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State of West Virginia
Joe Manchin III
Governor

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February 11, 2009

To the Members of the 79th Legislature of the State of West Virginia:

In accordance with the Constitution of the State of West Virginia, presented herewith is the Budget Document for the fiscal year ending June 30, 2010. It details a complete plan for proposed expenditures and estimated revenue for the fiscal year. The document includes statements of the following:

- 1) Bonded Indebtedness of the State of West Virginia;
- 2) Cash and investment balances of all funds of the State of West Virginia;
- 3) Revenues for all funds of the State of West Virginia; and
- 4) Revenues, expenditures, and changes in fund balances for Fiscal Year 2010.

The budget presented is a balanced budget with a maximum spending level for the General Revenue Fund of \$3,972,100,000; for the Lottery Fund of \$166,012,000; for the State Excess Lottery Revenue Fund of \$325,818,000; and for the State Road Fund of \$1,304,706,504.

I look forward to working with the 79th Legislature of the State of West Virginia to meet the continuing challenges and opportunities so together we can move West Virginia forward in a rapidly changing international economy.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Manchin III", with a large, stylized initial "J" and a long, sweeping underline.

Joe Manchin III
Governor

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The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the State of West Virginia for its annual budget for the fiscal year beginning July 1, 2008.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

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Table of Contents

<i>Governor's Transmittal Letter</i>	<i>i</i>
<i>State Budget Staff</i>	<i>ii</i>
<i>GFOA Distinguished Budget Presentation Award</i>	<i>ii</i>
<i>Table of Contents</i>	<i>iii</i>
<i>Reader's Guide to the Executive Budget / Volume I Budget Report</i>	<i>iv</i>
<i>State of West Virginia Organizational Chart</i>	<i>v</i>

EXECUTIVE MESSAGE

Governor's Executive Message	1
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FINANCIAL STATEMENTS

Summary Financial Statements	9
Where the State Dollar Comes From	10
Where the State Dollar Goes	11
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances for	
Appropriated Funds.....	12
Cash and Investment Balances of All Funds.....	16
Detailed Investments Fund 13.....	17
General Revenue Fund/Statement of Revenues by Source.....	18
General Revenue Fund/Statement of Revenues, Expenditures and Changes in Cash Balance	19
General Revenue Fund/Overview by Functional Category.....	20
General Revenue Fund/Recommended Surplus Supplemental Appropriations.....	28
General Revenue Fund/Recommended Supplemental Appropriations	28
Major Constitutional and Statutory Requirements.....	29
Lottery Fund/Overview by Functional Category.....	30
Lottery Fund/Statement of Revenues, Expenditures, and Changes in Cash Balance	32
Excess Lottery Fund/Statement of Revenues, Expenditures, and Changes in Cash Balance	33
Excess Lottery Fund/Overview by Functional Category.....	34
State Road Fund/Statement of Revenues by Source	36
State Road Fund/Statement of Revenues, Expenditures, and Changes in Cash Liquidity.....	37
Summary of Primary Government Long-Term Debt	38

BUDGET PLANNING

Six Year Financial Plan	39
Major Reserve/Stabilization Accounts	48
Long-Range Issues	51
Transportation Economic Trends	61
Budget Overview	66
Human Resources	76

REVENUE SOURCES

Revenue Sources	87
General Revenue Fund.....	90
State Road Fund	99
West Virginia Lottery	104
Federal Funds	107
Special Revenue Funds.....	108

DEBT SUMMARY	111
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APPENDICES

Glossary	123
Glossary of Acronyms	128

Reader's Guide to the Executive Budget

Volume I Budget Report

The Executive Budget

The Governor is mandated by the West Virginia Constitution to submit the upcoming fiscal year's budget to the Legislature and the citizens of the state. The *Executive Budget* presents a complete plan of estimated revenues and proposed expenditures for the upcoming fiscal year, any recommendations the Governor may desire to make as to the important features of the budget, and any suggestions as to methods for reduction or increase of the State's revenues.

In essence, the budget document is the means by which the Governor presents a continuous and timely flow of accurate information relative to the financial condition of the State. In addition, the document features relevant information concerning the needs and operations of the various agencies and departments of the State through narrative and financial detail.

The budget is presented in three separate documents:

Volume I Budget Report contains:

"Governor's Executive Message"—major goals and objectives addressed by the budget.

"Summary Financial Statements"—an overview of available revenues, expenditures, bonded indebtedness, and fund balances.

"Budget Planning"—items such as:

- Budget overview that includes the budget process, including the budget calendar and financial policies
- The Six Year Financial Plan
- "Long-Range Issues"—an overview of how the State is addressing major long-range issues and concerns
- Schedules of budgeted, full-time equivalent permanent positions

"Revenue Sources"—A detailed explanation of major revenue sources and the distribution of funds.

"Debt Summary"—information relating to the general, special, and moral obligations of the State, including summary of general long-term debt and debt service requirements.

"Appendices"—a glossary of budgetary terms and a list of the commonly used acronyms.

Volume II Operating Detail contains narrative and financial information on all the departments, bureaus, commissions, agencies, divisions, and programs of state government. It also contains:

"Economic Forecast"—a comprehensive, up-to-date forecast and analysis of the economy as it relates to West Virginia and to the nation.

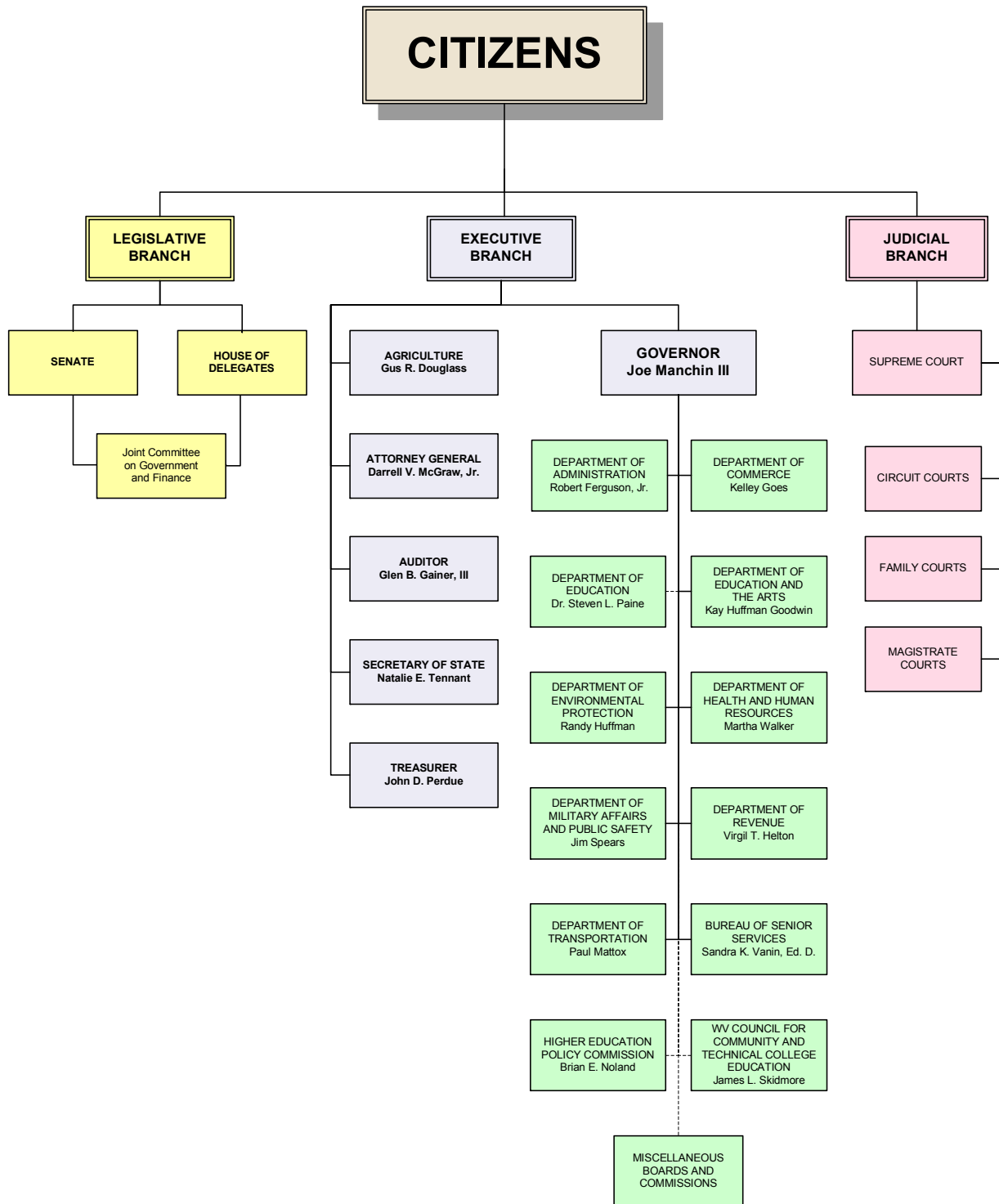
"Capital Projects"—projects/programs currently funded in FY 2009, recommended for FY 2010 (with brief descriptions), and projected for FY 2011 through FY 2014.

"Appendices"—a glossary of budgetary terms and a list of the commonly used acronyms.

- "State Profile"—a profile of West Virginia with relevant information concerning West Virginia profile, government, geography, and demographics and economics

The **Budget Bill** includes the language required to legally enact the budget or appropriations bill. Upon passage by the Legislature, the Budget Bill becomes the Budget Act and appropriates by spending unit the expenditures necessary for the economical and efficient discharge of the duties and responsibilities of the state and its agencies during the upcoming fiscal year.

State of West Virginia



Governor's Executive Message



Governor Joe Manchin III
State of West Virginia

I am truly privileged the people of West Virginia have given me the opportunity to serve for my second four-year term. I am honored and humbled by the faith they have placed in me and my administration and, most importantly, I am eager to continue our work moving this state ahead.

We must first acknowledge the rough economic times that our nation is facing—and the great challenges those times have created.

Whether you call what we're experiencing a global economic transformation or a financial meltdown, it is one of the most dramatic economic downturns since the Great Depression, and all of us—directly or indirectly—are dealing with its effects.

However, while I am certainly concerned—I am not scared.

West Virginia has faced tough times before and, because of that, we know better than most how to prepare for, and overcome, challenging times.

What Has Been Accomplished

When I first took office four years ago, the outlook for our state was bleak. We faced enormous challenges that some thought would never be overcome in their lifetimes. However, because we came together and tackled our problems head on—and committed ourselves to running a fiscally disciplined and responsible government—many of those challenges turned into opportunities.

One of the biggest challenges that we faced was our state's crippling debt. I've often said that unmanaged debt will make a coward of us all when it comes to making decisions and taking action to move forward. I'm so proud to report that our commitment to paying down our pension debt and unfunded liabilities during the past four years has saved West Virginians more than \$2.5 billion.

If we had not been proactive and put additional appropriations toward teachers' retirement debt in particular, we would have been looking at an astronomical debt that would have put us in a financial hole today. This is why our work to pay down our debt is so important.

Governor's Executive Message

We have also had record state revenue collections, and for three years in a row, we ended our fiscal year with a budget surplus. We did this while also cutting taxes for families and businesses and providing well-deserved pay increases four years in a row for our teachers and our state employees, totaling more than \$300 million since 2005. This is the largest financial commitment to salary increases during a four-year term in the history of our state. In addition, as part of their standard incremental pay package, each West Virginia teacher with between one and 35 years of service will have their salary automatically increased this year as well, by a minimum of \$587.

We've made our tax cuts responsibly, by gradually stepping down the percentages so that our budget wasn't upended, while still returning money to our taxpayers. We lowered the corporate net income tax, and are phasing out the business franchise tax.

West Virginia households are also seeing the direct results of our efforts. We've cut the food tax in half, saving West Virginia families \$75 million through our tax modernization efforts, and we eliminated the "Welcome to West Virginia" state privilege tax on automobiles. With assistance from the Attorney General's Office, we also provided tax-free shopping on energy efficient appliances and home goods, a program that will be expanded this year.

Last July, we opened workers' compensation insurance to multiple providers, enabling West Virginia's businesses to shop around for the insurance coverage that best suits their needs.

Since 2005, more than 200 companies have located or expanded here and, together, they have invested \$8.6 billion in the Mountain State.

We're also shipping more West Virginia-made products around the globe than ever before. For the first half of 2008, West Virginia exports grew 43 percent, outpacing the national rate of 18 percent, and our exports are expected to be about \$5 billion for 2008, nearly \$1 billion more than in 2007.

Instead of increasing the size of state government and hastily spending the budget surpluses of the last few years, we instead used that extra money as a responsible household would: We continued to pay down our debt and safely put the majority of the rest in our Rainy Day savings account.

We are no longer playing from behind all the time. We have truly built the foundation for a "new" West Virginia. Today, our simple, yet demanding, strategy of the last few years is paying off. And people are taking notice.

For example, the Cato Institute called our spending practices "excellent," and we were one of only three states to earn an "A" on the Institute's review of fiscal policies, saying we have enacted probably the most pro-growth tax reforms of any state.

West Virginia led the nation in economic growth last summer, and in September, we experienced the lowest unemployment rate ever recorded for our state.

As a result of our hard work these last four years, I sincerely believe that we are better prepared to deal with this financial storm than almost any other state.

But let me make this clear—tougher times are ahead. While we are in better financial shape than our neighbors, West Virginia is not immune to the effects of a struggling national economy. Many of our citizens are understandably concerned about their jobs and about their families' future.

We must be more diligent now than ever before. The hard work is not over. It has just begun.

Responsible Government

When I became Governor in 2005, I wanted to know what the budget projections were for our state beyond just the current year. We needed to know how to better plan for our future. Never before had a Governor's administration looked as far in advance, and provided that information to our legislators. Since then, working with our budget team, we have provided five-year budget forecasts, allowing us to avoid surprises.

And, while I know that we will be facing more challenging times in the coming months and years, I have no plans during this coming budget year to cut essential government services. I also have no plans to expand the size of state government or to add unnecessarily to our budget. We've been very disciplined, and if you didn't see waste or expansion in the last four years, you certainly are not going to see it now. Under my watch, we will not write checks that our children can't cash.

This is why I am not including any salary increases in our budget at this time. I will, however, be asking for the ability to share any additional monies that we may have with our teachers and state employees, should financial conditions improve and we can safely afford to do so.

Unlike many states, we are in a planning mode—not a panic mode. But if we do not follow through on the continued responsible spending plan that I am submitting to you, we will not be able to manage our balanced budget without extreme cuts.

We must follow this financial plan if we are to continue to operate state government in the way that our citizens expect and deserve.

Energy Leadership

One of the world's most pressing issues is meeting the growing demand for energy. Our nation needs West Virginia's energy resources to climb out of this recession and I believe the opportunity for us to take the world stage in new energy development is now. Companies from around the globe are prepared to invest in West Virginia to make this kind of development a reality.

We will be a leader in renewable resources, so we must commit to investing in the energy sources of the future. Throughout our history, our state has powered this nation. West Virginians know energy better than anyone. We must build upon our past successes and uncover even more efficient and cleaner energy sources. This means not just coal, but natural gas, and renewable resources, including wind, solar, hydro and biofuels.

Our proposed Alternative Energy Portfolio Act will put West Virginia at the forefront of new energy development. It sets a realistic timeframe for us to develop alternative energy resources in our state.

This act encourages the development of more efficient, lower-emitting, and reasonably priced alternative and renewable energy resources. We have the natural resources to support the development of alternative energy facilities at a reasonable price. Our state would benefit not only from cleaner energy sources, but also from the jobs created through the development of these facilities.

Electricity doesn't always come from the power plant. Today we have the technology to generate electricity at our own homes and businesses, but there has been little incentive to invest in this technology if there is no way to get credit for the power you return to the electric grid.

Governor's Executive Message

We will require our electric utilities to provide net metering to residential or small business customers who generate their own electricity. Our bill requires the Public Service Commission to expand the energy sources available for net metering to include solar, wind, biomass, hydropower, waste heat recovery and even landfill gas. It is another step toward expanding our state's energy portfolio.

We must also continue to keep in perspective the energy resources and technology we are using now. We are on the verge of discovering cleaner, greener ways to use coal. We can continue to be a low-cost producer of energy if we believe in ourselves and embrace our energy expertise.

By broadening our definition of energy beyond just fossil fuels, we position ourselves to continue producing the nation's energy by any and all other means.

There's been a lot of debate about clean coal technology. Whether you agree or disagree with the concept, one thing is for certain: We can improve the way we use coal and reduce the carbon that we release into the atmosphere.

One new technology that has promise is carbon capturing. West Virginia can be at the forefront of this experimental method of capturing the carbon dioxide that comes from burning fossil fuels by finding ways to add value to this waste stream.

Energy independence must move from talk to action, and these proposals do that. These are all first steps—they open the door to the future of new energy development in the Mountain State.

Workplace Safety

We must also continue our mine safety efforts. We now have more than 40,000 new Self-Contained Self-Rescuers in our underground mines. About 225 emergency mine shelters are in place and more on the way—we hope to have the rest in place by the second quarter of this year.

We are working with innovative companies and technology experts, including many within our own state, to implement advanced communication and tracking systems, so we never face the situation we did at Sago and Aracoma, not knowing where our trapped miners were located and putting our rescuers in danger.

And, we continue to be vigilant in inspecting our mines to ensure they meet our more stringent safety standards. We have added more inspectors and safety instructors and we also increased our mine inspector salaries so we can retain qualified staff.

We've required foremen and fire bosses to undergo additional training and made it easier to shut down problem mines. We will continue to face challenges in this demanding industry, but let me assure you—our mission is still to protect every miner so that he or she will return home safely to their families.

While our work to make our mines safer continues, we must also carry those lessons to the rest of our manufacturing industries, to help make all our industrial workplaces safer.

I am submitting a bill that will require all industrial plants within our state to follow the same reporting guidelines for major accidents as our mine operators. The bill also will require industrial facilities to provide access to emergency response officials and will establish a system of communications so our emergency responders will have the important information they need to ensure public health and safety.

Education

None of our work can be done unless we have an educated workforce.

We're in a different world than we were 50, 20, or even 10 years ago. We are competing for jobs and companies not just with other states, but with countries around the world. As a nation, we are in danger of falling far behind the countries that just a few years ago looked to our education systems as their model.

We must do a better job of educating our children, starting from the ground up—from preschool through college. We've got to change. We have to open our eyes and our minds and look at what is happening in developing countries around the world as well.

We have great professional educators who teach not because it is their job but because it is their passion. Someone once said that to teach is to learn twice. I firmly believe that and know that to be an effective educator, you have to have a passion for what you're teaching so that the children you influence are inspired and share in that passion.

Good teachers are the heart of a quality education. But we must give our teachers and school systems the resources, the curriculum and the freedom to try innovative approaches to 21st century education.

Every school community has unique needs and the people who know how best to meet those needs are not always in Charleston. That's why I've joined the State Department of Education in formulating a bill that will give our schools the flexibility they need to meet the needs of diverse learners. The School Innovation Zones Bill will provide teachers, principals and school communities with greater control over critical education factors that affect student achievement.

This bill will allow school staff to work together to implement school improvement strategies that currently are restrained by State Board of Education policies or antiquated state law.

In addition to being innovative and creative, we also need to re-focus on some basic principles of learning. For dozens of years we have evaluated our children's educational competency at critical grade levels through statewide testing. The data is helpful, but we should use that information to keep our children from being prematurely promoted to the next grade level.

Therefore, in cooperation with the Department of Education, I am proposing that if our children do not meet the educational standards we set at their third grade and eighth grade levels, two of the most critical periods in their educational development, then they can continue through summer or after-school programs until they meet those educational standards. This bill also engages the most critical factor in the learning process—the parents.

A structured statewide program is needed to provide the extra help and time many students need to master the rigorous content and 21st century skills needed for future success in the global economy. Specifically, targeted resources are needed to provide identified students with focused, engaging, technology-based support programs which may be offered not only during the summer months, but also during the school day and after school. These carefully developed support programs will help our children learn the math and language skills they need to succeed at the next grade level.

We can no longer allow children who do not have the critical skill sets they require to advance to the next level. It is unfair to their parents, it is unfair to their classmates and, most of all, it is unfair to them.

Governor's Executive Message

We also have a tremendous workforce resource in our veterans. Those who have served our country have more than earned the right to further their education once they return to civilian life. It's not just the responsible thing to do—it's the right thing to do to move West Virginia ahead. In addition to the skills and knowledge they gain in the armed forces, our service men and service women can build the quality of our workforce by attaining college degrees.

Time and again, we have discussed ways to add strength and depth to the teaching ranks in West Virginia. With the Troops to Teachers program, West Virginia has seized an excellent opportunity to provide our best and brightest veterans who have given of themselves by serving our country the chance to add value to our classrooms.

Veterans are excellent role models because they bring leadership and experience, and I am confident they will help us meet the challenge of educating our young people.

I also want to make sure our nation's veterans know that they are welcome at West Virginia's colleges and universities. West Virginia has a long history of valuing and encouraging its citizens who have served in our Armed Forces, whether in our National Guard units . . . in Reserve components . . . or in our nation's regular military services. Now we have an opportunity to extend our appreciation to all of our country's veterans and, at the same time, to attract them to come to West Virginia to learn, to work, and to live.

Last year, Congress enacted what's known as the "New GI Bill." It pays veterans' college tuition, up to the state's highest public in-state undergraduate tuition rate. However, veterans' actual tuition and fees may exceed that amount if they are attending as "nonresident" students. Therefore, a provision of the new GI Bill, the "Yellow Ribbon Program," allows colleges and universities to fund up to 50% of the difference between the maximum the federal government may pay and the actual cost of tuition and fees, with the federal government matching the amount waived.

I am proposing legislation that will require each of our public colleges and universities to participate with the federal government in the "Yellow Ribbon Program" for undergraduate students. Schools would be free to participate for graduate and professional students as well, if they choose.

We have an obligation to say "Thank You" to our military veterans. This is one way we can do that.

Health Care

They say that one of the ways you can judge the true progress of a society is by the way it treats its children—who also happen to be our future workers.

Beginning on January 1 of this year, the West Virginia Children's Health Insurance Program expanded its coverage to more children by increasing the upper income limit from 220 percent to 250 percent of the federal poverty level. This change is helping to close the gap between low-income families who have access to free or reduced-cost health care for their children and the families who have health care insurance through their employers or who can afford it on their own. The bottom line is that we will continue working to insure and protect every child in our state.

We've recognized the growing problem of childhood obesity and now require our kids to take physical education classes at school and the schools must also provide healthful food choices in their vending machines. Our efforts to increase awareness of the dangers of obesity and encourage healthy lifestyles for our children are paying off.

