speak to that. Again, as you look at the source documents, there’s not much information on them to direct when activity occurred, what activity was done, you have a very generic invoice saying pay this person. Is that fair?”

James Messick: “Yes.”

Marty Wright: “So, it would seem to me that the amount paid to these vendors came out of the 7432 account, the grant expenditures. That means that work had to be done in order for them to get paid?”

James Messick: “Echoing what Marty said, all we have is the cash requisition form. Whether work was completed, that would be beyond our scope.”

Senator Prezioso: “So, how would we go ahead and examine these invoices in cross reference to determine what work was conducted, what services were...you know... submitted to be paid for? Because, from what I understand, no homes were being built. So, what kind of work was being done to encumber this expense to be paid?”

Marty Wright: “Our determinations were limited to the source documents that are in the system. And, we are limited as Mr.Messick said to the check acquisition that says, pay this amount of money and any documents that may exist that were not put into the system to support that by Commerce. So, if you ask where they may be, the additional source documents, you may want to look to the agency for those.”

Senator Prezioso: “Mr. Chairman, is there any way that we could have a review of

those invoices to see what was submitted?”

Senator Gaunch: “Sure.”

Senator Prezioso: “I mean, it would seem to me that if we are going to pay...the State is going to pay through the Department of Commerce, we should have validation for those payments. The second additional question that I have...Stonewall Retail Marketing...I mean, I see a number of invoices submitted by them. How do they come into play?”

Marty Wright: “As best as we are able to determine.”

Senator Prezioso: “I mean, there was no flood in Lewis County was there?”

Marty Wright: “As best as we understand that, Commerce contracted with Stonewall Retail Marketing to perform various marketing functions, whether it be a website, a creation of a power point, or yard signs, but Stonewall Retail Marketing would subcontract with other vendors to perform those services. So, you have multiple vendors under the paradigm of Stonewall Retail Marketing performing marketing in the furtherance of the RISE Program.”

Senator Prezioso: “So, the Department of Commerce felt compelled to go to Stonewall Resort to conduct business?”

Marty Wright: “There are two entities, although their name is Stonewall, the Stonewall Retail Marketing is a separate marketing firm. But, separately there was a multi-day meeting at Stonewall Resort...during... and they paid for using the flood monies.”

Senator Prezioso: “So, what were those meetings about?”

Marty Wright: “Again, we are limited to source documents and the best answer would be by the Agency or Commerce.”

Senator Prezioso: “I have further questions, but, obviously we need some further input by additional individuals, I assume.”

Senator Gaunch: “Perhaps, Senator one of these other people will be able to testify to answer those questions.”

Senator Prezioso: “I appreciate the time you have allotted me. Thank you, sir.”

Senator Gaunch: “Senator from Mercer, Senator Swope.”

Senator Swope: “Thank you, Mr. Chairman. Follow-up on the same line of questioning here. As a contractor, it normally takes weeks or months for checks to get issued for work completed. I’m not hearing that there were any source documents that you could verify

of source invoice that described the amount of work done and so forth. Is that true? Or, do you have access to any that information?”

James Messick: “We don’t have any invoices or anything of that nature. As I mentioned, all we have are a cash requisition form saying issue this payment to this vendor.”

Senator Swope: “Ok, in that case, I would like to make a point that we may be drawing the wrong conclusion here. Because checks written during a certain date, does not mean that the work was done or the work was ongoing during that date. And, I suggest that it is pertinent to track back. I think that the contractors themselves would be glad to furnish the source documents to prove that they were paid. But, typically, it takes weeks or months to get a check written. So, if checks were written after the pause, doesn’t necessarily mean work was completed after the pause. And, I think that that is a very important point to get clarified before we draw the wrong conclusions. Thank you, Mr. Chairman.”

Senator Gaunch: “Delegate from the 40th, Speaker Armstead.”

Speaker Armstead: “Thank you, Mr. Chairman. Just following up, and thank you again, for your work on this as well. I wanted to follow up on the questions from both Senator Swope and Senator Prezioso about these contracts. And, let me kind of break it up into two questions, or two series of questions. The HORNE contracts that you show the payments throughout this timeline that you provided, I assume that those...you mentioned the advertisements and trying to get the word out, I guess, to people...that this program was available...Were these contracts that were entered into, I know that there’s a question about the series, the first two and an additional seven contracts or work orders, were these payments made under those first two contracts? Were you able to determine that from your analysis?”

James Messick: “To a limited extent, I personally didn’t work with the contract side of it. I worked with the OASIS side. We can look back into that and check for you and get you an answer on that. I believe that there were payments made on task order one and two, and, the further ones, like I said, I would have to go and check on that.”

Marty Wright: “As best we can determine, they were authorized to receive up to \$900,000.00 on task order one and task order two. The grand total was \$560,000.00 and most of them do make reference back to, the best we can, do go back to one and two. But, we can’t say with certainty, given the limited source documents that some of those payments didn’t reference another task order. But, we don’t have information to the contrary. So, based on the limited information we have, you can draw an assumption either way on that whether that was outside one and two.”

Speaker Armstead: “So, you didn’t see anything that led you to believe that payments were made under additional contracts?”

Marty Wright: "Correct."

Speaker Armstead: "Okay, In terms of the construction contracts, it's my understanding that there is sort of two, and please correct me if my understanding is incorrect, and it may not be within your realm of what your review was, but, there are basically two different types of construction contracts or construction payments and expenses. One being, in some cases people had a mobile home before the flood, or some type of mobile structure. And, they are going to be replaced with a mobile home. And, my understanding is that in order to get those purchased, the payment had to be made basically up front. Once the payment was made, then, construction started on those mobile homes...that's one series of contracts in terms of the construction. The other series is basically what I think has been referred to as stick-built homes, where you actually have a blueprint and the work starts on those and, my understanding on that, is that payment wasn't necessarily made up front for those, but, was made as the construction went along. Is my understanding correct, as far as your review of these contracts?"

Marty Wright: "Not to completely defer your question, some of those would probably be in the scope and purview of the Legislative Auditor's prior report where they got into the compliance aspects of that. Our task was to really just try to track the flow of money. And, from what we were able to determine, we only identified 42 individuals that actually received money. Whether or not the scope or purpose of those payments for the various contractors were outside the scope of what we were tasked with doing, which was to track and follow the money. And, a great point by the Senator, which was we are not here to give an opinion that there was not 100% not a pause. We were tasked with trying to find a timeframe and make you aware that payments occurred during that. We don't draw final conclusions as that, but it definitely was noteworthy that things were occurring during the so-called pause. But, to your primary question, that was really outside the scope of what we were asked to do, and I would definitely give deference to the Legislative Auditor's prior report as to the compliance of the contracts."

Speaker Armstead: "Ok. I understand that you wouldn't necessarily know. I guess my last question in relation to that is from looking at the documents that you looked at, could you tell whether those documents were for construction or documents billing the State basically or billing the Program for a mobile home or for a stick built, was that even something that you could even tell from those invoices that were provided?"

Marty Wright: "James can definitely correct me on this, but, it was my understanding that we were limited to, very simply, it's called a cash requisition form, which just directs a payee vendor and the amount of money to go to and I think that there was maybe some account information on there. There was no supporting documentation submitting or in the system to support what that money was used for...whether that was for a home or trailers, it doesn't exist in the Oasis system, hasn't been put in the system, or supported by the Agency."

Speaker Armstead: "Alright, thank you. Thank you, Mr. Chairman."

Senator Gaunch: “You are welcome. Delegate from the 42nd, Delegate Ambler.”

Delegate Ambler: “Thank you, Mr. Chairman. Thank you, gentlemen. Looking over the document that you all supplied for us, I just have a question that seemed to jump out at me. When you look at the amount of monies being paid to Thompson and then to Danhill Construction, and I don’t know...having been in the construction business, you obviously bill and then the work is complete...but, when I look at that, I am looking at several of the invoices that have come in and just to take note to, and on February 13th you have a \$14,878.25. Danhill then put in a \$30,000.00 on February 22nd. You go back two weeks later and then, Thompson again puts in another bill for exactly the same amount of money, Danhill...exactly the same amount of money. Two weeks later, you will see Thompson again and Danhill has increments of \$15,000.00 payments, and several of the payments. It seems to me, and do we have any way of knowing were they getting paid by completion of the stage? I know, often when I build houses, I want a certain amount of money up front and then at a certain completion, I want another set of money, and then at the end product due. Do we have any way of knowing how this billing was coming in? Is it by completion of work? Is there anything on those work orders that tell us how that took place? Because it just seems...”

Marty Wright: “Your questions are very legitimate and valid. And, to the extent that we were able to, we had to rely solely on what exists that has been put forth to support the payment. And, as we mentioned several times, there is nothing more than a cash requisition form. There was no itemization or other supporting documents put forth, at least into the domain of the OASIS system or other public function to support the payments, other than the cash requisition. And, again, if there is supporting documentation, I again point you to the Agency or Commerce.”

Delegate Ambler: “Ok, so if those supporting documents would show what is being paid for, it would be through the Department of Commerce?”

Marty Wright: “As the agency that is directing the payment, I would presume that they would have that supporting documentation. It is an assumption on my part.”

Delegate Ambler: “Ok, alright. Thank you. Thank you, Mr. Chairman.”

Senator Gaunch: “You’re welcome. A couple of questions. I keep hearing you say that source documentation is missing or not available on OASIS. Is that normal?”

James Messick: “From our determination with the majority of block grant draw downs is the term I will use, there is multiple pages, up to six, and sometimes up to ten pages of how much money is in the account, how much is being drawn for what individual thing...whether it be for engineering, construction, or administration, how much is left in the account, and to whom it is getting paid to. In the case of HORNE and Danhill, like what was mentioned before, we were left with a single page, that is a cash requisition

form with just Thompson, or Danhill, or whomever might be getting paid out. And, like I said, just a single page.”

Senator Gaunch: “No invoice to support it? And, the last question again, is that normal in the common dealings of the State, do you see that often?”

James Messick: “In particular relation with the block grant fund, no sir, it’s not. Like I said, with all other grant monies being expended, there’s more support documentation that is present.”

Senator Gaunch: “The payments of \$1,000.00 each, I think it says that there are 41 of them?”

James Messick: “Yes.”

Senator Gaunch: “Did those go to flood victims? Do we have any way of knowing that?”

James Messick: “We have no way of determining that. We simply have a name and address that is attached with the cash requisition form.”

Senator Gaunch: “Lastly, any other sources of payments to flood victims, such as the Governor’s Contingency Fund or anything else? Did you run onto anything like that? Would you have? Would it be on OASIS if that had occurred?”

James Messick: “That is an ongoing investigation that we are currently involved in. We are looking more into that, and we will have some more information hopefully for you in the near future.”

Senator Gaunch: “Other questions of our presenters? Don’t see any. Thank you, gentlemen. I appreciate you being here.”

James Messick: “Thank you.”

Senator Blair: “Question for the Chair.”

Senator Gaunch: “Senator Blair, Senior Senator from the 15th.”

Senator Blair: “Thank you, Mr. Chairman. They are not going to leave are they? They are going to hang around?”

Senator Gaunch: “They will be here.”

Senator Blair: “Excellent. As I am sitting here listening to this, the way we are formatted on managing this meeting, they are coming in, we are asking a lot of questions that I believe people in the audience that are going to speak, are going to be able to answer on

this. So, I wanted to make sure that they didn't leave and that a lot of these questions that we've asked...that we can be able to get that give and take, even have both of them up at the podium at the same time...and being able to answer the questions for us, under oath...so then it makes sense as to what is taking place. Because right now, we've asked a lot of questions, that I think there is people out there that can actually give us those answers."

Senator Gaunch: "Yes, sir. We can do that."

Senator Blair. "Ok, thank you."

Senator Gaunch: "Thank you. Next, on our agenda is Ms. Mary Jo Thompson, former WV Office of Development employee, Ms. Thompson, would you approach the podium please? Thank you for being here."

Mary Jo Thompson: "Good morning."

Senator Gaunch: "If you would please, raise your right hand. Do you solemnly swear that the testimony you are about to give is the truth, the whole truth, and nothing but the truth?"

Mary Jo Thompson: I do.

Senator Gaunch: "Thank you. Do you have a statements or comments that you would like to make before we open it up for questions?"

Mary Jo Thompson: "Yes, Mr. Chairman I do. I would like to take a moment to speak directly to every single member of this committee and apologize, truly and heartfully for not appearing before you on the Tuesday committee meeting. I have been in Charleston for 19 years. I have been a public servant in state government for 19 years. And, I of all people, know how serious this process is. And, I need you to know the respect that I give it. The moment that I realized on Tuesday that there had been a miscommunication, I immediately started my journey back from Marion County to Charleston to submit a letter, respectfully, hand-delivered to the Chairman to profusely apologize, and to offer to speak directly. And, I must say I am happy to be here today to answer questions about this extremely, extremely important topic and do whatever I can do to help this process move forward for our flood victims and for our State. So, I am very sorry."

Senator Gaunch: "Thank you very much."

Mary Jo Thompson: "Thank you."

Senator Gaunch: "Questions of our presenter? Delegate Kessinger, from the 32nd."

Delegate Kessinger: "Thank you, Mr. Chairman. Thank you for being here today. I think

you said something in your comments just now, that I really appreciate and I want to touch on for a couple of seconds. And, that is the fact that you said you were a public servant. And, I really appreciate that because I think that this is something that every single one of us on this committee and every employee in state government needs to be reminded of, is that at the heart of all of this, we are public servants. I appreciate you coming here today. I do have a couple of questions. My first one, thank you for apologizing for not being here. I understand that there was a miscommunication. My first question is why did you leave the Commerce Department, after you confirmed you would be here and just hours later you resigned. Could you give me some type of clarity on why you chose to resign from that position?"

Mary Jo Thompson: "Certainly. Thank you for the question. I had resigned Friday. The Committee meeting was the following Tuesday, after a lot of heart felt thought and consideration of the conditions that I was in personally and professionally. The RISE Program and the importance of the RISE Program is certainly not up for dispute whatsoever. Nor is the Governor's decision to move that program into the able hands of the National Guard. You won't find a better group. That transition had already happened. And, I truly believed that on behalf of the program, and on behalf of the state, and on behalf of myself, it was time to create a clean slate for the new leadership and the new direction that the Governor's Office was going in. And, it was simply time for me to go."

Delegate Kessler: "So, your departure was simply of your own decision and you weren't asked to leave?"

Mary Jo Thompson: "It was absolutely my own decision."

Delegate Kessler: "Ok. Are you still employed with the state in another capacity or?"

Mary Jo Thompson: "I am no longer employed in Commerce. In other words, I have turned over my badge and all of my authority, etc. and I am on my annual time right now that I am expending."

Delegate Kessler: "Ok. Alright, so when we were first notified that we were going to receive the RISE funding there was a request brought to put in that funding into the Commerce Department. Can you give me an idea as to why the Commerce Department wanted that money to be in their account and why they wanted to be in charge of the RISE Program?"

Mary Jo Thompson: "Yes mam, thank you for the question. I'm not sure it is accurate to say that Commerce wanted to be. It was our duty to be in charge of these funds. These disaster recovery funds do come from HUD and in the Community Advancement and Development Division of which I am the former Director of, our flagship program is our CDBG Program. It is the Community Development Block Grant. Traditionally, in the State of West Virginia, that has been referred to as the small cities block grant and that might be a recognizable term to most of us in this room. So, it actually flows from Congress into

the State of West Virginia, into Commerce and the Development Office. And, that's the CDBG Funding. So, this disaster recovery funding comes through the same vein, from the federal government into the State of West Virginia, into the Department of Commerce, and specifically the Development Office. The only difference is -DR is attached to it. It has the same regulations and the same requirements as our traditional Community Development Block Grant does."

Delegate Kessler: "So, if Commerce didn't request that, who made the decision to put that money into that fund, into the Department of Commerce?"

Mary Jo Thompson: "Again, HUD requires that the CDBG-DR funding be administered or flowed down to the same group that accepts and is responsible for CDBG."

Delegate Kessler: "Ok."

Mary Jo Thompson: "Proper."

Delegate Kessler: "Ok, so has the Commerce Department ever dealt with anything similar to this? Specifically, building homes for individual families or is there anything like that they have ever done?"

Mary Jo Thompson: "That's a very good question. Traditionally, the small cities block grant, CDBG, we have been a water and sewer shop for a very long time. Please don't hold me to a 50-year mark, but certainly, water and sewer has been a tradition for this grant funding way before I started to serve in the State of West Virginia. So, administering CDBG grant dollars is certainly not foreign to us in the Development Office, or Commerce, or those additional groups, engineers, development authorities, funding agencies that are used to that program. Specifically, the Development Office has not engaged in housing. I have heard a couple of stories years before I took office, of a couple of projects that housing was involved with, with regular CDBG funds, but, that has not been a traditional path that the state has pursued. Again, the priority was absolutely water and sewer."

Delegate Kessler: "Ok. I have some questions about the HORNE contract. Who all was involved in the negotiations regarding the HORNE contracts?"

Mary Jo Thompson: "There was a selection team, after a RFP was produced for the large scale amount of work that was going to be involved with this CDBG-DR program. And, I want to make note that this is the first time in the history in the State of West Virginia that the state has ever received these funds. Disaster recovery is being a true and absolute economic driver in states. I hate that that happens because there is so much devastation surrounding a disaster. But, there is a lot of funding coming from the federal government into states affected by disaster, and West Virginia has been the recipient for the first time in its history of these funds."

Delegate Kessler: "Ok. So, going back to my first line of questioning, when you left what

was the unmet housing need the day that you left? Do you remember what that was?”

Mary Jo Thompson: “It’s a very good question and I need to go a little bit further on that and make it very clear. Because this is an important factor. The State of West Virginia would not have received one red penny of federal funding for disaster recovery purposes if there were not an unmet need in this state. The term unmet need defines a need that a state still has after all federal agencies have already contributed during the first phase of recovery. And, of course, those are the heroes in the National Guard. That’s our emergency services group. That’s our philanthropic community. That’s FEMA. After all of those numbers, all of that data is turned in, the state can still look at the conditions and then apply for funding for unmet need. Remember, the presiding federal agency here is HUD. And, so, their specialization is housing. So, that’s what we were applying for. Housing money to serve unmet need.”

Delegate Kessinger: “Ok, so let me rephrase that question. On the day you left, of the applicants who had been qualified for RISE, how many homes that were promised had yet to be built?”

Mary Jo Thompson: “Well, we were not authorized to spend the bulk of this money by HUD because of federal bureaucracy and I can go on and on about that, until February 20, 2018. So, technically, there would not have been one completed home that had been performed yet, in the cycle.”

Delegate Kessinger: “So, there were no completed homes as of the day you left.”

Mary Jo Thompson: “No completed homes to the best of my knowledge.”

Delegate Kessinger: “Including the 18 families who have been stated received keys to their homes and were actually living in those homes as of the day you left?”

Mary Jo Thompson: “I want to back up there if I implied...did families have keys and were they in their homes? Yes mam. By the Friday I had left, I want to say eleven to my knowledge. I know the General had said this before, it’s the honest truth, these numbers shift every single day as work is happening. But, even if keys were in their homes, that would still be considered a construction phase, because again, this is bureaucracy. This is HUD. So, a full recovered family, in the eyes of the unmet need program, would happen after a final inspection by a qualified third-party inspector was performed, and all of the documentation was turned into HUD for compliance. That would define full construction in the end of it.”

Delegate Kessinger: “Ok, so I just want to get some clarity. Can you walk me through the process from start to finish. So, when a family is approved for the RISE Program, what is the process from there to what you would consider finalized?”

Mary Jo Thompson: “Yes, So, first of all, I want to say again that these are federal

monies and the bureaucratic red tape is unimaginable. I also want to state that if we learned anything from this, I think that West Virginia is in an excellent position to start to advocate our federal agencies to cut down this red tape and work together a little more. Because the process is frustrating. But, it is necessary. So, if you are a flood victim and you would like to apply for RISE funds or you are interested in the program, we would start what is called an in-take process, which is in my mind, a very painful process, you understand. This is long-term recovery. We didn't even know we were going to have these funds until five months after the disaster occurred. So, the intake process starts with the most important part of eligibility and verification. And, you all will hear a term called DOB-duplication of benefits, and that is a result of the Stafford Act. And, it quite frankly means that two sets of federal dollars cannot be spent for the same thing. So, that process of duplication of benefits if a family lost everything they had, and they got paid \$33,000.00 from FEMA, which is the most that they could get. And, if they didn't put that money into housing, let's say they put that into FEMA eligible activities. It might be buying clothes. It might just be buying things to survive when they have lost everything. When they apply for the RISE Program, we need to see receipts or proof of the \$33,000.00 the federal government had already given out under FEMA. If we can see proof, because this is bureaucracy, it's not judgment, that housing funds were spent in the first phase of recovery, then you move through the process much faster. If those funds were not spent on housing, you then have a deficit. So, in some cases, and in many cases, and I know that Jeff and the National Guard and anybody that has been involved with this will say, in many cases, because it was so devastating, you would have a family, or person, or citizens who lost everything, had \$33,000.00 that they spent to survive, that could be gone. They could show you what they spent it on and they might have nowhere to live. We still have to fill that \$33,000.00 gap before we can move forward. All of that is part of what I will refer to as intake. And, an additional component of the intake process of compliance is environmental review. Now, anybody who's been involved in business knows that is a very complex process to begin with and you can times that theory by a thousand, in the State of West Virginia, when we are talking about disaster recovery for a lot of reasons, our topography, etc. So, if you have been affected by a flood, you apply for RISE, you start an intake process that starts with eligibility and paperwork and then we have to fight hard for that duplication of benefit gap. Whatever that means, however we come up with that deficit, to fill that deficit. Then, we have to, depending on where you are, go through an environmental review. When you clear all of that and more, you are finished with phase 1 and then you move to the construction phase. Then, the citizen will now deal with the contractors that will replace their dwelling. Replace, repair, whatever the situation is. So, that's the entire process that occurs."

Delegate Kessinger: "Ok, so, I get it. It is a very long and sorted process. So, back to my original question because I feel like I am getting different answers."

Mary Jo Thompson: "Ok."

Delegate Kessinger: "Not just from you today, but just in general, about the numbers."

Mary Jo Thompson: “Ok.”

Delegate Kessinger: “How many families are living in their homes today? Actually, not even today... as of the day that you left office, how many families are living in the homes that RISE built for them or provided?”

Mary Jo Thompson: “Number one, they would be mobile home units because that was the first set up. To the best of my knowledge, 11.”

Delegate Kessinger: “So, 11 families were living in their homes? As of the day you left?”

Mary Jo Thompson: “If they were given their keys ... If they were given their keys ... I would assume they are living there. There is a certain amount of time. Of course, all of their belongings, what was left was in storage units, if some had been living with other family members, whatever the case was. So, what I am saying is that keys were handed over. Now, people physically, eating there every single day? I am not sure. I’m not sure of.”

Delegate Kessinger: “See, that is confusing to me. Because, at our previous meeting and correct me if I am wrong, Mr. Chairman. At our previous meeting we were told that people were given keys prior to homes being finished, finalized or inspected. So, if they were given keys to those homes and they had not been finalized or inspected, were they allowed to live and dwell in those homes? Or...?”

Mary Jo Thompson: “The end of the process of construction in HUD’s eyes is the final inspection. HUD doesn’t look at the time they got the keys, when they got the keys, or how many people are living there. That’s our reality, obviously, in the field and in our lives. But, construction is complete. The process is complete once a third-party does the inspection and all of the following documentation is submitted to HUD for compliance.”

Delegate Kessinger: “Ok. I am sure that there are other questions on this from other members on this committee, so I will...ok.”

Senator Gaunch: “Thank you, Delegate. Delegate from the 40th, Speaker Armstead.”

Speaker Armstead: “Thank you, Mr. Chairman. Thank you, Ms. Thompson for being here. We have heard a lot about... that we are sort of a slow spender under HUD designation. I would like to talk about that for a few minutes. What do you attribute that designation to from your experience in this program? Why do you think we were designated as a slow spender?”

Mary Jo Thompson: “The first thing that comes to my mind is environmental review and the second thing is bureaucracy. But, the environmental review process 100% is the reason we were put on a slow spender list. The term slow spender sounds very, very

devastating because it is. It implies that somebody has done something wrong, that something is not moving. And, more importantly that the federal government that has invested in the state, the funds aren't moving. So, you run a risk of losing those funds obviously. And, it is ironic that part of the bureaucratic process for HUD is the environmental review. It is not HUD's fault, by any means, that it was taking much longer in the State of West Virginia than it has in other states. And, I don't necessarily have that comparison data for other states. But, because that environmental review process, that they require, to be compliant was taking a very long time, we were placed on a slow spender list. And, that is very serious to HUD. That's not a joke, by any means, obviously, because of these funds. They did come to Charleston. They came to visit us in January and they wanted to have a very good understanding of why we were on this list, what the hurdles with the environmental review and other things are, and they did. They moved us along, so to speak, we still had the ok."

Speaker Armstead: "In terms of that, when you realized that you were designated, or that this program was designated as slow spender, did you take any steps to try to speed that up? If the environmental process was what you believe was slowing it down, did you make anyone aware of that? Or say, this was causing us from being unable to get people in these homes quickly? What steps did you take at that point, if any?"

Mary Jo Thompson: "I think earlier in my career, if anything I was in charge of was labeled slow spender, I probably would have had a much more...even physical reaction... because it would have panicked me so much. And, in the past nine years, dealing with federal grants and having a good understanding of some of the reasons and some of the pace, especially when you are dealing with water and sewer and the other \$50M or \$60M worth of grants that we run, I understood it was a process. But, I absolutely did everything that I personally could to push that through, whether that's making phone calls to our sister agencies within the state or using our congressional groups to help with federal agencies. I believe in my heart I pushed as hard as I possibly could. However, this is not an opinion type thing. This is not a situation where you would call and ask for a favor to move something along. These are HUD compliant regulations. So, you could only push so far. Because, yes, we are on a slow spender list and we are always continually running a risk of losing this money, so we were pushing, but, we were also reporting to HUD continuously. You must have HUD on your side. You have to have HUD on your side in a situation like this. You have to engage them all the time to get direction. Again, I will say this is the first time that this program has ever happened in the State of West Virginia. So, we needed them, quite frankly. And, we are very thankful for the funds that they have given us."

Speaker Armstead: "I guess in all fairness to your explanation there, weren't all states or all jurisdictions that had these funds available to them because of a natural disaster like this they were all under the same, basically under the same regulations, right?"

Mary Jo Thompson: "Yes."

Speaker Armstead: “We were designated as a slow spender in comparison.”

Mary Jo Thompson: “Well, CDBG-DR has the same regulations all over the United States. Now, different states are going to have individual situations that will vary. But, the issue of an environmental review process, and in our case, this was two tiered, that is not an option. It may have taken longer in West Virginia than it has in other states. For example, in Texas, if you are working on a bog with 600 homes, you are going to get that environmental review done probably much faster than in situations that we have here in West Virginia. Our topography, our landscape, the way this water hit in the designated counties. So, the environmental review is necessary across the board with this program. The time delay in West Virginia, I would consider, perhaps unique.”

Speaker Armstead: “And, what do you attribute that time delay to?”

Mary Jo Thompson: “I attribute it to, you know, bureaucracy, but I also...it's a fine balancing act between pushing too hard almost being obnoxious and over the top dealing with these compliant regulations, and also respecting the process. And, I believe, me personally, I tried to find that balance at all times. From not pushing too hard, but understanding the process. And, again it's ironic that we are on a slow spending list from HUD because we had to go through a process that they approve an environmental review which is their regulation. So, and I don't mean to be obnoxious when I continue to say bureaucracy and red tape. But, this is an issue. It's an issue in all federal agencies, but [it is](#) absolutely an issue that is even closer to the heart because it is disaster recovery and we are dealing with people's lives. So, it's a thousand times more frustrating ... for me.”