Our workforce may be the best in the nation, but we cannot continue to compete if we are not well. We have to have a healthy workforce if we expect to build a healthy economy. So we must today pledge to continue our efforts to make West Virginians healthier.

Governor's Executive Message

We need to start by embracing advances in health care technology, including electronic health records and telehealth applications. West Virginia will continue to be a leader in using information technology to transform our health system.

We are also going to increase our efforts to detect and prosecute medical fraud, beyond just insurance to all other forms of health care coverage.

In addition, I also strongly believe that we have a responsibility to provide more access to affordable health care for all working West Virginians.

Tens of thousands of West Virginians go to work each day to provide for their families, yet they cannot afford to go to the doctor for regular checkups because they have no health insurance. This must change. We must provide more options to our citizens—especially in this time of economic hardship for so many workers and their families.

I have asked our insurance commissioner to work with insurance carriers to establish new, affordable, benefit packages to increase the availability of coverage options for those unable to afford the products currently available in the insurance market.

In addition, I want to take a truly meaningful step towards insuring the poorest of our working West Virginians—those who are trying hard every day to make a better life for themselves but who just haven't been able to make enough money to even think about paying for health care and who often wait until they're critically ill before seeking medical treatment. They then end up in emergency rooms and hospitals, adding to the unmanaged care bills that increase everyone's health care expenses in the long run.

Legal Reform

There is one other significant area that must be addressed if we are to truly show that we're willing to tackle West Virginia's perceived challenges—legal reform.

Last year, we learned of a loophole in the state pension program that legally allows certain retirees to resign and begin receiving their public pension, and then subsequently return to the office they had vacated.

We need to close that loophole so that this type of double-dipping is no longer an option. We want to ensure that no retiring public official can be re-elected or reappointed to the same position within a year of his or her retirement.

We are also asking our lawmakers to toughen our spending disclosure requirements when it comes to judicial campaigns. Our bill requires filing of a disclosure statement that shows judicial campaign contributions of attorneys or law firms to the candidate committee of a presiding judge or justice.

Let Us Work Together

Four years ago, we set out on a mission to change the mindset about West Virginia. We first had to start from within and tackle our own naysayers. I think we've made a lot of believers out of those who before said that the only opportunity they could see in West Virginia was on the highway out of our state.

We've also faced incredible challenges and have worked together to turn them into opportunities. That is the true Mountaineer Spirit.

We now know that we can perform—time and again we have proven that to be true. I promise you that the results will continue to be as rewarding as they have been the last four years if we keep focused.

Governor's Executive Message

So that is my challenge to all of you. Let's keep focused and stay disciplined. The job will not be easy, but we can do it.

Together we will grow West Virginia's economy and create more jobs. Together we will make West Virginia healthier. Together we will open the doors of higher education to more West Virginians.

Together we will teach our children the job skills they need to compete. Together we will lead the nation in the march toward energy independence and finding alternative energy sources. Together, we will improve the way we mine and use our most valuable natural resources.

Together we will make our workplaces safer. Together we will advance West Virginia's image around the world and bring our people back home. And, together we will take even better care of our children, our seniors and our veterans.

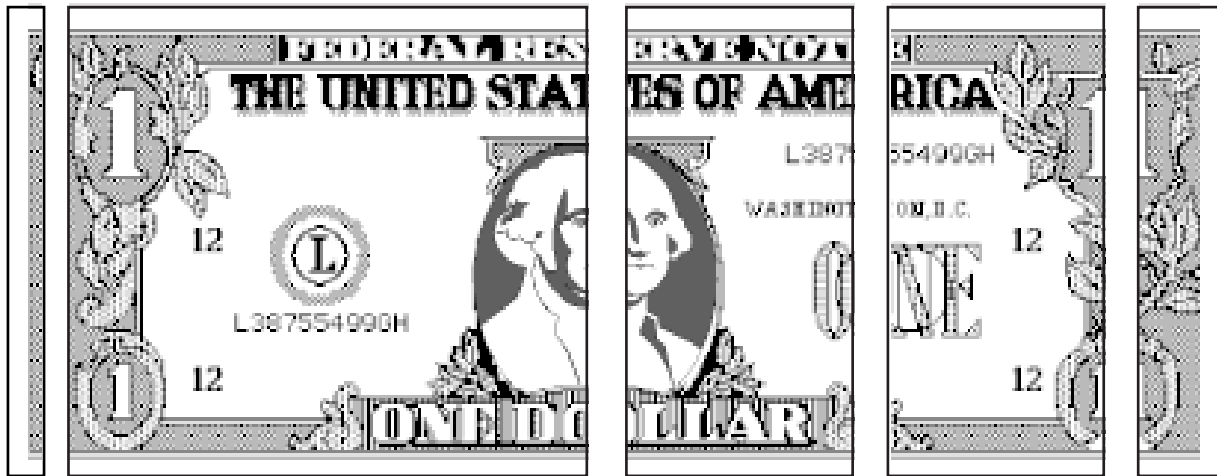
Together, we will continue to build a new West Virginia. And our Mountaineer Spirit will shine brighter than ever!

Thank you.

Summary Financial Statements

The following pages contain general summary financial information and statements related to all funds of the State. Statements included are:

- Summary of Total FY 2010 Budget — All Funds (Where the State Dollar Comes From and Where the State Dollar Goes)
- Combined Statement of Revenues, Expenditures, and Changes in Fund Balances for Appropriated Funds (narrative and statement)
- Cash and Investment Balances of All Funds Fiscal Year Ending June 30, 2008
- Detailed Investments Fund 13 (Special Revenue) Fiscal Year Ending June 30, 2008
- General Revenue Fund — Statement of Revenues by Source FY 2006 through FY 2012
- General Revenue Fund — Statement of Revenues, Expenditures, and Changes in Cash Balance
- General Revenue Fund — Overview by Functional Category FY 2008 through FY 2010
- General Revenue Fund — Recommended Surplus Supplemental Appropriations FY 2009
- General Revenue Fund — Recommended Supplemental Appropriations FY 2009
- Major Constitutional and Statutory Requirements FY 2010
- Lottery Fund — Overview by Functional Category FY 2008 through FY 2010
- Lottery Fund — Statement of Revenues, Expenditures, and Changes in Cash Balance
- Excess Lottery Fund — Statement of Revenues, Expenditures, and Changes in Cash Balance
- Excess Lottery Fund — Overview by Functional Category FY 2008 through FY 2010
- State Road Fund — Statement of Revenues by Source FY 2006 through FY 2012
- State Road Fund — Statement of Revenues, Expenditures and Changes in Cash Balance
- Summary of Primary Government Long Term Debt Outstanding as of June 30, 2008



**Lottery
Funds**
2.6%

**Special
Revenue
Funds**
50.2%

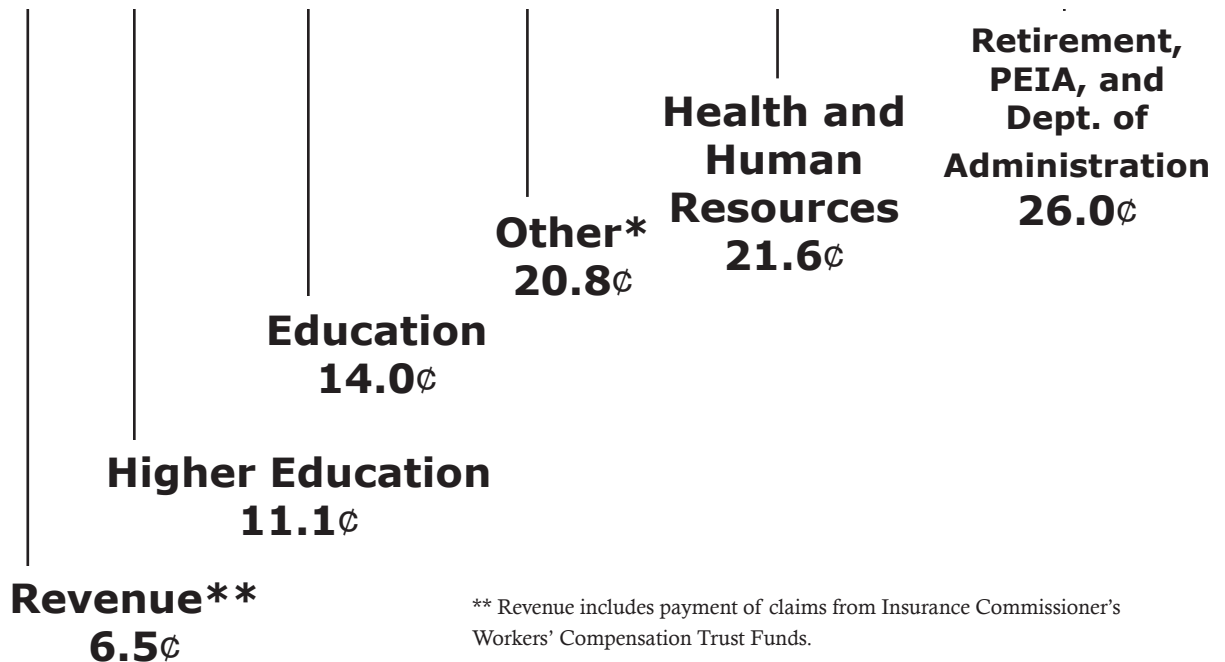
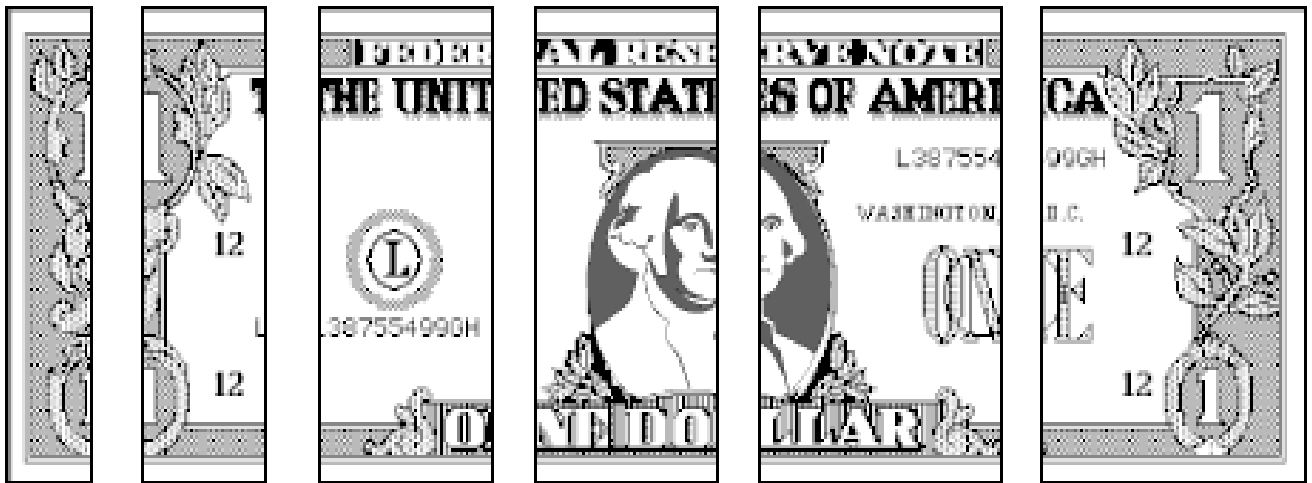
**General
Revenue
Funds**
20.9%

**Federal
Funds**
19.5%

**State
Road
Funds**
6.8%

TOTAL REVENUE
\$19.0 Billion

Where The State Dollar Comes From (FY 2010 Estimate)



** Revenue includes payment of claims from Insurance Commissioner's Workers' Compensation Trust Funds.

*Other	20.8¢	
Legislature	0.3¢	
Judicial	0.7¢	
Executive	1.4¢	
Commerce	1.7¢	
Education & the Arts	0.7¢	
Environment	2.0¢	
Military Affairs & Public Safety	4.0¢	
Transportation	8.1¢	
Senior Services	0.5¢	
Misc. Boards & Commissions	1.4¢	

TOTAL EXPENDITURES
\$17.6 Billion

Where The State Dollar Goes (Governor's Recommended FY 2010 Budget)

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances for Appropriated Funds

The following two pages reflect actual, budgeted, and recommended revenues and expenditures for FY 2008, 2009, and 2010, respectively, for all funds that are specifically appropriated by the Legislature and included in the Budget Act. The revenues are listed by source of funds, and the disbursements are listed at the department/bureau level. See the “Revenue Sources” chapter for a more detailed explanation of each source of funds.

All revenues (actual, budgeted, and recommended) reflect the revenues actually collected or estimated to be collected from July 1 to June 30 of each fiscal year. All expenditures (actual, budgeted, and recommended) reflect the disbursements actually made or estimated to be made during the fiscal year. For appropriations that expire at the end of the fiscal year, expenditures would be included through July 31 (13th month/31 day closeout period). For appropriations that are reappropriated to the next ensuing fiscal year, expenditures are included through June 30—there is no 13th month/31 day closeout period. Any unexpended amounts remaining in nonexpiring appropriations are carried forward to the next fiscal year as of July 1.

Each fund on the following two pages is made up of multiple accounts containing anywhere from approximately 25 individual appropriations for the State Road Fund to over 1,500 individual appropriations for the Special Revenue Fund.

The General Revenue Fund and the State Road Fund are true financial funds and must maintain positive fund balances in the respective “bottom lines” in order to process payments for obligations when due. State law requires sufficient funds to be available, both in the individual appropriation and the total fund, before payments may be released. Therefore, the total fund “cash flow” is carefully monitored to ensure funds are available as required.

The Federal Fund and the Special Revenue Fund are comprised of hundreds of individual, stand alone, self-supporting, self-balancing accounts. Each account is part of a larger fund for financial reporting purposes only. Each account must have sufficient funds and an appropriation balance available to pay obligations of that specific account when due and may not expend any funds from the “bottom line” of the total fund.

As mentioned above, state law requires funds to be available prior to releasing payments; however, none of the funds are required to maintain a minimum balance. All funds and accounts are closely monitored to ensure adequate cash is available to pay obligations when due.

FY 2008 Actuals are the total actual revenues and expenditures for all appropriated funds including expenditures from regular, supplemental, surplus appropriations, and reappropriated amounts.

The FY 2009 Budgeted revenue estimate for the General Revenue Fund and State Road Fund reflects the Governor’s official revenue estimate as submitted to the Legislature on January 9, 2008. The Governor provides the official revenue estimates for the budget and those estimates do not require legislative approval.

FY 2009 Budgeted expenditures reflect the amounts budgeted prior to the beginning of the 2009 Legislative session and include amounts which have been reappropriated from prior year unexpended appropriations.

Why Budgeted Expenditures Appear Significantly Different from Actual and Recommended Expenditures

While the Actuals may have included reappropriated expenditures along with current year appropriations spent during the fiscal year, the Recommended expenditures do not reflect any anticipated reappropriations being available during FY 2010. Although the FY 2009 Budgeted amounts are available to spend during the fiscal

*Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances for Appropriated Funds*

year, the likelihood of expending the entire amount is extremely remote. Generally, a significant amount of the authorized expenditures remains unspent at the end of each fiscal year and is reappropriated to the next ensuing fiscal year. Although the unexpended/reappropriated amounts cannot be determined in advance of the close of the fiscal year, the actual expenditures for FY 2009 will be less than the total authorized budgeted amounts.

For General Revenue and Special Revenue funds, the prior year reappropriated amounts are significant. The General Revenue Fund budgeted FY 2009 expenditures include \$409.6 million and the Appropriated Special Revenue funds include \$257.0 million in reappropriated amounts.

Because these reappropriated funds are included in the FY 2009 Budgeted expenditures, it may appear that these Budgeted expenditures are not in line with the actual FY 2008 expenditures or the FY 2010 recommendations.

FY 2010 Recommendations are the amounts that the Governor is proposing to the Legislature for appropriation. As discussed above, the recommendations do not include any amounts that will ultimately be available for expenditure as a reappropriated or surplus expenditure.

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances for Appropriated Funds (Expressed in Thousands)

	General Fund			Appropriated Federal Fund		
	Actuals FY 2008	Budgeted FY 2009	Recommended FY 2010	Actuals FY 2008	Budgeted FY 2009	Recommended FY 2010
Beginning Fund Balance	\$393,846	\$444,876	\$21,505	\$30,628	\$32,813	\$29,467
Transfer to Rainy Day Fund	(53,363)	(17,639)	-	-	-	-
Transfer from Rainy Day Fund	-	-	-	-	-	-
Transfer from Special Revenue	-	-	-	-	-	-
Prior Year Refunds/Redeposits	414	157	-	-	-	-
Revenues						
Taxes						
Consumer Sales	991,994	1,180,983	1,155,000	-	-	-
Personal Income	1,518,746	1,489,900	1,560,000	-	-	-
Business and Occupation	150,822	149,700	136,500	-	-	-
Severance	338,176	335,000	415,000	-	-	-
Corporation Net Income and						
Business Franchise Tax	388,017	301,100	243,300	-	-	-
Highway Litter Control	-	-	-	-	-	-
Gasoline and Motor Fuel	-	-	-	-	-	-
Automobile Privilege	-	-	-	-	-	-
Other	374,106	252,400	275,650	-	-	-
Intergovernmental	-	-	-	2,638,745	3,491,213	3,606,993
Licenses, Permits & Fees	11,952	11,450	9,650	-	-	-
Departmental Collections	16,219	16,300	14,100	-	-	-
Interest Income	52,713	28,000	25,000	-	-	-
Other	85,543	137,900	137,900	-	-	-
Industrial Access Road Transfer	-	-	-	-	-	-
Total Revenues	3,928,288	3,902,733	3,972,100	2,638,745	3,491,213	3,606,993
Expenditures						
Legislature	24,050	118,310	41,646	255	1,315	1,315
Judicial	100,910	124,922	119,964	812	1,500	1,500
Executive	48,253	89,884	51,858	29,474	44,272	44,196
Administration	140,892	138,405	68,030	35,581	38,030	38,030
Commerce	56,836	116,513	70,086	52,940	84,152	94,046
Education	1,802,962	1,841,637	1,891,946	319,542	464,651	473,050
Education and the Arts	32,183	49,731	34,857	37,232	60,165	59,965
Environment	7,528	8,369	8,523	40,205	139,010	153,477
Health and Human Resources	844,724	916,489	871,859	2,029,813	2,394,965	2,489,912
Military Affairs & Public Safety	285,448	394,826	345,056	54,676	214,389	196,139
Revenue **	74,426	52,358	33,220	-	200	210
Transportation	6,635	14,379	7,779	21,594	34,645	42,345
Senior Services	-	500	-	13,030	14,515	14,515
Higher Education	399,462	442,299	426,971	-	-	-
Misc. Boards & Commissions	-	-	-	1,406	2,750	2,754
Total Expenditures	3,824,309	4,308,622	3,971,795	2,636,560	3,494,559	3,611,454
Ending Fund Balance	\$ 444,876	\$ 21,505	\$ 21,810	\$ 32,813	\$ 29,467	\$ 25,006

* Appropriated Special Revenue Funds include Lottery and Excess Lottery Funds.

** Expenditures for the Department of Revenue include appropriated special revenue funds for "Old Fund" Workers' Compensation.

For a total summary of all revenues and expenditures including nonappropriated funds, see

"Where The State Dollar Comes From" and "Where The State Dollar Goes" in this section.

State Road Fund			Appropriated Special Revenue Fund *			Total All Appropriated Funds		
Actuals FY 2008	Budgeted FY 2009	Recommended FY 2010	Actuals FY 2008	Budgeted FY 2009	Recommended FY 2010	Actuals FY 2008	Budgeted FY 2009	Recommended FY 2010
\$165,480	\$208,822	\$93,247	\$1,294,715	\$1,486,427	\$948,775	\$1,884,669	\$2,172,938	\$1,092,994
-	-	-	-	-	-	(53,363)	(17,639)	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	414	157	-
-	-	-	-	-	-	991,994	1,180,983	1,155,000
-	-	-	-	-	-	1,518,746	1,489,900	1,560,000
-	-	-	-	-	-	150,822	149,700	136,500
-	-	-	-	-	-	338,176	335,000	415,000
-	-	-	-	-	-	388,017	301,100	243,300
1,878	1,699	1,691	-	-	-	1,878	1,699	1,691
404,223	380,000	380,000	-	-	-	404,223	380,000	380,000
169,463	166,413	160,550	-	-	-	169,463	166,413	160,550
38,428	36,360	37,208	-	-	-	412,534	288,760	312,858
357,153	529,662	638,850	-	-	-	2,995,898	4,020,875	4,245,843
86,396	90,003	89,407	-	-	-	98,348	101,453	99,057
-	-	-	1,594,779	1,601,979	1,910,237	1,610,998	1,618,279	1,924,337
-	-	-	-	-	-	52,713	28,000	25,000
-	-	-	-	-	-	85,543	137,900	137,900
(3,352)	(3,000)	(3,000)	-	-	-	(3,352)	(3,000)	(3,000)
1,054,189	1,201,137	1,304,706	1,594,779	1,601,979	1,910,237	9,216,001	10,197,062	10,794,036
-	-	-	2,728	34,476	4,135	27,033	154,101	47,096
-	-	-	-	-	1,000	101,722	126,422	122,464
-	-	-	20,117	29,494	28,765	97,844	163,650	124,819
-	-	-	94,262	131,205	113,192	270,735	307,640	219,252
-	-	-	54,467	103,058	43,873	164,243	303,723	208,005
-	-	-	71,897	99,598	90,731	2,194,401	2,405,886	2,455,727
-	-	-	22,389	26,405	21,100	91,804	136,301	115,922
-	-	-	37,436	58,746	59,939	85,169	206,125	221,939
-	-	-	341,357	385,898	350,605	3,215,894	3,697,352	3,712,376
-	-	-	21,532	46,196	30,129	361,656	655,411	571,324
-	-	-	432,201	902,716	893,836	506,627	955,274	927,266
1,010,847	1,316,712	1,302,457	6,607	9,900	10,006	1,045,683	1,375,636	1,362,587
-	-	-	60,766	68,864	66,070	73,796	83,879	80,585
-	-	-	152,216	156,930	103,459	551,678	599,229	530,430
-	-	-	85,092	86,145	85,971	86,498	88,895	88,725
1,010,847	1,316,712	1,302,457	1,403,067	2,139,631	1,902,811	8,874,783	11,259,524	10,788,517
\$ 208,822	\$ 93,247	\$ 95,496	\$ 1,486,427	\$ 948,775	\$ 956,201	\$ 2,172,938	\$ 1,092,994	\$ 1,098,513

Cash and Investment Balances of All Funds

Fiscal Year Ending June 30, 2008

(Nearest Dollar)

	Fund No.	Cash Balance	Investments	Total Balance
General Revenue Fund	01	\$550,403,269	\$0	\$550,403,269
State Road Fund	02	8,662,795	221,923,317	230,586,112
Natural Resources Fund	03	5,434,495	53,548,016	58,982,511
Consolidated Pool and Investments	09	(1,608,939,861)	1,911,602,551	302,662,690
Consolidated Federal Funds (Special Revenue)	12	23,571,834	3,903,043	27,474,877
Special Revenue Funds (Departments and Institutions)	13	1,531,031,667	3,719,829,783 ¹	5,250,861,450
Special Revenue Funds (Higher Education)	14	27,680,089	244,364,472	272,044,561
Human Services Fund	16	43,840,088	85,274,520	129,114,608
Public Employees' Retirement System	17	183,010	4,109,175,353	4,109,358,363
Teachers' Retirement System	18	7,185,200	3,531,064,342	3,538,249,542
West Virginia University - Medical School Fund	20	48,222	5,946,800	5,995,022
Total		\$589,100,808	\$13,886,632,196	\$14,475,733,004

1) See next page for detail.

Detailed Investments Fund 13

Fiscal Year Ending June 30, 2008

(Nearest Dollar)

Attorney General	\$620,217
Auditor's Office	6,633,456
Board of Risk and Insurance Management	144,190,135
Building Commission	11,418,448
Court of Claims	5,739,173
Consolidated Public Retirement Board	721,383,464
Criminal Justice	511,150
Culture and History	1,888,759
Department of Administration	275,167,212
Department of Education	9,452,474
Higher Education Policy Commission	56,036,381
Department of Education and the Arts	1,107,235
Department of Revenue	513,258,578
Department of Transportation	4,751,759
Development Office	0
Division of Human Services	2,767,428
Division of Labor	6,295,159
Division of Natural Resources	4,282,666
Environmental Protection	213,245,577
Governor's Office	0
Insurance Commissioner	940,702,169
Lottery Commission	192,163,573
Municipal Bond Commission	177,592,751
Public Employees Insurance Agency	180,320,559
Regional Jail Authority	39,965,096
State Police	39,134,142
State Rail Authority	2,697,258
Treasurer's Office	113,255,175
Water Development Authority	17,073,918
Secretary of State	591,238
Economic Development Authority	37,584,636
Total Detail Fund 13	<u>\$3,719,829,783</u>

General Revenue Fund

Statement of Revenues by Source

FY 2006 Through FY 2012

(Expressed in Thousands)

Source of Revenue	FY 2006 Actual Collections	FY 2007 Actual Collections	FY 2008 Actual Collections	FY 2009 Official Estimate	FY 2010 Estimate	FY 2011 Estimate	FY 2012 Estimate
Business and Occupation Tax	\$185,457	\$180,748	\$150,822	\$149,700	\$136,500	\$135,000	\$135,500
Consumers Sales Tax	1,012,451	1,002,596	991,994	1,180,983	1,155,000	1,185,000	1,227,000
Personal Income Tax	1,297,720	1,360,511	1,518,746	1,489,900	1,560,000	1,637,000	1,739,000
Liquor Profit Transfers	11,509	13,211	15,211	14,500	16,000	16,400	16,800
Racing Fees	1,089	1,118	993	1,100	1,000	1,000	1,000
Beer Tax and Licenses	8,548	8,434	8,666	8,650	8,650	8,700	8,730
Cigarette Tax	107,118	106,570	109,152	107,000	108,500	106,000	105,500
Estate Tax	592	199	46	0	0	0	0
Business Franchise Fees	1,819	1,291	2,292	1,700	1,800	1,700	250
Charter Tax	5,361	6,918	3,951	100	0	0	0
Use Tax	113,315	126,935	117,828	0	0	0	0
Property Transfer Tax	13,658	12,249	11,699	13,000	10,300	10,000	12,000
Property Tax	4,591	4,794	5,350	5,300	5,800	5,900	6,100
Insurance Tax	95,655	97,576	103,196	104,500	108,000	110,000	111,700
Departmental Collections	13,834	14,702	16,220	16,300	14,100	14,500	15,000
Corporate Income/Business Franchise Tax	347,570	358,388	388,017	301,100	243,300	264,100	266,100
Miscellaneous Transfers	685	2,817	643	1,600	700	700	700
Interest Income	34,411	52,837	52,713	28,000	25,000	44,000	53,000
Severance Tax	314,727	312,246	338,177	335,000	415,000	419,000	420,000
Telecommunication Tax	(430)	(380)	303	0	0	0	0
Miscellaneous Receipts	4,048	1,155	1,209	1,000	1,250	1,250	1,250
Smokeless Tobacco Tax	4,909	4,823	5,517	5,400	6,000	6,200	6,400
HB102 - Lottery Transfers	77,900	77,900	77,900	127,900	127,900	127,900	127,900
Video Lottery Transfers	830	1,091	318	0	0	0	0
Liquor License Renewal	0	0	0	0	17,300	3,000	1,400
Special Revenue Transfer	0	0	0	0	0	0	0
JOBS/Growth Tax Relief - Transfer	0	0	0	0	0	0	0
Senior Citizen Tax Credit Reimbursement	4,036	3,992	7,325	10,000	10,000	10,000	10,000
Total	\$3,661,403	\$3,752,721	\$3,928,288	\$3,902,733	\$3,972,100	\$4,107,350	\$4,265,330

General Revenue Fund

Statement of Revenues, Expenditures, and Changes in Cash Balance

(Nearest Dollar)

	Actual Cash Balance July 1, 2008	\$550,403,269	
Less:	31 Day Disbursements (July 1, 2008 - July 31, 2008)	(105,527,291)	
	Accumulated Prior Year Reimbursements (July 1, 2008 - July 31, 2008)	27,820	
	Prior Year Appropriations Forwarded	<u>(409,626,269)</u>	
	Accumulated Surplus from FY 2008 @ July 31, 2008	35,277,529	
Less:	Transfer one-half to Revenue Shortfall Reserve Fund (Statutory)	(17,638,764)	
Plus:	Accumulated Prior Year Reimbursements (August 1, 2008 - January 31, 2009)	136,321	
Less:	Recommended Surplus Supplemental Appropriations (2009 Regular Session)	<u>(17,688,295)</u>	
	Estimated Unappropriated Surplus Balance from FY 2008 @ June 30, 2009		86,791
Plus:	Revenue Estimate FY 2009	3,902,733,000	
Less:	Regular Appropriations FY 2009	(3,898,995,854)	
Less:	Recommended Supplemental Appropriations (2009 Regular Session)	<u>(3,611,530)</u>	
	Estimated Unappropriated Balance from FY 2009 @ June 30, 2009		125,616
Plus:	Revenue Estimate FY 2010	3,972,100,000	
Less:	Regular Appropriations FY 2010	<u>(3,971,794,588)</u>	
	Estimated Unappropriated Balance from FY 2010 @ June 30, 2010		305,412
	Estimated Cash (Unappropriated) Balance @ June 30, 2010		\$517,819

General Revenue Fund

Overview by Functional Category

FY 2008 through FY 2010

(Nearest Dollar)

DEPARTMENT/Agency	Fund #	Actual Expenditures FY 2008	Total Appropriations FY 2009 *
LEGISLATURE			
Senate	0165	\$4,580,107	\$6,930,404
House of Delegates	0170	8,430,409	8,809,282
Joint Expenses/Claims against State	0175	11,039,835	26,201,796
Subtotal		24,050,351	41,941,482
JUDICIAL			
Supreme Court	0180	100,909,773	115,817,478
EXECUTIVE			
Office of the Governor	0101	4,688,851	5,792,205
Custodial Fund	0102	560,635	646,936
Civil Contingent Fund	0105	1,403,615	4,000,000
State Auditor's Office	0116	3,713,101	3,828,773
State Treasurer's Office	0126	3,682,331	4,333,062
Department of Agriculture	0131	12,128,857	11,842,226
State Conservation Committee	0132	15,720,234	11,668,357
Meat Inspection	0135	659,917	684,808
Agricultural Awards	0136	58,650	58,650
WV Agricultural Land Protection Auth	0607	63,982	110,000
Attorney General's Office	0150	4,549,024	4,824,326
Secretary of State	0155	1,020,484	1,172,566
State Election Commission	0160	2,897	10,275
Subtotal		48,252,578	48,972,184
ADMINISTRATION			
Office of the Secretary	0186	18,545,444	56,509,252
Consolidated Public Retirement Board	0195	25,243,055	0
Public Employees Insurance Agency	0200	1,400,000	0
Division of Finance	0203	1,154,564	1,128,866
General Services Division	0230	2,904,510	3,052,072
Purchasing Division	0210	1,302,684	1,479,446
Comm on Uniform State Laws	0214	34,223	45,000
Public Employees Grievance Board	0220	836,943	997,197
Ethics Commission	0223	572,879	716,423
Public Defender Services	0226	37,641,945	31,721,203
Comm Purchase for Handicapped	0233	8,046	5,046
WV Prosecuting Attorneys Institute	0557	204,823	245,192
Childrens' Health Insurance Agency	0588	10,968,995	10,971,688
WV Retiree Health Benefit Trust Fund	0611	39,674,000	0
Real Estate Division	0610	400,175	526,413
Subtotal		140,892,286	107,397,798

Plus: Reappropriated FY 2009	Total Available FY 2009	Total Request FY 2010 **	Governor's Recommendations FY 2010	Percentage of Total
\$23,724,498	\$30,654,902	\$6,930,404	\$6,930,404	0.17%
5,638,632	14,447,914	10,101,000	10,101,000	0.25%
47,005,047	73,206,843	26,315,000	24,615,000	0.62%
76,368,177	118,309,659	43,346,404	41,646,404	1.05%
9,104,995	124,922,473	119,963,668	119,963,668	3.02%
3,415,991	9,208,196	5,727,705	5,804,032	0.15%
30,952	677,888	646,936	656,655	0.02%
29,474,461	33,474,461	3,900,000	3,900,000	0.10%
0	3,828,773	3,828,773	3,933,599	0.10%
182,210	4,515,272	4,333,062	4,389,587	0.11%
1,576,496	13,418,722	20,716,080	12,461,021	0.31%
5,450,978	17,119,335	12,043,357	13,696,277	0.34%
0	684,808	684,808	712,553	0.02%
0	58,650	58,650	58,650	0.00%
0	110,000	110,000	110,350	0.00%
322,291	5,146,617	5,505,426	4,932,339	0.12%
457,996	1,630,562	1,685,066	1,192,767	0.03%
0	10,275	10,275	10,275	0.00%
40,911,375	89,883,559	59,250,138	51,858,105	1.31%
23,973,870	80,483,122	69,006,138	16,967,862	0.43%
0	0	0	0	0.00%
3,998,213	3,998,213	0	0	0.00%
244,645	1,373,511	1,128,866	1,116,738	0.03%
0	3,052,072	3,052,075	3,115,442	0.08%
0	1,479,446	1,479,446	1,446,579	0.04%
0	45,000	49,000	49,000	0.00%
280,000	1,277,197	997,197	1,014,575	0.03%
0	716,423	716,403	725,333	0.02%
2,473,167	34,194,370	52,319,300	31,830,545	0.80%
0	5,046	5,046	5,055	0.00%
37,006	282,198	245,192	248,380	0.01%
0	10,971,688	10,971,688	10,974,889	0.28%
0	0	0	0	0.00%
0	526,413	526,413	535,587	0.01%
31,006,902	138,404,700	140,496,764	68,029,985	1.71%

General Revenue Fund
Overview by Functional Category
(Continued)

DEPARTMENT/Agency	Fund #	Actual Expenditures FY 2008	Total Appropriations FY 2009 *
COMMERCE			
Office of the Secretary	0606	1,357,123	474,770
Tourism	0246	1,806,617	0
Forestry	0250	3,925,978	4,649,235
Geological & Economic Survey	0253	3,298,480	3,651,207
Development Office	0256	19,459,361	25,761,239
Division of Labor	0260	3,040,658	3,660,984
Division of Natural Resources	0265	13,087,807	17,777,613
Miners' Health, Safety & Training	0277	10,326,608	10,811,178
Board of Coal Mine Health & Safety	0280	157,059	180,043
Mine Safety & Technical Review	0285	69,816	88,352
WORKFORCE West Virginia	0572	0	0
Division of Energy	0612	306,000	1,769,661
Subtotal		56,835,506	68,824,282
EDUCATION			
School Lunch Program	0303	2,407,037	2,524,357
FFA-FHA Camp & Conference Center	0306	1,048,938	1,056,060
State Department of Education	0313	56,321,719	43,626,262
Aid for Exceptional Children	0314	25,113,782	27,792,889
State Aid to Schools	0317	1,680,312,284	1,721,793,398
State Board of Ed-Vocational Division	0390	24,475,978	26,222,375
Educational Performance Audits	0573	659,240	731,290
WV Schools for the Deaf & the Blind	0320	12,623,133	13,028,424
Subtotal		1,802,962,111	1,836,775,055
EDUCATION AND THE ARTS			
Office of the Secretary	0294	5,554,298	6,610,559
Culture and History	0293	5,555,117	5,164,736
Library Commission	0296	1,808,510	1,853,508
Educational Broadcasting Authority	0300	5,603,809	5,870,507
Division of Rehabilitation Services	0310	13,661,185	14,277,729
Subtotal		32,182,919	33,777,039
ENVIRONMENTAL PROTECTION			
Environmental Quality Board	0270	131,166	141,694
Environmental Protection	0273	7,315,519	8,128,068
Air Quality Board	0550	81,305	99,504
Subtotal		7,527,990	8,369,266

Plus: Reappropriated FY 2009	Total Available FY 2009	Total Request FY 2010 **	Governor's Recommendations FY 2010	Percentage of Total
0	474,770	474,700	481,443	0.01%
667,731	667,731	0	0	0.00%
0	4,649,235	4,649,235	4,744,735	0.12%
647,536	4,298,743	3,721,090	3,759,315	0.09%
40,636,904	66,398,143	25,721,239	25,404,724	0.64%
0	3,660,984	4,157,257	3,680,889	0.09%
5,061,906	22,839,519	17,777,613	18,362,404	0.46%
0	10,811,178	11,425,508	11,408,479	0.29%
0	180,043	180,043	182,720	0.00%
0	88,352	88,352	88,515	0.00%
674,392	674,392	625,000	100,000	0.00%
0	1,769,661	1,869,661	1,873,271	0.05%
47,688,469	116,512,751	70,689,698	70,086,495	1.76%
0	2,524,357	2,548,693	2,550,913	0.06%
0	1,056,060	1,064,457	1,081,207	0.03%
3,328,168	46,954,430	100,827,659	40,851,192	1.03%
1,499,008	29,291,897	30,582,050	28,293,274	0.71%
0	1,721,793,398	1,778,156,043	1,778,627,391	44.78%
35,300	26,257,675	26,457,310	26,474,643	0.67%
0	731,290	732,761	733,081	0.02%
0	13,028,424	13,245,538	13,334,064	0.34%
4,862,476	1,841,637,531	1,953,614,511	1,891,945,765	47.63%
3,413,925	10,024,484	8,100,559	6,856,146	0.17%
11,052,845	16,217,581	7,736,065	5,486,548	0.14%
0	1,853,508	3,453,508	1,891,543	0.05%
835,488	6,705,995	6,090,873	6,048,423	0.15%
651,827	14,929,556	15,477,729	14,574,029	0.37%
15,954,085	49,731,124	40,858,734	34,856,689	0.88%
0	141,694	141,694	143,449	0.00%
0	8,128,068	15,564,583	8,279,295	0.21%
0	99,504	99,504	100,496	0.00%
0	8,369,266	15,805,781	8,523,240	0.21%

General Revenue Fund
Overview by Functional Category
(Continued)

DEPARTMENT/Agency	Fund #	Actual Expenditures FY 2008	Total Appropriations FY 2009 *
HEALTH AND HUMAN RESOURCES			
Office of the Secretary	0400	762,134	667,899
Division of Health-Central Office	0407	67,769,098	76,356,297
Consolidated Medical Service Fund	0525	134,697,045	144,309,532
WV Drinking Water Treatment	0561	700,000	700,000
Human Rights Commission	0416	1,144,761	1,268,443
Human Services	0403	639,650,836	636,888,878
Subtotal		844,723,874	860,191,049
MILITARY AFFAIRS & PUBLIC SAFETY			
Office of the Secretary	0430	2,652,925	1,379,122
Adjutant General - State Militia	0433	14,470,804	19,954,605
Adjutant General - Military Fund	0605	49,145	200,000
Parole Board	0440	923,082	1,096,517
Homeland Security Emergency Mgmt	0443	3,443,594	3,536,251
Corrections Central Office	0446	1,129,816	656,361
Correctional Units	0450	144,763,095	155,946,669
WV State Police	0453	72,875,218	76,987,234
Veterans Affairs	0456	5,833,989	9,956,860
Veterans Home	0460	1,070,287	1,191,261
Fire Commission	0436	86,029	87,853
Criminal Justice Services	0546	1,879,234	5,608,630
Juvenile Services	0570	34,773,182	39,720,228
Protective Services Division	0585	1,497,727	2,412,074
Subtotal		285,448,127	318,733,665
REVENUE			
Office of the Secretary	0465	3,256,150	876,428
Tax Division	0470	69,663,328	27,845,757
State Budget Office	0595	800,321	942,354
Athletic Commission	0523	18,500	89,500
Office of Tax Appeals	0593	687,752	685,819
Subtotal		74,426,051	30,439,858
TRANSPORTATION			
State Rail Authority	0506	2,816,975	2,822,564
Public Transit	0510	2,468,215	3,023,342
Public Port Authority	0581	411,689	443,421
Aeronautics Commission	0582	938,658	1,480,858
Subtotal		6,635,537	7,770,185

Plus: Reappropriated FY 2009	Total Available FY 2009	Total Request FY 2010 **	Governor's Recommendations FY 2010	Percentage of Total
111,001	778,900	667,344	679,468	0.02%
10,494,299	86,850,596	78,722,004	80,883,766	2.04%
44,939,185	189,248,717	148,292,957	148,689,111	3.74%
0	700,000	700,000	700,000	0.02%
0	1,268,443	1,268,443	1,302,297	0.03%
1,001,422	637,890,300	640,022,511	639,604,066	16.10%
56,545,909	916,736,958	869,673,259	871,858,708	21.95%
19,077,757	20,456,879	2,043,131	2,074,180	0.05%
25,566,110	45,520,715	20,854,605	19,842,509	0.50%
0	200,000	200,000	200,000	0.01%
0	1,096,517	1,150,560	1,112,398	0.03%
2,184,665	5,720,916	3,536,251	3,534,304	0.09%
150,258	806,619	656,361	670,647	0.02%
13,342,109	169,288,778	163,303,977	164,476,980	4.14%
4,490,457	81,477,691	86,230,071	87,346,908	2.20%
5,677,701	15,634,561	10,252,755	10,506,157	0.26%
0	1,191,261	1,190,915	1,241,447	0.03%
0	87,853	87,853	91,257	0.00%
202,026	5,810,656	5,625,205	5,589,701	0.14%
2,268,514	41,988,742	44,091,357	45,892,501	1.16%
3,133,455	5,545,529	3,309,011	2,476,547	0.06%
76,093,052	394,826,717	342,532,052	345,055,536	8.69%
380,212	1,256,640	882,403	895,938	0.02%
20,039,134	47,884,891	30,379,324	30,327,207	0.76%
1,094,606	2,036,960	1,691,395	1,206,147	0.03%
0	89,500	89,500	89,935	0.00%
155,085	840,904	685,819	701,130	0.02%
21,669,037	52,108,895	33,728,441	33,220,357	0.84%
0	2,822,564	2,814,640	2,822,674	0.07%
3,196,411	6,219,753	5,273,342	3,023,342	0.08%
1,067,279	1,510,700	443,421	447,404	0.01%
2,345,088	3,825,946	1,480,858	1,485,653	0.04%
6,608,777	14,378,962	10,012,261	7,779,073	0.20%

General Revenue Fund
Overview by Functional Category
(Continued)

DEPARTMENT/Agency	Fund #	Actual Expenditures FY 2008	Total Appropriations FY 2009 *
SENIOR SERVICES			
Bureau of Senior Services	0420	0	0
HIGHER EDUCATION			
HEPC-Administration	0589	56,152,559	58,689,827
HEPC-System	0586	281,415,114	293,631,271
HEPC-Legislative Funding Priorities	0591	107,263	0
Council for C&T College Education	0596	61,787,268	67,665,415
Subtotal		399,462,204	419,986,513
MISCELLANEOUS BOARDS & COMMISSIONS			
National Coal Heritage Area Authority		0	0
Coal Heritage Highway Authority		0	0
Subtotal		0	0
TOTAL GENERAL REVENUE		\$3,824,309,307	\$3,898,995,854

* Total Request FY 2010 is Current-Level Request plus General Revenue Improvement Requests.