Speaker Armstead: “When we started talking about this environmental review and I know that there are different components of it. So, I am not saying that all of it was covered by this. But, it was my understanding was, that at some point the EPA gave West Virginia a letter, whether you characterize it as a waiver, or a blanket authority, or I'm not sure exactly how it was characterized. But, it basically gave an approval that we did not have to walk through some of the steps that we might otherwise had to be, had to go through as a state, and that was not communicated properly to whoever needed to know that, in order to stop that delay from keeping people from getting their homes. So, how do you explain what occurred with that? Are you familiar with that and what was the reason for it?”

Mary Jo Thompson: “I heard that information, probably at the same time that we all did, and I believe I heard that from the General. And, I would have to defer to Mr. Woods or the General in what they found out. If it was something that was sitting on my desk and it didn't get moved, I can assure you sir that I had no idea of that. And, if that's the case, and that's what comes out, then I accept full responsibility for that. I do not believe that is the case. Now, programmatically, if there was a path the state could have taken that perhaps would have been easier, I would need to sit down and really look and study that to have a good understanding of it. I know the state focus and priority was number one, to move these funds as fast as possible. This is long-term recovery. The federal

government gives you six years to implement these funds. Now, if you want to talk about something that is frustrating, who is going to wait six years for something like that? So, the General will use the term deliberate speed and I think that has been...you know... a general theme for us, always wanting to obtain. But, you have to be careful and you have to be compliant, so again, that's a balancing act. I am not aware of what the other options were to cut down the time frame of the environmental review and I am not sure if Mr. Woods can report on that."

Speaker Armstead: "Ok, and I will kind of move on to something else. But, I guess my last question on this or my last observation on this is that again, it appears that we were being compared to all of the other states that have to spend these funds and they are all subject to these same regulations. And, we are trying to get moving and it appeared that we got some type of waiver that helped us to make this happen more quickly. Again, waiver may not be the right characterization, but some type of communication from EPA that gave us that ability and somehow, someone dropped the ball on that, from our review at this point. And, was that your office that would have been responsible to do that?"

Mary Jo Thompson: "Our consultants were responsible to perform the work of the environmental review. Those were the experts and specialists. But, again, HUD gave the State of West Virginia the money through the Department of Commerce and into the Development Office. So, programmatically, the responsibility would land in our universe. And, from February on if that information has come...since the end of February, I would not be able to speak to it. I am certainly interested, and I have heard what you've heard. And, I am very interested to know if there is something that we could have done better or more efficiently. I need to know it and I will take responsibility for it."

Speaker Armstead: "Ok, and I know that there may be others, so, I don't want to spend a lot of time concentrating on these questions. But, there has also been some information that has been provided to us that there was a tracking system of these cases that was in place, by, I assume by VOAD, that they had put in place a tracking system to make sure that these individuals who were seeking assistance were going through the process in an orderly fashion and timely fashion. And, at some point, a totally new tracking system was developed that slowed things down. Was that tracking system put in place by your office? And, if so, why did you not use the VOAD system that was already in place?"

Mary Jo Thompson: "I can speak to the issues of tracking data because ultimately, that's what we are talking about. We're tracking recovery paths for our citizens to make sure that they get to full term recovery. So, as we discussed before, there are two phases of recovery when a disaster happens. You have your initial phase, that's where VOAD is going to be involved. And, I would need Ms. Ganaway to give me the details to see how that program works. But, VOAD was in charge of a system called CAN. And, I believe that that is the Red Cross's overarching database. I believe that is who VOAD uses. So, when the first level of relief comes in, it was the responsibility of VOAD to track, in whatever system they used, however they used it. When we were notified that the State of West Virginia would be getting money, the first tranche, the first bucket, so to speak,

we were notified that we would qualify for in November of 2016, five months after the disaster. We then had to start to put a very detailed plan together. In other words, HUD says, "Well, yes, West Virginia you can have the money, here's how much money you can have. And, now prove to us that you know what you are doing and that you have the capacity to spend it." That is called an action plan.

And, those two words sound much easier than the process. But, that's where you really go into the state and that's where the federal government had the overarching information. They had FEMA data number one, they knew what the federal government had already paid out. That's not necessarily an actual picture when you deal with the landscape of the state because those numbers that the federal government has does not reflect all of the work that the philanthropic community has given. We are West Virginians. That is a very strong, powerful group. That's your faith-based community. That's your volunteers, that's everybody that is under the umbrella of VOAD. So, all of that work also has to be identified and accounted for in the intake process, in the duplication of benefits process, and it is the first recovery's team's responsibility to have that data. By the time we got on the scene, it would have been much easier, and will be much easier in the future. This is something that we have learned. Again, the first time that we have ever done it to create data that can be shared. So, that when we know we are getting long-term funds, we can automatically look at that data, see what unmet need is still left and immediately start to knock that out. So, this was not a data sharing situation. We had another system ...called... and our experts brought this to us, HGMS, and that was a very intense tracking system. Now, interestingly, we gave that database to VOAD, so that they could see everything that we were doing every single day. That was very, very helpful as far as the state, as far as what we all needed to do. We were not able to see what CAN was doing. We had to make, and I don't know if it was a verbal phone call, or written request to get information. And, I believe that's an issue with CAN, I think Mr. Woods could speak to that. It's however the state, and I'm not sure if that is the General, Jimmy Gianato or the Governor, who determines that VOAD has the access, and they are the only ones that can have the access. But, when the General was talking to you about putting two systems together, I'm not sure how that is being accomplished, but I am glad that it is. Because it is absolutely necessary. You have to know what you are dealing with. You have to know what you are working with, in order to spend these funds to take care of housing. And, more importantly, to get out of housing and into other eligible activities, such as economic development and infrastructure. None of that can be looked at until, not only the housing need is met, but proven, to HUD."

Speaker Armstead: "Ok. I guess my last question at least at this point is...I asked you what you thought caused the slow spender designation. It is my understanding that it was environmental and just sort of bureaucracy. And, respectfully, to people who are still waiting to get into homes, when they hear that, I am sure that that is very frustrating to them, as it is to us. To hear, well, it was bureaucracy that caused this, the slow-down or whatever. So, you were in charge of this program. What could we have done? What could you have done and your office? What could the State of West Virginia have done, looking back on this to make sure that more of these people are in their homes at this point."

Mary Jo Thompson: "I think it is a very good question. The topic keeps me up at night, most nights, and has for a very long time. I honestly think I could have fought harder. You know, I'm much lower on the chain and there's a lot of people above me. But, I will never stop thinking that I could have fought harder, sent a stronger message, talk to maybe the Congressional Delegation, all of them even more. Please work with HUD. Please do whatever we can do. If I had had more experience in environmental reviews, I think in general, I would have been more effective. I was sort of building...we were building the plane and flying at the same time because this was the first time this program has ever happened in the State of West Virginia. But, I will always think I could have pushed harder somehow, some way by striking that balance. Not being disrespectful but fighting harder."

Speaker Armstead: "Alright. Thank you. Thank you, Mr. Chairman."

Senator Gaunch: "Senator from Upshur County, Senator Karnes."

Senator Karnes: "Thank you, Mr. Chairman. So, if you could maybe enlighten me a little bit on structure. Who have you reported to all along? Who is your director?"

Mary Jo Thompson: "We had an executive director, just a quick little spiel of the Development Office, traditionally it has four corners. We have a small business division, we have an international division, for our international clients. We have who we call BID and that is Business and Industry, those are the folks that go and recruit and retain businesses in the State of West Virginia. And, then, we have community advancement and development. We call that CAD. That's our group. So, those four corners traditionally report to an executive director of the Development Office. Previously, that was held by Mr. Chris Hopkins, who is no longer in that position. And, then the next level, you have a Deputy Cabinet Secretary. However, the counsel lays out there and then you have a Cabinet Secretary."

Senator Karnes: "Ok, so you said Hopkins, he is no longer there?"

Mary Jo Thompson: "No."

Senator Karnes: "When did he leave?"

Mary Jo Thompson: "I believe he left in May."

Senator Karnes: "Ok."

Mary Jo Thompson: "I don't mean to smile when I say that. He is a very dear friend of mine and I have great respect for him. His wife had just gone through a very difficult pregnancy, is a pediatrician and got a job out of state. He left in May."

Senator Karnes: "Who is the Deputy Director? You said it went from there, to kind of a

counsel?”

Mary Jo Thompson: “So, there is a Deputy Secretary.”

Senator Karnes: “Deputy Secretary.”

Mary Jo Thompson: “It is Mr. Jarrell. It was Mr. Jarrell, actually.”

Senator Karnes: “So, it was Mr. Jarrell, and he is gone too?”

Mary Jo Thompson: “He is no longer with the Department of Commerce?”

Senator Karnes: “Does he still work for the state? Do you know?”

Mary Jo Thompson: “I don’t believe so.”

Senator Karnes: “Ok. But, he is here today.”

Mary Jo Thompson: “He is here?”

Senator Karnes: “I guess. On the question of the environmental review. Is that something that is purely done by EPA or is that something that is farmed out to DEP, like a lot of things are? Who is actually responsible for whatever the environmental review was? I meant, I assume somebody is approving it. Somebody is signing off on it ultimately. Is that the EPA or is it the DEP, with the EPA sort of supervising that process perhaps?”

Mary Jo Thompson: “Yes, sir. It’s my understanding, and I am not an actual expert, subject expert on environmental review. But, it’s a lot of reporting, investigative reporting from agencies, whether it’s Fish and Wildlife...whether it’s State Historical Preservation Office...whether it’s DEP. All of those agencies have to submit all of those compliance reports to the state, together that is combined given to HUD. But, HUD has the final review and approval of the environmental review on the federal level.”

Senator Karnes: “Ok, so it’s state agencies. The reason I am asking that question, if it were a federal agency, HUD, for example, and they’re saying that we are a slow spender, as a result of them slowing us down, is there nothing built into that process to recognize that they’re the ones holding up the process?”

Mary Jo Thompson: “Well, due to bureaucracy, they’re the ones that require the process. They would not be the ones ...you know... responsible. It would not be their fault if something wasn’t executed on the state level, which is why we were on the slow spender list. We weren’t moving money fast enough and they had to come in and talk to us and do a thorough review as to why.”

Senator Karnes: “Well, and maybe I’m still missing something here. But, I would

assume there's an agency, whether it is DEP or EPA that's laying that report, so to speak, on HUD's desk and saying, 'it all looks good to us'."

Mary Jo Thompson: "I mean ultimately, it would be the Commerce Division, the Development Office's job to hand over a report over to HUD. DEP has been involved with resiliency forever, obviously, as far as a state agency. They were the agency that started advocating for an entire resiliency initiative, because it is so important. But, to my knowledge, sir, they are only one piece of an overall environmental process."

Senator Karnes: "Right. Well, again, if this is part of what is slowing this process down, and you have mentioned the word bureaucracy a lot, related to the federal government, while kind of forgetting the fact that all of this is bureaucracy at the state level as well."

Mary Jo Thompson: "Yes."

Senator Karnes: "And, it all ties together. So, is it our bureaucracy at the state level that was slowing everything down on the environmental review or was it some part of the federal bureaucracy that was doing that? When we point the finger at the federal, and I am always happy to do that. But, in this case, are we talking about our agencies that was slowing the process down or federal agencies that were slowing us down, due to bureaucracy?"

Mary Jo Thompson: "I respectfully know that the General because I have heard that he has looked into this and he may be able to speak more in detail about what was actually slowing this down. As when he took the reins and started to research it."

Senator Karnes: "What percentage or just a rough estimate, was this 100% of your time for the last year? Was it 10% of your time? What percentage of your job duties or responsibilities involved this?"

Mary Jo Thompson: "I am very proud to talk about the work ethic of my staff. They are not just general clock punchers. We all worked about 24 hours a day. But, if I had to give you a percentage for the past two years that I have been working on this, it would have taken approximately 75-80% of time."

Senator Karnes: "Of your employed time is kind of what I am asking?"

Mary Jo Thompson: "Yes."

Senator Karnes: "So, presumably you had duties before this happened?"

Mary Jo Thompson: "Absolutely."

Senator Karnes: "Did that get shuffled off onto somebody else or this just overwhelm that?"

Mary Jo Thompson: “Well, we absorbed it. The reason that we hired consultants and experts is because we needed it. We did not have the band-width, nor the capacity in the Commerce Division...and, of course that’s where the funds came to from the federal government to execute this program. So, we immediately...the Cabinet Secretary at the time was Keith Burdette, we had a very serious conversation about the type of help that we need. Worst case scenario, is we would try to A: do it ourselves, when we were not qualified...B: move too fast and put this state in jeopardy, and hurt people even more by having to return funds. So, we knew we needed some help and we did get an excellent team with HORNE. So, we pay HORNE, paid HORNE to do the majority of the work. It still required a lot of planning. HUD is not interested in paying consultants in states. They want states to learn capacity. So, it’s almost a teaching situation that we have to learn from the experts that we hired. In addition to that, through some of the funds, we have plans and have put in plans, and the General can speak to how he is going to use that for 10 additional positions in the state, so that we have state employees that can become very well versed in disaster recovery. Not just in Commerce. In general, Commerce just deals with money, not human lives. But, all over this state and those need to be shared resources with Jimmy Gianato’s shop, FEMA, or the Governor’s Office, or the National Guard or wherever those positions need to land, the money is there to fund them, so that people can learn.”

Senator Karnes: “Is there anybody left? I mean, obviously, Mr. Burdette is gone. He was replaced by Mr. Thrasher.”

Mary Jo Thompson: “Secretary. Yes, sir.”

Senator Karnes: “Is there anybody left in the chain of command from you to the Commerce Secretary that has been around? Or, did everybody just clear out?”

Mary Jo Thompson: “We have an Interim ... when I say we... I firmly had an Interim Secretary, Secretary Birch and we also have Wes who has been our sort of quasi-legal, kind of hold down the fort sort-of-guy. But, I know Secretary Birch has told me it is absolutely 100% a focus of his to do whatever he has to do to help a new permanent Secretary transition in. It’s a wildly important position.”

Senator Karnes: “I don’t mean our Interim Secretary.”

Mary Jo Thompson: “Oh.”

Senator Karnes: “Because he just came in... But, what I mean is from yourself who has resigned?”

Mary Jo Thompson: “Yes.”

Senator Karnes: “You know the Assistant Secretary...or Deputy Secretary gone, two

Secretaries gone. Is there anybody in the chain that's still there who was there two years ago? Or a year ago?"

Mary Jo Thompson: "Not in the chain that you just mentioned. No, sir."

Senator Karnes: "Ok. I see that there are ...several other... or at least one or two other folks. How many people reported to you?"

Mary Jo Thompson: "I was thinking about that on the way over. I want to say 23. I don't have the organizational chart in front of me. It may be a little less. It may be a little less in CAD. But, right around, certainly 20."

Senator Karnes: "And, the reason I asked that question is how many of those folks, and I think that there are at least a few, that have also resigned."

Mary Jo Thompson: "My Deputy Director...actually...my Deputy Director has resigned. The rest of the kitchen sink is still there. There's many long-term career public servants and a lot of new ones that have really just started, and that we've taken on in the last couple of years. Engaging with universities, being pretty aggressive with internship programs. One of our youngest staff members we actually got, she was from a faith-based community out-of-state, working on the floods in Clendenin, and wanted to be a part of the West Virginia family. So, she now works in CAD. But, the programs themselves, I'm confident to report are stable."

Senator Karnes: "You said 70% of your time... what percentage...I would assume not everyone reporting to you is not even involved in this?"

Mary Jo Thompson: "I think that the entire CAD staff certainly has some investment in flood recovery because they care. Like I said, we have slated to hire 10 positions to help in this progress, but, until those get approved and filled, we had a team of experts that we paid for to help us with the work. But, everybody who could learn from those experts at any given time, that they had availability were pulled in to participate and learn. Mr. Mahallik is here, he was dedicated full-time staff member to DR and there is another full-time staff member in our compliance Division in CAD that is dedicated to DR specifically."

Senator Karnes: "Ok. I had the impression related to your answer to Delegate Kessinger earlier you've resigned and you are on your leave, but, it sounds like you've got someplace you intend to land?"

Mary Jo Thompson: "I intend to...I'm temporarily running up and down I-79 every other day, but I intend to return to Marion County."

Senator Karnes: "What I mean is, will it still be for State Government as an employment?"

Mary Jo Thompson: “I would be honored ... I would be honored to continue my career in public service. It’s all I know. It’s all I know.”

Senator Karnes: “But, you don’t have anything lined up or picked out?”

Mary Jo Thompson: “I don’t have any solid offer letter at all. Not at the moment.”

Senator Karnes: “Ok. Another thing that I thought ...because I could certainly understand the position you are in. You said that your decision to resign was a personal decision which I totally get. But, I think I missed a little bit of the question that the Delegate was asking. Did anybody that would be considered somewhere further up that chain suggest to you that you should resign at any time before you did?”

Mary Jo Thompson: “Absolutely not, not to me personally. The transition of the RISE Program had already happened. The reins had been given to the Adjunct General and to the National Guard. And, again, I honestly couldn’t think about a better group. I think we could all agree to that, but that had already happened. And, so natural leadership transitions were going to ensue and again, I felt it was best for the Program, and for my staff, and for myself to leave.”

Senator Karnes: “Part of the reason I asked that question is that you were there for seven years before this started, is that right?”

Mary Jo Thompson: “I wanted to say nine, but it may be seven.”

Senator Karnes: “It may be nine, but, this is a two year deal.”

Mary Jo Thompson: “Yes.”

Senator Karnes: “And, you were doing a lot of other stuff beforehand?”

Mary Jo Thompson: “Yes.”

Senator Karnes: “Certainly, you could see this being taken away. Did you feel like all the other stuff that you had put...none of it had enough of a reason to keep you there?”

Mary Jo Thompson: “I had been thinking...”

Senator Karnes: “Well, I presume that you had been doing a good job before this arrived. And, this certainly could be overwhelming, but...”

Mary Jo Thompson: “I think I understand your question and maybe let me rephrase it. Did I just decide to go back to Marion County, back to North Central after the RISE Program switched leadership? Is that fair? Is that the question?”

Senator Karnes: “Alright.”

Mary Jo Thompson: “No. I’ve been trying to...I’ve been wanting to get home to North Central probably for the past ten years for various reasons. But, it’s critical now, personally. Aging parents, we all go through that. My father is in critical condition. So, timing was a lot of it. And, was probably the most motivating factor. It was time for me to go, I felt programmatically. Again, I thought that it was the respectful thing to do for the state. And, then personally, ... you know... when one of your parents is dying, you don’t have a lot of choice.”

Senator Karnes: “Right.”

Mary Jo Thompson: “You just don’t have a lot of choice.”

Senator Karnes: “And, your Deputy resigned as well?”

Mary Jo Thompson: “He did resign, yes.”

Senator Karnes: “Does he have someplace he has already landed as well?”

Mary Jo Thompson: “He’s working out-of-state. I know he opened up a LLC. He’s a contractor. This is a young man that I believe had put ten years in public service or close to at a very young age right out of school. Russ Tarry came to the Development Office from the Office of Economic Opportunity. And, he is very much an ace at programmatic regulations. It’s something that he enjoys. I can’t...that’s not my strength by any means, but it’s his. And he has certainly done, in my opinion, his service to the State of West Virginia. I think that he had outstanding performance. You would have to ask the General, and Jeff, and certainly the staff that’s worked for them for their opinion. But, he has decided to move on. And, personally and professionally, I believe he’s in a ... better... he’s in a good position at such an age and I respect the service he has given up until now.”

Senator Karnes: “Ok, thank you. Thank you, Mr. Chairman.”

Senator Gaunch: “I’m going to allow one more question and then I am going to ask that we move to take a five-minute break. Senator from Mercer, Senator Swope.”

Senator Swope: “Thank you, Mr. Chairman. You described the time and the effort that goes into vetting every single invoice that gets approved. Contractor invoices, would they have followed a similar process to where detailed invoices would be submitted at the appropriate time and they would be vetted and processed prior to payment? Can you confirm that contractor invoices were vetted in a similar methodology and would those records still be available at Commerce to be verified?”

Mary Jo Thompson: “Respectfully, sir, due to the actual invoices, the content, the back-

up information, I don't have that in front of me and I don't have all of the knowledge of that. Certainly, Mr. Mihallik would be able to speak to that more directly and give you confirmation. Also, we have a CFO in Commerce and an entire accounting division that takes care of the agencies. And, those folks really need to be here to give you every piece of detail that you request, so that you have a good understanding of that. I am not the person to confirm or deny that."

Senator Swope: "I wasn't asking for the details of the information. I just want to know if a process like that was implemented and would that information still be in possession of Commerce, so we could confirm or deny the sort of the implied allegation, because checks got written after the pause date that work was actually done."

Mary Jo Thompson: "Again, that's the first time that I had seen the presentation from the State Auditor's Office, as well. I thought it brought up a lot of good points and a lot of good questions. And, I think that the accounting team, and the compliance team, and the programmatic team needs a chance to address those and give you that information. Specifically, I can't confirm it. I do know there's a process."

Senator Swope: "That was my only question. Is there a process that would have back-up documentation? That's my only question."

Mary Jo Thompson: "Absolutely. This is HUD regulation. This is HUD compliance and regulation. It is not opinion and it is not somebody's choice. It must be done by the law. So, yes, there is documentation and back-up and I can confirm that."

Senator Swope: "Great. That was simply my question. Thank you, Mr. Chairman."

Senator Gaunch: "You are welcome. Ms. Thompson, thank you so much for being here. We still have other questions. I see lights lit up, if you will bear with us a minute. I am going to look to the President for a motion for a recess."

President Carmichael: "Thank you, Mr. Chairman. I move the Committee stand in recess until promptly and immediately at 10:55 a.m. today."

Senator Gaunch: "Is there an objection? If not, all in favor...aye. Recess."

Senator Gaunch: "Would the committee come to order, please? Committee will be in order. Ms. Thompson, if you would please? Sorry to drag this out. I remind you that you are still under oath. We have a few more questions at least. Senator Blair, the Senior Senator from the 15th."

Senator Blair: "Thank you, Mr. Chairman. Before we get going, I am going to make a speculation here. That way, it helps with the questioning, going into the future. Because I am sitting here watching all of this. Listening to it, trying to learn, understand what is going on. And, what I am basically getting to a greyer degree, I hear a lot of words. It's a tornado

of words and information. But, it is not fitting together the way that I need it for me to be able to understand what is going on. I am not talking about you, specifically. I'm talking about the whole thing, everything that has taken place. I will get to a question in a minute. But, for me, what I am seeing right now, is excuses. And, ... I think... and I am speculating. This is Craig Blair and solely Craig Blair speculating. But, I see a system that has taken place that has actually slowed down the HUD process, the money, the spending of the HUD money, seeing it being pushed out onto the volunteers, like the Catholic organizations, the Methodists, the Red Cross, whoever it may be that was out there. Because they built half of the houses from my understanding that took care of getting that back in shape. But, it was the slowing down of the process, to be able to take and not spend this money and get it over into Economic Development. There's too many variables for me in my mind. Your resignation, all of these other resignations from Commerce. Different things that are taking place. It's making no sense. Lots of words. Lots of information. But, it doesn't fit together. Now, I will start my questions. I feel a little bit better. For the record, I haven't smoked for four days, so I am a little agitated. And, I think the people in West Virginia are actually a little agitated, as well, by what has taken place. You said you were a 19 year employee, correct? Of the State of West Virginia, but, 9 in Commerce?"

Mary Jo Thompson: "Yes, sir."

Senator Blair: "I can't imagine why you decided...I heard your explanation earlier. But, you picked the perfect time to resign, and still not continue in Commerce, or you would have left earlier or later, just days before, and I didn't make...the Governor's Office has made a comment and said I was making a show because you didn't show up. And, the other person that was underneath. I didn't make a show on that because the fact of the matter is, I had no idea. But, I do know one thing. I have set in these meetings, many, many, many times and it is rare that somebody doesn't show up that's on the Agenda, to be able to speak. So, I am at a loss on that. I heard your explanation, but, are you employed or ready to be employed by somebody else? Because, my information keeps telling me that you have a job somewhere else already. See, for me, I would never quit a job, unless I knew I had something else in the pipeline ready to go for that. Most of us out there know that that is sort of a rule. Do you or do you not? You've answered it and still in my mind, I haven't got the answer I thought...you went around it. Do you or do you not? Are you on a payroll to go work somewhere else?"

Mary Jo Thompson: "Senator, I am still on my annual leave now."

Senator Blair: "I heard what you said."

Mary Jo Thompson: "Ok."

Senator Blair: "But, you are not employed by anybody else, correct?"

Mary Jo Thompson: "No, sir."

Senator Blair: “Nobody? Ok. Another question. Were you ever requested or ordered or whatever it may be to change any information on documents that may have been FOIA’d? And, you got orders to change information to make it so that it was less, or just change the information, it’s not a matter of being less or more of anything?”

Mary Jo Thompson: “Is your question, was I ever asked or ordered to change any information for a FOIA? Is that your question?”

Senator Blair: “Yes. And, you didn’t even have to be asked. Did you ever change information on any documents that had been FOIA’d or were you ever requested by anybody to change information on documents that had been FOIA’d?”

Mary Jo Thompson: “No. No.”

Senator Blair: “Ok. Let’s go to the environmental delay. I’ve been sitting here taking notes because I am trying to get my mind wrapped around it.”

Mary Jo Thompson: “Understood. Understood.”

Senator Blair: “I am trying to understand what was going on with this. The environmental delay doesn’t fit for me into this description, because it was my understanding that yet, there were concerns on this. This is what comes back to my original statement. This information is sitting out on somebody’s desk, where it’s been expedited for us, and HORNE, correct me if I am wrong, but aren’t they “experts” in doing what we are doing here?”

Mary Jo Thompson: “I would consider them experts in disaster recovery.”

Senator Blair: “Right.”

Mary Jo Thompson: “Yes, sir.”

Senator Blair: “In dealing with HUD?”

Mary Jo Thompson: “Yes, sir.”

Senator Blair: “Describe to me the relationship in your contact and how that worked with HORNE? Because, you would have thought that there would have been information that would have traveled in both directions, from you to HORNE, or from Commerce to HORNE? And, HORNE back and saying, look this is the way it’s taken place in other states that we worked for and managed. And, where there was apparently a breakdown here in the state. This is again, when I’m looking at it from this standpoint, that’s where I start putting the pieces of the puzzle together, and saying, this was designed for failure. Take a shot at it. Explain HORNE in the relationship.”

Mary Jo Thompson: “The relationship with HORNE and the Department of Commerce, specifically, the Development Office?”

Senator Blair: “Yes, and you can weed them environmental in their too.”

Mary Jo Thompson: “Ok. Well, to speak to the relationship of HORNE and their team of experts, they were an integral part of our day to day operations. There was a full-time staff member during the actual project management phase. His name was Trey Breckinridge. He had office space on the 7th floor of the new building, where Commerce is. And, we were in contact, you know, almost every single day, if not necessarily with me, but, certainly with the staff. So, as I mentioned before, this is a very much a learning situation for the state and obviously, the staff in the Development Office. So, we were in touch with them always. That was a constant relationship. It wasn't just a phone call every week or maybe, even a briefing, so to speak. It was day to day operations.”

Senator Blair: “So, we paid them to help the state to be able to reach the mandates of HUD and being able to work its way through. But, yet it failed. Am I wrong in that evaluation?”

Mary Jo Thompson: “Well, I believe that you are correct that we sought consultants and experts to help us get through this process of disaster recovery and become compliant. HORNE won that bid and that was the group that has been assisting us.”

Senator Blair: “For the life of me, I don't understand how that could be? You are paying somebody to guide you through the process.”

Mary Jo Thompson: “Uh-huh.”

Senator Blair: “And, then, here we are today, trying to figure this out and where it went wrong. But, yet, we brought in experts that's done it all over the United States, but, it didn't work here. That leads us to what I heard earlier was environmental. We can't be the only ... people... state that has had environmental. HORNE should have been able to guide us and say, look, we can get this expedited. This is the way to manage this. It's incomprehensible for me to believe that it ended up on somebody's desk and nobody knew about it, and then it ends up affecting so many people. Help me.”

Mary Jo Thompson: “Senator, I would absolutely have to defer and I would need the General to elaborate further on the documents sitting on somebody's desk, or whatever that is. Because I share...I absolutely share your concern. That sounds ridiculous and it sounds as if nobody cares or nobody has worked tirelessly to move this process along. So, I agree with you. I would like to know.”

Senator Blair: “It sounds to me that someone wanted to delay it. And, that's what bugs me more than anything. And again...again...we're spending millions of dollars with

HORNE to be able to offer this guidance. And, Mr. Chairman, somewhere along the line, I think we need to hear from HORNE on that. It's not making sense. And, that's why I am asking you. And, I am just trying to see if I can get you to make sense of it to me. And, like I said, I am not the smartest guy in the world. But, I can put pieces of a puzzle together and make a picture. And, the picture that is being painted to me right now, is that Commerce slowed this down and let the money being spent be coming from the volunteer organizations. The ones that the charity groups were coming in spending, but, we weren't doing it with the HUD. That's the painting of the partial picture that I see on the wall right now. You agree, or disagree that it paints a picture like that?"

Mary Jo Thompson: "I agree with your frustration. I agree with your frustration. This is disaster recovery, for our citizens that have been suffering a very long time. So, I agree with the frustration."

Senator Blair: "Mr. Chairman, I am going to stop right now. But, I may want to come back later on after we've heard other people testify in here today. I may like for her to come back and maybe the other ones, because this is hard to get your mind wrapped around if you are getting bits here and bits there. We might want to hear it all and then have give and take. Thank you."

Senator Gaunch: "Delegate from the 32nd, Delegate Kessinger."

Delegate Kessinger: "Thank you, Mr. Chairman. I apologize for monopolizing the Committee's time today. But, I share a lot of the same sentiments that I have heard from other members of this committee. We keep using the word frustrated, but, I think a lot of people are beyond frustrated, at this point. I have a couple more questions for you regarding this \$150M. So, how did that \$150M number, how was that determined that that's how much we should request from the federal government?"

Mary Jo Thompson: "Well, it is a very good question and it is a process. That \$150M amount has come in, I believe, in four different buckets. When there is a Congressional avenue to get disaster recovery funds, then, states...all states that have experienced disasters all come to the table and fight for portions of those funds. That's what our Congressional Delegation does. And then, from that fight, and from the data that's given to the folks that have disbursed the funds, then states are awarded. So, through four different funding mechanisms."

Delegate Kessinger: "I am not asking how we got it. I am asking, how did we come up with that number to request \$150M?"

Mary Jo Thompson: "We had requested far more than that, as far as the data that we had showing our unmet need. Again, these funds are for need that surpasses everything that has already been done from FEMA, from the first phase of recovery and also, the philanthropic community for West Virginia. And, remember, we wouldn't have any money if we didn't have unmet need. We requested far more than \$150M."

Delegate Kessinger: “So, how much did we request?”

Mary Jo Thompson: “I believe it was \$300M in housing. I don’t have...there’s a couple of documents from Governor Tomblin and then also, now, Governor Justice, that has been written in the course of the process of drawing down these funds. I don’t have all of those numbers in front of me.”

Delegate Kessinger: “Ok. And, the State received \$150M of the \$300M that we requested?”

Mary Jo Thompson: “For housing unmet needs. We requested more for infrastructure than we requested, very much more, for economic development.”

Delegate Kessinger: “Ok. So, what happens if, just per chance, we only spend \$100M of that money? What happens with the other \$50M? Is that required to be sent back to the federal government? What happens with that other money?”

Mary Jo Thompson: “No, and it’s a very good question. Again, we have to prove to HUD that our housing unmet need has been met. Once we give them that information and they ok it, we would then, the state, would be able to reallocate those funds into other eligible activities. I want to make it clear that the Federal Register that is issued to all states, when funds are awarded, says that we have to meet housing first, the unmet need of housing first. And then, we can go into economic development, and we can go into infrastructure. Both of those categories must tie back to housing.”

Delegate Kessinger: “Ok. So, if all of that money wasn’t spent on housing, it could be spent on eligible areas like infrastructure...so, construction of roads, or as long as it benefitted the people that it was intended to serve?”

Mary Jo Thompson: “It has to benefit the people that it was intended to serve and it has to follow all regular CDBG regulations and it has to tie back to housing. Because remember the federal presiding agency over these funds is HUD.”

Delegate Kessinger: “Ok. So, when you said infrastructure, what specifically do you mean? If we didn’t spend all of the money and you mean, infrastructure, those additional funds, if approved, could be spent on infrastructure? What does that mean?”

Mary Jo Thompson: “So, if it was necessary to build or rebuild, let’s say a bridge for example, that would be used to have access to citizens and housing, that would be an eligible activity.”

Delegate Kessinger: “Ok. Alright. My next question is...so, I know that you said that you spent 70-80% of your professional time dealing with the RISE Program, of that, what percentage of your time was spent with actual flood victims?”

Mary Jo Thompson: “I started actual field work?”

Delegate Kessinger: “Like speaking with families who was impacted by the 2016 flood, what percentage of your time was spent in the trenches speaking to the families and individuals impacted by the 2016 flood?”

Mary Jo Thompson: “Probably 10% or maybe less.”

Delegate Kessinger: “Ok. So, I know that you were the head of this program and so, that’s probably not something that you were responsible for. But, that is very disappointing to me. Because, I would think if I were running a program that was specifically intended to help people who were impacted by a natural disaster, the first thing that I would want to do, and the majority of the time that I would want to spend would be with the individuals who were directly impacted...the families who lost their homes...and I am losing my patience. Because earlier you said that you had to balance between pushing too hard and not pushing enough, but I truly don’t think that you can push hard enough for people who don’t have homes. I literally spent my afternoon yesterday with a family who is still waiting for their home. A woman who is taking care of her disabled mother, her disabled husband who is an Army veteran...her mother has COPD and osteoporosis....can’t get around other than when she is in a power chair and their floor is so weak that they have to carry her in and out because the floor won’t hold up her power chair. The walls are separating from the floor. And, I doubt that you actually saw their home, or I feel like there would have been a greater sense of urgency. I’m losing my patience because we have asked a lot of questions today and for the last few months, and I feel like we have gotten no answers. There is a lot of talking around and a lot of fluffing things out to walk around the question. But, we are asking simple questions and we want those answers. And, I know you can’t give them all. These are not questions for us. These are questions that my constituents have brought to me. People who I have talked to that who lost everything. I am really glad that you were able to go back home to your home in central West Virginia, because these people don’t get to go back to their homes, because they don’t have them. And, Mr. Chairman, I apologize. I am probably out of order. And I have a lot more questions, but I am just going to stop.”

Senator Gaunch: “Thank you. Senator from Mercer, Senator Swope.”

Senator Swope: “Thank you, Mr. Chairman. I have some questions involving the HORNE contract. I will try to keep them simple. And, some of this may be opinion. You said that the HORNE contract was put through a process to where they were chosen to provide consulting services. Is it fair to characterize that their services they provided were consulting and not other services like field employees, inspections, and that sort of thing? How broad was the service that their consulting services provided?”

Mary Jo Thompson: “The answer to your question is the RFP that the state wrote for the breadth and depth of the help and assistance that we would need from professionals

included two phases. The planning which you have to do and then also, the implementation, the project management. The building, and actually, the overseeing of the building of the home. So, it's two phases. HUD allows you to get the same set of experts to do both to shrink recovery time. So, if you had a group that would come in just to do planning and then you if you rebid that process for another group to come in and do the project management, that certainly would increase the time to start the process to draw down funds."

Senator Swope: "They do both the planning and the project management? Were those the two definitions?"

Mary Jo Thompson: "That's correct. I say planning and implementation. I'm not exactly sure of the contractual terms, but that is how the RFP was written and that's how it was awarded to HORNE, who won it for all of those services."

Senator Swope: "Did they have some unit price reimbursable items in the contract to where you could vet, if they said they spent an x number of hours doing this or that, you could confirm? Or did they just bill lump sum amounts of money?"

Mary Jo Thompson: "I'd have to defer to the legal team and contracts and even purchasing to give you that exact answer. I don't have that exact knowledge on their specific fees or how they do that."

Senator Swope: "I will ask you for an opinion then. Do you have an opinion that the HORNE contract, the consulting services they provided were useful, effective, or let me stretch it a little farther, worth the money?"

Mary Jo Thompson: "I will tell you this. The planning phase, and I think it might be very, very helpful for everybody for me to give a high-level overview of a timeline for the program that I was responsible for, which is long-term relief. Obviously, this flood occurred June 23, 2016. The State of West Virginia knew that we had opportunity to draw down funds in November of 2016. Now, that's five months after the disaster. So, when it first occurred, we didn't even know we would have these funds. We didn't even know they existed. After the November 2016 notification from HUD that West Virginia would be receiving awards, you then have to go into a very in-depth planning process. That's called an actual action plan. We presented that immediately. Well, it took us a maybe a little longer, maybe 60-90 days to get that into HUD...that was approved...that process happened and was approved then in June 2017. Now, you are one year after the flood, and that's just standard HUD regulations. Ok, so one year based on regulations has already passed, and then, after that June 2017 plan is approved, you then have clearance to start the environmental review, Tier 1 process. Now, when we talk about what has taken a long time, that Tier 1 process review in the field, and all of the work, by the time it got into HUD, and got to be approved...that happened in January...we received...actually February...the authority to spend the funds in February of 2018. So, twenty months of, and I will call it bureaucracy, but it's the actual work that has to be done

to draw down these funds is the time frame and that's how we got to February of 2018."

Senator Swope: "That wasn't my question. My question is do you think the money they were paid was worth the money? Did they earn their contract by contributing to the process? I understand how complicated..."

Mary Jo Thompson: "I believe that they were very effective in the planning process. I share the concerns with the Delegate, and with all of us, that this environmental review process has taken a very, very, very long time and I would be again, interested to know whether that is from the General, or whoever could provide the information. If it was something that was left on somebody's desk? If it was something that HORNE could have done faster or more efficient? I too, want that information."

Senator Swope: "I was just curious about your overall opinion? I'm not asking for facts or explanations."

Mary Jo Thompson: "I don't have an actual opinion."

Senator Swope: "Not an opinion on whether they earned the money that they were paid?"

Mary Jo Thompson: "I don't have an actual opinion. Again, they won the award. It was my job to implement the program and work with the experts that they are. They certainly have the expertise by all means."

Senator Swope: "Project management can involve a lot of FTE's and all that kind of stuff. Do you have any knowledge of about how many FTE's were dedicated by HORNE to this program?"

Mary Jo Thompson: "HORNE's full-time employees?"

Senator Swope: "Yes, you said that they had a person full-time. You can hire a lot of people for \$11M. I'm trying to get my arms around just exactly what they were doing. And, that's just a number I am remembering. I am not sure if it is accurate or not. They had one person on staff. They had an office somewhere, where they were doing all of this planning and all of that. Do you have any idea how large their staff was?"

Mary Jo Thompson: "I do not know their entire organizational chart. I will tell you that full-time with us, when I say with us, with the Development Office, was one full-time staff member and then the intake centers that are located in Charleston and Greenbrier County, and the case workers. Those were also hired by HORNE. They were West Virginia workers. They got the resources from Workforce West Virginia. But, they were also on HORNE's payroll. Above that, how they are all structured, I am not sure. I am not sure."

Senator Swope: “The caseworkers. Well, let’s peel the onion a little bit more.”

Mary Jo Thompson: “Ok.”

Senator Swope: “Caseworkers. You said that they provided caseworkers. That implies a staff of a significant number of people who are out in the field working the cases. Would you have any idea how many people that took? Did it take 5, 50, or 500?”

Mary Jo Thompson: “I think at one time, and I want to say that I recall at one time, both locations of the two intake centers had at least 5, if not more ... if not more ... I believe Greenbrier County had even more.”

Senator Swope: “So, you are describing 10 or 20 people in their organization assigned to this project?”

Mary Jo Thompson: “Correct. Yes, sir.”

Senator Swope: “That’s a pretty small number for the amount of dollars that changed hands. Mr. Chairman, I would suggest that we look further into the terms and conditions of their contract and what kind of vetting was done for approval of their contract, applications for payment, etc. just to determine whether it was reasonable. Ok. That is all of the questions I have. Thank you, sir.”

Senator Gaunch: “Thank you, Senator. A few questions from me. I don’t see any more lights other than me. Can we concentrate for a minute on the HORNE relationship? You said that there was an RFP?”

Mary Jo Thompson: “Yes, sir.”

Senator Gaunch: “How many people responded to that? Do you recall?”

Mary Jo Thompson: “If I recall, three.”

Senator Gaunch: “So, there was more than HORNE?”

Mary Jo Thompson: “Certainly. Yes.”

Senator Gaunch: “And there were, I guess the RFP spelled out what would be required of them, to follow along with Senator Swope’s line of questioning?”

Mary Jo Thompson: “Yes.”

Senator Gaunch: “And, then for the construction contractors, were they hired by HORNE? Or you hired them also?”

Mary Jo Thompson: “They are procured by the state.”

Senator Gaunch: “The Development Office?”

Mary Jo Thompson: “I need our purchasing experts to give that exact hierarchy, or how that works. But, the state, whether it is Development or Commerce.”

Senator Gaunch: “There was some discussion that it did not go through the state purchasing and all of that...the bidding process?”

Mary Jo Thompson: “I certainly heard those discussions.”

Senator Gaunch: “Ok. Was there any influence from outside Commerce or the Development Office to have selected a particular consultant or contractor?”

Mary Jo Thompson: “No.”

Senator Gaunch: “You said that we had an office in the Kanawha Valley, which was in Kanawha City. Why would that have not have been located in Clendenin or somewhere where people could have gotten to it better?”

Mary Jo Thompson: “I believe it was HORNE’s desire to be near the Capitol. But, they had a very strong mobile intake process. It’s not like that these folks just sat in seats and waited for flood victims to get to Charleston. Most of the time, that’s not even feasible. Sometimes they don’t have the transportation. People have very little. So, the caseworkers were actively deployed to sites. And, that’s the way the majority of the intake process, or the application process would start.”

Senator Gaunch: “It just seems like it would make sense to me.”

Mary Jo Thompson: “Understood.”

Senator Gaunch: “Based on how you just described it that people lacked transportation, etc. if they would be in the vicinity at least of where the action was. When a person calls the RISE WV phone number, do they talk to a HORNE employee? How does that work? The intake process? Somebody calls and says, I need help. What happens?”

Mary Jo Thompson: “And, I can speak prior to February 28 about what the intake process would have been?”

Senator Gaunch: “Yes.”

Mary Jo Thompson: “Certainly. They would have called the RISE number and would have been directed to a caseworker in that area and started the process. And, those employees were paid by HORNE. The majority of the caseworkers were West Virginians.

Senator Gaunch: “Do you have any idea ... how much... what kind of training they received?”

Mary Jo Thompson: “They received a little bit of case management training. To be honest with you, they needed far more crisis management training because of the timeframe and the frustration, not to overuse that word or anything, but that had happened. I’m not sure that when the stress really piled on, because of the amount of suffering and the lack of information....”

Senator Gaunch: “I would agree. I think that they needed...”

Mary Jo Thompson: “I don’t think that they certainly met my standards of how we should deal with each other.”

Senator Gaunch: “Ok, that’s kind of what I thought.”

Mary Jo Thompson: “Yes, sir.”

Senator Gaunch: “It seemed to me like they needed substantial training in terms of how to deal with people...”

Mary Jo Thompson: “Severe crisis.”

Senator Gaunch: “Who are grieving and in crisis and that kind of thing.”

Mary Jo Thompson: “Yes.”

Senator Gaunch: “I’m not sure that they got that and we can learn from it, I hope.”

Mary Jo Thompson: “Absolutely.”

Senator Gaunch: “And the fact that they were HORNE employees, seems to me that that RFP should have included...and maybe we could learn from that too...what kind of training people who are going to be dealing with the public receive and who those people are and what their training is, etc.”

Mary Jo Thompson: “Yes.”

Senator Gaunch: “Let’s see, what else did I want to ask you? It seemed like there was an inordinate lag between the time that the money was approved and when we got permission to spend it...or the time frame from when we got permission to spend it, until we actually started spending it. Would you agree with me that that seemed like an inordinate amount of time?”

Mary Jo Thompson: “Well, again, going back to that timeline of the award of November 2016, that was the first bucket of money to having the authorization to spend it, which was February 20, 2018...not only sounds like ... again... a very large amount of time to all of us...but, certainly to our citizens who suffered damage...it seems like thousands of years.”

Senator Gaunch: “Yes. It was forever. You know, one thing that sticks out in my mind and I share what Senator Blair, I think was trying to get at. We had the faith community, volunteers, neighbor helping neighbors, VOAD, and others. It was just an incredible outpouring of help. Some in this room were highly involved. I was told, I believe by the General that 1,500 and some odd houses, or cases, had been closed by those folks...1,500 and...I forget how many. And, when I looked at the numbers, they spent less than \$1M in closing 1,500 cases. And, now we are talking about 500 and some cases, right? Left? 173 I believe I saw last week the General said still were unassigned or whatever the proper terminology was. It just seems to blow my mind that we are talking about \$150M for 500, and yet the faith community, and those volunteer organizations closed 1,500 cases for less than \$1M. Now, I realize that those were volunteers. I realize that a lot of those were donations, etc. But, I think we can also learn from that. Did you ever contact the Governor’s Office and say, look...he used the term...dropped the ball, Commerce dropped the ball? Did you ever call somebody from the Governor’s Office or did the Governor’s Office ever call you and say how is RISE going? Give us an update. What’s the hold up here? Why are we hearing from people who aren’t receiving help? What was the communication?”

Mary Jo Thompson: “Respectfully, sir, that would have not come directly to me. It would be higher than me. I wouldn’t be able to speak with the Secretary...if he was having weekly communication or I am not sure of what that would have been with the Governor’s Office. I can tell you that in constituent services in the Governor’s Office it is very customary for our citizens to contact the Governor’s Office and ask for help or relief. And, not just with this issue, with anything. So, Constituent Services would have some communication with the RISE caseworkers and then, also, the Development Office. But, higher briefings and the current state of affairs, that did not come from me, nor would it have.”

Senator Gaunch: “Ok. \$6,000.00 for yard signs. Do you have any idea what the yard signs were about?”

Mary Jo Thompson: “I know when we hear the term yard signs, that it is almost inconceivable. And, let me just say that Stonewall, when we are mentioning the marketing, we would need our communications folks to talk about that group. But, evidently that’s who they use. Commerce has its own communication’s group. So, I can’t speak to that. Nor, to the price of the yard signs. But, the 100 signs are actually...it is a best practice with HUD. HORNE certainly has experience that they have used all over the states to identify properties for a couple of reasons. It identifies that this is a federal program. I believe it has the right labeling, the necessary labeling for fair housing, etc. It

also has the RISE logo and it has the Governor's name on it. As we know, as West Virginians, our folks have been inundated by many, many, different people...most very good, but, some have taken certainly advantage of situations. So, the issue of distrust is there. So, a lot of times, that signage proves validity that this is actually a State Program. And, it also helps to identify the sites. We live in hollers. That's who we are. And, sometimes it's very difficult. Let's say when a trailer, or mobile home, rather, has been demolished, to figure out exactly where that site is, if you are just looking at a piece of land. So, that signage is used to identify where the reconstruction, if that is the case, would take place."

Senator Gaunch: "Ok. This is a little side note and I can't help but smile when I say this. Are you aware that...you are probably not...that the communication company Stonewall hired Dunbar Printing to print those signs? And, so the signs were actually done in Dunbar, West Virginia."

Mary Jo Thompson: "I was not aware of that."

Senator Gaunch: "I saw that when I was looking at the Governor's or the Auditor's information that they sent. Just found that curious. Two more questions. We keep hearing over and over about supporting documents from the Auditor. Would you say those documents do exist? I mean, we've had questions here. There's something in the computer system...what's it called again...OASIS? And, somewhere there has to be an invoice or a bill, or something to back-up asking for a check to be printed. Would you say somewhere that that exists?"

Mary Jo Thompson: "Absolutely."

Senator Gaunch: "The last question I have is the conference at Stonewall Resort, were you there? Were you a part of that?"

Mary Jo Thompson: "Yes, sir."

Senator Gaunch: "What was the purpose of it and how did it relate to RISE WV and the floods?"

Mary Jo Thompson: "It was called an impact summit. And, it was a training summit. And, the primary attendees were our regional planning and development councils and their staff. There are 11 of those councils all over the state. And, that is the group that the Community Advancement and Development Division...those are our primary partners as far as work. So, when we're talking in terms about water and sewer, those are the groups that actually work with the communities, put the paperwork together, all of the applications, all of the bureaucratic red tape and then they work with the Development Office to administer those funds. So, we do training with them annually. That's what that was for. We were also introducing regular CDBG training that we have to do and then, some DR training, as well, to those folks."

Senator Gaunch: “Ok. That’s all my questions, but now, I see other lights lit up.”

Mary Jo Thompson: “Yes, sir.”

Senator Gaunch: “We will try to get through this. Senator from Greenbrier, Senator Baldwin.”

Senator Baldwin: “Thank you, Mr. Chairman. I realize that we have been at this for a while.”

Mary Jo Thompson: “That’s ok.”

Senator Baldwin: “I had a whole list and I will narrow that down. I will be as quick as possible. Thank you for your time here today. One issue that I thought that we would get to that we haven’t had a chance to get to yet, is the placement of the State Resiliency Office. As I understand it, you are advocating for the placement of that under Commerce. Is that correct?”

Mary Jo Thompson: “That is correct.”

Senator Baldwin: “If so, can you tell us briefly why?”

Mary Jo Thompson: “Sure. First off I want to make the point that the State Resiliency Office and the RISE housing restoration long-term programs are two totally separate different things. The State Resiliency Office came into play when Governor Tomblin appointed the Secretary of Commerce at the same level of...I don’t want to say power...the same level of responsibility as the Adjunct General. And, of course, the Governor being in the middle, when this storm occurred, this disaster rather, occurred in June of 2016. So, because of that appointment of the Secretary of Commerce, our staff in Community Development had to be intimately involved at what is called the JFO, the joint field office. And, that’s where your first operations were taking place for FEMA, to sit down with FEMA, with all of the federal partners and have a good understanding of best practices, what has occurred, what we can do better. And, the State Resiliency Office was the number one reoccurring theme that we heard from all federal agencies and from FEMA that was necessary, in order for coordination, not only of funds, but of data, and to concentrate on resiliency moving forward when this occurs again. It will rain this hard again. When this occurs again, how we mitigate. That is the premise of the State Resiliency Office and was thought up and crafted way before we even knew the money was coming. The difference...the reason that other states were not successful in the State Resiliency Office initiative is because it had never been put in legislation. And, so after an event would happen, there would be a lot of attention from federal and state agencies...everybody was rah, rah, rah, to do something and then the energy dissipated because it was never in law that agencies were forced to collaborate. And so, during the Legislative Session, the Speaker had a flood bill in action. Obviously, going through what

you personally went through, this is important to all of us. And, the State of West Virginia had the opportunity to put the effort of a resiliency office, a combined concentrated effort, into legislation. We did it and we were successful. I also want to say it doesn't mean that it has to be in Commerce. It doesn't mean that the Board has to look the way the law is. It would obviously need to be amended or changed based on what leadership wants to do. It very well, now that the Adjunct General is in charge, should be under him and housed in his area. But, what was absolutely, in my opinion, necessary was the establishment of the office. And, we had...we took the shot...to get it into legislation and we did it. And, we accomplished it. Whatever that looks like, in the future, based on what leadership wants, the foundation is there."

Senator Baldwin: "Ok, thank you. Just one other question. The Auditor's Office reported earlier today that there were some individuals that received some funds for temporary relocations. I believe it was \$40,000.00 and some total, and individuals received up to \$2,500.00. Did you have something you wanted to add?"

Mary Jo Thompson: "I think one individual received the \$2,500.00 and I am sorry to do these non-verbal things."

Senator Baldwin: "That's ok. And, so my question is I was in contact with your office several times in response to constituents that called me. One of whom was in a very dire situation and who remains in that situation today. They were never offered temporary relocation funds that I am aware of, and they could badly use them. So, how did you determine who to give temporary relocation funds to and who not to?"

Mary Jo Thompson: "It's a very good question and it's a programmatic question. And they are called stipends. It's going to get into that intake process, that eligibility process whether you qualify or not. When you lose everything, a \$1,000.00 is nothing. What I am not sure of is how it went from \$1,000 to \$2,500 for one individual. I need answers on that as well. You would have to qualify for these funds and I believe there is a cap. But, again, that is a programmatic question and I don't have that information right in front of me to be as complete as you need it."

Senator Baldwin: "Ok. Thank you. Thank you, Mr. Chairman."

Senator Gaunch: "You are welcome. Delegate Ambler, from the 42nd."

Delegate Ambler: "Thank you, Mr. Chairman. Just a couple of brief questions mam. Communication has always been a major issue, you know...since this has happened. And, we obviously get a lot of communication because of people who are still in need and stuff. Can you kind of take me through when you got notification of the thing, did it come from HORNE? Those on the ground? In the hierarchy because you were head of the program? When did you start making decisions and hearing about each of the situations in Greenbrier, Clay, or wherever? At what point and time? Can you kind of take me through how that communication happened?"

Mary Jo Thompson: “During the majority of this 20 month experience that we’ve been talking about, it’s been a lot of intake, it’s been a lot of paperwork and it’s been a lot of waiting with environmental review. And again, most of that work, all of that work, would have been done at the caseworker level whether that be mobile or at the two intake centers. The information that I would receive from HORNE, and this is the number one complaint that I have, and something that we have to fix in the future, would come to me in numbers...not in people. So, I might see a case that’s closed or somebody who is now eligible, and like the General said, these numbers are going to change by the time I leave this room...I’m more interested in names, family members, conditions, that type of thing. But, during the planning process, we were continually looking at numbers, how many people we had into the system, and how many people would have qualified. That data is important because that’s how you make plans and you know the supplies that you need, and you know the efforts it will take to start to rebuild.”

Delegate Ambler: “How many steps before that information came to you, as the head of this? Was it put out to the department heads and deputies? Who else got the information before you got it? Or, were you the direct pipeline from HORNE?”

Mary Jo Thompson: “I would see that information daily and it was distributed, I believe, to the Governor’s Office of Constituent Services. But, they were numbers.”

Delegate Ambler: “I received a letter along with some others on this committee in the last week or so from a woman...and I just want to know if this assertion might be right. It says that...and I will read this without her name...but, she indicated that the parties who suffered the most were placed at the bottom of the priority list in receiving any assistance. Is there anything...can you expand on that a little bit and let us kind of know if there is any truth to that or not?”

Mary Jo Thompson: “I think that I can generally talk about the issue of duplication of benefits. For example, if you are in the flood plain, that’s where the water hit the most, that’s where you suffered the most damage, and therefore that’s where you may have received the most relief, perhaps...and I am not sure of this individual’s case. But, perhaps the \$33,000.00, the most that you can get from FEMA was taken. And, then, the philanthropic community stepped in to continue help, but further relief is needed. Once again, that duplication of benefits process between two federal agencies is difficult. We may have had a deficit to have been made up somehow to either try to find expenses that were eligible, that we could give her credit for, or we would need somebody to pay back the \$33,000.00...if we’re talking about FEMA...but that process right there, of duplication of benefits is not only painful, but she was most effective because she was right in the floodway...right in the flood plain, rather...and got relief. But, to get these federal funds these two agencies have to match up. The paperwork has to match up. So, theoretically, I understand exactly what she is saying. I was hit the hardest and I am still waiting and people who weren’t, may already have keys. Well, if they didn’t have as much damage, let’s say they only got a payout from FEMA for \$1,400.00 and they put it towards housing,

and they still needed more relief, they are going to move through the pipeline faster than the individual you are talking about, because of that duplication of benefits issue.”