Plus: Reappropriated FY 2009	Total Available FY 2009	Total Request FY 2010 **	Governor's Recommendations FY 2010	Percentage of Total
500,000	500,000	0	0	0.00%
10,898,572	69,588,399	75,739,247	59,090,112	1.49%
4,144,671	297,775,942	336,121,408	299,102,156	7.53%
0	0	0	0	0.00%
7,269,772	74,935,187	82,295,377	68,778,295	1.73%
22,313,016	442,299,529	494,156,032	426,970,563	10.75%
0	0	200,000	0	0.00%
0	0	200,000	0	0.00%
0	0	400,000	0	0.00%
\$409,626,270	\$4,308,622,124	\$4,194,527,743	\$3,971,794,588	100.00%

**General Revenue Fund
Recommended Surplus Supplemental Appropriations
FY 2009
(Nearest Dollar)**

Agriculture - Lower Mud River Flood Control Project	\$3,500,000
Agriculture - Island Creek Flood Damage Reduction Project	1,600,000
Public Defender - Appointed Counsel Backlog	9,500,000
Commerce - Development Office - Economic Development Assistance/ Job Attraction/Retention	1,800,000
Education - Tax Assessment Error Correction	170,295
Human Services - Indigent Burials	300,000
Health - Environmental Chemistry Laboratory Equipment Replacement	218,000
Public Transit - Bus Replacement (federal match)	600,000
	<u>\$17,688,295</u>

**General Revenue Fund
Recommended Supplemental Appropriations
FY 2009
(Nearest Dollar)**

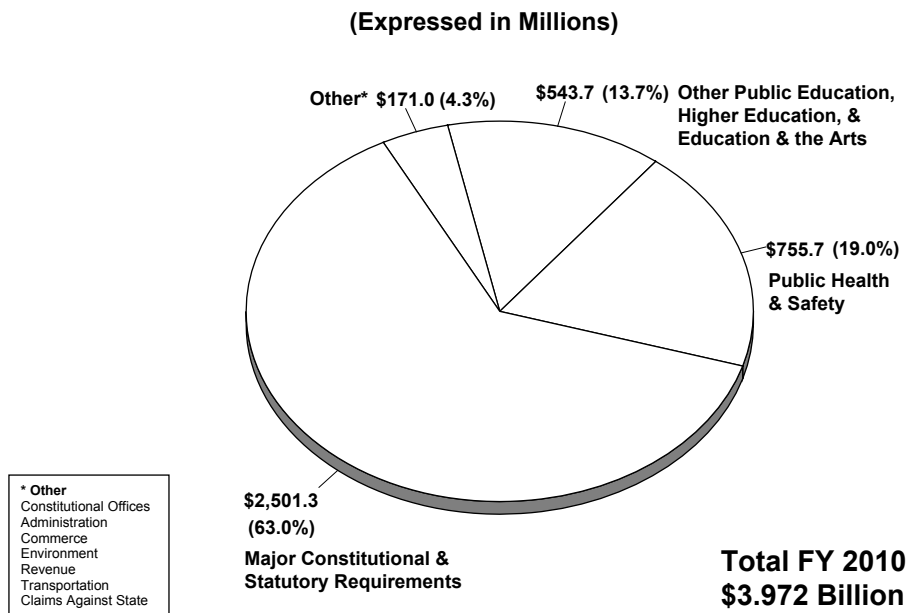
Agriculture - Lost River Flood Control	\$2,500,000
Human Services - Field Operations	361,530
Corrections - Stephens Correctional Facility	750,000
	<u>\$3,611,530</u>

General Revenue Major Constitutional and Statutory Requirements Fiscal Year 2010

Each year there are several major constitutional or statutory requirements that limit the flexibility of any discretionary recommendations by the Governor. The FY 2009 Executive Budget recommendations include expenditures of over \$2.50 billion of these major requirements and make up over 63.0% of the total General Revenue funds available.

Items that fall in the discretionary spending category in funding levels but are still considered necessary for public health, safety, and education of West Virginia citizens may include but are not limited to: Division of Corrections, West Virginia State Police, behavioral health, rehabilitation services, Children's Health Insurance Program, Schools for the Deaf and the Blind, and Higher Education which supports public universities and colleges and provides student financial aid.

		Appropriations (in millions)
LEGISLATIVE BRANCH		\$41.6
JUDICIAL BRANCH		115.7
DEPARTMENT OF EDUCATION		
State Aid to Schools	1,158.0	
Public Employees Insurance Agency	<u>213.8</u>	1,371.8
DEBT SERVICE		
School Building Authority	23.3	
Lease Rental Payments for debt service on correctional facilities	<u>16.0</u>	39.3
SOCIAL SECURITY MATCHING		38.7
RETIREMENT		
Judges' Retirement	4.0	
Public Employees Retirement	54.7	
Teachers' Retirement	383.5	
Trooper Retirement	<u>14.2</u>	456.4
PUBLIC DEFENDER SERVICES		31.7
MEDICAID		<u>406.1</u>
Total		<u><u>\$2,501.3</u></u>



Lottery Fund **Overview by Functional Category** **FY 2008 through FY 2010** **(Nearest Dollar)**

DEPARTMENT/Agency Description	Fund #	Actual Expenditures FY 2008	Total Appropriations FY 2009
ADMINISTRATION			
Education, Arts, Sciences, & Tourism			
Debt Service Fund	2252	\$9,996,913	\$10,000,000
Subtotal		9,996,913	10,000,000
COMMERCE			
Division of Tourism	3067	8,676,405	7,960,728
Division of Natural Resources	3267	3,831,370	3,492,245
Subtotal		12,507,775	11,452,973
EDUCATION			
State Department of Education	3951	30,266,123	35,190,948
School Building Authority	3963	17,995,443	18,000,000
Subtotal		48,261,566	53,190,948
EDUCATION AND THE ARTS			
Office of the Secretary	3508	1,564,364	1,213,130
Culture and History	3534	7,808,191	5,880,346
Library Commission	3559	10,316,277	11,553,562
Subtotal		19,688,832	18,647,038
SENIOR SERVICES			
Bureau of Senior Services	5405	57,766,392	58,814,643
HIGHER EDUCATION			
Community & Technical College			
Capital Improvement Fund	4908	0	5,000,000
Higher Education Policy Commission	4925	19,430,088	11,048,910
Subtotal		19,430,088	16,048,910
TOTAL LOTTERY		\$167,651,566	\$168,154,512

* Total Request FY 2010 is Current-Level Request plus Improvement Requests.

Plus: Reappropriated FY 2009	Total Available FY 2009	Total Request FY 2010 *	Governor's Recommendation FY 2010	Percentage of Total
\$0	\$10,000,000	\$10,000,000	\$8,240,000	4.96%
0	10,000,000	10,000,000	8,240,000	4.96%
4,529,120	12,489,848	10,960,728	7,917,089	4.77%
25,610,695	29,102,940	3,492,245	3,590,407	2.16%
30,139,815	41,592,788	14,452,973	11,507,496	6.93%
14,993,091	50,184,039	35,205,909	34,669,667	20.88%
0	18,000,000	18,000,000	18,000,000	10.84%
14,993,091	68,184,039	53,205,909	52,669,667	31.73%
330,778	1,543,908	1,113,130	1,092,717	0.66%
2,962,078	8,842,424	6,080,346	5,921,443	3.57%
221,900	11,775,462	12,833,570	11,571,091	6.97%
3,514,756	22,161,794	20,027,046	18,585,251	11.20%
4,299,109	63,113,752	58,814,643	58,819,665	35.43%
0	5,000,000	5,000,000	5,000,000	3.01%
3,280,518	14,329,428	26,161,278	11,188,972	6.74%
3,280,518	19,329,428	31,161,278	16,188,972	9.75%
\$56,227,289	\$224,381,801	\$187,661,849	\$166,011,051	100.00%

Lottery Fund **Statement of Revenues, Expenditures,** **and Changes in Cash Balance** **(Nearest Dollar)**

	Surplus Balance @ July 1, 2008	\$41,929,413	
Less:	Reserve for Cash Flow / Contingencies	<u>(40,000,000)</u>	
	Unappropriated Surplus Balance @ July 1, 2008	1,929,413	
Less:	Recommended Supplemental Appropriation (2009 Regular Session) Education - Year Around Student Enrichment Program	<u>(1,900,000)</u>	
	Estimated Unappropriated Surplus Balance from FY 2008 @ June 30, 2009		29,413
Plus:	Revenue Estimate FY 2009	170,900,000	
Less:	Veterans Fund	<u>(800,000)</u>	
	Revenue Available for FY 2009 Appropriations	170,100,000	
Less:	Regular Appropriations FY 2009	(168,154,512)	
Less:	Recommended Supplemental Appropriations (2009 Regular Session) Education - Year Around Student Enrichment Program	<u>(1,900,000)</u>	
	Estimated Unappropriated Balance from FY 2009 @ June 30, 2009		45,488
Plus:	Revenue Estimate FY 2010	166,812,000	
Less:	Veterans Fund	<u>(800,000)</u>	
	Revenue Available for FY 2010 Appropriations	166,012,000	
Less:	Regular Appropriations FY 2010	<u>(166,011,051)</u>	
	Estimated Unappropriated Balance from FY 2010 @ June 30, 2010		949
	Estimated Unappropriated Balance @ June 30, 2010		\$75,850

Excess Lottery Fund

Statement of Revenues, Expenditures, and Changes in Cash Balance

(Nearest Dollar)

Balance @ July 1, 2008	\$123,022,202	
Less: Reserve for Cash Flow / Contingencies	<u>(2,900,000)</u>	
Unappropriated Surplus Balance @ July 1, 2008	120,122,202	
Less: Recommended Supplemental Appropriations (2009 Regular Session):		
Administration - Enterprise Resource Planning (ERP)	(7,530,873)	
Commerce - Development Office - Economic Development Assistance/Job Attraction/Retention	(4,200,000)	
Revenue - Rainy Day Fund	<u>(108,000,000)</u>	
Estimated Unappropriated Surplus Balance from FY 2008 @ June 30, 2009		391,329
Plus: Revenue Estimate FY 2009	360,700,000	
Less: Catastrophic Event	<u>(30,000,000)</u>	
Revenue Available for FY 2009 Appropriations	330,700,000	
Less: Regular Appropriations FY 2009	<u>(330,700,000)</u>	
Estimated Unappropriated Balance from FY 2009 @ June 30, 2009		0
Plus: Revenue Estimate FY 2010	355,818,000	
Less: Catastrophic Event	(29,179,157)	
Less: Additional Reserve for Cash Flow	<u>(820,843)</u>	
Revenue Available for FY 2010 Appropriations	325,818,000	
Less: Regular Appropriations FY 2010	<u>(325,818,000)</u>	
Estimated Unappropriated Balance from FY 2010 @ June 30, 2010		0
Estimated Unappropriated Balance @ June 30, 2010		\$391,329

Excess Lottery Fund

Overview by Functional Category

FY 2008 through FY 2010

(Nearest Dollar)

DEPARTMENT/Agency	Fund #	Actual Expenditures FY 2008	Total Appropriations FY 2009
STATUTORY APPROPRIATIONS:			
DEBT SERVICE AND CAPITAL PROJECTS (State Parks Improvements, Public Education Facilities, and Infrastructure Projects)			
Economic Development Authority	9065	\$19,000,000	\$19,000,000
Higher Education Improvement Fund	4297	10,000,000	10,000,000
School Building Authority	3514	20,293,696	19,000,000
Division of Natural Resources	3277	5,923,981	5,000,000
Infrastructure Council	3390	40,000,000	40,000,000
Subtotal		95,217,677	93,000,000
TRANSFERS			
Refundable Credit	7207	7,325,477	10,000,000
General Revenue	7206	65,000,000	65,000,000
Subtotal		72,325,477	75,000,000
HIGHER EDUCATION			
PROMISE Scholarship	4295	27,000,000	27,000,000
Subtotal		27,000,000	27,000,000
TOTAL STATUTORY APPROPRIATIONS:		194,543,154	195,000,000
APPROPRIATIONS ABOVE STATUTORY REQUIREMENTS:			
Joint Expenses (TRAFFIC)	1736	0	0
Office of the Governor	1046	0	0
Transfer to General Revenue	7208	16,900,000	62,900,000
Division of Finance-ERP	2208	0	0
Transfer to General Services	7208	51,500,000	18,200,000
Transfer to Retiree Health Benefits (OPEB)	7208	0	46,600,000
Transfer to School Access Safety	7208		8,000,000
Transfer to Teachers' Retirement Savings Realized	7208	0	0
Office of Technology	2532	2,371,612	0
WV Development Office	3170	14,000,000	0
Department of Education	3517	0	0
Division of Health	5219	2,500,511	0
Sec. of Military Affairs & Public Safety-			
Interoperable Communications	6005	0	0
Division of Corrections-Capital	6283	0	0
Tax Division-Remittance Processor	7082	24,373	0
Higher Education-Administration	4932	51,000,000	0
TOTAL APPROPRIATIONS ABOVE STATUTORY REQUIREMENTS:		138,296,496	135,700,000
GRAND TOTAL		\$332,839,650	\$330,700,000

* Total Request FY 2010 is Current-Level Request plus Improvement Requests.

Plus: Reappropriated FY 2009	Total Available FY 2009	Total Request FY 2010 *	Governor's Recommendations FY 2010	Percentage of Total
\$0	\$19,000,000	\$19,000,000	\$19,000,000	5.83%
0	10,000,000	10,000,000	10,000,000	3.07%
0	19,000,000	19,000,000	19,000,000	5.83%
8,330,742	13,330,742	5,000,000	5,000,000	1.53%
0	40,000,000	40,000,000	40,000,000	12.28%
8,330,742	101,330,742	93,000,000	93,000,000	28.54%
0	10,000,000	10,000,000	10,000,000	3.07%
0	65,000,000	65,000,000	65,000,000	19.95%
0	75,000,000	75,000,000	75,000,000	23.02%
0	27,000,000	27,000,000	27,000,000	8.29%
0	27,000,000	27,000,000	27,000,000	8.29%
8,330,742	203,330,742	195,000,000	195,000,000	59.85%
20,000,000	20,000,000	0	0	0.00%
163,349	163,349	0	0	0.00%
0	62,900,000	62,900,000	62,900,000	19.31%
5,000,000	5,000,000	0	9,969,127	3.06%
0	18,200,000	0	0	0.00%
0	46,600,000	0	36,260,873	11.13%
0	8,000,000	0	10,000,000	3.07%
0	0	0	6,688,000	2.05%
1,101,836	1,101,836	2,000,000	0	0.00%
14,050,000	14,050,000	0	0	0.00%
0	0	0	5,000,000	1.53%
1,041,894	1,041,894	0	0	0.00%
10,000,000	10,000,000	0	0	0.00%
3,500,000	3,500,000	0	0	0.00%
60,800	60,800	0	0	0.00%
45,154,898	45,154,898	0	0	0.00%
100,072,777	235,772,777	64,900,000	130,818,000	40.15%
\$108,403,519	\$439,103,519	\$259,900,000	\$325,818,000	100.00%

State Road Fund

Statement of Revenues by Source

FY 2006 Through FY 2012

(Expressed in Thousands)

Source of Revenue	FY 2006 Actual Collections	FY 2007 Actual Collections	FY 2008 Actual Collections	FY 2009 Official Estimate	FY 2010 Estimate	FY 2011 Estimate	FY 2012 Estimate
Gasoline and Motor Carrier Road Tax	\$320,757	\$349,172	\$404,223	\$380,000	\$380,000	\$382,940	\$386,850
Registration Fees	86,976	87,058	86,396	90,003	89,407	91,773	89,514
Registration Fee: Highway Litter Control	1,692	1,549	1,878	1,699	1,691	1,721	1,690
Sales (Privilege) Tax	171,479	173,306	169,463	166,413	160,550	166,533	166,426
Less Transfer to Industrial Access Road Fund	(3,005)	(3,034)	(3,352)	(3,000)	(3,000)	(3,000)	(3,000)
Miscellaneous Income	24,569	12,623	38,428	36,360	37,208	32,537	31,869
Federal Reimbursement:							
Interstate Construction	58,447	49,027	74,887	120,600	90,000	67,500	69,300
Other Federal Aid Programs	236,998	246,360	206,910	277,800	263,006	193,345	248,460
Appalachian Program	97,375	94,257	75,356	91,262	81,272	61,391	42,400
Federal Economic Stimulus	0	0	0	40,000	204,572	0	0
Total	\$995,288	\$1,010,318	\$1,054,189	\$1,201,137	\$1,304,706	\$994,740	\$1,033,509

State Road Fund

Statement of Revenues, Expenditures, and Changes in Cash Balance

(Nearest Dollar)

	Cash and Investment Balance - July 1, 2008		\$208,821,743
Plus:	Revenue Estimate - FY 2009		<u>1,201,137,400</u>
	Total Estimated Receipts and Balance		1,409,959,143
Less:	Regular Division of Highways Appropriations FY 2009	1,156,377,538	
	Highways Supplemental Appropriation FY 2009	124,239,462	
	Regular Division of Motor Vehicles Appropriation FY 2009	34,846,113	
	Motor Vehicles Supplemental Appropriation FY 2009	535,000	
	Claims Against the State Road Fund	<u>713,890</u>	<u>(1,316,712,003)</u>
	Estimated Balance - June 30, 2009		93,247,140
Plus:	Revenue Estimate - FY 2010		<u>1,304,706,504</u>
	Estimated Balance		1,397,953,644
Less:	Recommended Division of Highways Appropriation FY 2010	1,263,976,000	
	Recommended Division of Motor Vehicles Appropriation FY 2010	37,481,469	
	Recommended Claims Against the State Road Fund FY 2010	<u>1,000,000</u>	<u>(1,302,457,469)</u>
	Estimated Cash and Investments Balance - June 30, 2010		<u><u>\$95,496,175</u></u>

Summary of Primary Government Long-Term Debt Outstanding as of June 30, 2008 (Expressed in Thousands)

	6/30/06	6/30/07	6/30/08	Estimated 6/30/09	Estimated 6/30/10
General Obligation Debt					
Road Bonds	\$447,995	\$429,845	\$401,190	\$371,105	\$339,515
Infrastructure Bonds	294,903	286,177	277,949	269,272	260,141
SUBTOTAL	742,898	716,022	679,139	640,377	599,656
Revenue Bonds					
School Building Authority	241,920	231,475	215,675	214,125	201,045
School Building Authority (Lottery)	124,015	111,700	99,040	85,650	71,715
School Building Authority (Excess Lottery)	0	0	0	102,145	99,310
Tobacco Settlement Finance Authority	0	1,176,828	1,156,088	1,132,758	1,106,683
Highways, Commissioner of	0	109,160	98,875	88,325	77,320
EAST Fund (Lottery)	41,455	33,675	25,465	16,805	7,690
Economic Development Authority (Lottery)	228,840	221,565	214,125	206,480	198,590
WV Infrastructure and Jobs Development Council	89,020	126,140	124,530	122,875	120,650
Education	2,129	2,069	0	0	0
SUBTOTAL	727,379	2,012,612	1,933,798	1,969,163	1,883,003
Capital Leases					
Governmental Funds	345,386	331,779	322,003	306,582	294,980
Internal Service	8,614	12,035	16,605	12,000	8,000
SUBTOTAL	354,000	343,814	338,608	318,582	302,980
TOTAL	\$1,824,277	\$3,072,448	\$2,951,545	\$2,928,122	\$2,785,639

Six Year Financial Plan

Three years ago, Governor Manchin initiated the comprehensive, easy-to-follow, “Six Year Financial Plan.” This is a planning tool for analyzing future budgets, and any budget gaps shown must be balanced. This year’s “Six Year Financial Plan” includes information on anticipated revenues and expenditures through FY 2014. As part of the plan, the basic revenue assumptions and the major expenditure drivers and planning processes are included, along with other smaller, yet consistent, items that continue to drive up expenditures over time. The goal of the “Six Year Financial Plan” is to provide the West Virginia Legislature and citizens a clear understanding of not only the FY 2010 budget, but also, the larger, long-term implications of the decisions made today on the future fiscal outlook. The “Six Year Financial Plan” does not reflect Special or Federal funds, although the funding and planning processes of these types of funds are definitely a major driver of total state revenue and spending. This plan is developed with extensive review of the major financial impacts of Special and Federal cash flows and reflects them. Using this plan, it is easy to see where the projected expenditures begin to outpace projected revenues (beginning in FY 2011), and it becomes obvious that the surplus revenues should not be expended for items that would add new obligations to the “base budget,” but rather should be used for “onetime” needs or deposited into a “savings” account to be available for use in the future to assist in offsetting these anticipated shortfalls.

Revenue

As shown in the “General Revenue Fund—Statement of Revenues by Source” (see the “Summary Financial Statements” chapter), revenue collection growth in the short term is slowing significantly from the 8.1% average annual growth rate achieved between FY 2004 and FY 2008 due to the impact of a global recession. In fact, actual year-to-date FY 2009 General Revenue Fund collections thru January 31, 2009, are 0.5% lower than collections for the same period in the prior year. The decline in total collections is occurring despite a 34% increase in year-to-date severance taxes associated with a large temporary spike in energy prices during the early part of the year. The spike in energy prices contributed to a temporary increase in mining employment and income taxes related to mining wages, energy royalties, and energy business profits. The global recession begins taking its toll on the energy sector during the second half of FY 2009 as energy prices drop, mines close, and workers lose their jobs. Income tax collections slow or decline in response to lower employment, lower business profits, and lower capital gain realizations. Revenues collected in the Excess Lottery Fund also decrease due to both the impact of the recession and additional competition from neighboring states. These economic conditions result in a pattern of below normal revenue growth between FY 2008 and FY 2011 due to the impact of a lengthy recession and a trend of declining energy prices, lower coal production, declining corporate income tax revenues, slow growing personal income and sales tax revenues, and the continuing emergence of video gaming competition from surrounding states.

Economic conditions resulted in surplus funds available at the end of FY 2008. Following revenue increases in excess of 10% in FY 2005 and FY 2006, General Revenue Fund collections rose by a more modest 2.5% in FY 2007. Following the growth rate of 4.7% in FY 2008, no growth is anticipated in FY 2009, and only a small growth of 1.8% is estimated for FY 2010. Growth for FY 2011 to FY 2014 averages 3.35%.

Expenditures

Beginning with FY 2011, projected expenditures begin to outpace projected revenues. The main cost drivers in the “Six Year Financial Plan” include increasing retirement payments due to the losses of investments caused by the ongoing downturn in the national economy, providing health care through the Medicaid and Public Employees Insurance Agency programs, and increasing costs of maintaining adequate correctional facilities for juveniles and adults. It is the goal of the Manchin administration to continue working to contain the growth of these key budget drivers in order to be able to fund other priorities in education, tax modernization, and economic development.

The exercise of careful long-term budget planning continues to pay dividends for State Taxpayers. West Virginia is one of a handful of States that has not had to make reductions to its FY 2008 or FY 2009 budgets. West Virginia is also on track to implement a balanced budget for FY 2010 and, while continuing to use our conservative budgeting approach, all future budget gaps will be addressed and balanced. Policymakers are dedicating most of the

Six Year Financial Plan

FY 2009 through FY 2014

General and Lottery Revenues

(Estimated in Thousands)

	Actual 2008	Budgeted 2009	Recommended 2010	Projected 2011	Projected 2012	Projected 2013	Projected 2014
Estimated Revenue							
General Revenue	\$3,928,288	\$3,902,733	\$3,972,100	\$4,107,350	\$4,265,330	\$4,357,410	\$4,532,920
General Revenue (Surplus from previous FY)	53,922	0	0	0	0	0	0
Lottery	170,577	170,100	166,012	166,012	166,012	166,012	166,012
Lottery (Surplus from previous FY)	14,300	0	0	0	0	0	0
Excess Lottery	329,808	202,800	197,918	157,456	184,456	157,456	157,456
Excess Lottery (Surplus from previous FY)	122,286	0	0	0	0	0	0
Total Available	4,619,181	4,275,633	4,336,030	4,430,818	4,615,798	4,680,878	4,856,388
Estimated Expenditures							
Base Budget		4,067,696	4,199,790	4,319,104	4,669,806	4,848,408	5,045,218
Expenditure Growth: *							
Legislature and Court of Claims		838	(295)	3,158	1,506	1,558	1,612
Supreme Court		10,124	4,146	4,295	4,448	4,608	4,773
Judges Retirement - Unfunded Liabilities		0	0	4,772	0	0	0
Higher Education Grant/PROMISE Scholarship/Other		1,476	4,006	4,036	2,500	0	0
PERS - Increase in Employer Contribution		0	1,719	30,770	0	0	0
Public Employees Insurance Agency (Employer Portion)		0	15,654	39,650	40,950	42,250	43,550
Teachers' Retirement Savings Realized		2,224	2,862	20,000	3,000	3,000	3,000
Teachers' Retirement System - Unfunded Liabilities		(10,293)	41,673	125,000	0	0	0
State Aid to Schools		51,774	4,346	5,697	5,698	5,697	5,000
Public Education - Other Statutory Changes/Enhancements		(1,188)	2,112	5,375	1,575	1,575	1,575
Other Post Employment Benefits (OPEB) (Medicaid Base Builder)		(8,944)	20,673	39,946	39,946	5,899	(137,194)
Medicaid **		0	0	0	0	34,047	177,139
DHHR Health & Medical Services		4,702	3,100	2,000	2,000	2,000	2,000
DHHR Other Changes		(3,826)	300	1,000	1,000	1,000	1,000
Correctional Facilities Operations		4,992	3,704	6,437	8,509	8,557	9,000
State Police Longevity & Career Progression		1,275	413	584	575	449	562
Public Safety Retirement Plan A - Unfunded Liabilities		(1,579)	8,605	15,731	0	0	0
State Police Retirement B - Increase Employer Contribution		0	624	1,302	0	0	0
Program Enhancements/Unanticipated Expenditures		48,274	7,055	5,000	9,525	5,000	5,000
Salary Enhancements (Public Education above for FY 2009) ***		32,245	3,357	35,950	57,370	81,170	59,750
Reductions			(4,739)				
Total Ongoing Base Budget	4,067,696	4,199,790	4,319,104	4,669,806	4,848,408	5,045,218	5,221,985
Onetime Expenditures	414,970	72,060		5,000	5,000	5,000	5,000
Transfer to Rainy Day Fund (Half of General Revenue Surplus)	17,638						
Expirations	(20,949)						
Additional Onetime Improvements	139,319	3,612	16,620				
Estimated Balance (Gaps)	\$507	\$171	\$306	(\$243,988)	(\$237,610)	(\$369,340)	(\$370,597)

Note: This six-year financial plan is a tool for analyzing future budgets and any gaps must be balanced.

* FY 2009 - 2014 Expenditure Growth is the additional amount required annually to fund existing programs.

** Assumes Federal Stimulus increases in Medicaid FMAP by 4.9% (three quarters FY 2009, all FY 2010, two quarters FY 2011).

*** Includes base building pay raises of 1.5% FY 2011, 2.4% FY 2012, 3.4% FY 2013 and 2.5% FY 2014.

Six Year Financial Plan

temporary revenue enhancement associated with higher energy prices and strong gaming revenues toward unfunded pension debts, necessary onetime improvements, and reserve funds set aside in the event of future budgetary shortfalls. Careful budgetary planning and responsible government initiatives have provided the capacity for recent General Revenue Fund surpluses.

While much has been accomplished to make state government more responsible (such as controlling the cost of providing services and reducing unfunded liabilities), it is clear that more work still remains. Greater efficiencies must be achieved, programs must be evaluated to ensure the outcomes meet the original intent, and new ways of doing business must be explored in order to continue to provide the citizens with the services they expect and deserve.

Revenue Assumptions

General Revenue

The General Revenue amount is projected to increase approximately 1.8% for FY 2010, 3.4% for FY 2011, and by an average of 3.3% per year for FY 2012 through FY 2014.

General Revenue (Surplus from previous FY)

General Revenue surplus at the end of FY 2007 was \$106.7 million, and one-half, \$53.922 million, was transferred to the Rainy Day Fund, and the remainder was available for appropriation in FY 2008.

Lottery

The regular Lottery funds are dedicated by statute for use for senior citizens, education, and tourism. Since General Revenue Funds are used for the same programs, Lottery funds are included here as part of the total available, and program funding may be shifted between the two revenue sources. Lottery revenues are projected to remain flat through FY 2014.

Lottery (Surplus from previous FY)

Lottery Revenue surplus at the end of FY 2007 was \$14.3 million and was available for appropriation in FY 2008.

Excess Lottery

The Excess Lottery Fund will continue to be a major source of funding, although projected to decrease from a level of \$202.8 million in FY 2009 to \$157.5 million in FY 2014.

Excess Lottery (Surplus from previous FY)

The Excess Lottery Fund surplus at the end of FY 2007 was \$122.286 million and was available for appropriation in FY 2008.

Expenditure Assumptions

Base Budget

The base budget is the base operating budget for ongoing expenditures for current programs and services provided to the citizens of West Virginia. The Base Budget does not contain items of a onetime nature. Each fiscal year begins with the base budget as reflected from the previous fiscal year. Each year's total budget is the amount required to maintain the current level of service, including any new amount of funding required to maintain that current level, plus any new funding required for necessary service or salary enhancements.

Six Year Financial Plan

Expenditure Growth

The various items that comprise Expenditure Growth are the “budget drivers” that have the greatest impact on increases to expenditures, or they may be items of a less significant amount but continue to increase over time. The amounts listed under Expenditure Growth are the additional amounts necessary on an annual basis to maintain or enhance the services to the required level. These amounts are added to the Base Budget from the prior year to determine that particular fiscal year’s Total Ongoing Base Budget. For FY 2010, several items have been recommended to be added.

The following is a brief explanation of the FY 2010 expenditure growth and program enhancements as detailed in the “Six Year Financial Plan.”

Legislature and Court of Claims. The Legislature requested \$1.3 million more and the Court of Claims requested \$1.6 million less for FY 2010 compared to the FY 2009 base budget level.

Supreme Court. The Constitution requires that the Governor fund the Supreme Court as requested. The Supreme Court requested an additional \$4.146 million for FY 2010, representing a 3.6% increase over the FY 2009 appropriation. Based upon past history, future expenditure growth should continue to be in line with an annual growth rate of approximately 3.6%.

Judges Retirement—Unfunded Liabilities. There is no additional requirement for FY 2010; however, the FY 2011 estimate assumes there will be investment losses incurred during FY 2009 that will require additional funding of an estimated \$4.772 million.

Higher Education Grant Program/PROMISE Scholarship/Other. The Higher Education Grant Fund (W.Va. Code §18C-5-3) calls for a \$673,200 statutory increase. The PROMISE Scholarship requires an amount of \$832,320 for a statutorily mandated 2% increase pursuant to W.Va. Code §18C-7-7. This 2% statutory requirement is no longer required after FY 2011. An additional \$1.25 million is also included in FY 2010–FY 2012 for Fairmont State University and for Marshall University.

PERS—Increase in Employer Contribution. Due to losses in investments during FY 2008, the employer contribution will require a 0.5% increase in the employer match from 10.5% to 11%, costing the General and Lottery funds \$1.719 million. The FY 2011 estimate assumes there will be additional investment losses during FY 2009 that will require raising the employer contribution rate again, costing an additional estimated \$30.77 million.

Public Employees Insurance Agency (Employer Portion). PEIA requires an additional employer premium increase of 6% for the FY 2010 budget, costing the General and Lottery funds \$15.654 million. Significant double digit percentage increases are projected over the course of the next four fiscal years if current levels of benefits continue to be offered to employees and retirees, requiring multimillion dollar increases in the General and Lottery funds’ share of premiums. Over \$39 million of additional funding will be needed for 2011, while FY 2012 through FY 2014 will require additional funding of over \$40 million each year. Thus, PEIA’s outlook for the future continues to be a major concern and represents another of the major financial challenges facing West Virginia. PEIA cannot assume the economic conditions of the State will continue to permit increased premium revenues for the agency, nor can PEIA assume trend results will continue to be lower than anticipated.

Teachers’ Retirement Savings Realized. The W.Va. Code §18-7A-39 requires any savings realized from the reduction in employer contributions for current retirement benefits—being the difference between the required employer contributions that would have been required into the Teachers’ Defined Contribution System and the required employer contribution for normal cost into the State Teachers’ Retirement System—shall be deposited into the Employee Pension and Health Care Benefits Fund. This calculation requires funding in FY 2010 of an additional \$2.862 million. Due to the merger of the Teachers’ Retirement Systems at the end of FY 2008, funding for FY 2011 will require an estimated additional \$20 million.

Six Year Financial Plan

Teachers' Retirement System—Unfunded Liabilities. The State has made significant strides toward the long-term funding of the State's retirement systems. Of the additional surplus revenues available during FY 2005–2008, an additional \$707 million was used to help pay down the unfunded liability in the Teachers' Retirement System Plan A, drastically reducing the unfunded liabilities of that system. During the 2007 Legislative Regular Session, legislation was approved that authorized the sale of Tobacco Settlement Bonds. The bonds were sold in June 2007 and netted over \$807 million in proceeds for the State's Teachers' Pension System. These bond proceeds, along with additional extra retirement contributions made over the last four fiscal years, result in total additional deposits of \$1.5 billion being deposited into the Pension System. These payments will result in the State of West Virginia saving over \$2.5 billion by helping to keep future debt payments lower than originally estimated had these extra payments not been made.

The Governor's "Responsible Government" efforts to pay down the State's massive retirement debt has resulted in the Teachers' Retirement System's percentage funded increasing from 22% funded in 2004 to 50% funded at the end of FY 2008.

Due to unrealized investment losses occurring in FY 2008, the current amortization schedule for the Teachers' Retirement System will require additional funding in FY 2010 of \$41.673 million above the FY 2009 level to maintain the current amortization plan through the year 2034. This funding level assumes an investment earnings rate of 7.5%. If earnings are more than 7.5% per year, the funding level can be lowered, if earnings are less than 7.5%, the funding level must be raised. FY 2011 additional funding of \$125 million assumes investment losses during FY 2009 of over 25%. The increases in funding required for FY 2010 and FY 2011 would have been much larger without the additional excess contributions made by the Legislature and the Governor to pay down unfunded pension debt using the recent surplus moneys and the securitization of Tobacco Master Settlement Agreement proceeds.

State Aid to Schools. The Basic State Aid to Schools Formula for public education requires an increase of \$4.346 million for FY 2010. Budget projections for the outgoing years are based on cost estimates relating to school aid formula changes with the passage of HB 4588 in the 2008 Regular Legislative Session.

Public Education—Other Statutory Changes/Enhancements. The Department of Education and Schools for the Deaf and the Blind's employees are statutorily paid at the same county pay scales as professional educators and service personnel. Employees' salaries increase with additional years of service. Adjustments in increased enrollment, national certification, high acuity special needs, and other statutory requirements are also accounted for here as well as improvements for 21st Century Innovation Zones and a Year Around Student Enrichment Program.

Other Post Employment Benefits (OPEB) (Medicaid Base Builder). Exacerbating the financial problem with the PEIA are changes by the Government Accounting Standards Board requiring greater disclosure (GASB 43 and 45) of the costs of providing health benefits to both current and retired employees—other postemployment benefits. During the 2006 Regular Legislative Session, the West Virginia Retiree Health Benefits Trust Fund was established to account for OPEB and comply with GASB 43 and 45. After adopting the Medicare Advantage Prescription Drug Plan, the long-term OPEB liability was reduced from an estimated \$7.8 billion at the end of FY 2006 to \$4.9 billion at the end of FY 2008.

It is recommended that \$51.403 million be appropriated in FY 2010 for transfer to the West Virginia Retiree Health Benefits Trust Fund. This is \$20.673 million above the base level funded in FY 2009. Currently, there is no permanent funding mechanism for OPEB. These funds are currently being budgeted as a "base builder" for future Medicaid requirements and will be redirected to Medicaid beginning in FY 2013 when it is estimated that Medicaid will require funding of over \$34 million with additional funding in FY 2014 of over \$177 million.

Six Year Financial Plan

Medicaid. State Medicaid funding is dependent primarily on four funding sources—General Revenue, Lottery, Medical Services Trust Fund, and Provider Tax. Controlling the growth of this program is vital to both the fiscal health of the state and the people who depend on the Medicaid program for vital services. To restrain the future growth of the program, the Department of Health and Human Resources will continue to focus on managing Medicaid like other health insurance programs. Medicaid is confronted with a fundamental problem—how to design an appropriate benefit package for the poorest and most disabled citizens of West Virginia and ensure access to Medicaid services, yet still meet cost containment and program integrity goals. The administration is committed to containing the burgeoning costs of this program. Beginning in FY 2013, Medicaid costs will put a heavy burden on State revenues, and program changes are inevitable to avoid future funding crises.

Developing changes in this program is exceedingly difficult because Medicaid operates as an entitlement program for all citizens that meet the eligibility criteria, and the cost of the program is determined by the number of eligible individuals, how often they utilize health care services, and the cost of the health care services. Therefore, the State must budget for all program costs incurred by the clients. The program costs, however, cannot be controlled through budget restrictions and appropriation caps without changes to the eligibility criteria, the types of services covered, or the rates paid for services. Reducing program eligibility, eliminating covered services, and reducing payments for services will shift the burden to other social service providers as clients seek other sources of assistance. The healthcare industry in general (hospitals, physicians, clinics, etc.) may also experience the possibility of decreased revenues from the Medicaid program and an increase in uncompensated care as clients seek medical care without coverage. Since Medicaid revenue has become a significant factor in the health care industry, any reductions will cause cost shifting and other reductions throughout the State's health care system.

Several other factors will influence the increase in the Medicaid program, including medical inflation and the economy. If the provider tax, trust fund, and lottery sources of State match remain relatively constant, the General Revenue Fund will have to supply the additional funds to cover future increases in cost.

Due to a host of factors, including responsible management and assuming the currently debated Federal Stimulus Package includes a temporary federal medical assistance percentage (FMAP) increase of at least 4.9%, the State for the next three fiscal years is projecting that it will not need any increases to the Medicaid program from the General Revenue Fund. In FY 2013, however, the increase is projected to exceed \$34 million with an additional increase of over \$177 million in FY 2014. In order for the State to be in the best position to fund these large increases, the "Six Year Financial Plan" dedicates over \$51 million into the base budget for FY 2010 with additional increases of almost \$40 million for FY 2011 and FY 2012. The Governor recommends that these moneys be treated as onetime expenditures dedicated to OPEB until FY 2014 when the Medicaid program would then use those base building moneys to properly fund Medicaid.

DHHR Health and Medical Services. The Governor recommends an additional \$3.1 million in the FY 2010 budget to cover health-related increased costs, including behavioral health community supports.

DHHR Other Changes. It is recommended that an additional \$300,000 be funded for indigent burials in the FY 2010 budget.

Correctional Facilities Operations. Inmate medical costs at the correctional facilities rise each year. Additional inmates, increased aged inmate population, increased chronic medical illnesses, and the rising cost of medical care in general necessitates the request for additional medical expense funding for the proper remittance of provided services. The Governor recommends an increase of \$3.704 million in FY 2010 for increased correctional facilities costs, including inmate medical.

State Police Longevity and Career Progression. These funds are for statutory increases for longevity and career progression.

Six Year Financial Plan

Public Safety Retirement Plan A—Unfunded Liabilities. Due to unrealized investment losses occurring in FY 2008, the current amortization schedule for the Public Safety Retirement Plan A will require additional funding in FY 2010 of \$8.605 million above the FY 2009 level to maintain the current amortization plan. Fiscal Year 2011 additional funding of \$15.731 million assumes investment losses during FY 2009 of over 25%.

State Police Retirement B—Increase Employer Contribution. Due to losses in investments during FY 2008, the employer contribution for the State Police Retirement Plan B will require a 3% increase in the employers' match from 12% to 15%, costing the General fund \$624,000. The FY 2011 estimate assumes there will be additional investment losses during FY 2009 that will require raising the employer contribution rate again, costing an additional estimated \$1.302 million.

Program Enhancements/Unanticipated Expenditures. These include unanticipated expenditures not already included in other lines of the "Six Year Financial Plan." For FY 2010, additional funding is included for the operation of the newly constructed James H. "Honey" Rubenstein Center, four new day reporting centers, and other small increases.

Salary Enhancements. This includes final funding of a three-year salary increase program for Corrections, Juvenile Services, and Regional Jails. Statutory raises for constitutional officers and pay equity funding is also included. FY 2011 shows that if a 1.5% base building pay raise is given, it would cost almost \$40 million. FY 2012 shows costs of a 2.4% raise, FY 2013 the cost of a 3.4% raise, and FY 2014 the cost of a 2.5% raise.

Reductions. Reductions were made to base items: one-third of vacancies that remained unfilled for over one year, accounts that had large expirations at the end of FY 2008, BRIM funding (reduced to match actual agency billings), and the EAST debt service which requires less funding in FY 2010.

Onetime Expenditures. In addition to the Total Ongoing Base Budget, an amount of Onetime Expenditures has been included. These expenditures are not included in the base because they do not require ongoing funding in future years, but the amount will be expended during the current fiscal year and, therefore, must be reduced from the revenue available in that fiscal year to arrive at the estimated balance. These have already been appropriated for FY 2008 and FY 2009.

Transfer to Rainy Day Fund (Half of General Revenue Surplus). A statute requires that half of any General Revenue surplus be transferred to the Rainy Day Fund. At the end of FY 2008, the General Revenue Fund had a surplus of \$35.278 million; that amounted to a \$17.638 million transfer to the Rainy Day Fund.

Expirations. Expirations at the end of FY 2008 totaled \$20.949 million. These are funds that were not used by agencies and were not reappropriated to FY 2009.

Additional Onetime Improvements. Included here are onetime improvements that the Governor intends to have introduced in supplemental appropriations during the 2009 Regular Legislative Session. These do not require funding in future years (nonbase builders). Items include flood projects funds, funding for the State's new accounting system (ERP), Public Defender funding, economic development assistance, DHHR lab and operations increases, dental equipment for children's health, Tax division disaster recovery site, and \$108 million transferred to the Rainy Day Fund for possible use to close future budget gaps.

Estimated Balance (Gaps). The Estimated Balance is strictly the excess or deficit (gap) of revenues vs expenditures on an annual basis. The balance is not carried forward to the following fiscal year. One half of any excess balance of General Revenue is put into the Rainy Day Fund for savings to be used to offset the projected shortfall in the future, used for paying unfunded retirement/benefit liabilities, or other onetime expenditures. The other half of any excess balance, plus any surpluses from Lottery funds, becomes available for appropriation in the subsequent fiscal year. As is clearly seen in the "Six Year Financial Plan" beginning in FY 2011, substantial budget gaps must be addressed and balanced.

Six Year Plan Summary

The “Six Year Financial Plan” includes the best estimate of revenues and expenditures based on currently known facts and are the best assumptions we can make on a future basis. The further into the future we project revenues and expenditures, the greater the chance of deviation from the projections. For example, the end of the next budget year, FY 2010, is still 19 months into the future from the date the projections were completed. The General Revenue Fund estimate is almost \$4.0 billion for FY 2010. Just a one percent deviation from the estimate will result in a \$40 million difference in revenues. Depending on this deviation being either higher or lower, the range of actual difference in revenue could be \$80 plus million (\$40 million under estimate to \$40 million over estimate).

The same may be said regarding expenditures. Although we have included all known expenditures with the best projections available for future increases, many unknowns obviously exist. What will happen with the national economy? Will the stock market continue its current pace? How will the currently debated Federal Stimulus Package affect West Virginia? A large portion of the budget is expended for health care—both Medicaid and public employees’ health insurance expenditures. Small fluctuations in the projected cost of health care can result in large dollar differences in the required expenditures for these services. For Medicaid, a one percent change in the federal match rate results in a difference in state funding of approximately \$30 million.

Not included in the projected expenditures is any additional funding for inflationary expenses to cover the rising cost of energy consumption for state-owned buildings and vehicles, or funding for any major new program.

Budget Summary

FY 2008

The end of FY 2008 again saw surpluses for the General Revenue and Lottery funds—the General Revenue Fund ended the year with a surplus of over \$35 million. One half, or \$17.6 million, was transferred to the Rainy Day Fund. The Rainy Day Fund balances total over \$448 million at December 31, 2008, a decrease due to losses in investments of over \$127 million during the last 12 months.

Surpluses from the Lottery Fund totaled more than \$122 million. The revenue surpluses are recommended (during the 2009 Regular Legislative Session) to be used to fund major, onetime appropriation supplementals that include the Rainy Day Fund, a new Enterprise Resource Planning (ERP) Financial System, Public Defender Services, Economic Development Assistance, and an Educational Year Around Student Enrichment Program.

During FY 2008, the national economy began to slow and West Virginia, along with every other State, experienced unrealized losses in their long-term investment portfolios. While other States had to make mid-year revisions to their revenue estimates and budget cuts to their FY 2008 budgets, West Virginia remained among a handful of States that did not have to implement budget reductions.

FY 2009

Major funding improvements initiated for the current fiscal year 2009 included a 3% pay raise for public employees, \$1,600 raise for teachers and \$700 raise for school service personnel, continued funding for the OPEB unfunded liability, which is being used as a Medicaid “base budget builder” until FY 2013 when it’s expected that large increases in General Revenue funding will be needed for the State’s Medicaid program. Supplemental appropriations will be requested during the 2009 Regular Legislative Session for flood control projects, Human Services operations, and Correctional Facility operations.

Currently, General Revenue collections continue to slightly outpace estimates during the first seven months of FY 2009. Actual collections are running ahead of estimates by \$28.1 million through the end of January 2009. Lottery revenues also appear to be on track. A modest surplus is expected by the end of FY 2009.

Six Year Financial Plan

FY 2010

General revenues are predicted to grow 1.8% above FY 2009 revenues. Lottery and Excess Lottery revenues are estimated to decrease by 2.4%. Major budget expenditure drivers for FY 2010 are a 6% increase in the employers share of PEIA premiums, OPEB (Medicaid base builder) and increased funding for the retirement systems due to the downturn in the national economy and the associated investment losses. These three expenditure drivers account for 94% of all base building additional costs for FY 2010.

Careful budgetary planning will continue to be a fundamental part of West Virginia's approach to maintaining balanced budgets while providing necessary services to her citizens.

Major Reserve/Stabilization Accounts

Revenue Shortfall Reserve Fund (Rainy Day Fund)

The State established a Revenue Shortfall Reserve Fund (Rainy Day Fund) that began with surplus funds available at the close of FY 1994. (W.Va. Code §11B-2-20 was passed March 11, 1994.)

The original legislation creating the Rainy Day Fund was contained in W.Va. Code §5A under the Department of Administration. Senate Bill 149 (passed March 13, 2004) moved budget responsibilities from the Department of Administration to the Department of Revenue and incorporated the responsibility for the Rainy Day Fund into the newly created W.Va. Code §11B.