Delegate Ambler: “Is it possible to expedite some of those that were most impacted that still may...is this in the planning stage when you left...to get these people back up and get them going back into their homes? Or, was this just going to ride on? I mean, it was your agency that was making some of the determinations on who would get what. Was there any plans before you left to try to help these people?”

Mary Jo Thompson: “I want to make it very clear that the state, and specifically Commerce, did not have the authority to move and spend the majority of these funds until February 20, 2018. So, if the question was...we were ready to move quite quickly.”

Delegate Ambler: “Ok. And, I would like to go back to the environmental side of things for just a moment because there have been several questions, and just to make sure, in my mind. Who would have gotten this memo that would have relaxed some of the environmental? Where would it have went? Can you kind of tell me where that may have got directed to? Was it to HORNE? Or was it to the Department of Commerce? Was it to your office? Who might have received this that it got lost in the pipeline somewhere?”

Mary Jo Thompson: “Are you referring to the comments that the General has made that it was sitting on somebody’s desk?”

Delegate Ambler: “Yes.”

Mary Jo Thompson: “I couldn’t answer that. I don’t know those details either. But, perhaps Mr. Wood could help us a little bit. I not sure if it was the agency or whom is being spoken about.”

Delegate Ambler: “Would it be a safe assumption then to assume that we have a consulting firm hired to take care of these things?”

Mary Jo Thompson: “Yes.”

Delegate Ambler: “Would they have not known? You know, it’s not their first time to town. Would they not have known? Or would somebody have contacted them to say, hey, we have relaxed these so that we can get this done in West Virginia? Would that have been the first step? I’m kind of wondering who the EPA would have directed the letter to. Where would the information have went? Do we have any idea at all?”

Mary Jo Thompson: “Sir, I’m going to tell you again. I cannot comment on the statements that the General made. I know that I heard him talk about Fish and Wildlife, federally I believe, and I know that I heard him mention SHPO, which is, of course our office here on the state level. I spoke with the SHPO Director directly. I’ve never felt anything other than collaboration from every single state agency that was contacted

immediately.”

Delegate Ambler: “We are certainly trying to find out where we missed in the communication and things, so that when this happens again, and we all pretty much feel like it is pretty much going to happen again, that we’re not asking the same questions again five years from now. So, I’m a former teacher. And, sometimes I had the greatest lesson plans that there ever was. And, I presented them to my students and my students stood there and looked at me like, “we aren’t getting it Mr. Ambler.” So, is it possible that HORNE was working with you all and you all just didn’t get it? The agency didn’t get it? It took longer for you all to get it so that we could implement these programs. I mean, is that possible that we just didn’t do our jobs very well?”

Mary Jo Thompson: “I think again because it is the first time in the history of the state that this program has occurred. There was definitely a knowledge and capacity issue which is why we needed experts. But, where I’m very comfortable...and what’s very important here to understand, is that HUD, the presiding agency, is our teacher so to speak. So, any plan that the state has, whether that was at the suggestion of HORNE or put together by the state in a learning environment has to go to HUD, to the teacher, to be approved. And, that had happened and that will continue to happen, as the General continues to work side by side with this federal agency. So, it’s not a lot of opinions. It’s regulations. And, again, I will say the word bureaucracy. So, I believe that we were successful, as far as the feedback from HUD, that gave us the approvals.”

Delegate Ambler: “And, that being in mind.”

Mary Jo Thompson: “Yes.”

Delegate Ambler: “Are we better prepared now for the next time in dealing with these types of crisis after the first time that we will do a better job...do you feel, in dealing and handling with HUD, and the EPA and everyone else?”

Mary Jo Thompson: “I think we...”

Delegate Ambler: “Are we better off now after this than we were then? Or, are we now? Or, going to be? Or, whatever?”

Mary Jo Thompson: “I think we’ve certainly learned. And, I think going through all of this and this process as well, we are absolutely going to be better. Because we have to be.”

Delegate Ambler: “Would you mind speculating on what percentage it might be on being better? Are we going to be 50% better? 100% better? I mean, it was, and you were the learning agency and you were here until recently. Do you think that we are now 100% better off in where we are going with this than we were prior?”

Mary Jo Thompson: “I wouldn’t even for a minute say that we are even close to 100% because our people are still suffering. I couldn’t answer that accurately. I can’t answer that.”

Delegate Ambler: “Well, and that’s why I said it was speculation. One final question, Mr. Chairman. We have had a number of resignations, obviously, from the Department of Commerce. I know often times it is difficult when your leadership keeps changing, that worked under you, to have to adapt to a new system. I’m just kind of wondering how we are going to be a whole lot better off when we keep changing the captain of the ship for its efficiency. So, if you care to comment, fine. If you don’t, that’s alright too.”

Mary Jo Thompson: “I can only comment on my staff in community advancement and development underneath me. This is a very solid group. A very dedicated, some career public servants and some new public servants. But, all of the people that work with me have a true heart of service. They care about communities and they care about people and they care about the funds that go into the communities to help them. We are not seeing any sort of turnover on that level and the state systems and programs are stable.”

Delegate Ambler: “Well, I thank you and I would venture to say then that we are going to be much better off when the next one happens. Thank you, Mr. Chairman.”

Senator Gaunch: “You’re welcome, the junior senator from the 8th, Senator Jeffries.”

Senator Jeffries: “Thank you, Mr. Chairman. Thank you, Ms. Thompson for being here. I got just one short question. All of the questions that have been asked today have been very valid questions. And, there are a lot of points that have been made. Good points that’s been made. Each one of us cares about getting every family back into their houses and helping everyone that is in need. But, the one thing, and I’m not trying to defer to another point, about how we are making this process better. Every step that we take we learn from it. And, every point that we make we learn from that point. But, at the end of when this whole process is completed, and we have every last person back into their homes...when we have economic development and infrastructure and so forth put in place...we all know that there is going to be an audit that is going to be coming from the federal government. And, my simple question is that before your departure, do you feel very confident that the process that we have walked through so far...with every procedure that we have done...that when we have that audit done...that we, as the State of West Virginia, will not be out of compliance, in any way at all, up until the Governor put the pause...and he moved it over into another department. Do you feel that we are going to be in compliance with everything? That we will not have to reimburse the federal government any money?”

Mary Jo Thompson: “Senator, I can tell you that we were in absolute compliance up until February 20, 2018, when the presiding agency gave us the authority to start moving the money.”

Senator Jeffries: “Ok.”

Mary Jo Thompson: “If we were not in compliance, we would not have received that grant agreement. There is no way.”

Senator Jeffries: “Ok.”

Mary Jo Thompson: “And, I have every bit of confidence moving forward that the program will stay in the same situation under the direction of the National Guard. I have zero concern.”

Senator Jeffries: “Ok.”

Mary Jo Thompson: “None.”

Senator Jeffries: “That was my only question.”

Mary Jo Thompson: “Ok.”

Senator Jeffries: “Thank you.”

Senator Gaunch: “Senator from Upshur, Senator Karnes.”

Senator Karnes: “Thank you, Mr. Chairman. Just a few questions, I guess, about HORNE. I guess some of the stuff I am hearing raised some questions for me. You’ve said a number of times, you’ve talked about their experience and that you relied on their experience and so on. And, you also said you had three respondents to the RFP, or RFQ, I am not sure which is was, or maybe it went under a different name. But, the request for the bids. What in HORNE’s past performance, can you give us some examples of their past performance that caused you to say this is the right company? It’s not always about how much the contract is.”

Mary Jo Thompson: “Right.”

Senator Karnes: “It’s also about their past performance and the demonstrated ability to get the job done.”

Mary Jo Thompson: “And experience. We would have to refer back to the selection team and the scoring sheets, etc. But, after I heard that they won, and after I did a little bit of research and just the amount of experience, and the amount of work, and the amount of dollars they’ve handled in various states that experienced disaster far surpassed, and again, I believe, and the scoring sheets would refer that they far surpassed the other contractors.”

Senator Karnes: “Were you the program manager on this, so to speak?”

Mary Jo Thompson: “No.”

Senator Karnes: “Were you the final word on who was chosen?”

Mary Jo Thompson: “No.”

Senator Karnes: “Or participated in this at all?”

Mary Jo Thompson: “No. It went through the selection committee and then it would have gone through our purchasing team in Commerce.”

Senator Karnes: “So, you didn’t have any kind of sign-off authority on who was chosen?”

Mary Jo Thompson: “No.”

Senator Karnes: “You just got them handed to...”

Mary Jo Thompson: “No. It had to go through the proper ... It had to go through Commerce Purchasing Division, before it would get operationally into the Development Office and we would start to administer the funds.”

Senator Karnes: “Ok. And, so again on the past performance, you said that you did some research. Can you give us some examples of some of that past performance that they did in response to disasters? Since you weren’t there, you didn’t get to necessarily consider it, but, you said you researched it. What have they done that was similar to West Virginia?”

Mary Jo Thompson: “I learned more about their breadth and capacity in depth of what they could do as certain issues would come up. For example, and I don’t want to get very technical, I had a program called HMGP that they were able to help and collaborate with emergency management. There is another kind of technique to that collaboration called global match. And, HORNE had done that sort of collaboration in many other states. And, so, I knew from the experts that were coming in and helping our group, and emergency services, and FEMA work all of that out. That was one example of a clear indication of the amount of experience that have in various states and various issues.”

Senator Karnes: “I guess I understand the collaborative ability and the ability to put teams together and things like that.”

Mary Jo Thompson: “Ok.”

Senator Karnes: “But, what I am wondering about is floods in mountainous terrains and disaster recovery. Did they have any experience that you could point to, to say that

something like...Katrina could have been on their experience list, but, that's a hurricane. It did involve flooding, but no mountainous terrain. What in their past performance tied directly to this issue?"

Mary Jo Thompson: "I can't name the actual storms or whether it was flooding or hurricanes. I can tell you..."

Senator Karnes: "In states or?"

Mary Jo Thompson: "I had been assured that they never experienced the topography and the situation and the reality here in the State of West Virginia."

Senator Karnes: "I hear that a lot. Like, when we used to talk to, then Secretary Burdette. He would always complain about the fact that we did not have enough flat land. But, since we haven't built on all of the flat land yet, that's not really a good excuse. New Hampshire is mountainous. Tennessee has got certainly mountainous sections. There are other states that have similar topology. We are not unique in that. And, so, nothing stands out? No state disaster stands out that was a similar state to West Virginia? Kentucky? Have they ever done any work that actually directly ties to what we are talking about here?"

Mary Jo Thompson: "I mean, again, they have a large amount of experience in disaster recovery. To compare exactly what we went through with other states that they would have been clients for, I don't have that information in front of me, sir."

Senator Karnes: "And again, the same with the environmental delays. They would have had to have experienced those types of things in other states."

Mary Jo Thompson: "Yes."

Senator Karnes: "But they don't seem like they knew what they were doing here."

Mary Jo Thompson: "I believe that they, I will say, overshot the expectations. You know, you might have a timeline for what you dealt with in other states, but you want to be able to deliver on a timeline or an expectation. And, it's ok that that might not be the reality. But, when we've made commitments and it seems like we have let people down, or somehow don't care about people, that's a problem. And, I think that I can definitely say West Virginia is different. Every state is different. But, we do have some uniqueness about us, especially, our topography and our environmental issues. I believe they could have done more research prior to educating us on dates, or maybe, past performances in other areas. But, that's feedback that I think is useful and that we have to get better at going forward. Now, I know that's our intention. We have to manage the expectations to the citizens who have suffered so much."

Senator Karnes: "Would you say that after it was handed to you, you were essentially

the program manager for it?”

Mary Jo Thompson: “I am the Director.”

Senator Karnes: “You were the final report that they brought to the State of West Virginia? They brought it to you? You oversaw the program? I mean, I’ve heard that.”

Mary Jo Thompson: “Yes, I oversee many programs in CAD and disaster recovery.”

Senator Karnes: “The buck stops here thing. The buck stops with you?”

Mary Jo Thompson: “The buck stops with me until February, correct.”

Senator Karnes: “Until February.”

Mary Jo Thompson: “Until February.”

Senator Karnes: “How many houses are we talking about here? Again, I have heard numbers tossed around. But, how many houses actually need to be built or rebuilt?”

Mary Jo Thompson: “I would have to refer to Mr. Woods as to what is currently in the pipeline right now.”

Senator Karnes: “I don’t mean that. I mean from the beginning.”

Mary Jo Thompson: “From the beginning, we anticipated...remember we wrote letters to...for our congressional folks to fight for \$300M of unmet housing need.”

Senator Karnes: “Right.”

Mary Jo Thompson: “That’s a lot of money, obviously. So, to end up with \$150M of that, we were anticipating every bit of at least 1,000 homes, if not more.”

Senator Karnes: “Well, I think...if I am not mistaken...in the way I’m reading this... in task order 3... the estimate was 1,250 homes, based off of the individual tasks that could be awarded. It does sort of fit with what you said there. There could be 1,250 homes? Is that...”

Mary Jo Thompson: “Certainly. Our job is to show HUD that our unmet housing need has been met...thank you very much for this money... and let us spend it on other things. Because housing is very important. But, if we don’t have healthy, happy people with jobs in those homes, we are going to come back with the same funds 10 years later and have to rip them down. And, so, the numbers...the amount of money that they gave us...and the numbers that we were projecting were projections based on proving to HUD and getting approval, that our housing need has been met so that we can move on to priorities

that the State of West Virginia has.”

Senator Karnes: “Maybe a different way to start this...we have the first task order, task order 1... which is essentially they are going to help us fill out all of the paperwork. Would that be a rough summary of task order 1? And they got paid a certain amount for that?”

Mary Jo Thompson: “For planning.”

Senator Karnes: “Yeah, ok. So, we know why they got paid for that. Did you approve that? Were you already involved? You approved...whenever they said...hey, we’ve done our task...we’ve got our deliverables and you sign a document that says it’s ok to disburse money because they satisfied the deliverable requirement?”

Mary Jo Thompson: “Mr. Mihallik could say who actually signed the documents. I don’t remember if I signed them or not. I will tell you that I would have had signature authority to do so. The approval came from HUD, once the action plan was approved.”

Senator Karnes: “They submit all of the paperwork, HUD approved it, but, on behalf of the State of West Virginia, our oversight of the program, that’s you. And, I’m saying at that point and time, that was already you, is that right?”

Mary Jo Thompson: “That’s correct. Yes.”

Senator Karnes: “You might have delegated some authority to somebody else below you to sign on your behalf, but, you were the ultimate authority to say they have completed this task order, let’s pay them.”

Mary Jo Thompson: “For planning. Correct.”

Senator Karnes: “And then, the same with all of the other task orders down through. You would have been the person who was the ultimate authority to sign off to pay.”

Mary Jo Thompson: “I have ultimate signature authority as director. You may not see my signature on them... I’m sorry.”

Senator Karnes: “Right, so, I think that even on the contract here is your Deputy’s signature. So, then when we get to task order 2. That was a little bit more of a build out. And, actually, that includes the deliverables that haven’t even reached...because it includes paying them clear out to 12/31 of 2018, about \$700,000.00, a little under \$700,000.00. And, that was sort of like an overall project management it would seem like. So, we are going to work this project now for you. You are going to pay us so much money every, it looks like every two months. Well, it starts off at \$81,000.00 a month and then, it gradually declines to \$27,000.00 a month. And, then, we get to task order 3. And, this is actually kind of where I am starting to wonder. So, there is a list of things that they accomplished. So, we know why they got paid the first one. We know why they would

have been paid all along for the second one because that was part of their job. When I hear this \$11M thrown out there, kind of thing that's been spent with these guys, is that right?"

Mary Jo Thompson: "I'm sorry, sir? \$11M?"

Senator Karnes: "\$11M is kind of what I heard has been tossed around that has been paid."

Mary Jo Thompson: "That has been spent?"

Senator Karnes: "That they've been paid, HORNE."

Mary Jo Thompson: "I would have to refer to the accounting group. But, I don't believe that they've been paid \$11M, thus far."

Senator Karnes: "How much have they been paid as far as you know?"

Mary Jo Thompson: "I would need to..."

Senator Karnes: "Well, you are the final authority. At some point or another..."

Mary Jo Thompson: "I would need to look at the Auditor's presentation today and what's been paid out, as of right now. I don't have those documents in front of me, nor that task order."

Senator Karnes: "You have no idea how much was being paid out even when you were still overseeing the program?"

Mary Jo Thompson: "Not that I can recall right at this moment, the exact details, no."

Senator Karnes: "Well, I don't mean exact. Was it \$2M? \$5M? \$10M? I have heard \$11M tossed around."

Mary Jo Thompson: "I don't have the numbers in front of me."

Senator Karnes: "Not even a guess? Part of the reason I am concerned about this is I am hearing \$11M and you are saying that you don't believe that it is that much. But, for a moment, because I have heard it from a lot of different sources, assuming that it is that much. It almost seems like they have been paid for this entire project. Because, when you start adding the numbers together...task order 3... you know...it totals up...you know...into the \$10M range probably for them to have been paid for what they supposedly were going to do...just their piece of it. And, then, you go to task order 4...again, they have been paid...or theoretically been paid for a large chunk of task order 4. But, here's the reason why I'm asking the question."

Mary Jo Thompson: “Yes, sir.”

Senator Karnes: “These are all based off of deliverables. So, in task order 3, in order for them to get paid they have to oversee...as I read it...task d on task order 3...\$1,250.00 as an assessment of the project. But, then, it's \$3,500.00 to monitor the project. And, another \$2,000.00 to make sure that the fiscal and financial sides of the project went ok...and so on and so on. It seems like they have gotten paid a lot of this money and yet, we only have 15 or 18...whatever that number is...homes that have been completed. It seems to me that they have been paid for a lot of the work that hasn't been done. Even if it is only \$2M or \$3M, it's still way more than they have done, in terms of actual product that they produced. I'm just wondering who was signing off? And, it apparently was you that was signing off on when they would send over an invoice and say we've completed this. And, that was you as the final authority, even if you delegated it or designated someone for that. Is that...?”

Mary Jo Thompson: “I was the Director of the Department. I was responsible and certainly had signature authority to personally sign everything. But, I am not exactly sure of all of the details and I don't have those documents in front of me. I do believe that our accounting group owes you every single explanation for every single question. And, I hope we continue to ask until we satisfy it.”

Senator Karnes: “I think they do.”

Mary Jo Thompson: “Okay.”

Senator Karnes: “But, the accounting group, with you as the program manager.”

Mary Jo Thompson: “Director.”

Senator Karnes: “Whatever name you want to give it. The Program Manager, the Program Director, is the ultimate, not only authority, but in terms of being able to sign, but, the ultimate, in terms of responsibility for what was signed.”

Mary Jo Thompson: “Correct. I would agree.”

Senator Karnes: “If your folks were signing stuff that they shouldn't have been signing, it was your job to oversee them as well.”

Mary Jo Thompson: “I would agree.”

Senator Karnes: “So, if there was a lot of money spent that shouldn't have been spent...I shouldn't say spent...but a lot of money disbursed that shouldn't have been disbursed, according to the task orders in this contract, the responsibility ultimately falls back on you. And really, then, it falls back on your boss and on up the chain, which

everybody that we already know about, quit. But, I've heard you say a couple times that you want to take responsibility for this whole thing up to the point that you were there, but, you don't have the numbers that you signed off on. I don't think, from the sounds of it, it doesn't sound like you have a solid grasp of what was done, while you were in charge of the program. I do some of this kind of contracting and I know I have to put up what are called deliverables to prove up that I did whatever I was supposed to do before I get paid. And, it seems like they got paid for stuff without ever providing the deliverables to prove up that they built a house, or at least, oversaw the building of the house, because that seemed to be more of their role. I'm good for now. Thank you. Thank you, Mr. Chairman."

Senator Gaunch: "Speaker Armstead from the 40th."

Speaker Armstead: "Thank you, Mr. Chairman. I will be really quick because I know that I used up a lot of time a moment ago. I'm going back...kind of following up on the response to the questions from Chairman Gaunch about...and you said I believe, that you didn't have the authority to spend money until February 20th, of this year. Is that correct? Generally, at least sometime around that date?"

Mary Jo Thompson: "That is correct. For the bulk of the money. For the money that is just sitting. Yes."

Speaker Armstead: "Ok. When you say bulk, I assume that that didn't include the expenditures to HORNE, to actually set up the plan that had to go back to HUD, is that right? Was that separate from that February 20th?"

Mary Jo Thompson: "The planning. Yes, the planning process is separate from what we refer to as implementation. Yes"

Speaker Armstead: "Ok. And, then, when I looked at the timeline that was prepared by the Auditor's Office there were about \$400,000.00, a little more, \$408,000.00 I think in actual invoices paid to construction companies before that date. How were you able to actually pay construction companies before you had HUD approval?"

Mary Jo Thompson: "I can give you a very broad answer, Mr. Speaker, that there are certain activities that HUD allows to take place in preparation for moving into, what will eventually be, full construction and full recovery. I would have to defer to Mr. Mihallik, exactly what expenses and invoices we are talking about, so that it could match up to the activity...to see that it was eligible. You will see some funds that have been expended for eligible activities. But, the bulk of the money, the frustrating part, while it's in the bank, so to speak, we did not have the authority to start moving until February 20, 2018, twenty months later."

Speaker Armstead: "The invoices that were paid out before that time weren't even up until February 28, 2018, when the halt took place. Would you...and I think you said... you would have had the authority to review those...did you actually review the invoices as

they came in?”

Mary Jo Thompson: “No. That was not a part of the daily operation. No. I would say that Mr. Tarry, my Deputy, obviously if he were here, would be able to give you a percentage of his time that he would review them. But, certainly, Mr. Mihallik could speak to the programmatic time it takes and what he looks for, as far as compliance, when he reviews and moves it along the pipeline.”

Speaker Armstead: “So, do you know whether those invoices up until the 28th of February actually were invoices for construction activities?”

Mary Jo Thompson: “They would have to be for eligible activities if there was any money paid out.”

Speaker Armstead: “Do you know if any of those were for payments of mobile homes?”

Mary Jo Thompson: “No. I believe...I believe...and again, this is what I believe to be true. For the instance if you are shipping mobile homes and putting them in place, what would possibly be referred to as carrying costs, that may be an eligible activity for a mobile home that could be paid in advance of what I am talking about, the bulk of the money and the clearance that happened February 20th.”

Speaker Armstead: “Ok. So, you had roughly \$400,000.00 that was paid out before that time, and you don’t know, as we are sitting here today, whether what that was actually for, in terms of, whether that is for actual laying bricks, or ordering mobile homes? You don’t really know whether the actual construction activities were what those \$400,000.00 was for?”

Mary Jo Thompson: “I’d have to look at the individual invoices and I would have to, at least, at this time, Mr. Mihallik with me, to thoroughly explain them in a way that everybody understands them. And, I don’t have that information in front of me, sir. I don’t.”

Speaker Armstead: “Alright. Thank you. Thank you, Mr. Chairman.”

Senator Gaunch: “Ok. Senator Nelson. I mean, Delegate Nelson. Delegate from the 35th.”

Delegate Nelson: “I get these promotions all the time, but, thank you. Thank you, Mr. Chairman. And, to follow up on the Speaker, a little clarification on timeframe. Because as I read through the Auditor’s information that was handed out, this June 1, 2017 date pops out.”

Mary Jo Thompson: “Yes.”

Delegate Nelson: “Of when HUD approved the State’s action plan. So, explain the

difference in a short manner.”

Mary Jo Thompson: “Ok.”

Delegate Nelson: “Between June, when it was approved and this February 2018 date that you keep pushing out as it relates to approval of dollars that you can spend. Why an eight month difference?”

Mary Jo Thompson: “From the time that HUD approved the action plan?”

Delegate Nelson: “That’s correct.”

Mary Jo Thompson: “Ok. Then, the state automatically had to start to apply for a tier one environmental review and go through that entire process. We were also receiving additional funds through the Congressional stream as funds became available. And, I am not exactly sure of every single date that we received them.”

Delegate Nelson: “So, HORNE, did they help write the RFP?”

Mary Jo Thompson: “No.”

Delegate Nelson: “What has HORNE’s history been with the state, as it relates to other programs that they have been involved with? Or have they? Was this the first time that they...”

Mary Jo Thompson: “I honestly believe this is the first time. I had never met them until the RFP process had happened and they were awarded.”

Delegate Nelson: “You know, it’s interesting. I just pulled up their website and, gosh, they tout the \$23B in federal funds that they have helped states with, and others. And, of course, they talk about disaster recovery and we have lived through the realities. And, I feel for my colleague over here, from Fayette, and obviously, Greenbrier County. And, we’ve got to ask, where is the real effort of this outside entity that has all of this expertise that you all look too? How would you rate HORNE? How would you do it different going forward?”

Mary Jo Thompson: “Well, I personally, and I know that my staff, again, has far more knowledge than we ever had before June of 2016 and certainly, before we were involved.”

Delegate Nelson: “But, there are still a lot of families out that have not been treated yet, which is absolutely unacceptable.”

Mary Jo Thompson: “Yes, sir.”

Delegate Nelson: “Is it not?”

Mary Jo Thompson: “Absolutely.”

Delegate Nelson: “So, you have been 19 years in state government. Can you quickly say where were you outside of the 9 years in Commerce?”

Mary Jo Thompson: “I started my public service career in the Secretary of State’s Office in I believe, 2001.”

Delegate Nelson: “Ok. So, you were in the Secretary of State’s Office for?”

Mary Jo Thompson: “Yes, sir. I was in the Secretary of State’s Office and then moved to the Governor’s Office and was head of Constituent Services. And, at that point, there was a position open in the Development Office. It was always somewhere that I always wanted to be. I wanted to get out of the office and into communities, so to speak, and really help. And, I have been doing that now for nine years.”

Delegate Nelson: “Last question. So, there is hundreds of millions of dollars here. Where are they housed? Does the federal government have that \$100M? Is that in a state coffer somewhere or state account? Where exactly is it?”

Mary Jo Thompson: “I would have to speak to the Auditor’s Office about where that actually is sitting.”

Delegate Nelson: “I’m sorry. One last question.”

Mary Jo Thompson: “Yes, sir.”

Delegate Nelson: “Because going through, unlike my colleague, I do follow the numbers. So, we had \$104M CDBG October, 2016. Then it was followed by another \$45M in May of 2017. But, then there was in January of 2017, \$87M from a federal disaster recovery. How do those funds compare or match up with these block grant HUD monies? And where were they spent? Or, have they been spent? Or can you answer?”

Mary Jo Thompson: “I’m not exactly sure of your question. I’m not exactly sure. Do you mind repeating it for me?”

Delegate Nelson: “I will go back through and using the Auditor’s spreadsheet here and for the benefit of the other committee members.”

Mary Jo Thompson: “Okay.”

Delegate Nelson: “October/ November, West Virginia awarded \$104M from the Community Development Block Grant. January 18, 2017, the Federal Register released granting to West Virginia, of an additional \$87M in disaster recovery.”

Mary Jo Thompson: “Yes.”

Delegate Nelson: “It is also noted that we were granted a 90-day extension for HUD to get approval. And, then in May, Congress appropriated additional DR, so that’s disaster recovery funds of the \$45M. So, I believe it’s that \$45M and the \$104M that would come back to the \$150M that everybody talks about.”

Mary Jo Thompson: “Yes, sir.”

Delegate Nelson: “So, what about that \$87M?”

Mary Jo Thompson: “We are talking about approximately...let me see, \$87M, I’m sorry. That was another tranche of money that we took for this effort to add up to \$150M. We’ve since received another \$106M recently. We have not received the Federal Register for that. So, we don’t know that it has to be spent the exact same way that these DR funds have to be spent. And, hopefully, there’s some flexibility in that.”

Delegate Nelson: “Well, Mr. Chairman, the Flood Committee obviously has had numerous meetings before some of us have been. But, to have an accounting of...looking at this \$300M request that the Governor had, and then, these different funds that have come in. And then, obviously, where they have been expended. But, thank you.”

Senator Gaunch: “Thank you. You are right. Those numbers do seem to leave some questions. We have been talking about \$149 and some odd million dollars, and these numbers add up to more than that. So, it is something that we will have to look at. Ms. Thompson, last question from me. When we were designating the Commerce Department, specifically, the Development Office, I sat in this chair, actually, in Government Organization. And, we were near the end of our time, and we heard basically from you, via email, our staff did, that said, “it was essential that this money be put in Commerce.” Do you stand by that? Or would you say today that it is still the right thing to do?”

Mary Jo Thompson: “My honest answer, Mr. Chairman, would be that at the time that the DR funds were going to be placed in Commerce, the majority of the funds, and the level of collaboration that was needed, that was absolutely a true statement. But, the Governor has indeed chosen to move the responsibility to the National Guard and that may well be the most appropriate place for it to be or it would be up to this body, and certainly, above my pay-grade to determine how that should be amended.”

Senator Gaunch: “Thank you. And, thank you so much for being candid and forthright with us, and taking so much of your valuable time to be with us here today.”

Mary Jo Thompson: “Thank you.”

Senator Gaunch: “For the committee, it would never be my intention to stifle any questions or conversations. But, you can see the clock on the wall. We have others here and I want to get through this agenda. I would just encourage you to be succinct. Keep in mind the questions that have already been answered. If they need to be re-asked, feel free to do it, if you think it will add value to what the Co-chair laid out here, which is our mission. But, just, let’s just be cognizant of everybody’s time as we move forward. Next, item on the Agenda is former West Virginia Development Office employee, Josh Jarrell. Mr. Jarrell is here. I appreciate you coming, and if you would sir, identify yourself for us.

Josh Jarrell: “Good morning, Mr. Chairman and members of the committee. My name is Josh Jarrell and I was the former Deputy Secretary to the Commerce Department and General Counsel.”

Senator Gaunch: “Mr. Jarrell, if you would please, raise your right hand so that we can administer the oath. Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?”

Josh Jarrell: “I do.”

Senator Gaunch: “Thank you for being here. Would you like to make a statement of any kind before we open it up for questions?”

Josh Jarrell: “I don’t have a prepared statement Mr. Chairman.”

Senator Gaunch: “Ok. Are there questions for Mr. Jarrell? Senator from Upshur, Senator Karnes.”

Senator Karnes: “Thank you, Mr. Chairman. The number that I put out there a little while ago, I think that I actually was wrong on, in terms of \$11M. I guess that is the committed and not the spent. And, that is the question that I have for you. How much has been spent with HORNE of their contract?”

Josh Jarrell: “I can only speak to the numbers that I saw from the State Auditor’s presentation. It looked to me that approximately \$700,000.00 or so had been paid to HORNE. In total, about \$1.4M had been paid under the contract.”

Senator Karnes: “So, they have only been paid \$700,000.00 out of this original money? It seems to me like they should have been paid that much almost for their initial consult.”

Josh Jarrell: “I honestly, I can’t really speculate as to what or why they weren’t paid more, other than as we were moving forward, they were helping. And then I think when the questions were raised about the contract everything stopped so that it could be examined.”

Senator Karnes: “Right. What I mean is that there was a task one, and I don’t have it

sitting in front of me now, was almost that much money and that was just to do the paperwork in the beginning.”

Josh Jarrell: “Yes, my understanding of task order one was the action plan.”

Senator Karnes: “Right.”

Josh Jarrell: “I don’t know how you write an action plan other than...”

Senator Karnes: “I’m not complaining that you guys consulted with somebody to do that. What I’m saying is if we have only paid them \$700,000.00 to date, we have barely just paid them for the action plan.”

Josh Jarrell: “Right, that’s correct.”

Senator Karnes: “Is that correct?”

Josh Jarrell: “That’s correct.”

Senator Karnes: “Ok. Am I right in my memory? Were you the one who signed off on the initial...”

Josh Jarrell: “I was the signatory on the original contract and task orders.”

Senator Karnes: “I thought that was correct. And on the subsequent task orders?”

Josh Jarrell: “Yes.”

Senator Karnes: “Am I reading it right, like on task order three essentially that is roughly \$10,000.00 for them to follow one of these projects, essentially a replacement house from discovering that it needed to be done to supervising the process of it being done, and then making sure it was done essentially in the accounting at the end? Is that about \$10,000.00 per unit?”

Josh Jarrell: “I don’t have the benefit of looking at that. All I can say really, just in general terms, about the task orders is that they were contemplated by the original agreement. At least the way I read the original underlying agreement. And, the original agreement included implementation of the program. I think once you got beyond task order two, you started talking about implementation. And, that was based on a fixed percentage of the overall amount of funds that the state was supposed to receive. So, the description of the services that were to be provided, under the respective task orders, should have reflected that 15% fee as a maximum ceiling relative to the overall funding amount.”

Senator Karnes: “So, the numbers that are in...there’s two tables...compensation plan

one and compensation plan two, when it says \$2,000.00 for the fiscal financial auditing at the end. That's not a flat number of \$2,000.00. It's what, a cap?"

Josh Jarrell: "I honestly...I don't know the answer to your question. I think that they characterize them, as like unit prices, or something, so..."

Senator Karnes: "Right. There are 1,250.00 units. That's what I was mentioning before. 1,250 units, which to my mind, anticipates 1,250 projects."

Josh Jarrell: "Ok."

Senator Karnes: "And, if we are talking about rebuilding people's homes here. So, she said she thought it was around 1,000. 1,250 is around 1,000. There were essentially 1,250 in the quantity column of what was anticipated, for things like projects, meaning rebuild a house. So, if you follow those along, and you look at the initial planning of it, and then follow on with the supervision of it, and then the final auditing of it, it's about \$10,000.00 for all their pieces, as I am recalling something that I looked at a few minutes ago."

Josh Jarrell: "Ok."

Senator Karnes: "Does that seem about?"

Josh Jarrell: "I have to take your word for it. I haven't looked at that recently."

Senator Karnes: "Ok. Did you resign the same day?"

Josh Jarrell: "I'm sorry?"

Senator Karnes: "No? Before? I'm sorry, the question popped into my head. I know that you resigned and Ms. Thompson resigned. You resigned before she did? When did you resign?"

Josh Jarrell: "I left the Commerce Department in early May and had accepted a job elsewhere. There's some debate whether I resigned or was terminated. The Governor's Office certainly indicated to the Secretary, after I had notified him that I was leaving, that..."

Senator Karnes: "They wanted you gone?"

Josh Jarrell: "They no longer wanted me here. Yes. I left in early May."

Senator Karnes: "I would wear that like a badge frankly. I ... that you know... I will just throw this out there and this is not related to you. But, I've heard enough about it to know, I think that there is a lot to it, he's the only guy in the entire chain of this failure that hasn't resigned. And, he's the guy that's not here at the Capitol supervising the government like

he is supposed to be. I think that he should spend more time at the Capitol and maybe stuff like this wouldn't be happening. So, thanks."

Josh Jarrell: "You're welcome."

Senator Gaunch: "Are there other questions from Mr. Jarrell? Delegate Kessinger from the 32nd."

Delegate Kessinger: "Thank you. I will be very brief. Thank you for being here Mr. Jarrell. My first question just to sort of piggy back on the comment that my colleague from Upshur County just asked, why did the Governor want you gone? What was his reasoning behind..."

Josh Jarrell: "Well, I was told about a memorandum that was written and I've seen it. Basically, they were, I guess, upset about this program and how it was managed and handled from the beginning."

Delegate Kessinger: "Ok."

Josh Jarrell: "So, they were concerned about that. And, then there were some other issues that they identified in that document as well."

Delegate Kessinger: "Ok. Have you seen the Legislative Auditor's Report? I don't know if you have had a chance to look at that or not?"

Josh Jarrell: "I skimmed it when the Committee contacted me on Monday and asked me to be here. I went and skimmed it. I have not spent a lot of time reading it, but yes, I am a little bit familiar with it."

Delegate Kessinger: "Ok. So, at our previous meeting, we discussed the Legislative Auditor's Report and I had a couple of questions regarding that report. But, there was nobody here for me to ask those questions to, so I am going to ask you a few of them. In the Legislative Auditor's Report, it states that the Development Office entered into six illegal contracts with HORNE for approximately \$18M. And, I believe you were the signatory on those contracts. So, can you tell me did you realize that these contracts were illegal or do you believe they are illegal to date? Or, if you do believe they are illegal, when did it come to your attention that these contracts were entered into illegally?"

Josh Jarrell: "Ok. That's a good question. It's kind of hard to succinctly answer, but, I will do my best. So, I don't agree entirely with the Legislative Auditor's conclusions. But, I think that reasonable minds can differ on how you interpret a contract. We were operating under an emergency waiver. When we entered the original underlying contract with HORNE we had a waiver in place. And, that contract, at least as it relates to the first two task orders was determined to be ok. So, when you look at the original agreement, it mentions multiple task orders and not just the first two. It contemplates multiple ones and

it contemplates implementation of the entire program. Each task order that was additionally added to the contract, the way I interpreted it, was that it spoke directly to and was part of that original agreement. It described different services that we didn't know at the time that the original agreement was entered were going to be necessary or how much money was going to be spent. We didn't know how much money we were going to get. So, it was necessarily designed in a way so that as information was learned it would be built into a contract. And, I'm not a purchasing expert. But, that's my understanding of why they characterize it as a task order. I know that Purchasing, when it hit Purchasing, they rejected it. They said this isn't a task order, this is a change order. And, that was news to us. When that happened, we, and when I say we, I mean like when it came to my office and it came to Secretary Thrasher's attention...well, really, Secretary Thrasher called Secretary Myers and said, "hey guys, we need to look at this, this is important and we need to have a meeting." And, we did that. We had a meeting and talked about the concerns that the Purchasing Division had. I thought we were on a path forward to address those, and it may have been that purchasing would have said that this needs to be re-bid. It needs to be done right now. And, that was sometime in February when that occurred, I think. But, subsequent to that meeting, we were instructed, you know, the Governor's office became very concerned. We were instructed to cease all operations under the agreement and not to do anything further. From that point forward, frankly, until I left the Department, we didn't have a lot of communication with the Governor's Office about what they were looking at, what their specific concerns were. I know that we had a purchasing or procurement team and our financial team was probably involved in answering a lot of questions. But, I wasn't included in a lot of those conversations."

Delegate Kessinger: "Were you on the contract evaluation team?"

Josh Jarrell: "No."

Delegate Kessinger: "You were not? Ok. So, I know you signed the contract. Who...did the Governor's Office give you approval to sign that contract?"

Josh Jarrell: "I do not recall having specific authority from the Governor's Office. But, and I've thought a lot about this, because I don't remember why, precisely, that I signed that document and Secretary Thrasher didn't. But, in the ordinary course of business, I signed a lot of documents. I had signatory authority for the Department that was equivalent to the Department Secretary, and the only thing I can say, is he was probably not around, and it was important that we sign these on the timeframe that we did. So, in looking backwards, I would have let Secretary...you know...wait and let the Secretary sign it."

Delegate Kessinger: "But, I would assume that there were probably conversations that took place between yourself and other individuals within Commerce before you signed? You just didn't just get the document and sign it? You got approval from someone to sign it, correct?"

Josh Jarrell: “I don’t want to misspeak. I don’t remember somebody saying, “hey Josh, you are authorized to sign that document.”

Delegate Kessinger: “Ok.”

Josh Jarrell: “But, I do know that when Secretary Thrasher came into the office, and he was coming up to speed, this program hit his desk and he immediately was motivated to learn a lot about it and understand it, because it was a big number. It was presented to him that it was going to cost a lot of money and he had a background in consulting and working on these types of flood related programs. So, he took a really prominent lead role and spent a lot of time of his own due diligence trying to vet the contractor and vet the program. And, at the end of that exercise, he felt pretty comfortable. And, he communicated that to me. That’s all I can say, as like, my understanding based on all of that in for my decision to sign the document.”

Delegate Kessinger: “Ok. Thank you. Thank you, Mr. Chairman.”

Senator Gaunch: “Senator from Mercer, Senator Swope.”

Senator Swope: “Thank you, Mr. Chairman. Good to see you again Josh.”

Josh Jarrell: “Thank you.”

Senator Swope: “My question is a little bit broad, but I hope it will be concise. The public criticism of this whole program is the two years that went by. But, I keep hearing that February 2018 date that the money was finally approved. Is there anything, in your opinion, that could have been done to expedite HUD’s approval at an earlier date? Because it would seem to me pivotal that your office couldn’t be criticized for not doing something that they had no money to write checks on for 20 months of the roughly 2 years.”

Josh Jarrell: “So, I am not sure what was the root cause for why HUD...you know...it took I think...Chairman Nelson mentioned from June to February for that period of time to elapse. I have heard a lot of conversations about environmental reviews taking a long time, maybe that contributed to it. But, I think you are right, Senator, that if we weren’t authorized to spend the...whatever the bulk of the money was...until February, that’s an important fact to keep in mind. And, we were ready operationally. My understanding at the time is, that the office was ready, using HORNE and the various contractors that were involved to unleash that program. That was shortly after we got the designation from HUD. But, the intervening action by the Governor’s inquiry stopped all of that. So, I don’t know that we could have done anything sooner. And, I don’t know why from February to today or June or whenever the pause was stopped, I don’t know what took so long. But, that’s my understanding of how that transpired. We couldn’t do anything in a serious way and spend the money that Senator Karnes was talking about until HUD signed off on it. And, they signed off on it around the same time the pause was implemented.”

Senator Swope: “So, is it fair then to characterize that none of these home owners could possibly have been put in a house or their damages mitigated sooner than that because you couldn’t write any checks? Am I generalizing that too broadly?”

Josh Jarrell: “I don’t know. Again, I don’t know...because I am not that familiar with the program. I was not involved at all in the day to day operations of this program. I don’t want to misspeak but I think that’s a good question that should be answered.”

Senator Swope: “As you heard earlier, our mission here is to try to build a better mousetrap for the next time.”

Josh Jarrell: “Yes.”

Senator Swope: “So, I think that that needs to be held in perspective. It is easy to play the blame game, but I have never had any kind of a program...I’ve never been able to write a check to anybody until the money was in the bank. So, to me, that is a pivotal issue. Thank you. That is my only question.”

Senator Gaunch: “Junior Senator from the 8th, Senator Jeffries.”

Senator Jeffries: “Thank you, Mr. Chairman. Thank you, Mr. Jarrell for being here. One thing that I have not heard so far. I have heard us talk about these task orders or change orders or task orders, back and forth...the description from task order 3 to task order 8... do you know what the scope of each one of those task orders were?”

Josh Jarrell: “I do not. I don’t know. Other than very broadly speaking. You know, it was different elements of implementing and executing the action plan that had been written.”

Senator Jeffries: “Ok. So, what was the reason that Purchasing said that those were illegal?”

Josh Jarrell: “The way I understand it is that they thought task orders 1 and 2 limited to \$900,000.00 and then they looked at the additional task order and multiple task orders and saw a large increase in money. So, something like \$900,000.00 to \$17M. And, that’s my understanding is that’s where they said that this is a totally different contract. And, at that point, it’s the change order that is not appropriate or it’s not authorized or legal and it should have been re-bid. And, because it was not re-bid at that point, instead it was signed, they said that that was illegal under our purchasing rules.”

Senator Jeffries: “Mr. Chairman, do we have someone from purchasing here?”

Senator Gaunch: “I am not sure if we do. We can sure check in a minute.”

Senator Jeffries: “Or from HORNE? Well, my question is... well he has left, the Senator

from Mercer...is that we are to try to improve our process and what concerns me with these task orders that was rejected is that we had a contract with an entity to perform a certain part of the HUD Program. And, then we get three other task orders that Purchasing has rejected...that if we would have had put out for bid that we could have had task orders 3, 4, 5, 6, 7, & 8 with different contractors. Do you see the confusion that could have happened here? So, I think that it's something that we should address under emergency situations like that for natural disasters, that if the waiver is needed and is given, that there is some exemptions there. Because this could have really muddled everything up. And, it may do it now if we have to do this. So, that was my question and after I got to thinking about that, I thought, gee wiz."

Josh Jarrell: "Well, it's a fair point and it's logical to me that you would use the same consultant for each task. Otherwise, you may experience delays or additional costs. It made sense to me that it would all be part of the same agreement. But, it wasn't ultimately determined to be appropriate. And again, I am not quarreling with the determination. I think from a legal standpoint you can agree to disagree. And, it happens frequently in the law. And, just one point of clarification. The original waiver that was granted...my understanding was that it applied to the program. At the time, and throughout my experience with all of this stuff, I thought that the waiver applied to the whole program. Looking backwards, it seems to be pretty clearly limited to the action plan only. And, I don't know if that factored into their analysis. But, ultimately the contract was written to be the action plan and implementation phase. So, if you are a committee looking forward, how do you do this differently, I would think...obviously I take responsibility for that. If that's a significant oversight that substantially undermined the contract, then that should have been caught early. But, I would also say that the rules aren't...you know...they're there...and I think if we would have worked a little closer with purchasing maybe... not that we were avoiding them... but I think that that might have...just a reemphasis on that from the beginning I think we could have avoided a lot of the confusion. And, ultimately the delay."

Senator Jeffries: "Ok. Mr. Chairman, I would suggest that we do look into this to see if there is legislation that we need to look at for possible problems like this that could happen when it comes to a natural disaster like this. So, thank you."

Senator Gaunch: "I would point out that last session, as a result of the work of the Joint Committee on Flooding, we did pass legislation really, which relaxed purchasing requirements. We may want to relook at that and rethink what we did on that."

Senator Jeffries: "I agree. Because it doesn't sound like...there's either some miscommunication or something there...so..."

Senator Gaunch: "Mr. Jarrell, your position was that of General Counsel, right? To Commerce?"

Josh Jarrell: "Yes sir, Mr. Chairman."

Senator Gaunch: “And you’ve already talked about the signing of the agreements and I appreciate that input. But, you had nothing to do with the RFP, the framing of the RFP, the designing it and putting it together or in reviewing the bids that came in, as a result of the RFP?”

Josh Jarrell: “No, I know I didn’t review any of the RFP responses. And, I don’t remember having any involvement drafting it.”

Senator Gaunch: “In terms of the same, with the hiring of the consultant at HORNE, or any of the contractors, you had nothing to do with those either?”

Josh Jarrell: “Beyond the actual signature, I don’t recall having any involvement in those conversations.”

Senator Gaunch: “Ok. Just, then I would ask for your opinion. And, once again, keeping our mission in mind relative to going forward and being prospective, do you believe that the Development Office and Commerce was the proper place to place this program?”

Josh Jarrell: “Well, I think that the HUD rules may have compelled the money to be in Commerce, because that is where the CDBG Program lives. I don’t know if there is flexibility there, if the disaster recovery money has flexibility on the federal side. I have no idea. I think we were getting there. I think it is an important point Mary Jo made that this is our first experience with this program and it is a significant source of resources that can be made available to the state. So, understanding it moving forward, I think should be a priority. But, if you could send it over to the General and the National Guard and accomplish the same thing...”

Senator Gaunch: “Or to the West Virginia Housing Development.”

Josh Jarrell: “Or to the Housing Development. I don’t think we are, when I say we, I’m not there anymore. I don’t think that the Commerce Department was territorial about it, I think it just naturally went there because we had the accounts there already.”

Senator Gaunch: “Thank you. I don’t see any other lights. I thank you for your valuable time, for your forthrightness and candidness to us and for appearing before us today.”

Josh Jarrell: “Thank you, Mr. Chairman.”

Senator Gaunch: “You’re welcome. Next, we have Andrew Mihallik, Program Specialist for RISE WV. And, I believe I understand that Mr. Wood, Mr. Jeff Wood, is he here? Andrew?”

Andrew Mihallik: “He just left, sir. I believe he will be back.”

Senator Gaunch: “Ok. If he comes back, we’ll... If you would sir? Please just identify yourself. Tell us your position currently and then, I will administer the oath.

Andrew Mihallik: “Yes, sir. I am Andrew Mihallik and I am a Program Specialist with the CDBG-DR Program for the West Virginia Development Office.”

Senator Gaunch: “Good. And, I see Mr. Wood here.”

Jeff Wood: “Yes. I am Jeff Wood. Before June 4th, I was and still am the Director of Economic Development for General Hoyer and as you know, recently, detached to Commerce. I have some opening statements if I can, start sir? Would that be ok? So, as I said...”

Senator Gaunch: “Can I just administer the oath to the both of you at the same time then? Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you, God?”

Jeff Wood: “I do.”

Andrew Mihallik: “I do.”

Senator Gaunch: “Thank you, all. If you have a statement or whatever you would like to make? Feel free and then we will ask the questions.”

Jeff Wood: “Will do, sir. So, to clarify something too.”

Senator Gaunch: “Get a little closer to the microphone.”

Jeff Wood: “Sure. To clarify some things that our friends from HUD would like to hear. It’s important to understand that General Hoyer is leading this effort. It is still under Commerce. I have been detached to Commerce, so I have been given signatory authority from the Secretary. So, this is still a Commerce project. The agreement is with them and I wanted to make sure that I let everybody know that and clarify that. Mr. Mihallik works for me. As the new person on the day to day operations, the Deputy, as General Hoyer called me. And, so I ask the committee to please if it is a program question, I will answer it the best I can. I think I showed last time that I answer immediately if I can answer today. If it’s something specific related to Mr. Mihallik he is more than happy to answer. But, I just want to take care of my staff. Also, since I did take the oath, I thought it was very important for me to be honest. I am not a lawyer. That’s been quoted a couple of times. I did watch a lot of Matlock, I don’t think that counts. So, I wanted to clear that up. Also, some clarifications, just through questions that were asked today, with the State Auditor 49 was the number with Danhill and Thompson and those were down payments for trailers, is what those were for. The number today that are complete are 7 and that includes the 18 key turnovers. If you will remember in my testimony prior to, I was the one who made the call to not turn over keys until final inspection was complete. Just to be

honest, that is not always the easiest call to make when you know that you are dealing with families. As I sign off and I hand sign off on everything that I can possibly do I see applications coming in for what would have been neighbors of mine when I was growing up in Dixie, West Virginia. So, I understand how hard these decisions are. But, we still have to follow a process. And that's why you will unfortunately see some changes in numbers. But, as of today, mission complete is 7.

The question about the EPA waiver. It wasn't an EPA waiver it was Fish and Wildlife on stream impact. The ERR system is a pain. I promise to the committee ... committees ... that we will provide a checklist that you guys can see everything that that involves. But, it is everything from flood mitigation issues, flood plain issues, fish and wildlife, some things with DEP, as well. I will say that the State Agencies that we have worked with have been phenomenal in working with us quickly to make the process quicker. We had a waiver from Dr. Gupta on some issues dealing with asbestos so that we would be able to streamline that process. So, we continuously look to try to ... what they call, ERR, move that along a little bit faster.

The slow spender question. I don't have the exact number. I apologize if it is incorrect. Yesterday, I saw a list of statuses for CDBG-DR around the country. I think that there was 111 of them. There was definitely a 100. 61 of those were on the slow spender list and those lists also include folks that were just receiving the CDBG-DR funds. So, this is a little bit of a nationwide thing to look at, as well, for HUD. We do have our own issues. We're working through those and we will get off the slow spender list in due time. Again, I am signing off on a number of things, helping move that along. We have some folks that work for General Hoyer that have been put in place. One person, in particular, she helped put together the hazard mitigation plan for FEMA this year. She is going to help stand up the State Resiliency Office. If you think about it, that plan tells us what our risks are. What better a person than to help stand up an office to help mitigate those risks. So, that's one thing that we are looking for and we will be able to update you guys regularly on that piece as well.

Delegate, one of the...you mentioned earlier a case...I don't want to mention it by name. I can give you some more details later. That specific client is anticipating a double-wide. Our action plan did not allow for a double-wide. We are providing a technical amendment to allow that to be the case. However, while they are waiting, we have some folks from VOAD, who are going to try to go in and help them, which goes back to this holistic approach that the General wanted to put in place. If this pot of money cannot help someone, there should be another pot of money that we will be able to go after. And, so, I think that covers some of the questions. I apologize if I have missed some, as well. There was a question on the timeline and why certain monies could be spent at certain points of time. Those before February, you're looking at some abilities through HUD's process to exclude them from certain kind of environmental review. I can only speculate, in just working with the staff at Commerce for the past few weeks, my understanding is that they were wanting to help people as quickly as they could. And, that's why they were looking for those options to be able to get those down-payments on trailers as early as

they possible can and not just waiting for that February piece. So, at that I hope that I answered your questions as best that I could. I am sure that I will have more and look forward to answering those questions.

Senator Gaunch: “Mr. Mihallik, would you like to make a statement? Or just ready to answer questions.”

Andrew Mihallik: “No, sir.”

Senator Gaunch: “Questions for these two gentlemen? Senator from Greenbrier, Senator Baldwin.”

Senator Baldwin: “Thank you, Mr. Chairman. Mr. Milhallik, and I pronouncing your name correctly?”

Andrew Mihallik: “Mihallik, correct.”

Senator Baldwin: “Can you tell us what you do? Because I have had several conversations with the RISE Office and have been trying to get results for my constituents back home. I don’t think that we have ever had the pleasure to meet or talk. So, I don’t know what it is that you have done in the past there.”

Andrew Mihallik: “I’m more on the fiscal side, sir, with invoices and reports and things of that nature.”

Senator Baldwin: “Ok. Well, several folks have asked questions about that in the past and you may have found your guy here. While I have time though, I would like to ask Mr. Wood some questions and defer those questions until later.”

Jeff Wood: “Sure.”

Senator Baldwin: “Very simply, you mentioned the State Resiliency Office?”

Jeff Wood: Yes, sir.

Senator Baldwin: “What’s up with the State Resiliency Office?”

Jeff Wood: “Well, I was involved in some of those staff meetings, staff level meetings, prior to the changeover, the State Resiliency Office, in my mind, is an office that will be stood up kind of act as a supporting agent for those that deal with resiliency issues. So, you’ve got Department of Homeland Security. You’ve got the National Guard, you’ve got several different groups that will help, including Commerce and some of their programs, their traditional programs. The State Resiliency Office will be a group that will look at trying to attract federal and state, private sector funds to help make communities resilient. I call it, anything that will help counties and regions institute this as the local Rainy Day

Fund. This is how much money you would need to protect yourself in a future flood. I remember whenever the summer of 2016 flood happened I was fortunate enough to go to Greenbrier County and Nicholas County and a few others. And, the biggest concern from a government standpoint was we emptied the checking account and we are waiting to get it refunded. If the SOR Office can do nothing else, if it can help White Sulphur Springs, Rainelle and other groups like that, understand that here's your risk, your financial risk, and here's some ways for us to put some money together to help you cross that bridge, I think that would be an extremely successful office."

Senator Baldwin: "So, the members of the SRO are in code at this point, is that right?"

Jeff Wood: "That's correct."

Senator Baldwin: "So, it sounds like there has been a meeting."

Jeff Wood: "That's correct. There was a report that I think has been provided to the committee, looking at a recommendation that General Hoyer, instead of the Secretary of Commerce, head that office, or head that Board for the SRO. That's correct."