The West Virginia Code requires the first 50% of all surplus general revenue funds, if any, accrued during the fiscal year just ended, be deposited into the fund until the aggregate amount of the fund exceeds ten percent of the total appropriations from the general revenue fund for the fiscal year just ended.

Originally, the Revenue Shortfall Reserve Fund could be used only to offset a shortfall in revenues that would otherwise require the Governor to impose expenditure reductions in accordance with W.Va. Code §11B-2-20 through 22. In July 1996, the Code was amended to allow the Legislature to make appropriations from the fund for emergency revenue needs caused by acts of God or natural disasters or for other fiscal needs as determined by the Legislature.

In October 1996, additional legislation was passed that directed the balance of funds in the Broker Litigation Recoveries Fund be transferred to the Rainy Day Fund. The monies in the Broker Litigation Recoveries Fund were generated from proceeds of court actions against brokerage firms responsible for previous investment losses for the state.

During the 2006 Regular Session, legislation was passed to change the aggregate amount of the fund from five percent to ten percent of the General Revenue Fund budget for fiscal year just ended, while still requiring the first 50% of all surplus revenues to be deposited into the fund. The new legislation, which became effective June 9, 2006, also permits the fund to be invested and to retain those earnings. The first \$100 million is invested by the West Virginia Board of Treasury Investments and any amounts over \$100 million is invested by the West Virginia Investment Management Board.

Since the fund was created in 1994, \$389.4 million has been deposited into the fund, which includes transfers in and interest; \$143.5 million has been appropriated for flood and drought victim assistance, infrastructure, snow removal, and other projects. On December 31, 2008, the balance in the Rainy Day Fund was \$246 million.

The Legislature also authorized the Governor, by executive order, to borrow funds from the Rainy Day Fund when revenues are inadequate to make timely payments of the state's obligations. The amount borrowed may not exceed 1.5% of the General Revenue Fund estimate for the fiscal year in which the funds are borrowed and shall be repaid to the fund within 90 days of its withdrawal.

Because of an expected cash flow shortfall experienced each year in the first quarter of the fiscal year, the Governor has borrowed from the fund each year since August 1996 in order to pay obligations in a timely manner. The loans were repaid before September 30 of each year, all within the 90 day limit allowed by law.

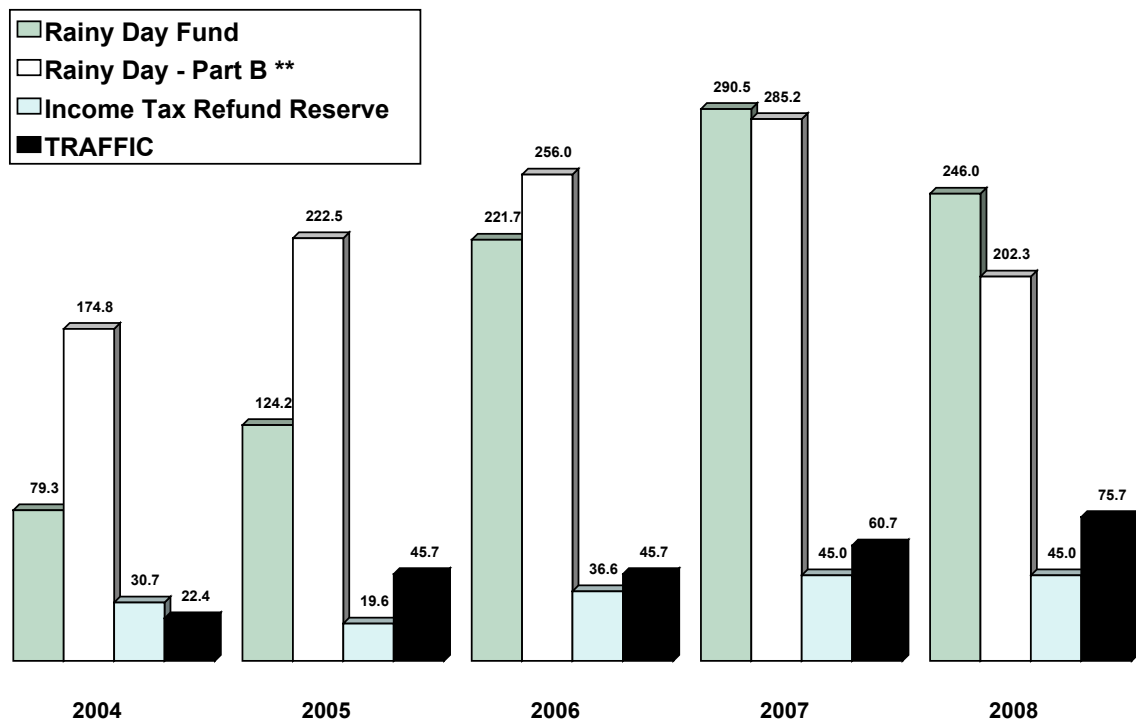
Revenue Shortfall Reserve Fund - Part B (Rainy Day Fund—Part B)

The State established a Revenue Shortfall Reserve Fund—Part B (Rainy Day Fund—Part B) that began with the cash balance of the West Virginia Tobacco Settlement Medical Trust Fund on June 9, 2006, the effective date of the bill. (W.Va. Code §11B-2-20 was passed March 11, 2006.) The fund is invested by the West Virginia Investment Management Board.

The annual repayment toward the \$24 million loan and interest on the loan to the Board of Risk and Insurance Management Physician's Mutual Insurance Company originally made from the West Virginia Tobacco Settlement Medical Trust Fund is to be deposited in the Rainy Day Fund—Part B. On January 26, 2009, the last principal and interest payment for this loan was made.

Expenditures may not be made from the Rainy Day Fund—Part B unless all moneys in the Rainy Day Fund have been first expended. After June 30, 2025, interest and other return earned on moneys in the Rainy Day Fund—Part B may be appropriated by the Legislature for continued support of the programs offered by the Public Employees Insurance Agency; funding for expansion of the federal-state Medicaid program; funding for public health program, services, and agencies; funding for any state owned or operated health facilities; or in instances of revenue shortfalls or fiscal emergencies of an extraordinary nature. On December 31, 2008, the balance in the Rainy Day Fund—Part B was \$202.3 million.

Reserve Balances* (Expressed in Thousands)



* Balance as of December 31 each year

** 2004 and 2005 balances are from the West Virginia Tobacco Settlement Medical Trust Fund

Major Reserve/Stabilization Accounts

Income Tax Refund Reserve Fund

An Income Tax Refund Reserve Fund was established during FY 1990 (W.Va. Code §11-27-93) to pay personal income tax refunds, interest, and penalties to taxpayers in a timely manner. It may also be used by the Legislature to make appropriations from the fund to address other items as the Legislature so desires.

The state tax commissioner is responsible for determining the balance needed in the fund to ensure timely income tax refunds. On December 31, 2008, the balance in the Income Tax Refund Reserve Fund was \$45 million which represents 1.15% of the total FY 2009 General Revenue Fund.

Tax Reduction and Federal Funding Increased Compliance (TRAFFIC)

During the 1995 session of the West Virginia Legislature, an initial \$20 million was set aside by appropriation in an account titled Tax Reduction and Federal Funding Increased Compliance (TRAFFIC). This appropriation was made to the Joint Expense account of the Legislative Branch and was intended for possible general state tax reductions, to offset any reductions in federal funding for state programs, or to have funds available for other unanticipated needs. It was not intended as an operational appropriation for expenditure by the Legislature.

Since the inception of the TRAFFIC account \$156.7 million has been deposited into the account—\$81.0 million has been appropriated from the account, mostly for meeting shortfalls in Medicaid match funds, for flood victim assistance, or additional payments to unfunded liabilities in the state retirement systems. As of December 31, 2008, \$75.7 million remains available for use as the Legislature and Governor may determine. An additional \$15 million appropriation has been requested and recommended for FY 2010.

Long-Range Issues

Introduction

At the beginning of the last decade, the State was faced with several major issues that had immediate and long-term implications. The State has been focused on its highway infrastructure, correctional facilities, water and sewer systems, school facilities, healthcare, the growing cost of health insurance, and unfunded liabilities in workers' compensation and retirement systems. These building blocks of West Virginia's economy will require continued attention.

Infrastructure Projects/Improvements

Highway Infrastructure

State Road Fund revenues projected to be available to the West Virginia Division of Highways (WVDOH) in the foreseeable future are inadequate to permit the agency to satisfactorily achieve its mission of maintaining a safe and efficient highway system. System preservation needs are not being met and, as a result, highways are deteriorating. The cost of replacing all state-maintained bridges that are over 60 years old is over \$2.5 billion. Over \$100 million in highway slips and slides have been identified, and an additional \$100 million in paving is needed annually. Purchases of equipment used by WVDOH's maintenance forces is underfunded at least \$10 million each year.

Although the agency has taken numerous steps to reduce unnecessary expenditures and improve efficiencies, its costs of operations continue to climb. The price of steel, cement, gasoline, and all asphalt-based products has climbed dramatically and is having a direct impact on the cost of construction and maintenance activities. As these increases continue, the agency will fall even farther behind in its ability to preserve the highway system.

State tax revenues have declined somewhat. Due to high motor fuel prices and the faltering economy, motor fuel consumption and, thus, tax revenue, has declined. While Sales (Privilege) Tax has been able to offset a portion of that decrease, that trend is not expected to continue. Furthermore, many of the vehicles that are being purchased are more fuel efficient and will consume less fuel, again driving down Motor Fuel Tax collections. The Legislature, through passage of House Bill 218 during the June 2008 Special Session, placed \$40,000,000 in the Motor Fuel Excise Tax Shortfall Fund. Monies in this fund are to be transferred to the State Road Fund to offset monthly shortages in Motor Fuel Tax revenues through December 2009. As fuel consumption continues to decline, a long-term solution to diminishing Motor Fuel Tax collections is needed.

There also are concerns about the federal Highway Trust Fund (HTF). Although Congress passed legislation in September 2008 that provided the HTF with an \$8 billion infusion of cash, the fund still is projected to be insolvent by the end of FFY 2009 or shortly thereafter. Should that occur, reimbursement for expenditures on approved federal projects will be delayed, conceivably for an extended period of time, and federal funding of new projects will cease. While the State Road Fund may be able to absorb the reimbursement delays temporarily, long-term delays will force major reductions in various highway programs, and system preservation will continue to decline.

Finally, the agency has identified over \$25 billion in new construction that cannot be undertaken due to a lack of funds. Since it is more important to maintain existing infrastructure than to build new highways, most of these projects will never be constructed.

Without a major increase in revenues, the agency will continue to operate at a level that will not provide all desired services and eventually will be forced to reduce existing services. At a minimum, an additional \$160 million is needed yearly for the system preservation components. To address the long-term construction needs will require even more funding.

Long-Range Issues

West Virginia Regional Jail and Correction Facility Authority

The West Virginia Regional Jail and Correctional Facility Authority has two fundamental missions—operating the regional jails and constructing the state's secure facilities for not only the authority itself, but also for the division of Corrections and the Division of Juvenile Services.

The authority's first mission is the responsibility of operating regional jails with management plans that meet or exceed all state and federal jail operational standards. The operational budget for the jails is exclusively funded through per diem collections from counties, municipalities, the West Virginia Division of Corrections, the federal Department of Justice, and other jurisdictions that house inmates in regional jails.

The regional jail facilities were developed as a result of a Master Plan approved in 1989 that outlined ten regions in the state. There are ten regional jails currently in operation (Eastern in Berkeley County, Central in Braxton County, South Central in Kanawha County, Southern in Raleigh County, Northern in Marshall County, Southwestern in Logan County, Potomac Highlands in Hampshire County, North Central in Doddridge County, Western in Cabell County, and Tygart Valley in Randolph County).

The authority's second mission is to acquire, construct, and/or renovate regional jails, correctional facilities, and juvenile detention facilities. The first phase of construction occurred as a result of the 1990 sale of \$118,694,767 of lease revenue bonds by the West Virginia Building Commission. The sale met approximately 50% of the adult correctional construction needs of the State at that time. The original bond was refunded in 1998 to reduce interest cost from 6.92% to 4.97% and to fund the construction of the Tygart Valley Regional Jail from the additional savings realized.

In 1998, the Public Employees Retirement System (PERS), under the direction of the Investment Management Board, invested \$150 million for continued construction of correctional and detention facilities. The Legislature created a special revenue fund (from up to \$20 million per year of current insurance taxes) to repay PERS for the capital invested and investment earnings. The amount of payment was calculated every year by averaging the previous five years' interest returned on PERS' fixed income investments.

Recognizing that a great deal of savings in interest payments could be realized, the Legislature, during its December 2001 Special Session, passed legislation authorizing the issuance of bonds through the Economic Development Authority secured by lease payments; these payments are made from the same special revenue source that was created to repay PERS.

The first two series of these bonds were issued by the Economic Development Authority in January 2002. The first series repaid the balance owed to PERS, funding the construction of the North Central Regional Jail, Potomac Highlands Regional Jail, Eastern Regional Jail, Lakin Correctional Center for Women, Donald R. Kuhn Juvenile Center, Western Regional Jail, Industrial Home for Youth, and the renovation of the Denmark Correctional Center and Pruntytown Correctional Center, including the warden's residence located at the facility. The second series funded the \$6 million dormitory and Prison Industries construction at the Lakin Correctional Center for Women and the \$6 million James "Tiger" Morton Juvenile Center.

During February 2003, the third series of these bonds were sent to market. This sale funded the \$6.8 million J.M. "Chick" Buckbee Juvenile Center, the \$6 million Robert Shell Juvenile Center, the \$6 million Gene Spadaro Juvenile Center, and \$3.1 million for renovations to transform the old Eastern Regional Jail into the Martinsburg Correctional Center, a 120-bed intake center for the Division of Corrections.

In January 2004, the final series of these lease revenue bonds were issued in order to fund the construction of a new Davis Juvenile Center in Tucker County (renamed the James H. "Honey" Rubenstein Juvenile Center), renovations and additions to the Eastern Regional Juvenile Detention Center (which will then be reopened as the Vickie V.

Long-Range Issues

Douglas Juvenile Center), additions to Huttonsville Correctional Center, additional funds for the dormitory and Prison Industries construction at the Lakin Correctional Center for Women, and renovations to the Johnston School at the Industrial Home for Youth at Salem.

Infrastructure Improvement Amendment

The Infrastructure and Jobs Development Council reports that approximately \$2.5 billion in projects have been funded to date by leveraging council funds with federal and other sources. Projects approved by the committee range from traditional infrastructure including water, sanitary sewer, storm water facilities, and roadways for industrial parks to revitalization projects that will result in economic development in some of the state's larger cities. The approved projects leverage approximately \$700 million from other sources of funding resulting in close to \$1 billion of investment in the State of West Virginia.

Nineteen million dollars a year from the Excess Lottery Fund has been dedicated to pay debt service for the bond issue. The bond issue closed in January 2004 in the amount of \$249,895,000 that generated funds to cover the entire \$225,855,802 needed to fund the 48 approved projects, \$18,989,900 to the debt service reserve account, \$4,904,054 to fund the cost of issuance, and \$145,244 deposited to the bridge loan fund to be administered by the Council for Community and Economic Development.

School Building Authority

The School Building Authority of West Virginia was created in 1989 to provide state funds for the construction and maintenance of primary and secondary school facilities to meet an estimated \$1.2 billion need. Since that time, that amount has grown substantially due to the continued rise in construction costs.

To meet immediate needs, the Legislature authorized the School Building Authority to issue five series of bonds. These five bond series produced approximately \$436 million for school facility construction, renovation, and repair. The annual debt service requirement of the first four series of bonds is approximately \$23.5 million funded from the General Revenue Fund through the year 2019. The 1994A Series Bonds are secured by dedicated Lottery proceeds and require an annual debt service of approximately \$18 million. The original 1994A series matured in 2004 and has been reissued with a new maturity payable through the year 2014.

In 1994, the West Virginia Legislature initiated a "pay-as-you-go" program to continue funding school construction without continued issuance of debt. The "pay-as-you-go" program was initiated with approximately \$36 million in Budget Surplus funds. Thereafter, the School Building Authority has received annual funding for both new school construction and major improvements for existing facilities.

This annual funding, statutorily dedicated from Consumer Sales Tax revenues, began at a level of \$10 million and grew to the maximum allowed of \$22 million from that source. Of this dedicated amount, \$5 million was for major improvements to existing facilities and \$17 million for new construction.

Effective July 1, 1998, the statute was amended to direct any annual difference between FY 1997 actual debt service payments and funds required for the current fiscal year for all previously issued school capital improvement bonds be added to the amount available in the "pay-as-you-go program" for new construction. Due to this amendment, the amount available for new construction, including the \$17 million mentioned above, was as follows: \$17.81 million in FY 1999, \$20.21 million in FY 2000, \$22.54 million in FY 2001, \$22.76 million in FY 2002, \$24.97 million in FY 2003, and \$25.10 million in FY 2004. The maximum amount of \$27.22 million per year began in FY 2005 and will continue into the future.

In 2007, Governor Manchin rolled out his School Access Safety Act that was then introduced and passed by both houses of the Legislature. This legislation established a School Access Safety Fund, into which funding would be placed for school access safety grants by the School Building Authority (SBA). So far, \$20 million has been

Long-Range Issues

provided to the School Access Safety Fund. The Legislature allocated \$10 million a year for both FY 2008 and FY 2009 which was to be dispensed to each county based on their net enrollment. Ten million dollars have been recommended for FY 2010.

During the 2001 Legislative Session, additional annual funding in the amount of \$25 million was earmarked from excess lottery revenues for the SBA's Debt Service Fund, but stipulated that these monies were available for the "pay-as-you-go" program until such bonds were authorized by the Legislature. Therefore, during the course of the 2008 Legislative Session, Governor Manchin introduced a bill that was passed by the Legislature that allowed the SBA to utilize these funds to sell school construction bonds. The monies from the sale of these bonds would be utilized in order to supplement the "pay-as-you-go school" construction program. This also provided an opportunity for the SBA to sell bonds on a more frequent basis, thereby enabling the authority to establish a three-year bond sale cycle. More frequent, continuous, and sustainable expenditures over an extended period of time will have a cumulative effect on the local economy through employment, taxes, and local production. The construction generated by the SBA funds will alleviate the need for reactive expenditures created by emergency repairs that only provide short-term solutions to health and safety issues.

Since the inception of the SBA, over \$1.276 billion in state dollars and \$987.5 million in local dollars have been dedicated to West Virginia school facilities. This equates to 32 new high schools, 36 new middle schools, 48 new elementary schools, 80 major school addition/renovation projects, and over 1,200 minor renovation projects.

Health Care

The State of West Virginia faces many challenges and obstacles in health care. Nationally, medical costs are increasing significantly, and the prices for prescription drugs are increasing even more significantly. An aging population, new, more costly medical technologies, and increasingly expensive new generation drugs are all contributing factors to rising health care costs.

In addition to these national trends, West Virginia faces other obstacles unique to the Mountain State. According to the most recent report of residential deaths by state reported by the National Center for Health Statistics (2005), West Virginia has the highest crude death rate per 100,000 population of all states (including the District of Columbia) for the following major disease/injury groups: all causes of death combined, cancer, diabetes, heart disease, and chronic lower respiratory disease. West Virginia also ranked in the top five in stroke and nephritis and other related kidney syndromes. Even when adjusted for West Virginia's aged population, the state remains ranked in the worst five states on diabetes and chronic lower respiratory diseases.

Maternal smoking during pregnancy continues to be a major issue in West Virginia. The latest available U.S. figures show 10.7% of mothers smoked during pregnancy in 2005. West Virginia's percentage (highest in U.S.) was nearly two and a half times higher at 26.5%. It has continued to increase to 27.2% in 2006.

According to the Center for Disease Control and the latest behavioral risk factor survey, West Virginia had the highest prevalence of diabetes in 2006 at 12.1% compared to a national average of 8.0%. West Virginia was also second in current smoking at 25.7% compared to 19.7% nationally; second in obesity at 31.0% compared to 25.1% nationally; and fair or poor health status at 22.5% compared to 16.2% nationally.

Although 2007 numbers decreased some in West Virginia occurrences, deaths due to injuries caused by all-terrain vehicle (ATV) accidents and deaths due to overdose of prescription medicines still are being closely documented and are of increasing concern.

Long-Range Issues

Medicaid

West Virginia began its Medicaid program in 1966, one year after it was approved as an amendment to the Social Security Act. Starting in 1988, the federal oversight agency, Health Care Financing Administration (now the Centers for Medicare and Medicaid Services), began requiring states to expand coverage to include new classes of eligible individuals.

The West Virginia Medicaid Program provides insurance coverage to approximately 386,000 West Virginia citizens. Children comprise 50% of the Medicaid population, while 28% are categorized as blind and disabled, 14% are adults and the remaining 8% defined as the elderly.

Five categories of services accounted for approximately 66% of total Medicaid expenditures during FY 2008. These services are nursing home, inpatient hospital (includes outpatient services), capitated service agreements, home and community-based services provided under waiver authority, and prescription drugs. The largest increases in FY 2008 occurred in combined home and community-based waiver services and prescription drugs.

Medicaid offers a comprehensive benefit package to the state's poorest and most disabled citizens which includes access to prescription drug coverage, long-term care options including community-based care, mental health services, primary care services, nonemergency medical transportation, as well as other benefits not offered in the private insurance market. Financial support for this program comes from federal and state revenue. Unlike the PEIA program which is financed with all state dollars, the Medicaid program is financed at an approximate 25% state and 75% federal match which means that for every dollar the State invests, we are able to match that with approximately three federal dollars.

Medicaid funding is dependent primarily on four funding sources: General Revenue, Lottery, Medical Services Trust Fund, and Provider Tax. Medicaid appropriated funding has increased from approximately \$334 million in 1995 to over \$631 million in 2009.

Since Medicaid operates as an entitlement program for all citizens that meet the eligibility criteria, the cost of the program is determined by the number of eligible individuals, how often they utilize health care services, and the cost of the health care services. Therefore, the state must budget for all program costs that are incurred by the clients. The program costs cannot be controlled through budget restrictions and appropriation caps without changes to the eligibility criteria, the types of services covered, or the rates paid for services.

It is currently estimated that without any program changes the cost for the Medicaid program will increase at a rate of approximately 4.8% per year. It is also assumed that as West Virginia's economy continues to improve, the federal match will decline by approximately 0.5% per year. Assuming that the provider tax, trust fund, and lottery sources of State match remain relatively constant, the General Revenue fund will have to supply the additional funds to cover future increases in cost. However, any future increase or decrease in these sources will impact the amount of General Revenue required to cover the total State match cost.