Senator Baldwin: "Ok."

Jeff Wood: "I would say though, that while there was only one board meeting last year, there were several lower level folks like myself that met regularly trying to say exactly what would it look like and what would it do."

Senator Baldwin: "Ok. I've made this plea before, but I am going to make it again, because I haven't heard responses yet. The SRO, I think if it is going to be successful, needs to focus on the ground. You need those local folks. And, instead of just going into to help Rainelle and White Sulphur and Clendenin. If you can have those folks on board, from the beginning, I think it is going to make a lot of people's lives a lot easier. I think it's going to get better results. So, as you all move forward, I would hope you would continue to consider that. Just one other question. It's about acquisitions and demolitions. I have written to the General about this and I have not received a reply. My understanding, at this point, from talking to constituents, who have called the office to try to figure out where their acquisition or demolition is. I was in a creek a couple weeks ago, surrounded by trailers. In the creek, surrounded by trailers that were there from the 2016 flood. They are on that acquisition demolition list."

Jeff Wood: "Ok."

Senator Baldwin: "They have been ever since 2016. These constituents tell me that they have called and been told, "You are at the back of the line at this point." Is that correct? Would you agree with that statement?"

Jeff Wood: "I'm not familiar with that. I would have to refer back to the D&D list to see

why someone would have been put on the back of the list. I know that from a RISE WV standpoint, one of the things that I tried to institute was, that between the two case management systems, and this wouldn't deal with slum and blight, in particular or demolition. But, when it comes to mobile home replacement, that to ensure that we are being fiscally responsible, I'm looking for cases that are both in the RISE system, as well as in the VOAD system, to ensure that we are helping people that were in fact flooded. It's not saying that someone is not, it just helps to have that duplication of effort. That's the only thing that we have instituted over the past month that could potentially put someone, quote unquote, in the back of the line. However, I hope that it has been noticeable that if someone, anyone local, the Senators and Delegates in front of me, the Governor's Office, Public Affairs, the news at large, if someone reaches out and says, "we have a specific case that has a specific question," we immediately instituted a 24-hour turnaround policy, to where we would find out something about that and I would know how that went. So, I can say that we have tried to reach out and everything comes back to a specific case, Senator. You know what I mean? It's one of those where I have to look at the details to know whether or not we can help them. And, then in some cases we can say yes. And, some cases we can say no. However, if we say no, we are still going to figure out a way to help our citizens."

Senator Baldwin: "Ok. Well, I will show you the pictures of the trailers in the creek in a little bit."

Jeff Wood: "Ok.:

Senator Baldwin: "Ok, perhaps there is a prior question there. I am assuming at this point, since you all are overseeing flood recovery, from a general sense, not just RISE?"

Jeff Wood: "Correct."

Senator Baldwin: "Is that correct?"

Jeff Wood: "Yes."

Senator Baldwin: "Then, I am presuming that you are working with Homeland Security because those acquisitions and demolitions are Homeland Security projects, correct?"

Jeff Wood: "Yes, sir."

Senator Baldwin: "So, my assumption is correct that you all are working together?"

Jeff Wood: "Yes, sir."

Senator Baldwin: "So that those acquisitions and demolitions are just something that you are not particularly familiar with right now?"

Jeff Wood: “Right. And, becoming more familiar with it, because under the action plan, there is a slum and blight program that will be demolition as well. So, we are coordinating efforts with Jimmy’s office on that, too. So...”

Senator Baldwin: “Ok.”

Jeff Wood: “Hopefully, next time I will be able to give you a clearer picture and hopefully before that as well.”

Senator Baldwin: “I will follow up with you. Thank you, sir.”

Jeff Wood: “Thank you.”

Senator Baldwin: “Thank you, Mr. Chairman.”

Senator Gaunch: “You’re welcome. The Junior Senator from the 8th, Senator Jeffries.”

Senator Jeffries: “Thank you, Mr. Chairman. Thank you, Jeff for being here. Mr. Chairman, if I may, I would like to ask Jeff if he would kind of give us an overview now of how this umbrella is in place. So, if you could just kind of tell us how, with the National Guard at the realm of this, that I’m going to say the chain of command, I guess, and how it funnels down, and how it is working now, and what changes that you have done so far?”

Jeff Wood: “Sure. So, as the Governor ordered, General Hoyer was put in charge of the program. However, it still is a Department of Commerce function, therefore, he detached me as a state employee. I’m overseeing the day to day program. I report directly to General Hoyer. I would say daily, but, that would be an underestimate of how many times I talk to him about this program every day. After that, there are folks like Mr. Mihallik, and a few others that are in Commerce that are continuing to work on the program. I would like to compliment them on their efforts. As you know, I have a very demanding boss, which makes me a very demanding boss. And, they’ve answered and moved as quickly as possible. After that, on the other side, there are eight soldiers that are working with me on quality assurance, inspecting the inspectors, I think is the way that the General had mentioned earlier, these are folks from our engineering side. We anticipate having them become trained in HUD and all things HUD when it comes to construction, so that they will be a little bit better qualified on that. However, they are qualified individuals. And, I would also like to point out that they are individuals who helped during the summer of 2016 flood as well. There are some other folks that are within the military authority who are at my leisure, particularly the folks who are going to set up the Resiliency Office. After that, on the Commerce side, we are still working with HORNE on case management and work construction management. And, they are also doing some quality assurance. Those are the guys that we’re inspecting. With VOAD, I would look at them almost as a third-party independent reviewer, to help us clarify what right looks like between the two case managements. We know them. We know them well. They have been out in the field and they know their cases and clients. So, that helps us with that piece also. And, they have

been extremely helpful in increasing our capacity. And, as we look forward to internalizing this within the State Government and not needing contractors as much, I think VOAD is going to play an important role. That's off the top of my head. I've got probably a dozen or so folks on the guard side. These are all state employees or state active duty. So, this again is not all a National Guard function or DOD fund, so to speak. And, then probably, what do you think Andrew, probably a half a dozen folks from full-time to partial points of their time within Commerce. Now, I don't have an exact number on the HORNE numbers, probably somewhere between 15 and 20 on them and their sub-contractors. It should be important to note that on the Fish and Wildlife question, I should have mentioned this earlier, that the desk that that person was on was actually on, was actually a sub-contractor. They were not a State employee. They are no longer with the program. And, so, once again, I think that this shows the importance of making this program, making internal capacity as best as we possibly can, within the State of West Virginia to be able to perform effectively. Does that help, Senator?"

Senator Jeffries: "Yes. Have you made any changes within the HORNE personnel, as far as with their program, to make it more efficient? Did you find some deficiencies within their program?"

Jeff Wood: "They have had some changes made prior to June 4. So, we haven't made any changes since then, because we are trying to figure out whether or not those changes were effective. There were some changes with the sub-contractors that they were using for environmental review. I think that that was some of the lag as well on that, and the gentleman I just mentioned. So, there were those changes prior to us. It was a drinking water from a firehose moment for the month of in June. So, it didn't feel like it was necessary to make changes at this point in time. We were just trying to get people back in their homes. But, that doesn't mean that that will not be the case. We anticipate, and I think this was in the press release yesterday, that within the next few months, we want to internalize as much as we possibly can. And, so, HORNE understands this. So, as we take over, they step back. That's what we want, that's what they want, and that's what quite frankly, HUD wants as well. Senator, I can kind of give you a regular update on that to let you know how those changes are made if you like?"

Senator Jeffries: "Yes, please. And I think you maybe sensed my frustration a little bit with a number of our conversations."

Jeff Wood: "Yes, sir."

Senator Jeffries: "In the sit-down meetings that we had. Because, I was concerned with HORNE."

Jeff Wood: "And, I would like to thank you, personally, for how much you dove into this. And, the advice that you gave was extremely helpful."

Senator Jeffries: "I really felt like they didn't have the adequate staff."

Jeff Wood: “Yes, sir.”

Senator Jeffries: “To do what they were doing.”

Jeff Wood: “Yes, sir.”

Senator Jeffries: “And, which brings me to one more question, Mr. Chairman. Do we still have contracts with our contractors in place?”

Jeff Wood: “We do. Those were extended. We, with HUD’s guidance, will be moving away from those contracts and be working with purchasing to start new housing contracts. But, this goes back to that constant communication. We did not want to stop helping people. HUD did not want to stop helping people. So, we figured out a number that we could go with, that would work with these existing contracts and help make our construction companies whole for the investment that they have made. But, more importantly, continue to put people in homes, as we transition to new contracts. And, we are working with purchasing on those, as we speak.”

Senator Jeffries: “And, that was one of my concerns when I heard about this, is that we are not going to have a...I hate even using the word...pause.”

Jeff Wood: “Please don’t use it. Yeah, I agree.”

Senator Jeffries: “So, I hope that there is going to be a smooth transition from the contracts that are in place right now, to the new contracts, whomever those are awarded to.”

Jeff Wood: “Yes, sir.”

Senator Jeffries: “And, that there is not a pause in there.”

Jeff Wood: “No, there will not be a pause.”

Senator Jeffries: “Ok. Thank you. Thank you, Mr. Chairman.”

Jeff Wood: “Sure.”

Senator Gaunch: “Senator Blair, the Senior Senator from the 15th.”

Senator Blair: “Thank you, Mr. Chairman. My questions are all going to be geared towards Mr. Mihallik, if I may? And, by the way, you might want to get close to the microphone. I am hard of hearing.

Andrew Mihallik: “Yes, sir.”

Senator Blair: “So, don’t hesitate to project your voice a little bit for me. And, I have got a bunch of questions here for you. In the Auditor’s document, your name appears on the approval log, on the cash requisition forms. Can you tell us about your involvement in that process?”

Andrew Mihallik: “Yes, sir. I am in charge of...there’s a four-step review process... four people actually review it. I’m number three on that list. Normally, it goes first to the team lead from HORNE...that was the person who was in charge of case management...and then it goes to their quality control specialist...and then it went to me...and then it went to the Deputy at the time.”

Senator Blair: “Ok. The next one is on March 26, 2018 you wrote a memo to Mary Jo Thompson and Russell Tarry about the impact on RISE WV since the Governor’s Office directed that it cease operations. Can you summarize what you wrote in that memo?”

Andrew Mihallik: “Yes, sir. We were stating that there were 55 homes that said it was in construction. That should have been worded better. It should have been in the construction phase. And we talked about, basically, that we had 38 applicants and had homeowners’ signing events scheduled, 188 that were pending tier 2 review environmentals. And, then it also went on that it had pre-construction impact, construction impact, long-term implications, and eligibility for global match.”

Senator Blair: “Ok, so, basically it was the numbers. Where did you get the numbers for the memo?”

Andrew Mihallik: “That was pulled mostly by HORNE. And, I believe, the construction manager at the time, they had better numbers, obviously than I would. I only see what’s sent to me, what’s getting ready to be approved, down-payments, things of that nature.”

Senator Blair: “Did the folks in Commerce believe those numbers?”

Andrew Mihallik: “Yes, sir. We believed those numbers. Nothing was intended to mislead anyone on those numbers.”

Senator Blair: “Alright. Thank you. Thank you, Mr. Chairman.”

Senator Gaunch: “You’re welcome. The Senator from Upshur, Senator Karnes.”

Senator Karnes: “Thank you, Mr. Chairman. Just a couple quick questions for Mr. Wood, I think. The contractor you mentioned earlier, the contractor, where the waiver landed on his desk. That was a HORNE employee is that right?”

Jeff Wood: “I think that was a sub-contractor of HORNE, if I understand correctly.”

Senator Karnes: “But, it was obtained through HORNE?”

Jeff Wood: “Right.”

Senator Karnes: “If I’m reading right through, and I don’t have it again in front of me, but task order 5, or 6, or something like that, identifies a person who was going to be assigned to Commerce. Is that who we are talking about?”

Jeff Wood: “Yes, from what I understand, that’s correct.”

Senator Karnes: “And, so, it falls back on HORNE, if it was their person who sat on this environmental waiver?”

Jeff Wood: “Yeah. And, from my understanding and looking at it in the rearview mirror, they corrected that situation.”

Senator Karnes: “Did they do that without any prompting? Did they suddenly discover that they had hired the wrong person?”

Jeff Wood: “I don’t have the details on it. I just know that the guy doesn’t work for me now, so.”

Senator Karnes: “Ok. So, I had asked earlier about Ms. Thompson. You have effectively filled that role now as the program manager for this?”

Jeff Wood: “It is important to understand, only with RISE WV.”

Senator Karnes: “I know the rest of it. Just as it relates to this. This is now your program or your project?”

Jeff Wood: “I’m the guy. I sign off on everything. Correct.”

Senator Karnes: “One of the concerns that I had or question that I had earlier, and you probably heard so of them. I just ask because I think you are probably a little bit more on it. When you look at HORNE, can you really point to a past experience or past performance I guess, that indicates that this is really right up their alley?”

Jeff Wood: “I don’t know of their experience in past disasters. I can get you a little more information on that at the next hearing. Again, last month, it’s been a little bit more of let’s just get the job done. However, I will say that they do have specific kinds of experience dealing with case management and construction management in regards to HUD regulations, which are different than FEMA’s. And, so, it is something that we as a State and State employees will have to learn. So, they have that knowledge capacity right now and we are going to have to have that knowledge capacity in the future. So, if you are going to ask me specifically what does HORNE bring to the table? That’s what I would

say, first thing that comes to my mind, sir.

Senator Karnes: “And, that may be extremely valuable, just that piece of it.”

Jeff Wood: “That’s right.”

Senator Karnes: “Just the idea that you have somebody to help you fill out and deal with all of the bureaucracy at the federal level it makes perfect sense. I would love to be able to afford to hire people to do that for me.”

Jeff Wood: “Yes.”

Senator Karnes: “But, when it actually comes to running the program is more what I am concerned about. I don’t necessarily know if we have a problem with that first task order, right? They did their job there, perhaps well.

Jeff Wood: “Yes.”

Senator Karnes: “The one guy, while they figured it out on their own, perhaps that they needed to replace him. But, are they really prepared to run this kind of a project? Because now you’ve inherited them and from everything I have seen, you are going to stick with them. Are they really the right guys for this?”

Jeff Wood: “I think that they are in the field right now. I think that that do bring value. But, I think that if we take our eyes off the ball and we don’t increase capacity over the next 60-90 days, as the General has quoted in the paper, then we have made a huge mistake.”

Senator Karnes: “When you say increased capacity, you mean?”

Jeff Wood: “We should be able to handle case management internally. We should be able to handle construction work management accurately ourselves. We should be able to do our own quality assurance, as we are doing right now anyway. And, we should be able to move those pieces forward, to when the next disaster does happen, we can stand up our own folks. So, that is what the General has tasked me to do.”

Senator Karnes: “Where do the systems reside that this is all being tracked in?”

Jeff Wood: “It’s a software system, that HORNE, it’s their database system. We’ll negotiate with them. And some other folks might be able to talk a little bit about that. But, it is above my pay-grade as to exactly where that will fall. But, obviously, it’s important that at the end of all of this that we have our own database.”

Senator Karnes: “Right. Well, that’s the reason I am asking the question. So, when you say take over all of this stuff...you see the need to move away from not only relying so

heavily on them but also relying heavily on their..."

Jeff Wood: "My personal opinion is this. Just because you put someone in a home, that doesn't mean that they still don't need furniture. If they have furniture, that doesn't mean that they still don't need a job and we should be helping out our citizens if we have a case on them. It's a continuous process. And, so, we should be able to use that information valuably between state entities, as well as, private non-profits to be able to help our citizens. So, we should have control of our own destiny in that regard. Yes, sir."

Senator Karnes: "I totally agree with that. And, also, Ms. Thompson mentioned something earlier. You hate to think of it that way, but, the reality is whenever the federal government pours tens of millions or hundreds of millions or even billions in some cases, into disasters, that sitting on this money for this length of period of time is how many folks would have had the job, that you just mentioned, for the last two years building these houses. Or, cleaning up the trailers that are in the stream or whatever. So, we've lost that economic benefit over the last couple years as well. So, thanks."

Jeff Wood: "Yes, sir."

Senator Gaunch: "Delegate from the 32nd, Delegate Kessinger."

Delegate Kessinger: "Thank you, Mr. Chairman."

Jeff Wood: "Hello, Delegate."

Delegate Kessinger: "I know I am talking a lot today and I will try to be quick. First of all, I would like to give credit where credit is due, Mr. Wood. As you were giving your introduction, I got a message from the woman I visited yesterday and you all are sending somebody to her home tomorrow. So, I really appreciate that. So, please extend my gratitude to the General. Mr. Mihallik, I'm really glad that you decided to show up today, buddy. I read your comments in the paper and I thought that they were a little snide considering the severity of the situation and the questions that a lot of people have regarding the lack of homes. But, my first question for you, you were in here earlier, when the Auditor gave ~~his~~ **their** report, is that correct?"

Andrew Mihallik: "Yes, mam."

Delegate Kessinger: "So, you heard them say how difficult it was for them to go through and differentiate between payments because the funds were comingled. Can you explain to me why the funds were comingled?"

Andrew Mihallik: "I had nothing to do with that, mam. I had no information on that. I had no part in that decision. I came to the program in September."

Delegate Kessinger: "Ok."

Andrew Mihallik: “That would have been in September of 2017, so that decision was made long before me, mam.”

Delegate Kessinger: “Ok.”

Jeff Wood: “Delegate, I will get you an answer to that.”

Delegate Kessinger: “Perfect. Thank you. What is your official title Mr. Mihallik?”

Andrew Mihallik: “Program Specialist, mam.”

Delegate Kessinger: “Ok. Program Specialist. You deal a lot with the fiscal aspect of this, you said?”

Andrew Mihallik: “Yes, mam.”

Delegate Kessinger: “Ok. I was looking at the roster for the conference that was held at Stonewall Resort and you attended that conference, correct?”

Andrew Mihallik: “Correct, mam.”

Delegate Kessinger: “Can you give me a quick overview of what you learned at that conference?”

Andrew Mihallik: “Mam, HORNE was there. We were just trying to learn exactly the basic plan and what we were going to try to implement of it. That was the majority of it. We were just trying to brief everyone on the plan and what was going forward.”

Delegate Kessinger: “Ok. Mr. Wood, this may be a question that you may have to answer. Ms. Thompson said earlier that 11 families are living in homes. Can you confirm that?”

Jeff Wood: “This goes back to the question that was asked before and actually the number was 15. The work order was actually 18, however, I changed policies and 3 people who would have received keys. And, so, it falls into that number, of roughly folks, about 18, that we know that have keys to their homes. I do know that there are some folks living in their homes. I don’t know their exact status of the total 18. But, that’s the number that we have as of right now, where we are trying to get closer to give you guys answers of mission complete. So, that it will be a little more accurate from here going on.”

Delegate Kessinger: “Ok. So, of those homes, I was going through the State Auditor’s Report and I see that there were several payments made to the construction companies. But, it doesn’t look like any of them were paid in full for homes completed. So, if those homes are completed, the construction companies haven’t been paid in full for those yet?”

Jeff Wood: “Yes. That’s correct. As of right now, those are being processed right now.”

Delegate Kessinger: “Ok. Alright. A quick question. How much does a mobile home cost? I know it probably varies depending on the size or whatever. But, do you have a rough estimate on how much one would cost?”

Jeff Wood: “Are you talking about within the contract itself? Or, are you talking about a normal priced mobile home?”

Delegate Kessinger: “Within the contract, how much you would pay for a mobile home for a family.”

Jeff Wood: “I can’t remember the numbers off the top of my head. But, I am wanting to say that it was between \$60,000.00-\$80,000.00 depending on what kind of home it was or whether or not it needed something like an 88 pack in?”

Delegate Kessinger: “Ok. I have one more question regarding the 41 payments of \$1,000.00. That was for temporary housing? Is that correct?”

Jeff Wood: “Relocation.”

Delegate Kessinger: “Relocation. Ok, when I had first looked over that, I assumed or thought for no reason that that had to do with the Rental Assistance Program, under RISE? And, it does not. It’s just temporary.”

Jeff Wood: “Yes, mam. That’s correct. It’s under the housing program.”

Delegate Kessinger: “Ok. Do we know how many individuals received the Rental Assistance Program?”

Jeff Wood: “We know that there are 77 cases, if I remember correctly, that are active, somewhere around there, and only a handful. We have prioritized homeowners. However, there is a situation where if a construction company is in a certain area and they are helping 3 or 4 homeowners, then it just makes sense for them to also work with that property owner as well.”

Delegate Kessinger: “Ok.”

Jeff Wood: “So, only a handful.”

Delegate Kessinger: “Gotcha. So, the Rental Assistance Program is actually intended to help an individual who owns property and is renting it out?”

Jeff Wood: “Correct. And, there’s a difference between that and a multi-family housing

piece. The Rental Systems Program, are houses, or mobile homes. The multi-family housing is ten units or more.”

Delegate Kessinger: “Ok.”

Jeff Wood: “So, we are working with the Housing Development Fund to help us launch that program, as well.”

Delegate Kessinger: “Ok, and one more question. So, let’s say that you owned a home and you were renting it out to a family and that family was not able to move back into that place following the 2016 flood. Has RISE done anything, or was it ever intending to do anything to help that specific family?”

Jeff Wood: “I don’t know. I will have to find out the details on that. I am not familiar with it. I only know it on the property side.”

Delegate Kessinger: “Ok.”

Jeff Wood: “I don’t know if they became a case themselves.”

Delegate Kessinger: “Ok. Alright. Well thank you very much. Thank you, Mr. Chairman.”

Senator Gaunch: “Mr. Mihallik. You heard the Auditor’s report and it talked about the lack of backup data. I am assuming that information exists.”

Andrew Mihallik: “Yes, sir. It does.”

Senator Gaunch: “Ok. So, you could provide that if needed?”

Andrew Mihallik: “Yes sir. Absolutely. It’s in the HMS Program and all of the documents are in there and could be produced.”

Senator Gaunch- “To support the issue of a draft, etc. etc.”

Andrew Mihallik: “Correct.”

Senator Gaunch: “Thank you, sir. Mr. Wood.”

Jeff Wood: “Yes, sir.”

Senator Gaunch: “Folks have to qualify, right for this HUD money?”

Jeff Wood: “Yes, sir.”

Senator Gaunch: “So, there’s a criteria. You meet the criteria, then qualify and then the money can be disbursed etc.”

Jeff Wood: “Yes, sir.”

Senator Gaunch: What about private bridges that have literally cut people off from access to their property or the outside world in effect? What about that issue? How many of those are there? And, what’s the plan to replace those?

Jeff Wood: “So, there are 133 of those and there is a portion of the action plan that is called the Private Bridge Program. So, we will be able to disburse those funds. One of the things that you probably saw this week was that we, with Andrew’s help, put out a substantial amendment to fix a problem that actually HUD had brought to us, to recommend that we change. We will be able to quickly add sub-recipients or sub-grantees now after a two-week comment period. That will allow us to work with people like VOAD, who and this kind of goes back to the technicality of it all. They were mentioned in the plan. But, they weren’t a sub-recipient. So, we are going to have to make them a sub-recipient. And, once that is in place, we will be able to provide funding to start working on those 133 bridges.”

Senator Gaunch: “Is it your thought to...surely you are not going to do 133 contracts?”

Jeff Wood: “No. It will fall under...we will be able to grant to VOAD, the management of their program, so we will won’t have to do 133 individual contracts. That’s correct, sir.”

Senator Gaunch: “That’s good. A Couple more general questions and I will be done. I just need to understand kind of how this works. One of the real problems, keeping our mission in mind, prospective. Is the customer service aspect of this whole thing. It seems to me going forward, what we really need, and what would please me, is to have one place to go...single shop...single stop...who could help people through this whole process. Do you agree with me? We haven’t had that, right? VOAD was as close as you could get to that right?”

Jeff Woods: “That’s correct. It had to do with the new pot of money coming in. And, I how that was all going to work, but I do agree that a single one stop shop for your needs would be needed, correct.”

Senator Gaunch: “And the training of people, in effect, to deliver customer service?”

Jeff Woods: “Yes, sir.”

Senator Gaunch: “Empathetic, dealing with people who are grieving that have been through a tragedy?”

Jeff Woods: “And, I will say this. This isn’t a permanent fix. But, I can guarantee [you](#)

now that when the General's soldiers go out, they are fantastic. Gentleman and ladies that are working their tails off. They care about the people and the people know that. And, so you are being served well by those soldiers. I can't thank them enough for what they have done."

Senator Gaunch: "No doubt in my mind. You mentioned inspection earlier, which leads me to ask the question. So, let's just pick out one of the contractors...say Thompson. I get the sense that they are probably not out driving nails and pouring concrete. That they in effect are subcontracting these projects. Am I right?"

Jeff Woods: "In some cases, yes. I understand that they have, I can't remember the exact number that Thompson has, but, there are 33 West Virginia contractors that are subs of subs for our three prime contractors. That's correct."

Senator Gaunch: "Do you think those 3 prime contractors, and maybe not all of them but, they are actually performing work?"

Jeff Woods: "I know Danhill is, but I don't know the percentage for Thompson. I would hate to say something and be incorrect, but, I'm sure that..."

Senator Gaunch: "I just get the sense that they are more of what I call a paper contractor who gets the contract and then subs out the work."

Jeff Woods: "I'd have to get you more information on that."

Senator Gaunch: "I don't know if that is good or bad? I'm just trying to understand it. And, then the inspection...who does the inspection to make sure that this is completed properly? That the sewer lines, the water lines, and electricity and everything works properly?"

Jeff Woods: "I won't say the name correctly, but it is a subcontractor of HORNE. It's underneath that part of the umbrella. Ok, so then, it's important to know that now in place are our inspectors of their inspectors as well."

Senator Gaunch: "Ok. Last comment, I was kind of hoping that you would agree with me?"

Jeff Woods: "Ok."

Senator Gaunch: "I would like to make a statement to say that I have a sense that we are getting ready to see the money really start to flow a lot faster. Am I correct?"

Jeff Woods: "Yes, sir. We will continue the policy at deliberate speed but you will start to see more numbers going to the construction companies that are doing the work. And, less administrative costs and more by portion. Boots on the ground kind of thing. That's

correct, sir.”

Senator Gaunch: “Gentlemen, thank you very much. I see no more lights. Thank you for taking your valuable time to be with us. Appreciate your time here today.”

Jeff Woods: “Yes, sir. Thank you.”

Senator Gaunch: “Last on our Agenda is certainly not least, our distinguished Chief Counsel to our Governor, Mr. Brian Abraham. If you would sir, give us your position. Identify yourself.”

Brian Abraham: “Brian Abraham, General Counsel to Governor Justice.”

Senator Gaunch: “Mr. Abraham, do you solemnly swear that the testimony you are about to give would be the truth, the whole truth, and nothing but the truth, so help you God?”

Brian Abraham: “I do.”

Senator Gaunch: “Thank you, sir. Do you have any statements that you would like to make? Or would you just like to open up the floor for questions?”

Brian Abraham: “I don’t have any particular statements as I was not aware of why I was going to be here today, but, I did take seven pages of notes and I probably have answers that would be slightly different to significantly different from what you have heard here today from the other witnesses, so I’ll just let you take it.”

Senator Gaunch: “Ok. So, questions for Mr. Abraham?”

Senator Baldwin: “The Senator from Greenbrier, Senator Baldwin.”

Senator Baldwin: “Thank you, Mr. Chairman. Thank you for being here, Mr. Abraham. I didn’t plan any questions, but based on what you said there, sounds like you have a lot...some things you would like to say. You mentioned notes that were significantly different from what has transpired here today, and I would like to give you an opportunity to speak about that.”

Brian Abraham: “For clarification, I guess as a matter of clarification on some of the issues, I should start at the very beginning of the initiation of the contract with HORNE, because that’s come up and I know that the Senator here mentioned that. Commerce, under the Tomblin Administration, and Secretary Burdette sought from purchasing, an emergency exemption from having to bid out the HORNE contract for the purpose of putting out the consulting services and the preparation of the action plan. That formed the basis of task order 1 and task order 2. Despite that, Commerce went ahead and bid that out and HORNE was the successful bidder. Those two task orders totaled about \$900,000.00 give or take. And the information that I have is from the information on the

investigation that we did in the Governor's Office. I think the Legislative Auditor's numbers are very close to that. And, in fact, most of those numbers were provided to us by them. Of that, what we understand, is HORNE billed almost all of that except for about \$50,000.00, and then, there was about \$100,000.00 that they would have billed under task order 3-8 that has not been paid by Commerce. So, to my understanding about \$800,000.00 and some change has been paid to HORNE to date. Now, if the Auditor has seen some checks that were different from that, I will stand by his checks. But, that's what we were advised, is that they were only paid under task order 1 and 2. Now, what happened was, Commerce sought, what I understand, a master contract agreement which would have then allowed them by purchasing to continue to add to that contract. That was denied in writing by purchasing. A memo was sent to Commerce, to their purchasing agent, and they were told, "you can't do it this way, you are going to have to bid it out." That information was not communicated to the staff at Commerce, that were responsible for continuing to negotiate with HORNE in adding task orders 3-8. So, task orders 3-8, although Commerce was advised in writing that they had to bid that additional work out did not do that. To your point, it would not have had to been bid out as individual task orders 3-8. Commerce was in charge of that. They could have fashioned that bid or RFP any way that they wanted to. But they chose to continue to enter into these additional task orders over time. Those were not entered into at one time. They were entered into over varying months. So, as those task orders were entered into, the additional amounts came up that totaled almost \$17M. As we began the investigation, immediately the concern was the vendor that came in here with the initial bid of \$900,000.00 and now they have added on \$17M worth of work. We've seen that story play out here before in the State of West Virginia so we started looking into the matter. What we realized was that they didn't go through purchasing for that subsequent part. And, when I contacted Counsel at Commerce and asked who had wrote these additional contracts, he couldn't identify who prepared the contracts, whether they were task orders 1-2 or task orders 3-8. So, we asked for those contracts to come over for our review. Upon reviewing them, and I am not a procurement person, but, within 30 minutes of looking at them, we realized purchasing hadn't been involved. The Attorney General's Office hadn't been involved. We had a problem. So, we called over and said, you need to slow down what you are doing. We need to look at this. Well, what we found out was that Commerce tried to make an end run on the Governor's Office and they went to our administrative section, our purchasing section and they requested a change order. We advised purchasing that we had the matter under investigation. We didn't step in on what their ultimate decision would be, but we asked them to hang on with reviewing it until we had an opportunity to conduct our investigation. We did that by, we had already retained the services of a law firm here in Charleston to act as Independent Special Assistant General Counsel to look into other matters that were going on in Commerce. And, so we gave that task to him. He went ahead and interviewed various people at the Commerce Department as to what had taken place and he came back to us after a couple of weeks and said, this is the result of my investigation. At that point we looked at purchasing and said, go ahead and deal with them. They came in and ultimately, purchasing determined that those contracts were not authorized for a granting of a change order. I believe the Legislative Auditor, if I understand what was in the report that they gave you, that those contracts were illegal

and weren't entered into properly, by just agreeing to extend them and do that. Now, I will say this. As to the substance of the contracts, themselves, the change orders task orders 3-8 we were greatly concerned. And this would go to Senator Karnes' issue as to how much had been paid. The way that payment schedule worked under task order 3 and task order 4, the milestones, the deliverables that you said were at like 50 home or 50 applicant increments. And, for every one of those, I think the payment amount was about \$800,000.00 until you got up to about \$10M. Our concern was that we had been to presentations by Commerce and they were telling us that we still had possibly as many as 2,000 unmet needs, out in West Virginia. And, our concern was, well if we were paying \$17M for 300, what's going to happen when the bill comes in for 2,000? Are we going to get another change order that they want \$20 or \$30M more? So, what was ultimately told to us, by HORNE was oh, that's not what that means. That's just our total bill, you know, it's a flat fee. We just put that measurement in there. Well, going back to contracts 101, first year of law school, if it says it in the contract, you have to go by what it says. So, we said that won't work. We can't do that. So, what we've done is that we basically voided the contract. It was never a legal contract. We voided that with HORNE. We entered into negotiations with them and signed a letter of intent for about half almost of what they originally tried to bill us for the continuation of their services. When the letter of intent is done, and the contract was not, the reason for that is we wanted to involve HUD and make sure that we weren't miss-stepping anymore. Whatever we do going forward we wanted to involve the Legislature. And, in fact, before we made the overtures for HUD last week, we met with leadership. We met with your counsel. We all tried to agree on a one voice way forward and then we presented that to HUD. The letter that you saw in yesterday's press release was basically HUD's reply to us. Their reply is, with respect to the HORNE contract, we would prefer you procure out future services. But, we understand that you obtained many services already to date...the case management, the consultant services, for which they haven't been paid, quite frankly. We don't want you to bid out something that you have already received. You may get another bidder who has to start over from scratch and cause a delay. So, they are giving us some leeway in there to continue to operate with HORNE, but they want to see West Virginia build its capacity to operate on its own and that is to provide these services, as a state. We have to be careful in how we bring on, and that goes to your questions about how where you would put this program in the future. I don't think there's any appetite to just add on 50 state employees on a legacy basis. Right now, we are operating under federal funding and that would come out of that. We do need to ensure that West Virginia has that capacity going forward, but we have to carefully balance how many employees do we have on West Virginia's payroll in the event there's a flood versus how could we staff up in the event there is a flood. And, that's where we looked to the military authority through General Hoyer that he has a unique ability through his mechanisms there to bring on people on a contract basis, which we don't have under some of our personnel laws and let them go when we no longer need them and staff up as necessary. So, that's one of the things we will be talking to you about.

With respect to, and I don't want to get into the weeds or a rock throwing contest, on how people left or why they left and things of that nature. With respect to the question that you

had for Mr. Mihallik on the memo, as he told you, he didn't prepare that information. After the June 15th press conference, I went over to the Commerce Office. That was the first time that I had been there since the time that we initiated the pause. Because we didn't want to interact with the employees or try to make it look like we were interfering with the investigation or anything like that. I confronted them at that time that the information in the memorandum that they had drafted, did not appear to be correct in that now we were finding out that no homes were in construction. Nothing had been built, yet the memorandum said that on that date, when the pause was hit, everything was already in progress. He acknowledged to me that day and you got right up to it that day and did not ask the final question. He said that the HORNE employee provided that information and that they didn't intend to deceive. They acknowledged that the information in that memo was not correct. They acknowledged that the information in the memo today is not correct. What he and Russell Tarry kept telling me at the table that day was that we didn't intend to deceive anybody. So, in other words, the information provided, they didn't know inaccurate at the time was now recognized was inaccurate. So, that memo that says that all of these things that were going on...obviously is the reality is, they weren't. So, the day we pushed the pause button, nothing had been built, nothing had been constructed. Now, some of those payments that you saw to some of those construction companies, we believe might have been deposits on some mobile homes. Because some of the contractors had indicated to us that they had some of those in the progress. They didn't want to get stuck holding the bag for those. And, we've tried to take steps that make sure that doesn't happen by ways that I discussed by the continuation of the...we did extend those contracts... that we had with the construction companies. But, what HUD has advised us that we should do is to stop after this initial phase, and those that are in process which we think is between 60 or 70 and bid out the remaining piece of the construction, which would open up the bid process to any other contractors that didn't have opportunities the first time they could bid on that....which we think might increase our construction capacity, which would also increase the time in which we can get this done...or shorten the time in which we can get this done. With respect to those that are in the process, we think that the number is sufficient that we could continue to operate on an emergency basis on those without causing any further gaps or delays in the process so that people will continue to get services. But, we won't have a pause anywhere in the process. That's what we have timed we think with the numbers we've picked that HUD feels like they are comfortable with. We've been in these negotiations for the last couple of weeks with them way before the receipt of that letter yesterday.

With respect to Delegate Ambler, you mentioned the lady, that we try to prioritize people at the bottom. If that's the letter that was drafted by an attorney that said that. We received that. That obviously didn't pass the smell test. We ran that to ground. We think that she was actually one of the very first ones to receive a home from the volunteer groups and what's she's asking...she's asking for some property to be bought, which the program would not cover. So, that's the issue there. So, any of these we get in, we take very seriously.

I underscore and I think this committee...and the members of it...particularly the members

of the districts that were affected by the flood. During the Summer or Fall of 2017, from the time we hit the pause, there wasn't an alarm being sounded anywhere I think in West Virginia that nobody was getting service. And, I think what was masking that was the fact that the groups that you all recognized, VOAD, the religious groups...they stepped up in a huge way and built more than 1500 homes and that's where we didn't get the global outcry from citizens going "I'm not being helped". It could have been the 1's and 2's that called, and we would look into those, and that one got FEMA money...and now they don't qualify...that would answer that question and we would move on to the next one. We didn't have people coming in. So, until we figured out what happened in February, when we hit the pause, there was really not this overwhelming "what's going on in West Virginia"? So, quite frankly, we have been somewhat dismayed in the Governor's Office that by trying to do the right thing and that was saying, "Hey, stop, let's see. We don't want to get this wrong. Lord knows that we have had enough times where West Virginia has spent money that shouldn't have been spent, and then when somebody else comes in, they are left holding the bag, going give us back \$5M, give us back \$10M...we didn't want that to happen.

So, we weighed very heavily what impact this would have on the Program versus what was the potential for...in the end, an IG would come in and say, hey, we want to claw back some of this money because it was misspent.

Miss Thompson answered your question and you said, was the program in compliant with HUD on the 20th, or when we hit the pause? Well, as far as HUD was concerned, West Virginia was doing those things that it needed to do to have the money released. HUD was not aware though, of our procurement problems. We brought that to HUD's attention. Obviously, now that we have brought it to their attention, they've recognized it, the Legislative Auditor has recognized it, HUD is helping us through to fix that. So, they obviously now acknowledge West Virginia had a procurement issue. And, it's not their job to find those things in the beginning. That's the IG's job in the end. We didn't want to wait until the end. We wanted to make sure we fixed it on the front end. I can go on and on and on. Does anybody have any questions?

We were dismayed at the reaction or actions, or actions of some of the people that Commerce made about points of who resigned, who was fired, and things of that nature. There were three things that came about where we felt that there was some rogueness that came about, if you will, the first of which I have already detailed and that was we discovered that there was problems with the contract. We started an investigation. We didn't tell Commerce do this, do that, don't stop anything. I think very quickly they realized that what we found, the problem was in the contract. Because it was subsequent to that, that the request was made for the change order through purchasing. Not, they didn't make that first and then we started our investigation because I was contacted by John Myers who told me what was going on, but, we already had our people in place doing what we were doing.

Second, was this memorandum that we've referenced that had the false information, that

was an internal memorandum that as you see, was drafted for Secretary Thrasher's review. When myself and General Hoyer went to Washington D.C. to meet with the Assistant Secretary of HUD, he had that memorandum in his hand. So, that information...which it is...the memorandum itself appears to be damning to the Governor's Office. We had all of this great stuff that was going on. We were building houses, hundreds of them, and they shut it down and now, nothing is going on. Well, HUD obviously significantly chastised us and questioned us about what we had done. And, now, again, we know that the information in that memorandum is false. So, that was an attempt by the, if you will, the bureaucracy, to sabotage us for trying to do the right thing.

And, finally, the information that is out there as to whether we terminated counsel or counsel resigned, I'll set the record straight on that. And, this is another one of those that you give instruction, you lead a horse to water and you can't make it drink. We met with Secretary Thrasher prior, sometime around mid-April and had concluded the investigation not only into the flood matters, but other matters of what was going on in Commerce. The recommendation of the attorney that we hired to conduct the investigation was that General Counsel had failed significantly in five particular points...three of those had nothing to do with the flood program or RISE, and in my opinion, the most egregious one did not have anything to do with the flood. My recommendation was that he be relieved of his duty as a General Counsel. We directed Secretary Thrasher to do that and expected when he went out the door that that would be done. The same as if the Governor tells me to do something, he doesn't have to call me every day to see if I have done it. If he tells me to do it, I go do it. A week later, Secretary Thrasher was back in our office again for his update. At that time, he asked, well can you take me instead and keep him? So, that was the first that we were aware that he hadn't done as instructed. Then, a couple days subsequent to that, we read a story in the paper where there's a request for an ethics exemption because he is seeking outside employment. At that time, a written memorandum was sent from the chief of staff to Secretary Thrasher detailing the grounds, demanding that he be terminated. I don't know what Secretary Thrasher ultimately communicated to General Counsel, whether he told him what the Governor's Office said? I can't speak for Secretary Thrasher, but I can tell you that the Governor's Office did direct the termination. So, again, you tell something at a Secretary level, you expect it to happen. And, if it doesn't that's why that Secretary is not there.

As for questions as to whether or not anybody quit voluntarily, we did not seek the resignation of anybody else in the office. In fact, some of these were news to us. I'll tell you like I found out on a Friday before your meeting on one of them. So, that's what I have to say about that. There is nothing ulterior there."

Senator Gaunch: "I think we have some questions."

Brian Abraham: "Yes."

Senator Gaunch: "Yes, Speaker Armstead."

Speaker Armstead: “Thank you, Mr. Chairman. Mr. Abraham, I want to go back to this July 11 letter from HUD just to make sure I understand where we are in terms of the status of the contracts. This letter basically refers to the construction contracts, not to the HORNE contract, correct?”

Brian Abraham: “Well, if you look at the paragraph right above, where it says in reference to the construction, the paragraph above that, we believe, refers to HORNE when it says that we don’t want you to pay for duplicative services. We think that’s the HORNE piece and then they move down and then they talk about, well I know it, because we were on the phone with them regarding the contents of the letter. But, that piece of that, and what that’s saying is... ok, you go ahead and hire who you are going to hire HORNE...we know that they have already done all of the case management. We know that they have already done their consulting work up to date. We know that they haven’t been paid for anything other than task order 1 and 2. And, our concern that we expressed to HUD was look...if we put this backout to bid on the street from the very beginning, a couple of scenarios could happen. It would be very detrimental to the program. One, somebody besides HORNE would win, and then they would have to start from scratch creating the case management database and go out and duplicate work that HORNE has already done. We can’t encounter that kind of policy. That was the reason why the purchasing division had given the emergency exemption for this time for the HORNE piece. What HUD has said even though you got that emergency exemption and the Governor could do that, we would prefer you only use HORNE to the extent that you need to, under that agreement, and build your state resiliency yourself...your internal resiliency...so that you don’t have to rely on them. Otherwise, we would like to see you procure that down the road.

With respect to the contractors, what they have said is, we understand that you have got some in process and we don’t want to cause anybody to not have any money, we don’t want to cause anyone who has a house that they are getting ready to open the front door on, or one that is getting ready to start, or contractors have ordered materials, or there is a mobile home in route or in construction. You go ahead and what we’ve done is quarantine that amount and we believe that to be about \$6M and those 60 some odd homes that I have talked about, we have that that we could continue to work on, while we bid out the rest of it. We have already put draft RFP’s in the hands of our Purchasing Division, to start working on to come up with the details and to tell us what we need to do. We have prioritized that in our Purchasing Division and we’ve told Jeff knows this at Commerce, we are going to make sure that these agencies work together to get this done in the most expedited manner. RFP’s aren’t only the swiftest of things, but this is the priority of this Administration. And, those will go out for the bare minimum time per law, out for bid. We will be ready to select and if these same contractors are successful, they obviously will be. If other contractors are interested in bidding on it, they can continue to bid on it, we believe that’s a way to increase capacity and then, also increase the speed at which the public gets these houses.”

Speaker Armstead: “Okay, so on the HORNE contract, there’s been a discussion about

the two initial contracts or two components of that contract. And, then what has been discussed as sometimes change orders or sometimes as new contracts, depending on you know, who looks at them, and what their view is on them. Is it now the intention to engage in any further contracts with HORNE? Relating to this or the first two that were executed? The two that are going to be..."

Brian Abraham: "We negotiated with HORNE that they would continue to provide the consulting services and the training for the West Virginia employees that would bring West Virginia up to speed. The consulting services include everything from environmental review to construction review, in other words, quality management. There's a litany of things that they agreed to do. Based upon the negotiations of that contract, went from \$17M, down to, I believe, \$9.2M or \$9.4M...somewhere in that. And, had we not entered into that contract, it would have still been drafted. But, in the meantime, we engaged with HUD to make sure again, that we weren't jumping the gun. We wanted to get it done. And, in the meantime, HORNE has continued to provide services and engage at no cost. They want to be a partner which is what they've told us. They demonstrated that. They could have packed up and left town, but they would have taken their toys with them, and we would have been in a real fix. But, they have stayed here and they have continued to work without consideration, except for what they were paid and what I think I have detailed and what the Auditors have shown you."

Speaker Armstead: "So, in terms of the additional contract, who will be responsible for, if someone has an application in the system, who will be actually responsible for talking with them, walking through what they need to do, if there is any further information needed from the homeowner? Who will be doing that? Will it be General Hoyer and his staff? Will it be HORNE employees? Who is going to be doing that moving forward?"

Brian Abraham: "As part of General Hoyer's...and again, to reiterate what Mr. Wood said, the National Guard has not taken over the flood program. This is still the RISE Program as it sits within the Commerce Department. General Hoyer was detailed by the Governor, to be basically the facilitator of that program or oversee that program. And, he has put Jeff Wood in there as his daily eyes and ears to get it done. With respect to his way forward with regarding the case management piece, which is what you are talking about, dealing with people as they call in off the street, the VOAD group, that is FEMA certified to provide that case management that was doing that under FEMA. General Hoyer has brought them in to work with HORNE. And, what we did, is we took VOAD, and Miss Thompson has mentioned this, they had their database, HORNE had its database, and what we did was basically cross reference them and General Hoyer had that audited by staff at headquarters. And, we now think we have, what is the actual picture of unmet needs. And, on an ongoing basis, the VOAD people would be coordinating and working with HORNE and it very likely would be VOAD individuals in there who would be talking to somebody who might call in with a question. And, to get to the exact number, we think that we are around about 480 either being complete construction, re-construction, or something. And, that takes it back to the very beginning. And, I wasn't present for this. This was before the Justice Administration. What we

understand is that right shortly after the flood, Governor Tomblin, Secretary Burdette, General Hoyer and the Homeland Security Director were called to Washington by the Congressional leaders, and they were told that if Congress was going to come up with money through HUD, we need to know what you need. They made a guess. That's what has been communicated to me, General Hoyer, and Jimmy. It was purely an educated guess...purely a guess...and mind you, that was supposedly within a week or so of the actual flood and we know of all of the devastation that existed that we now see. They represented that they thought that that number would be about 2,000. And, they did tell HUD, this could adjust. You know we are not sure, but, that's our best guess. So, we think that funding was based on the number that they gave.

We also believed that it was based on representations of General Hoyer and Jimmy made, that Commerce requested that the program be placed under them, at a time shortly thereafter. What we know now, is that although there may have been originally 2000, give or take, that somewhere between 1,000 and 1,500 had been taken care of by the volunteers. So, one of the things that originally brought the Governor's attention to this was, we were talking with General Hoyer and Jimmy, that the Commerce Department continues to represent that there is \$120M needed for housing because there's 2000 houses still out there to be built. We've built 1200 houses, so that number may not be right. So, we went over to Commerce and we had a presentation put on by the HORNE person who was local...he's not there anymore...that was one of the conditions of them staying on...But, they continued in this power point presentation to represent to us that they had this number of houses. And, when we questioned them...well, no no...they were fixated on that number of houses. Well, then in coordination with reading that contract, and seeing that the payments were based upon how many houses they built, we were concerned that that is why their fixation was on housing. And, we realized that once our unmet needs were taken care of, that money could be shifted to other things, like economic development, mitigation, things like that. So, you don't want to lock yourself into, well we know we have \$120M, and we are not going to budge off this, if in fact, that is not the reality. So, all we had asked is consider, you know, that there is a point in time when we make our unmet needs that we look at other things, and we just didn't feel like we were getting that. So, that's why we started looking into what's going on here, why is everyone so fixated on... It turns out that wasn't the motive, but, that is what sent the flag up that caused us to get started on this. But, as we sit here today General Hoyer has estimated that you might have somewhere between \$40M and \$60M in housing needs left. And, if that 481 number holds, which we think it will, which means that the remainder of that money...might be something we go back to HUD and say, we have other things. And, to your question that's like sewer plants, that's not highways, but its things related to neighborhoods and housing. It's things that we in West Virginia desperately need. The other \$106M that Miss Thompson referenced, that has been in a completely separate batch of money that Congress has appropriated be done by HUD. And, that is for, as we understand, is for mitigation, economic development, those things in those counties. So, that's there right now. That's not been released and we have been told that they are kind of playing it...wait and see how we work out way through this...and how we accommodate this, and then, they are ready to bring that money to the table."

Speaker Armstead: “Okay. As far as the contracts for the construction, it is my understanding, and just to review the history of those, that they were entered into and, as I understand, basically for an up to amount...they weren’t exactly to an amount, and that as the Legislative Auditor looked at those, there were some concerns...questions about how they were executed. And, I just want to make sure that I understand entirely exactly what the status of those are because I understood that those could not be renewed because of that question...but there was a question about whether that they could be entered into...basically anew...under the emergency authority. And, HUD, it sounds like is not really comfortable with that approach as much as...it appears...and, correct me if I’m wrong maybe I’m mischaracterizing this...but, HUD is basically saying that we are going let you continue the work that you are doing under those contracts at this point, but, no more until you go out and bid those contracts out. Is that an over simplification of it or is that?”

Brian Abraham: “No, that’s an accurate statement and keep in mind when we found what was wrong with the construction contracts and I believe, what the Legislative Auditor has found, those were bid out. And, I believe that there were 8 potential bidders and 4 were successful. The problem was, Commerce bid those out internally. They did not go through the Purchasing Division, nor were those contracts reviewed by the Attorney General. So, therefore, in theory those contracts were not valid contracts under West Virginia Procurement Law. So, they did have extensions in them, and what we did do, until somebody nullifies them or voids them, they are still a signed contract. On an emergency basis, we said we were going to extend these and we are going to do what we need to do on an emergency basis to capture that amount that is in the queue right now, that’s called under construction so we don’t have a gap. And, then HUD says if that’s all you are going to do, and you are going to commit to bidding the remaining contracts out, I believe that’s the way they are ok with. What we intend to do, is once we have captured that, and quarantined that amount and we are prepared to do the RFP, and those bids are put out, and we receive the successful bidders, then we will issue termination notices on those existing contracts that we just extended. Again, if we hadn’t have done that, we would have ended up in another gap, another pause, which was falsely, not falsely, wrongly reported in the media, that those contracts had lapsed and they had not. We had extended those the week prior to that weekend expiration.”

Speaker Armstead: “So, do you have basically just an estimate of the amount we intend to spend to complete the work that is in progress now under those contracts?”

Brian Abraham: “In talking with General Hoyer and Jeff, we think that is about \$6M, give or take, and we think that’s also an amount that even if HUD came back later and IG, and said hey that was misspent, because that’s something that’s...I won’t say manageable...I think we can work with HUD and maybe even say, look we did everything we could and we tried to...and that might be something down the road that ultimately HUD is the one that decides what’s a claw back or not. Even though the Inspector General might say, this was done wrong and we recommend this, HUD has to do that. For

instance, I think that the HORNE people told me that in the New Orleans flood, you know, hurricane, that the original misspend, they allege, by, the IG did, by New Orleans was like \$1B. And, then they negotiated that down to \$500M, and they eventually got that down to a couple hundred million. And, HUD said that's a small enough number, compared to the overall project, we are just going to waive that. So, we are no where near there, thank God, but I think it is something that is manageable and I would rather that, than the whole, if we had not caught this and stopped this.

Speaker Armstead: "So, around \$6M under the current contracts and then you re-bid that for the additional..."

Brian Abraham: "That's exposed and so now you have \$114M worth in theory that could go back out. We don't think the number is anywhere near that. We think the number is more like the \$40M to \$60M range we will hit our unmet needs. But, that's purely driven by the numbers. We have to decide are we going to allow other people that didn't maybe initially make application, if they determine, and I will give you an example of that. You may have two or three houses in a neighborhood, two of the people said hey, I saw the 800 number and I called in and I got in the system. The third person either didn't know about it, didn't care, didn't think it was real, what have you. But they suffered damage. Now, are we going to allow them to make application even though it was outside the timeframe when the only issue was they didn't know about it or maybe they didn't hear? We have got to make that determination to stay. Initially the determination was no, a deadline is a deadline. Maybe it's a case by case basis, maybe it's we do one more batch of notices, we haven't made that determination. That's really something that would be handled within the RISE program and not at the Governor's Office. But, that's a potential issue. We will make sure every person that was affected gets made whole as the best we can with the resources we are allocated. We don't want to leave somebody out in the cold simply because they couldn't figure out how to work their way through the process."

Speaker Armstead: "I guess my last question in general is looking at this last letter and your description and explanation do you feel pretty confident that this approach going forward will prevent these people from having further delays in terms of getting back in houses?"

Brian Abraham: "I think so. I think General Hoyer is probably a better person to answer the detail of that, because he's getting daily updates on what's in the queue. But, I will probably talk to him, but Jeff and I are in arm and arm most days. But, I would say it's about two or three times a day that we are talking about with him on this and he feels comfortable that the number that...and, again, it's been a give and take with HUD. We said we think we have 135 in the queue. We continued to build the queue a little bit after we started negotiating with them, because these cases were ready to be put in there. So, HUD said, we would like to see that number as small as you can make it, but, we don't want there to be a gap. So, we think that we have...so, it's based on the contractor's capacity. So, if we have had Thompson and ASP and Danhill have said ok, here's what we think our monthly capacity is to build and reconstruct. We have tried to build out a

couple of months of that, because we know that's about how long the RFP process would take. So, we're hoping for overlap and no gap."

Speaker Armstead: "Ok. Thank you. Thank you, Mr. Chairman."

Senator Gaunch: "You are welcome. Delegate from the 32nd, Delegate Kessinger."

Delegate Kessinger: "Thank you, Mr. Chairman. Thank you for being here, Mr. Abraham. My first question is regarding the memo. Now, that we know that the information in this memo is not true. Has the Governor's Office notified HUD that the numbers in that memo were not correct?"

Brian Abraham: "We did that day. At the table we said we don't know how or why you got this memo but, obviously, we are here today to tell you that there has not been any house anywhere that's been built. And, to be quite honest with you, the day that I went over to see Mr. Tarry and Mr. Mihallik, I asked that they be brought into the conference room so that I could ask them the nature of the memo. They were there with Wes White, who is now acting as General Counsel. And, I said, well, I had just left the press conference with the Governor regarding our cooperation with the Legislature on making sure we had transparency. I said you know, my original intent was, I was going to load the van up with news reporters and have you guys get in and take us to the houses that were being built. But, obviously, all of us sitting around this table know that there aren't any houses in here are there? They both put their heads down and kept saying, you know, we didn't intend to deceive anybody. This was just the information that was provided us. And, the question was, why did you turn it over to HUD? Mr. Tarry admitted that day that he did it. He said, well I just thought that they would want to be updated. I go, well today, this information is not correct. As you sit here today do you think that was a good idea? And, the answer was of course no. Now, when we approached HORNE and said, why did your guy include this? What we got was a little bit of a nuance. In that, well, when we say something is in construction, that means that's where it is at in our program. That doesn't mean that the house has actually been built. Well, when you put that out on the street in a memo and you put that out to federal agencies, common sense tells you that plain words mean what they mean. So, again that's where we felt like we got you know by our own agency...we kind of got slapped up side the head, if you will."