West Virginia Children's Health Insurance Program (WVCHIP)

WVCHIP provides full-range health insurance coverage to children of working families, with incomes up to 220% of the federal poverty level. At September 30, 2008, 24,255 children were enrolled, a decrease of 2.6% from last year. Targeted outreach efforts are focused on the goal of enrolling all eligible children. The West Virginia Children's Health Insurance Board oversees WVCHIP's benefit plan and finances to ensure that funding is sufficient to support the services covered by the insurance program.

Public Employees Insurance Agency

The Public Employees' Insurance Agency (PEIA) was established by the Legislature in 1971 to provide a program of health, life, and prescription drug insurance for its member agencies. In accordance with the W.Va. Code §5-16,

Long-Range Issues

PEIA provides coverage for all State employers, including institutions of higher education. In addition, political subdivisions in the state and certain other charitable and public service organizations may request to be covered by PEIA.

In 1991, a Finance Board was created by the Legislature to bring fiscal stability through the development of an annual financial plan designed to meet the agency's estimated total financial requirements. The annual financial plan takes into account all projected revenues and apportions costs equitably among participating employers, employees, and retired employees and providers of health care services. The plan has been solvent since FY 1990, ensuring timely payments of PEIA obligations.

Effective January 1, 2000, the Finance Board must submit a prospective financial plan encompassing five fiscal years. Beginning with FY 2002, the finance board must develop annual financial plans that generate revenues sufficient to fund a reserve of at least ten percent of projected total plan costs. The financial plan must be submitted to the Governor and the Legislature by January 1 of the preceding year with an effective date for the financial plan of July 1 of each plan year.

OPEB

The Legislature passed House Bill 4654 during the 2006 session. This bill created the West Virginia Retiree Health Benefits Trust Fund (Trust) and charged PEIA with its administration. The fund was created to account for the West Virginia Other Postemployment Benefits (OPEB) and otherwise comply with GASB 43 and 45.

Rising drug costs, increasing costs of health care costs, state budget constraints, funding of the plan, and the new reporting requirement for the OPEB liability are all issues the PEIA Finance Board must consider in preparing the agency's five-year financial plan. The State adopted a Medicare Advantage Prescription Drug (MAPD) plan that reduced by \$2.9 billion the State's OPEB liability of approximately \$7.8 billion. It is hoped that the MAPD will continue to reduce the liability in the future. However, the retiree plan must still be subsidized by the active policy premiums. The current rate of subsidization for the fund is approximately 70%. Determining a long-range solution to the West Virginia OPEB Plan's unfunded liability is of utmost importance.

The current financial plan projects positive net assets through FY 2012. PEIA and the Trust completed FY 2008 with total net assets of \$399 million and total claims expense of \$566 million. Current claim expense trend assumptions for FY 2009 and FY 2010 are as follows:

<u>Eligibility</u>	FY 2009		FY 2010	
	<u>Medical</u>	<u>Drugs</u>	<u>Medical</u>	<u>Drugs</u>
Non-Medicare	6.5%	12.5%	7.0%	13.0%
Medicare	6.5%	12.5%	7.0%	13.0%

Insurance Reform

Medical Malpractice

The Board of Risk and Insurance Management (BRIM) provides a comprehensive risk management program for the State as well as the State's self-insurance fund. BRIM also provides the program to qualifying non-State agency entities such as local governments and nonprofit organizations.

In December 2001, the West Virginia Legislature passed House Bill 601 which authorized BRIM to provide medical malpractice and general liability coverage to private health care providers. This included medical malpractice coverage for private physicians, clinics, and hospitals and was known as "BRIM II". House Bill 601 was passed as a result of the medical malpractice insurance crisis which was created when commercial insurance companies began

Long-Range Issues

non-renewing policies for health care providers on a national basis, and in particular, within West Virginia. Many West Virginia physicians began to seek employment in other states, a dilemma that threatened the availability of health care for our citizenry.

During the Legislative session of 2003, House Bill 2122 was passed which provided a mechanism for those private physicians who were being insured through BRIM II, to become insured through the creation of a West Virginia Physicians' Mutual Insurance Company (WVPMIC) and also provided significant medical liability reform.

The process of transferring those private physicians to the WVPMIC is called a "novation." On July 1, 2004, BRIM successfully novated approximately 1,300 private physician medical malpractice insurance policies, with the attendant liabilities and assets, to the WVPMIC. The hospitals and clinics that did not novate were nonrenewed by BRIM prior to July 1, 2004. BRIM offered "tail coverage" to the nonrenewed entities and continues to "run-off" the minimal exposure of that tail coverage. The House Bill 601 Fund (BRIM II) financial picture showed total retained earnings of \$4,057,325 at year end June 30, 2006; \$4,697,331, and at year end June 30, 2007; and \$5,085,000 at year end June 30, 2008.

The significant areas of medical liability reform included, but were not limited to a board to study the feasibility of the creation of a patient injury compensation fund, enhancement of the "certificate of merit," limits on third party bad faith, a \$250,000 cap on noneconomic damages, elimination of joint liability, and limit on trauma liability at \$500,000.

As a result of the feasibility study, the patient injury compensation fund (PICF) was created. The revenue appropriated to the PICF is not reflected in BRIM financial statements, but rather in the State financial statements. The State financial statements reflect total retained earnings in the PICF at \$3,396,467 at year end June 30, 2006; \$5,148,918 at June 30, 2007; and \$5,388,891 at year end June 30, 2008. There have been no claims assessed against the PICF, and there were no FY 2007 or FY 2008 expenditures.

The medical professional liability insurance market in West Virginia has stabilized, providing the workers in our healthcare industry with accessibility to appropriate liability coverage. Market stability has been reflected in rate relief for our physicians as three of West Virginia's major medical liability writers (representing over 66% of the market) have filed for rate reductions in 2005. Physician recruitment efforts have improved significantly. The actions of all branches of government, working with private industry to establish the West Virginia Physicians' Mutual Insurance Company, has led to positive change in the medical malpractice liability results of West Virginia.

BRIM management has also worked to eliminate the prior year's reported net asset deficiency. The deficiency in net assets developed due to unanticipated losses and adverse loss development in each of the state agency and Senate Bill 3 (nonprofit) coverages in the areas of general liability and medical malpractice. In FY 2004, BRIM management adopted a financial stability plan which enabled the deficiency in net assets to be eliminated. Consequently, as of June 30, 2005, BRIM eliminated such deficiency reflecting \$527,000 net assets at year end. Management anticipates that the net assets will remain positive and, in fact, continue to increase in growth in years to come.

BRIM financial position continues to improve. At year end June 30, 2006, BRIM total retained earnings were \$44,843,685. At year end June 30, 2007, BRIM total retained earnings were \$97,546,897, which reflects no overall unfunded liability. At year end June 30, 2008, BRIM audited financials show total retained earnings of \$127,630,000, which continues to reflect no unfunded liability.

Unfunded Liabilities

Workers' Compensation

Prior to January 1, 2006, West Virginia was one of five states operating an exclusive, state-managed workers' compensation insurance system. From 1913 until January 1, 2006, the Workers' Compensation Commission (including its predecessors) was an agency of state government that operated through the Workers' Compensation Fund, a special revenue fund. Pursuant to the passage of Senate Bill 1004 in January of 2005, the system of providing workers' compensation was altered, and the system has transitioned into a private workers' compensation system. The Workers' Compensation Commission ceased to exist on December 31, 2005, as a State entity that was the sole provider of workers' compensation insurance in West Virginia. On January 1, 2006, the West Virginia Employers' Mutual Insurance Company, doing business as BrickStreet Mutual Insurance Company, became the sole provider of workers' compensation insurance coverage until July 1, 2008. On July 1, 2008, the workers' compensation insurance market opened to competition, and West Virginia employers may now elect to purchase insurance for workers' compensation coverage from any private carrier licensed to do such business by the State of West Virginia. BrickStreet assumed all liabilities of the Workers' Compensation Fund for dates of injury on or after July 1, 2005 and continuing until and through the opening of the private market.

The State retained all liabilities incurred prior to July 1, 2005, and those liabilities, as well as certain assets, were transferred into the Workers' Compensation Old Fund ("Old Fund"). As of June 30, 2008, the fund deficit in the Old Fund was estimated to be \$1.5 billion (liabilities discounted at five percent). Senate Bill 1004 included a plan to address the outstanding deficit formerly in the Workers' Compensation Fund and now residing in the Old Fund. The custodian of the Old Fund is the Treasurer of the State of West Virginia, and the Offices of the Insurance Commissioner serve as the administrator of the Old Fund. Several sources of revenue were dedicated to pay the liabilities of the Old Fund, including the following:

- a premium surcharge on workers' compensation policies;
- an assessment to self-insured employers;
- new severance taxes for extraction industries (coal, natural gas, and timber);
- excess lottery revenues; and
- \$95.4 million in personal income tax collections.

When combined, these revenue sources are estimated to yield approximately \$250 million annually and will remain in place until the Old Fund debt is eliminated.

The privatization of the system and the dedication of new revenues for the Old Fund have provided the State with an opportunity to properly manage the residual liabilities and eventually eliminate the deficit currently in the Old Fund.

It is important to note that several steps toward eliminating the deficit were previously taken in 2003 when the Legislature enacted major workers' compensation reform that has affected and will continue to affect the actuarially determined estimated liability for unpaid claims of the Old Fund. The legislation, approved as Senate Bill 2013:

- Changed the methodology regarding the determination of eligibility for and the computation of disability benefits in order to provide responsible benefit reductions;
- Provided for tighter control on health care expenditures;
- Provided for tighter control of premium dodgers and created an employer violator system.

On July 1, 2004, the West Virginia Supreme Court upheld a key piece of the 2003 legislation in the *Wampler Foods, Inc. v. Workers' Compensation Div.* (602 S.E. 2nd 805, W.Va., Jul 01, 2004) decision affirming that the new law enacted under Senate Bill 2013 will be applied to new awards on or after July 1, 2003, regardless of the effective

Long-Range Issues

injury date. As a result of this decision, a \$330 million reduction (due to Senate Bill 2013) recognized in the June 30, 2003, financial statements' discounted claims liability number was not modified, and an additional \$144 million related to the new law was recognized in the June 30, 2004, financial statements. Prior to privatization, these steps had a significant and positive impact on the ability to operate a solvent fund on a prospective basis.

State Retirement Systems

The Consolidated Public Retirement Board (CPRB) was created by legislation passed in 1990, effective July 1, 1991, to administer all of the state's public retirement plans.

In 1992, CPRB completed actuarial studies on the various retirement systems of the State of West Virginia to determine the amount of the systems' unfunded liabilities. At that time, the Teachers' Retirement System (TRS), the Judges' Retirement System (JRS) and the Public Safety Retirement System (Plan A) were found to have unfunded liabilities of \$2.89 billion, \$23.20 million, and \$107.30 million, respectively. The Public Employees' Retirement System (PERS) was found to be well-funded. The State committed to a plan to increase the funding of the underfunded plans as shown in the chart below. Contributions to the various retirement plans are made in such a manner as to satisfy the unfunded liabilities as follows:

- Teachers' Retirement System—Instituted a 40-year payment plan to be completed by June 30, 2034. The payment plan was revised in 1999 to provide that all improvements be funded over seven years from the improvement date. Effective in 2005, only retiree improvements of not more than one percent of liabilities are allowable and must be amortized over six years;
- Judges' Retirement System—Instituted a 25-year payment plan to be completed by June 30, 2018. Effective in 2005, active improvements are not allowable until after the payment plan is completed and retiree improvements are limited to one percent of liabilities and must be amortized over six years. The payment plan was completed July 1, 2007, 11 years ahead of schedule;
- Public Safety Retirement System (Plan A)—Instituted a 30-year payment plan to be completed by June 30, 2025. Effective in 2005, active improvements are not allowable until after the payment plan is completed;

The unfunded actuarial liability for each plan is as follows:

	July 1, 2007, Actuarial Valuation Unfunded Actuarial Liability		2007 Results Projected UAAL to July 1, 2008	
PERS	\$132,755,000	(97.0% funded)*	\$678,021,000	(85.3%)
TRS	\$3,476,718,000	(51.3% funded)*	\$4,025,909,000	(50.7%)
JRS	\$(8,109,000)	(108.4% funded)*	\$1,380,000	(98.6%)
Public Safety—Plan A	\$14,384,000	(97.3% funded)*	\$92,967,000	(83.2%)
State Police—Plan B	\$436,000	(98.9% funded)*	\$8,128,000	(83.6%)

*Per plan, funded percentage of plan assets as a percent of actuarial accrued liabilities, including projected salary increases.

Note: Public Safety—Plan B was enacted March 12, 1994.

The 2007 Results Projected to July 1, 2008, project the July 1, 2007, Actuarial Valuation results recognizing actual investment experience, actual contributions, and actual distributions for each plans' trust fund as reported by the Investment Management Board for the year ending June 30, 2008. The July 1, 2008, Actuarial Valuations will include the remaining actual experience for each plan when the valuations become available, including investment return, salary scale, mortality, and turnover.

The projected July 1, 2008, results for TRS include the full impact of the transfer of 14,925 active TDC members and 289 inactive TDC members into TRS, effective on July 1, 2008, and August 1, 2008.

Long-Range Issues

During 2005, pension reform legislation was passed to limit certain benefit improvements and to require adequate funding for any improvements that are granted. In addition to the limitations noted above, PERS and State Police—Plan B may not improve benefits for active members unless the funded percentage is 85% or higher on their last actuarial valuation. Retiree improvements are also limited to one percent of actuarial liabilities. When determining the adequacy of the employer contribution rate to fund these plans, any active member improvements must be amortized over ten years, and retiree improvements must be funded over six years.

The State has made considerable efforts to pay down the unfunded liability in the Teachers' Retirement System Plan A. Tobacco settlement bonds were sold in 2007, and proceeds of \$807 million were applied to the system. Also during FY 2005–2008, an additional \$707 million of surplus revenues were directed to the system. This additional funding has improved the unfunded liability from 22% funded in FY 2004 to 50% funded by the end of FY 2008.

Summary

Over the last 15 years, the groundwork has been laid for an infrastructure geared toward economic development:

- Imposed fiscal discipline in funding the state's retirement systems, health care plans, and workers' compensation costs
- Performed a statewide overhaul of school facilities and established measurable performance standards for all grade levels
- Replaced an inefficient, costly, and outdated system of county jails with a modern, efficient, and effective system of regional jails, along with the renovation and construction of prisons and juvenile facilities
- Addressed water and sewer project needs through bond financing and cost-sharing with federal grant and loan programs
- Focused state transportation network improvements in areas that leverage the state's proximity to thriving markets such as Columbus, Ohio, and Washington, D.C.

Continued progress is needed. West Virginia must continue the transition to jobs based on technology and education. Improvements to all facets of our infrastructure (roads and schools, workforce, health care systems) are the key to accomplishing that transition. The Governor and Legislature share a commitment to making those improvements.

Transportation Economic Trends

Highway Infrastructure

The need for an effective highway network touches every citizen of West Virginia and the United States. Virtually every aspect of daily life depends on adequate roadways being in place. Whether it is for transporting children to school, getting to work, or delivering goods and materials across the country, an adequate highway network enables individuals to experience a higher quality of life by improving access to social, economic, educational, and recreational opportunities.

In West Virginia, the responsibility for building and maintaining approximately 92% of the highway system falls on the West Virginia Division of Highways (WVDOT), whose primary funding source is the State Road Fund. The state revenues that support that fund are inadequate. Higher fuel prices have caused consumers to purchase more fuel-efficient vehicles and to reduce miles driven. At the same time, maintenance and construction costs continue to escalate rapidly, due to significant increases in steel, concrete, and all petroleum-based products. As costs rise, the amount of work that can be undertaken with projected revenues decreases. At currently projected revenue levels, the fund's purchasing power, when adjusted for inflation, will shrink roughly 24% from FY 2009 to FY 2014. This loss will make it difficult to make significant gains in highway programs.

Funding from the Federal Highway Administration (FHWA) could change substantially over the next few years. The Safe, Accountable, Flexible, and Efficient Transportation Equity—A Legacy for Users (SAFETEA-LU), which was a six-year bill, expires at the end of FFY 2009, and Congress must pass a new multi-year funding act. The federal Highway Trust Fund (HTF), the source of that funding, is suffering from the same problems that face the State Road Fund. Massive declines in fuel consumption, caused by higher fuel prices, more fuel-efficient vehicles, and the staggering national economy, have vastly reduced federal fuel tax revenues and future revenue forecasts. Consequently, the new legislation could contain reduced funding levels. Even worse, due to the lower revenues, the HTF currently is projected to be insolvent in federal fiscal year 2009. Should that occur, reimbursement for expenditures on approved federal projects will be delayed, conceivably for an extended period of time, and federal funding of new projects will cease. As the State Road Fund attempts to absorb those costs, system preservation will continue to decline.

According to the Bureau of Business and Economic Research, at West Virginia University, "Road, bridge, and tunnel construction impacts businesses in every sector of the state economy. For every \$1 million of highway construction, there are 15 jobs created, with \$485,000 in employee compensation, and an additional \$900,000 of business sales in the state. These impacts do not include any benefits or lower costs associated with reduced travel time, reduced accident rates, etc. that are realized from an improved transportation network." Conversely, the inability to fund these programs adequately affects the quality of highway infrastructure.

Existing roads and bridges deteriorate, and construction of new infrastructure is delayed. Since the condition of highway infrastructure is often a major factor in economic growth, the state potentially faces a loss in development. Additionally, declines in the division's various construction and paving programs will reduce the number of projects awarded to private contractors and consulting firms. This could result in a reduction in their workforces, which also would have a negative impact on the state's overall economy.

Unless the State Road Fund is able to substantially increase its revenues, the long-term forecast is for reduced construction and maintenance, accompanied by a decline in the condition of the state's highway infrastructure and a negative impact on the overall economic condition of the state.

Rail Transportation

Over 3,500 jobs are directly impacted by the rail service provided by the South Branch Valley Railroad (SBVR). In FY 2008, freight hauling and associated revenue continued to grow, partly because the high cost of diesel fuel makes rail transportation a more economical form of transportation. Greer Limestone shipped 90 additional cars,

Transportation Economic Trends

due to the company's decision to continue shipping by rail instead of truck. The SBVR pulled 67 third-party rail cars for a new customer, Appalachian Railcar Services, Inc., a railcar repair shop. It is temporarily leasing a portion of SBVR's rail yard in Moorefield but plans to open a new and larger facility in Petersburg in FY 2009. Long-term, this business expects to repair over 700 railcars per year. As the business grows, over 30 new jobs with benefits will be created, generating economic growth for the area and increasing SBVR's revenues as it continues to pull the cars to and from the shop.

While the high cost of diesel fuel has made rail service the transportation choice of more businesses, the SBVR is concerned about the volume of future shipments by Pilgrim's Pride, its largest customer. The poultry industry has been unstable over the past few months because of increases in the cost of feed grains and a reduction in demand for chicken on the open market. Pilgrim's Pride, the largest chicken producer in the United States, has reduced production at its Moorefield processing plant 10%. To date, rail shipments have remained steady because its feed mill is producing the same amount of feed as in the past and is selling that feed to Purdue Farms, another poultry producer, as well as to its own poultry growers. The value of its stock has declined tremendously over the past year, however, and the stock is not faring as well as that of its competitors.

The amount of freight hauled on the West Virginia Central Railroad (WVCR) has increased. The operator is continuing to meet with potential shippers, and additional freight shipments, such as coal and aggregates, are still viable growth options.

The rail lines also contribute to the tourism industry. The SBVR track is used by the Potomac Eagle, a tourist train operation that continues to successfully work with the local communities to expand tourism business in the valley. The WVCR's operator promotes and markets that line. In FY 2008, the number of tourist passengers on the WVCR increased once again. The rehabilitation of the Elkins Depot and the Elkins Railroad Yard is a testament to what this train service has done for the community. The opening of the Elkins Railroad Bridge provided the passenger train with direct access to the depot and downtown. Due to the large number of tourists that ride this train, the downtown area of Elkins is seeing more businesses locate in that area. Both a Holiday Inn Express and Hampton Inn were built to meet the needs associated with increased tourism. The 525-seat theater is doing well, teaming with the WVCR's operator to provide package deals to bus groups. A new restaurant will be in place by the Spring 2009, which will add to the services the railroad and adjoining businesses can offer. All of this development is attributable to the tourism growth the railroad has provided. Combined, they provide more jobs and more tax revenue in the area.

While both rail lines contribute significantly to economic growth, at this time neither generates enough freight revenue to pay for needed capital improvements and large continual maintenance projects. If the tracks are allowed to deteriorate, shippers will be forced to seek alternative transportation. Their increased costs will threaten operations, and the overall economy of the regions will decline, dramatically so in the South Branch Valley. The costs associated with unemployment, loss of tax revenues, and the "ripple effect" will significantly impact the state's revenue collections. Consequently, it is critical that the State of West Virginia continue to provide funding support so the track rehabilitation and maintenance programs can continue.

Public Transportation

The National Business Coalition for Rapid Transit indicates that transit access is essential for the nation's economic health and prosperity. It connects workers to jobs, relieves traffic congestion, reduces energy consumption, and generates jobs and a significant return on investment. In FY 2008 over 5.8 million passengers used public transit statewide, resulting in a 7.6% increase from the previous year. The volatility of gasoline prices makes it likely that the demand for these services will increase.

As the state's population continues to age and remain active but is limited in its ability to drive, mobility issues loom as a major concern for the state. The U.S. Census Bureau estimates that by the year 2030, 20% of the U.S.

Transportation Economic Trends

population will be 65 or older. A United States Government Accountability Office report (GAO-04-971) on transportation-disadvantaged seniors indicated that state governments must plan for alternatives to driving as seniors age and must work toward accommodating seniors' varied mobility needs. Community transportation systems which benefit all individuals are critical to the state's citizens who either do not have the income level to own a vehicle or are not legally permitted or physically able to drive a vehicle.

In spite of the critical link between public transportation and community vitality, public transportation's role in creating economic opportunity and economic development is often overlooked. The presence of mobility options that connect people to jobs, shopping, medical appointments, and other quality of life destinations greatly affects a community's health, wellbeing, and potential. Providing viable transit opportunities is critical to the growth and quality of life of West Virginia's citizens.

The future of transit and the addition of new service areas in West Virginia will be heavily dependent upon the investment that the state and federal governments make. The Safe, Accountable, Flexible, and Efficient Transportation Equity – A Legacy for Users (SAFETEA-LU), which provides federal funding through FFY 2009, is up for reauthorization in August, 2009; however, funding issues concerning both the highway and mass transit trust funds make it unlikely that the program will be reauthorized until 2010. Significant changes are being proposed in the federal transit programs, but given increased fuel costs, the renewed interest in public transit, and the emphasis on global warming, it is anticipated that transit will experience a significant increase in funding in reauthorization. How the program will be reconfigured is still being considered, but it is likely that some programs will be combined with others and new ones will be created.