Delegate Kessinger: "Ok. So, I know the Governor had a press conference in like mid-June where he said that they were renegotiating the contract, you guys were renegotiating the contract with HORNE, that contract has been renegotiated and finalized?"

Brian Abraham: "Yes, the terms of the contract, in general, in other words, the costs of the services provided, the details of the services to be provided, yes. As far as it's written form, it is in draft form right now and the idea was there was no need to enter into it until we kind of got HUD's blessing. But, we didn't want to enter into something today and HUD tells us tomorrow that you can't do that. But, we were just wiping the slate clean and starting over. We've been a little bit more cautious in the way we do things. We've been

trying to involve Legislative leadership in here's our way forward... You know, again, day one, we brought this to the attention of the Legislative Auditor's Office, and said, "There's a problem here and you need to see it now." That's why I would like to underscore as far as what Governor Justice believes and that is in transparency and coming forward and saying, if something is wrong, we are going to tell people about it, and we are going to make sure the right people know about it. You know, we could have said nothing. We could have put our heads down and let this go forward for a couple few years and everybody would have got their house built and nobody would have said anything. I may not be here anymore and some of you sitting here might not be here, but somebody is going to be sitting in your chair. And, somebody being here might have said, what happened to the \$20M? The \$10M, and why are they wanting us to pay this back? And, we saw that that is not the way you run government. If you know it's wrong, you take a breath, you get it right, and you move forward. That's what we've done. We didn't expect the amount of criticism we would get, that we've gotten, from trying to do the right thing, quite honestly."

Delegate Kessinger: "So, what's the cost of the new contract? What services will be provided? Are they going to be the exact same services? Or is there going to be different services? Because I know that the Governor had mentioned that he saved the State \$9M?"

Brian Abraham: "The original contract or the bid, the original task order if you want to call it that, task orders 3-8, raised that total to about \$17M. The negotiated price on the emergency basis was either \$9.2M or \$9.4M. So, that's the savings that the Governor's representing that we brought the price down from here to here."

Delegate Kessinger: "But, for the same amount of services."

Brian Abraham: "The services are basically the same except for General Hoyer was pretty insistent that he wanted VOAD because he had experience with VOAD and believed in the accuracy of their work. He wanted them to coordinate with the HORNE piece and come in and help coordinate the case management, so that we could coordinate the two systems, the HORNE system and the VOAD system. And, I can tell you that we have caught numerous instances where there have been differences where somebody may have been in the HORNE system ready to receive some benefit, but it turned out that they actually gotten money from FEMA under VOAD and we had to give them bad news. And, its gone the other way too. They had been referenced as a duplication of benefit under HORNE and it turned out that with VOAD, that wasn't the case and we were able to reconcile those. It's been a really good idea that he had to bring those together, and first audit them to make sure that we were accurate. And, then going forward to make sure that those were working in concert. So, that's really the most significant piece and the building of the database to date was probably the lion share of the work, as far as HORNE was concerned, having to go out in the street and sign up people and things of that nature. So, as far as just looking in the program today and seeing who has got what, that's a small piece."

Delegate Kessinger: “Ok, my final question. I know that the committee is very thankful. So, what is the Governor, not just personally, but as his office, what is he doing to make sure that these people are getting into their homes? I know that he appointed General Hoyer and I think that’s a great decision on his part, but what is the Governor’s Office doing today to make sure that these people get the homes that they were promised?”

Brian Abraham: “And again, this kind of goes back to my opening remarks that the information that we were getting from Commerce throughout 2017, the message was all is well. The same that you all were getting, the same everybody was getting, all is well. When we realized there was a problem, the Governor immediately shifted focus and I can tell you, as he has said many times in his press releases, or press conferences...you know the day the flood hit, he was a victim too. He was out there day one...helping getting bodies out of the creek...he suffered damage...he was helping other people...he was the one that started or help start the Neighbors Loving Neighbors...you know, those kind of things. He has been intimately involved with this particular flood. So, it’s number one priority for him. So, he has said that, as the Governor’s Office, he is going to find the best person at RISE, capable in handling that program, and he did that with General Hoyer. But, he has directed that all agencies within State Government that have any skin in this game, that they will make this a priority. The example would be, Commerce may have had just as normal course of business, they had issues with SHPO, or that’s one of the pieces of this puzzle. And, I don’t want to criticize anybody in State Government, but, things don’t always move at lightning pace. It may be...I will get to that tomorrow, it’s on my desk, but I’m going to take the afternoon off...you know....those kinds of things. When we see these things now, it’s an all hands on deck, and if your agency has a piece in this game, you will make this a priority and you will get it done. And, that’s been the directive the Governor gave and that is filtering down through our agencies. The examples would be...whether it be our environmental people, our historic preservation people, or whether it be the people at Commerce. This is priority one.”

Delegate Kessinger: “Thank you, Mr. Chairman.”

Senator Gaunch: “Senator from Upshur, Senator Karnes.”

Senator Karnes: “Thank you, Mr. Chairman. You know, I hear about this memo thing and it reminds me of all of the socialist countries, the Soviet Union of the farm estimates where everybody was growing way more corn, and at the end of the year, they would have to come to us and beg us to sell them corn because nothing ever produced what they said was being produced. I asked this question a little bit earlier to Jeff. Do you know for sure who owns the data?”

Brian Abraham: “Off of the top of my head, I can’t go back and tell you what the contract says, but most instances like that, West Virginia would own the data, because we are the customer. And I can’t imagine that HORNE would want to keep that to themselves. And, in addition to that, as she indicated, and I agree with, VOAD has always had access to that data and one of the original things we actually did, when we initiated the investigation,

was that we had VOAD go in and download the entire database and preserve it, in case we needed it for some point in the future. So, we have.”

Senator Karnes: “Right. Well, I’ve actually seen it done the other way, where the contractor tries to use it as leverage.”

Brian Abraham: “It’s not been that... based upon.. and I know you had some questions about HORNE. Best we can tell, and I can tell you, they are held in high regard at HUD, from our talks with HUD. They have had quite a bit experience, and are probably one of the leading companies in the country...and I realize you talked about topography which is kind of unique in this particular type of field situation...”

Senator Karnes: “I can’t say that they aren’t good at it. But, my question has been...and so far I really haven’t heard anybody say that they can definitely point to some past performance by HORNE to say that this is actually their thing.”

Brian Abraham: “Well, again, our administration had nothing to do with the original choosing of HORNE. I can tell you based on my limited interactions with those executives that have come in here, as we try to resolve the issue...that those people have a pretty decent pedigree as far as they have been in and out of HUD as executives. They have been state executives at that level. They are lawyers, they are accountants. They appear to have specialized knowledge in meeting the HUD regulation. And, right now, West Virginia as a state, talking about state employees do not possess that requisite specialized knowledge. That’s part of what HORNE’s obligation is and that is to train up West Virginia employees and people on how to deal with...One of the things that we didn’t address through the other witnesses, was that we have reached out to housing and said, you have got some CDBG people over there in housing, that are not trained on DR. But, it would be much easier to pull them over and have some people detailed to this program and teach just that piece and that would be HORNE’s responsibility. So, again, we are trying to look at all hands on deck approach to get this done. So, we’ve made overtures to that. So, I hope that answers that portion.”

Senator Karnes: “Right. Again, well, my view is that they may be great. I just wanted to hear it but, I didn’t want to dwell on it either.”

Brian Abraham: “My interactions with them have been positive. Again, we didn’t have anything to do with the RFP Process.”

Senator Karnes: “I kind of wonder and I think maybe you said too, you don’t know who wrote the contracts?”

Brian Abraham: “I’m sorry?”

Senator Karnes: “Did you say that you didn’t know who wrote the contracts?”

Brian Abraham: “No, I said that when I spoke to then general counsel Jarrell, my question to him, was ‘who drafted these contracts?’ And, his response to me was that he didn’t know.”

Senator Karnes: “That’s what I mean. We don’t know who wrote the contracts, but, you agree and the reason I ask this is that they are pretty generous to HORNE.”

Brian Abraham: “I’m assuming, that if our Commerce Department, and I don’t like to assume anything as a lawyer, but, if our Commerce Department didn’t draft them, somebody obviously did. They didn’t fall from the...”

Senator Karnes: “Seems like they were drafted by HORNE, which I don’t think would be out of the norm of these things.”

Brian Abraham: “They didn’t fall from the sky. And, if Commerce didn’t draft them, I have to think that the other party did.”

Senator Karnes: “What would normally happen, and I am somewhat talking down the path on what the Senator from Kanawha, Putnam actually, touched on a while ago. They sent some contracts over probably. Normally, the process says we would look at them, we’d negotiate and make sure that they fit our procurement. But, instead, we probably didn’t do that. Somebody just decided to sign the contracts that HORNE sent over.”

Brian Abraham: “And, again, flags were going up as we were deciding whether to hit pause. And, we had to decide and weigh this. Do we want to risk the chance that some of the people might be delayed, versus do we want to let West Virginia continue down this path? One of the things we saw, not only the earlier concern I had, was the accelerated payment to them on such a low number of applicants and totaled \$17M and knowing at the same time that we were being told it could be five times that number of potential applicants. And, what’s that going to lead to? We were worried that the way that the contracts had been signed and dated. It wasn’t...here’s one contract that we’ve entered into and this is now...all of the other ones. They were periodic. Every month a new task order was coming in with something else to do. If memory serves me, and it has been a while since I looked at this, the original task order, like 3 or 4 had been signed in May of 2017, which would have been during the Justice Administration. But, at the beginning of the contract, it was backdated until December of 2016. We could never get an answer for why it was backdated before. But, that would be in theory, the effective date.”

Senator Karnes: “Do you think that Mr. Jarrell signed these contracts entirely out of his own volition or did somebody further up the chain tell him to go ahead and sign them?”

Brian Abraham: “I can’t answer that. But, I can tell you that nobody in the Governor’s Office were aware that they were being entered into.”

Senator Karnes: “Well, maybe the Secretary?”

Brian Abraham: “He would have to answer that only he would know that and the Secretary would know that. I can tell you that the Governor’s Office did not know about the issues. And, again, this did not come about directly as we’ve got a flood issue. We happened to already be there, and that’s been detailed in other forms. But, we were already there looking into things and it just said, wait a second, here’s another issue and there is some big money on the table. Here was the original piece that was \$900,000.00, now we’ve got \$17M. These things that’s just your typical way West Virginia has been done...we’ll come in at a low price and the next thing you know, we are paying out big money. You all know about that. I’m not going to get into those. But, that’s what we thought we were going to find. And, as it turned out, it was actually a more negotiated, and this is probably bill for services...and just as when we immediately started looking at them...we realized...they didn’t go through the proper procedures.”

Senator Karnes: “You know, one of the things that I...and this ties directly to what the Senator from Putnam was bringing up. We revisit the whole procurement process as it relates to law and rule and so on. What difference does any of that make if guys just go off and sign contracts for multi-million dollar contracts without following the process? Not only that, I mean the entire idea that the entire thing was put out for bid...you know an RFP was put out there, the entire bid process happened, I would have to imagine that the Secretary would have had to have known what was happening on some level. I would even imagine that you mentioned the prior Governor called up to D.C. to talk to...or maybe that was Mr. Wood?”

Brian Abraham: “That was me.”

Senator Karnes: “So, the Governor is directly involved in this process. The Secretary is directly involved in this process. Clearly people know something is happening and yet, nobody seemed to realize that the entire thing was being run, you know, out of a back room.”

Brian Abraham: “I can only speak from my personal...when I do what I do...I know if I am asked to sign for copy paper, I am going to look around first to determine if copy paper was actually delivered, before I sign for it. I know I would not put my name on a \$17M agreement that I didn’t know where it came from.”

Senator Karnes: “Right. Well, I can see that angle of it, but I am just wondering did nobody in the Governor’s Office ever ask the question? How did this thing get bid out anyway? Why are we spending this money?”

Brian Abraham: “At the point when we said, hey, we are doing an investigation on this, absolutely. Within thirty minutes of looking at it and they hung it on their websites, the contracts. So, it was out there for all the world to see. The Legislature, the Auditor, everyone could have seen that these contracts were hanging out there on RISE’s website

since they were entered into. Nobody peeled back the layer of the onion and said, hey, where is the AG in this? Where's the Purchasing Division?"

Senator Karnes: "You know, we have a process for this to make sure that we write the details into these contracts that are required by state law. I did see that there were some addendums check-marked off. Somebody sort of understood the process. That there are elements of West Virginia Law or rule that you have to incorporate into contracts."

Brian Abraham: "That test did not get met on any of these contracts. Again, the original HORNE agreement for task order 1 and 2 they got a waiver, they bid it out. I don't recall seeing where the AG signed off on it. But, it at least got bid out. It didn't have to, but they did. The remainder didn't get bid out and when they did the construction contracts, they bid them out. But, they bid them out internally, rather than going through purchasing and rather than getting the Attorney General's opinion. The only one that I think got done completely right was there was a law firm that was hired to do some compliance work. And, that got an RFP. That got bid, the AG signed off on it and said we're ok with bringing this firm in. We haven't done anything to my knowledge, really with them yet, in evaluating what they do. But, that one I did see, I think, met all the requirements."

Senator Karnes: "One of my...I guess it might be multi-part...so Jarrell was terminated from the Governor's Office perspective, but this wasn't his project? This was Mrs. Thompson's project. Why target him instead of her?"

Brian Abraham: "Again, it was the targeting because of the RISE Program. I'll emphasize that. There were two items in there that had to do with RISE. It is the signing of the contracts, that were illegal contracts, basically, as a counsel. It wasn't that he signed them, it was that as of General Counsel, there's certain legal obligations that are obviously required, and those should have been examined as an attorney. So, she wouldn't necessarily have that knowledge of procurement law and things of that nature. It's my understanding that the way Commerce is laid out, they have a Procurement Section, the DR, this CDBG, the addition of the DR people and all of that is operating. And, I will go back and if I didn't state it, I will state it now. Purchasing sent a denial, not a change order, but the original request was can we do this as a managed agreement, where we can continue to add pieces? Apparently, that got put in the drawer, or in a file or something at the Procurement Office, and never made it's way over to the staff people who were entering into these agreements. So, even though Purchasing said, you can't do this, with a big red sign that says stop. That didn't get communicated to the people that needed to know it, when they were negotiating and ultimately entering into these agreements."

Senator Karnes: "Are you aware of how it came from that they didn't think they needed to be involved in the procurement process and then suddenly they did?"

Brian Abraham: "Who's they?"

Senator Karnes: "Well, presumably, Mrs. Thompson, Mr. Jarrell, and so on, because

they were actually the ones out there who were engaged in managing this. At some point, they had this realization...I heard from her earlier saying she had no part in negotiating the contract."

Brian Abraham: "She may not have."

Senator Karnes: "In selecting people or anything? On the one hand, they inherited this whole thing sort of. I just wonder about him and I don't want to defend somebody incorrectly, but, I guess if your boss tells you to sign a piece of paper, you probably go ahead and sign the piece of paper, right? And, not necessarily your direct boss, but, if the Secretary of Commerce says on the phone, "Go ahead and sign that contract," wouldn't you sign it? If the Governor called you on his flip phone, since he's probably not here today, and said sign that contract..."

Brian Abraham: "He's here. (Inaudible)"

Senator Karnes: "But, if he called you and said, sign that, you would probably sign that wouldn't you?"

Brian Abraham: "No."

Senator Karnes: "No?"

Brian Abraham: "If I knew something to be illegal I would not."

Senator Karnes: "I mean, if you didn't know?"

Brian Abraham: "As a lawyer, I should know."

Senator Karnes: "Well, that may be true but we are all bound to the standard of obeying the law. Well, thanks. I won't ask you any more questions."

Senator Gaunch: "Junior Senator from the 8th. The last light I see."

Senator Jeffries: "Thank you, Mr. Chairman. I'll be brief. Just two questions. Do all of the Department Agencies do they have the ability to write their own contracts?"

Brian Abraham: "Do who?"

Senator Jeffries: "All the Department Agencies?"

Brian Abraham: "Again, not being a procurement expert, what I understand is that they each have some kind of procurement office within the departments that have people that are trained. And, they are the ones who actually put the details in for the RFP's, provide and load into OASIS for the Purchasing Division to review. If the Purchasing Division

thinks there is some deficiency in those requests, then they communicate back to them, and make them correct those, before they are ultimately approved by purchasing who then puts them out for bid.”

Senator Jeffries: “Is the AG’s office supposed to look over all contracts?”

Brian Abraham: “Ultimately, I don’t think before-hand, but ultimately before any contract can be entered into, the AG has to approve it, as to form. Now, there may be some particular exemptions around government for certain contracts. But, in general, it is a two-part process. Purchasing has to basically approve it, unless it meets some exemption. And then, the AG approves things as to form. Now, approves to form means that they are looking at the actual agreement. They don’t get into the weeds and decide whether you made a good deal, or a bad deal, or anything like that. They are looking at it, we’ve got two parties, we have consideration, this has been signed by everybody, that’s the kind of thing when you approve to form. They don’t tell you you did a good deal.”

Senator Jeffries: “Ok. Mr. Chairman, and I apologize, I had to walk out. This may have already been asked, and maybe Mr. Wood had answered this...but, these task orders...is task order 3-8 still?”

Brian Abraham: “No.”

Senator Jeffries: “That is gone?”

Brian Abraham: “What we consider to be the entire HORNE contract, task orders 3-8 to be void. What we have done is say, we are going to sit down, and we did, we negotiated with them. Because we did seek from Purchasing an emergency exemption for that one because our stated reason was we don’t want to shut this program down again. And, we don’t want delay. We want people to get the services that they need. Purchasing granted that emergency waiver and said ok, you can go ahead and negotiate that one. And, again, we negotiated and cut their price down from \$17M to \$9M and some change.”

Senator Jeffries: “So, that scope that was in task orders 3-8, so it’s changed significantly?”

Brian Abraham: “No. What we believe we negotiated, and again, the draft is coming and I wasn’t directly involved in the negotiations. What we believe we negotiated all of those same duties and remain in there, with the exception of...as I said, General Hoyer wanted...didn’t take HORNE out of the process...they are still involved in the case management. But, he has since decided that VOAD and HORNE will work together on the case management piece. But, the line share of all of those other duties would remain in there. The form of that agreement won’t be the same...ok if you do 50 applicants, you are going to get paid. It’s going to be here’s your duties and here’s your services and you are going to provide these and it will be much more clear. Like I said, when we first met with the HORNE people that’s what it says, but that’s not what it means. And, that’s when

I said, time-out, that's not how we do contracts here. It needs to say what it means, or else we are not going to sign anything. And, they said, well, we will re-write that and fix it. So, that's where we stand today. So, again, I think we have one coming. We think it will provide the services we need. You know, I realize that there was skepticism. Oh, they got the price down because they cut all the services away. That's not what we're doing and in addition to that, the price that we negotiated will include anything that they have billed and not been paid. So, we are not going to pay them for past work and then this is addition to this. This is an all-encompassing amount."

Senator Jeffries: "So, you see where my concerns were. I was afraid that the significant reduction in numbers in dollar amounts, that the scope would have changed."

Brian Abraham: "I wasn't involved in the negotiations, but I would chalk that up to good negotiations."

Senator Jeffries: "Ok. One other thing. Currently, the process that is going to be in place now, is far as whenever a final completion on a mobile home unit or a house. It runs through the Oasis system. Who approves that now?"

Brian Abraham: "You would have to probably...Are you talking about once it gets into the system? You are getting into their..."

Senator Jeffries: "Is that Mr. Wood?"

Brian Abraham: "One of them."

Senator Jeffries: "Ok. I just need to know. Is Commerce approving or Mr. Wood approving it?"

Brian Abraham: "Again, I need to make this very clear distinction. Commerce is still running the RISE Program."

Senator Jeffries: "That's what I wanted to know."

Brian Abraham: "So, Commerce's name is going on everything that is going on. The only thing that's happened is Jeff Wood has now been detailed to work at Commerce by General Hoyer. He's a state employee so he is authorized to be there. He is the one, if I understand from what he testified to earlier, is that as every requisition comes through for anything. He is going to personally sign and approve every one of them so that he assures that somebody has had a set of eyes on it and that nothing gets by. And, the simple fact is, as you might expect in a project this size, there has already been a couple little blips here that we've had."

Senator Jeffries: "Right."

Brian Abraham: “You send the construction quality control out and if a door is crooked, or a sewer pipe might be hanging out, you know we are not signing that until that is fixed. As he said, General Hoyer has detailed 8 people out of the engineering section, who has military authority to, we now have quality control that checks the quality control. It’s not causing a bureaucratic delay. It’s getting done in real time. And, one of the other agencies that I mentioned a second ago, as to the timing, we have the ability in the Governor’s Office to tell all of the agencies all hands on deck, you get this done. So, as far as when things historically in the past may not have been a priority here, there might have not been that urgency. We are assuring that that urgency is there every day.”

Senator Jeffries: “Thank you, Mr. Chairman.”

Senator Gaunch: “You are welcome. Senator from the 35th, Senator Nelson gets the last question.”

Delegate Nelson: “There I go again. So, anyway, thank you, Mr. Chairman.”

Senator Gaunch: “I mean, Delegate Nelson. I beg your pardon.”

Delegate Nelson: “Thanks Brian for being here and I appreciate the information. One question, and this pre-dates I guess the current administration. We came into Special Session, I guess it was the Fall of 2016 and approved \$50M in funding from the Rainy Day Fund.”

Brian Abraham: “Right.”

Delegate Nelson: “To go into the Governor’s Contingency Account. That was, I guess, meant to be the front end of any federal expenditures or monies to come. Can you update us on what has happened with those funds? And, what we should expect down the road as it relates to a potential repayment to the Rainy Day Fund? Or not?”

Brian Abraham: “I can tell you what I know about it now based upon interactions I have had and things unrelated to this particular issue obviously wasn’t here in 2016 when the money was put in. I want to say, and I thought that the number was originally put in was higher than that. But, I believe there’s about \$48M left in that account. And, the reason that I had a reason to look was that we are dealing with Nicholas County Schools and Kanawha County Schools and part of that money was put there to be the State’s match. So, as we were dealing with those two school systems and they were saying, does the State have the money, if we enter into these agreements, if we take HUD’s money or FEMA’s money are we going to have our share to put in? So, I had to go check it for that reason. We have an additional issue in one, when once those schools come on-line, and I don’t want to get too far in the weeds on this, because if I did, I’m not sure if I could get back out...but, at some point West Virginia, based upon what we obligate, what we think is going to be an obligation, we will actually obligate...we will get to a 90-10 match rather than the 25% match. So, in doing that, some of that money that is sitting there might be

available for some other things. We won't have to pledge that to that particular projects. So, that's the goal. We think with the two school systems, particularly, we're going to make that 90/10. But, I think that there has been some question in the media as to why haven't we already done that? And, where's my money? FEMA's principle is not that you think you are going to need it, but you know you got that project, you have to obligate that project and then we count that on the ledger going toward the 90/10. So, no, we haven't been burning through the money. I think that there have been things that have...before we got here...this or whatever projects...those have been done...but, I can't recall any particular or large project that we have dipped in, because we know that money is there for that reason."

Delegate Nelson: "So, you think roughly that \$40M is unencumbered right now?"

Brian Abraham: "It was when the heat of the Nicholas County issue, so it's probably been back last Fall or early part of the year. And, I want to say it was somewhere between \$45M and \$50M. So, to my knowledge, that should still be the same. I don't think that we have touched it."

Delegate Nelson: "Ok. Thank you. And, if I may, just for clarification when I was going through the numbers with Miss Thompson, I believe the initial \$104M should have been \$17M."

Brian Abraham: "Yes."

Delegate Nelson: "Because the numbers do add. Is that correct?"

Brian Abraham: "Yes. Again, we get our information from our agencies. But, we were presented with information that made us believe that the total is about \$150M. Now, again, about \$120M of that was dedicated to unmet needs and housing. There was a portion of it...about \$20M...I think...that was potential economic development. And, then the remainder, was for the administrative costs and things of that nature. So, again, we will make sure that every last person that is supposed to get something...a house, reconstruction, whatever they need, that we want them to get that. But, when that is done, we intend to go to HUD and say, we've met our unmet needs and now we want to take the balance of this money and turn it around and use it for things that builds West Virginia's...either economic development or mitigation...or raising people out of the water. We keep building back the same places all of the time, we are going to get the same results we always get. So, we want to look at either raising, diverting water, whatever we have got to do. I know that we have done some things like that in Logan County where we've widened some waterways and it's caused flooding that would have historically occurred on an annual basis to not happen anymore thanks to the Corp of Engineer projects that they have done. So, that's things we would be looking at, that we could do to use that money effectively in the future."

Delegate Nelson: "Ok, thank you. Thank you, Mr. Chairman."

Senator Gaunch: "Ok. Thank you. Last question from me. I read or heard last week that the Mayor of White Sulphur Springs said that there was \$20M spent, HUD money he said, for a barrel manufacturer or something in White Sulphur Springs. Do you have any idea? Would you have any idea?"

Brian Abraham: "I have no idea."

Senator Gaunch: "It's certainly not a part of this?"

Brian Abraham: "It's not part of this. I have no knowledge of it. I would think if that were true, the building would be started, and I think it was held up because of some kind of loan issue."

Senator Gaunch: "It was an EDA issue."

Brian Abraham: "And, so if there was this \$20M gift from HUD, I don't think that would be an issue anymore. So, on that I have no information on. But, I am not aware of any HUD project that we have available to us that would give \$20M to one particular project."

Senator Gaunch: "Mr. Abraham, thank you for taking your valuable time. You have been very helpful. Thank you to the Committee, to all our guests. Is there other business to come before the Committee?"

Senator Blair: "Yes, I would like to be recognized Mr. Chairman."

Senator Gaunch: "You are recognized. Please proceed."

Senator Blair: "Thank you. Everybody heard my little message that I gave earlier today. I am sitting in here and listening to what is going on. I'm still almost no better off than I was when I walked into this room. What I have listened to is an echo chamber of state agency either having all the answers or no answers. And, I set out here and drew a little map of people that are missing that would probably do us well, if we are going to...we can either determine here that we are done, we're satisfied, or we're not satisfied with what we heard. But, HORNE hasn't been involved in any of these conversations to come in to rebut anything that has been said. HUD is another. And, another one is the private agencies, the Catholic Charities, all of the ones that went in and put a lot of their resources in that probably seen things that was going on that we weren't aware of, as well, that may actually be able to shed light on what was taking place. Now, if we were to bring them in, I wouldn't want to do it like we did today at the podium. I would much rather have a table going across and all of them sitting there and when we ask a question, and then they are all there. Because, judging by somebody's expression when somebody else is answering a question goes a long way. Me personally, to be able to identify whether we are getting to the bottom of something or we're not. Because in this case, it hasn't worked out too well, in my opinion, today on being able to tell what's taken place. I gained no additional

information. I learned a few things, don't get me wrong. But, I still have the same feeling that I did when I came in. And, that was I believe that Commerce had the stage set to be able to make it...I don't know who was at fault on this. But, the stage was set to keep that money from going out from HUD and it was going to be used for economic development. Because all of the indicators are telling me that. Or the lack of information is telling me that. It's bothering me from that standpoint. If anything, I would just feel better about sharing that with the Committee. I'm not saying anything bad about anybody. But, I'm still frankly not satisfied on where we are at because we only have bits and pieces of information. And, again, I will call it an echo chamber. It's like watching Facebook, where everybody feeds off each other. And, there's no real information. And, the very people who may have disagreed with the folks here today aren't here to even have a voice. Thank you. I feel better."

Senator Gaunch: "Other business? Other comments? I don't see any. I look to the Delegate from the 35th for a motion to adjourn."

Delegate Nelson: "Mr. Chairman, I move that we adjourn."

Senator Gaunch: "Motion to adjourn. All in favor say aye. Opposed? The meeting is adjourned."