Under the reauthorization of the federal transit program, there is great potential for expansion of existing services or development of new ones that will contribute to the economic vitality of the state. These federal funds, however, require state or local matching dollars. While the local programs have been creative in reducing costs and securing matching funds, increasing costs, particularly fuel prices, make reductions rather than expansions of public transit service a continuing possibility.

Aviation

Aviation is a critical part of West Virginia's and the nation's transportation system. General Aviation and Commercial Service airports provide jobs and contribute to the growth of West Virginia's economy. By leasing hangar space, selling aviation fuel and providing maintenance on aircraft, airports provide additional taxes to the state and local economy.

With the high cost of aviation fuel, airline fares continue to increase. Airlines are now charging customers for checked baggage, snacks, pillows and blankets. Due to higher ticket costs, additional costs for incidentals, and the current economic turmoil, West Virginia passenger numbers have declined. Although it is anticipated that airline fares will eventually decrease and that the recent Delta/Northwest merger will ultimately benefit West Virginia, at this point, airport revenues continue to decline and it may be some time before an increase is seen.

The West Virginia Aeronautics Commission provides matching funds to airports for Federal Aviation Administration (FAA) airport improvement projects and other federal aviation grants. Under current federal legislation, West Virginia receives over \$33.5 million yearly, which requires over \$1.8 million in state or local matching funds. Many of the projects involve extended construction or maintenance of runways, taxiways, approaches and terminals as well as the construction of aircraft rescue and firefighting buildings, the purchase of firefighting and snow removal equipment, and consultant design and planning services. The FAA expects this level of funding to continue for several years so continued economic benefits are anticipated. In September 2008, Congress passed a six month extension of the FAA and Airport Improvement Program (AIP) funding which is set to expire on March 31, 2009. As Congress continues to debate the reauthorization of the FAA, it is being urged to pass a multi-year Airport Improvement Program (AIP) at the maximum levels that can be sustained by the

Transportation Economic Trends

Airport and Airway Trust Fund. Airport infrastructure funding is vital to maintaining essential safety and capacity improvements.

If Congress should provide less funding for airports in 2009, the Aeronautics Commission would need to provide additional funds to airports to assist with the completion of ongoing projects and with new projects. Business and leisure travelers and commerce depend on air service and airports. If the Aeronautics Commission is unable to provide continued funding assistance to maintain and improve West Virginia's system of airports, the state and the counties would be negatively impacted.

Intermodal Transportation

The operation of inland intermodal container ports has stimulated local economic growth through private investment in warehousing distribution centers and associated activities, such as freight movement. The ability to ship from these facilities has enabled local and regional businesses to save an estimated \$3–\$10 million annually in shipping costs, which are then available for reinvestment.

Included in the Safe, Accountable, Flexible, and Efficient Transportation Equity Act—A Legacy for Users (SAFETEA-LU) is the development of the Heartland Corridor. The Heartland Corridor initiative consists of a series of railroad tunnel clearance projects designed to enable double-stacked containers to move through the corridor, significantly improving mobility and increasing rail freight capacity from port facilities in Virginia to Columbus, Ohio, and all points west. The economic vitality of the region is expected to strengthen, and the efficiency and capacity of the nation's transportation network will be enhanced. Twenty-three tunnels in West Virginia will be cleared from early 2008 through mid-2010. The projects are funded from \$90 million in federal and \$49.5 million in private sector (Norfolk Southern Railroad) investment.

Another possible benefit of the Heartland Corridor project is the need for rail distribution centers. The development of such a facility at Prichard, West Virginia, is being studied. The center has the potential to create over 25 construction jobs and, upon opening, 20 full-time permanent jobs. Estimates suggest that the cost to develop the center will range from \$32 to \$40 million. A \$1 million donation by Norfolk Southern to the West Virginia Public Port Authority represents an initial private sector contribution to the project. Clearance of the tunnels and possible operation of a distribution center will enable local companies to enter the global supply chain at a significant cost savings, making their products more competitive in the global marketplace. Additionally, the center potentially will attract importers because it will provide a more direct route between the eastern seaboard and Midwest markets. Conceivably, capital investment in import distribution centers could total over \$500 million, leading to the creation of 700 to 1,000 new jobs providing an annual income of \$17 million in the region.

Currently, the State of West Virginia is in a negotiated sale with the United States General Services Administration which owns the Point Pleasant Defense Logistics Agency rail/truck depot at Pt. Pleasant, West Virginia. This acquisition would represent a low-cost transportation alternative in and out of the state. Additionally, with the purchase of the adjacent property to the south, barging services will be added to the facility. These acquisitions will further enable West Virginia companies to become more competitive.

Division of Highways—Long Term Debt

The Division of Highways (DOH) is the only West Virginia Department of Transportation agency with long-term debt. In FY 2005, the DOH refinanced approximately \$320 million of Safe Road bonds as an advance refunding. This advance refunding was undertaken to reduce total debt service payments over the next 20 years by \$19.689 million, and resulted in an economic gain of \$18.821 million.

Transportation Economic Trends

As of June 30, 2008, DOH had the following outstanding General Obligation bonds (principal and interest), payable from the State Road Fund:

	Final Maturity	Balance
1998 Safe Roads Bonds (\$220 mil)	2023	\$ 57,242,501
1999 Safe Roads Bonds (\$110 mil)	2009	\$ 2,402,210
2001 Safe Roads Bonds (\$110 mil)	2013	\$ 53,700,956
2005 Safe Roads Bonds Refinancing	2025	<u>\$ 447,826,250</u>
	Total Debt	\$ 561,171,917

Although the debt service associated with the issuance of special obligation notes to expedite construction on US 35 is not a DOH debt, it is prudent to present information regarding their issuance. The Commissioner of Highways, under authority granted in W. Va. Code §17-17A, can issue up to \$200 million in special obligation notes. In October 2006, DOH issued \$75.97 million of these notes, and in April 2007, another \$33.19 million was issued. Both issuances have a final maturity in FY 2016. Through two innovative federal financing mechanisms—Grant Anticipation Revenue Vehicle (GARVEE) financing and federal toll credits—DOH will pay the debt service associated with the notes (\$133.9 million) with 100% federal funds. The GARVEE financing mechanism permits the debt service to be paid with future federal-aid highway funds that DOH expects to receive. The agency anticipates issuing approximately another \$75 million of notes in early 2009. The debt service for those notes also will be funded with future federal-aid highway funds. Although DOH fully anticipates that sufficient future federal-aid highway funding will be available to make all payments, the debt service remains a contingent liability of the State Road Fund. If future federal-aid funds are insufficient, DOH will be required to commit cash from the State Road Fund to cover any shortfall in debt service funding.

Budget Overview

The Executive Budget Process Policy

The budget process begins approximately one year prior to the beginning of the fiscal year for which appropriations are being made. The state fiscal year begins July 1 and ends on June 30.

The Secretary of Revenue, along with the Governor's Office and the State Budget Office, develops guidelines to be used by the various spending units when submitting their appropriation (budget) requests that are due by law on September 1. These guidelines establish a "current level" or base budget for each department/bureau/commission/division.

For all appropriated accounts, the "current level" for FY 2010 is defined as the same amount of funds the department/bureau/commission/division has for the current fiscal year (FY 2009) less any one time appropriations. For the FY 2010 budget request, the department/bureau/commission/division is permitted to move funds between appropriations, programs, or agencies within the department; however, there can be no increase in the total request over the current year's appropriation with the exception of the legislative and judicial budgets and statutory increases (such as for the Department of Education). The "current level" request allows department/bureau/commission/division heads to redirect their limited amount of resources to the highest priority areas without an increase in their total budget.

All appropriation requests that are above the "current level" must be submitted as a separate "improvement package" stating the purpose, benefits and needs of the additional funding. Each such improvement above the "current level" is considered individually.

Appropriation requests are reviewed by the Secretary of Revenue, the State Budget Office and the Governor's Office and budget hearings are generally held with the departments/bureaus/commissions/divisions to discuss their requests. During these budget hearings, the departments/bureaus/commissions/divisions have the opportunity to provide the Governor's Office and the Department of Revenue with additional information to support their requests, answer questions, and bring to the forefront any specific needs such as legislative and federal mandates or court ordered funding.

These budget hearings also provide the time to discuss, in general terms, any future capital projects and funding options. All the departments/bureaus/commissions are required to submit capital expenditure plans with their appropriation requests. These plans summarize projects budgeted for the current fiscal year, requested for the next fiscal year, and estimated for future years. This allows the state to apply sound financial planning for future capital needs.

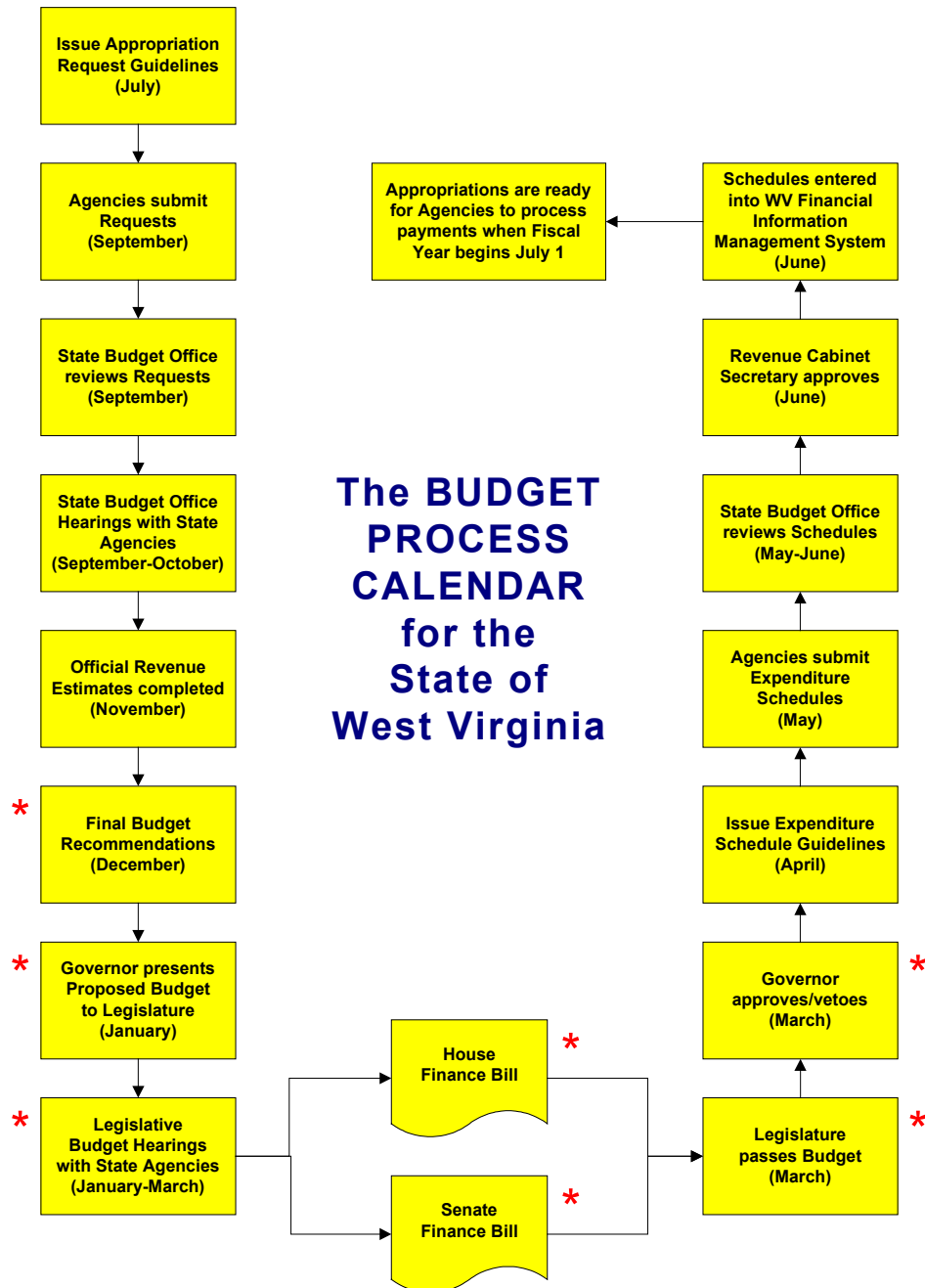
Balanced Budget

After the budget hearings, the official revenue estimates for the upcoming budget year are finalized. The Governor then makes budget recommendations based upon program priorities, requirements, court orders, and the availability of funds. The Governor, under the authority of the Constitution of West Virginia, has the sole responsibility to establish the official revenue estimates of the State. The budget is developed on a cash basis, including only revenues and expenditures expected to be realized during the fiscal year plus any surplus balance from previous fiscal year available for appropriation. The Governor is not legally required to submit a balanced budget; however, as a matter of practice, the Governor submits a budget that is balanced. A "balanced budget" recommends and appropriates only those revenues recognized in the "official revenue estimates" as provided by the Governor and may also include any unappropriated surplus balances available from the prior year.

The Constitution of West Virginia requires the Governor to submit a proposed budget to the Legislature on the second Wednesday of January of each year, except the year following a gubernatorial election, at which time the budget is to be submitted on the second Wednesday of February.

Budget Overview

The Governor's Executive Budget consists of the *Operating Detail*, the *Budget Report*, and the Budget Bill. The *Operating Detail* contains organizational charts, descriptive narrative information for every department/bureau/ commission, division, and program, detailed financial information related to actual expenditures, current budget, and requested appropriations by program and by fund, economic forecast, capital projects, and a profile of the State. The *Budget Report* contains the executive message, financial statements and the budget plan. The Budget Bill includes the language required to legally enact the budget or appropriations bill.



Budget Overview

The *Operating Detail* and the *Budget Report* both contain summary financial statements that include the official revenue estimates for the state along with available fund balances, actual prior year expenditures, current year budgeted amounts, and the Governor's recommendations for the next fiscal year.

The Legislative Budget Process Policy

After the Executive Budget is presented by the Governor to the Legislature, it is referred to the House of Delegates (House) and Senate Finance Committees for their review and consideration. Each finance committee also holds budget hearings with the departments/bureaus/commissions/divisions to determine their recommended level of funding for the upcoming fiscal year. The House and Senate Finance Committees will each pass a Budget Bill and present it to their respective legislative bodies for full approval. Once the House and Senate have passed their individual bills, they are compared with each other and the differences are noted. The Budget Bills are then referred to the Budget Conference Committee which is made up of members appointed from the House and Senate Finance Committees. The Conference Committee works out any differences, agrees to a single budget and, once again, presents it to their respective legislative bodies for full approval.

The Legislature is legally required to pass a balanced budget, meaning that estimated revenues and unappropriated fund balances must be equal to or greater than the appropriations.

If the budget has not been passed by the Legislature three days before the expiration of its regular 60 day session, the Governor shall issue a proclamation extending the session for such further period as may, in his or her judgment, be necessary for the passage of the Budget. The extended session begins immediately following the expiration of the regular 60 day session. During the extended session, no bills or matters other than the budget may be considered, except a bill to provide for the cost of the extended session.

The Budget Bill must be passed by a majority of the members of each legislative body and presented to the Governor. The Governor may veto the bill or disapprove or reduce items or parts of items. If approved, it becomes law. Items or parts disapproved or reduced by the Governor are returned, stating the objections, to each house of the Legislature.

Upon passage by the Legislature, the Budget Bill becomes the Budget Act and appropriates, by spending unit, the funds required to operate state government for the next fiscal year.

Any Budget Act items or parts thereof which have been vetoed by the Governor may be restored by two-thirds vote of each house of the Legislature. The Budget Act must be approved or disapproved within five days (Sundays excepted) after it has been presented to the Governor. Should the Governor fail to approve or disapprove it within the allotted five-day period, the Budget Act will become law as if the Governor had signed it.

Budget Amendment Policy

Supplemental Appropriation Bills

The Budget Act may be amended at a later date by the Legislature by the introduction of a supplementary appropriation bill. Each supplementary appropriation bill must be for a single purpose or object and shall provide the source of revenue necessary to pay the appropriation, unless there is sufficient revenue currently available.

A supplementary appropriation bill will generally be introduced in either the House or Senate Finance Committees by a member or members of the committee. The Governor may also request a member of the Legislature to introduce a supplementary appropriation bill "By Request of the Executive." A supplementary appropriation bill may increase or decrease the current appropriation, create a new appropriation, or otherwise amend the Budget Act by changing or correcting language that directs the expenditure of appropriations.

Budget Overview

A supplementary appropriation bill must follow the same procedures and requirements necessary to adopt the original budget.

Budget Act Specific Transfer Language

In addition to the legislative amendment process, the Budget Act contains specific language allowing:

- Department secretaries the authority to transfer not more than five percent of any General Revenue appropriation between various agencies within the department or bureau.
- Any spending unit to transfer “personal services” and “employee benefits” to other appropriations within the same account.
- Any spending unit in any fund to transfer “personal services” and “unclassified” to “employee benefits.”
- The Budget Bill also requires the payment for the Board of Risk and Insurance Management (BRIM) premiums and payments for employee benefits to be paid or transferred from various sources should the appropriations be insufficient.

The commissioner of the Division of Corrections has specific authority to transfer funds between the individual correctional units and from the correctional units to “Payments to Federal, County, and/or Regional Jails” or “Inmate Medical Expenses.”

The director of the Division of Juvenile Services has specific authority to transfer funds between individual juvenile centers.

The secretary of the Department of Health and Human Resources may also transfer up to five percent of funds appropriated to one item to another item(s) within the Division of Human Services provided, however, that funding for “Personal Services” (salaries) may not be increased.

Legislative and Judicial Amendments

The Legislative and Judicial branches of government may make other budget transfers as adopted in the joint rules of the Legislature and the rules of the Supreme Court.

Governor's Increased Spending Authority Authorization

Appropriated Special Revenue accounts and Federal Fund accounts may be increased by the Governor as authorized by the West Virginia Code.

Special Revenue

W.Va. Code §11B-2-18 authorizes the Governor to increase the spending authority for accounts which are funded “from collections” (Special Revenue) provided the amount actually collected exceeds the amount authorized for expenditure by the Legislature.

The spending officer must submit a plan of expenditure showing the purpose for which the funds are to be expended and a justification statement showing the reasons why the additional expenditure is necessary and desirable.

If the Governor approves the plan of expenditure and justification statement and is satisfied the expenditure is required to defray the additional cost of the service or activity of the spending unit, the Governor may authorize the use of the additional funds. If the Governor intends to authorize the additional spending, notification of the intent is provided to the President of the Senate, the Speaker of the House, and the Chairmen of the Senate and the House Finance committees providing them a three week opportunity for review and concurrence. If there are any questions or issues regarding the need for additional spending authority, all parties work together to reach a mutual

Budget Overview

agreement on the issue. If the agreement is to proceed with the authorization, notices of such authorization are sent to the State Auditor, the State Treasurer, and the Legislative Auditor.

Federal Revenue

W.Va. Code §4-11-5 authorizes the Governor to increase the spending authority for federal accounts.

If additional Federal Funds become available to the spending unit while the Legislature is not in session and the availability of such funds could not reasonably have been anticipated and included in the budget approved by the Legislature, the Governor may authorize, in writing, the expenditure of such funds in the same manner as Special Revenue funds described above. However, the Governor may not authorize the expenditure of such funds received for the creation of a new program or for a significant alteration of an existing program. A mere new source of funding of federal moneys for a program that has been approved by legislation is not considered a new program or a significant alteration of an existing program, and the Governor may authorize the expenditure of such funds.

The Governor submits to the Legislative Auditor two copies of a statement describing the proposed expenditure of such funds in the same manner as it would be described in the state budget and explain why the availability of such Federal Funds and why the necessity of their expenditure could not have been anticipated in time for such expenditures to have been approved as part of the adopted budget.

Financial Related Policies

Accounting and Auditing Procedures

The financial activities of the State are accounted for in individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. For financial reporting purposes, the reporting entity is divided into the primary government and the discretely presented component units.

The modified cash basis of accounting is the budgetary basis of accounting followed for the General Revenue Fund. The major modification from the cash basis is that a 31-day carry-over period is provided at the end of each fiscal year for the payment of obligations incurred in that year. All balances of the General Revenue Fund appropriations for each fiscal year expire on the last day of such fiscal year and revert to the unappropriated surplus of the fund from which the appropriations were made, except that expenditures encumbered prior to the end of the fiscal year may be paid up to thirty-one days after the fiscal year end; however, appropriations for buildings, land, and capital outlays remain in effect until three years after the passage of the act by which the appropriations were made. The State Auditor reviews all transactions of all funds to insure that an appropriation for expenditures has been made, there is a balance in the appropriation sufficient to cover the expenditure, and evidence of services rendered or materials received supports the claim against the State.

The West Virginia Code requires an annual audit by independent certified public accountants. In addition to meeting the requirements set forth in West Virginia Code, the audit is also designed to meet the requirements of the Federal Single Audit Act of 1996 and the U.S. Office of Management and Budget Circular A-133, as amended. Generally accepted auditing standards set forth in the General Accounting Office's Governmental Auditing Standards are used by the auditor's in conducting the engagement.

The Legislative Auditor compiles fiscal information for the Legislature; makes a continuous audit and analysis of the State budget, revenues, and expenditures; makes periodic post-audits of the revenues and expenditures of the spending units of the State government; reports any misapplication of State funds or erroneous, extravagant, or unlawful expenditures by any spending unit; and makes recommendations to the Legislature concerning the post-audit findings, the revenues, and expenditures of the State and the organization and functions of the State and its spending units. A copy of each audit report, when completed and certified by the Legislative Auditor, is filed with

Budget Overview

the Department of Administration as a public record and with the Attorney General for any action he may deem necessary.

Basis for Budgeting All Funds

The State's annual budget is prepared on a cash basis, a statutory basis of accounting not in conformity with generally accepted accounting principles (GAAP), modified only at year-end to allow for a 31-day period for the payment of obligations incurred in that fiscal year. The cash basis means that all revenue is recognized when actually received and that expenditures are recognized when paid.

Budgeted general government activities are summarized into the following budgetary funds: General Revenue Fund, State Road Fund, Federal Funds, and Special Revenue Funds. As required by Chapter 11B, Article 2, Section 4 of the West Virginia Code, the budget for each department/bureau/commission/division shall show all funds including those from regular and supplementary appropriations, federal funds, private contributions, transfers, allotments from an emergency or contingency fund, and any other expenditure made by or for the spending unit.

Because all funds available to a department/bureau/commission/division are included and presented as part of their total budgets, enterprise funds and other transfers may be "double-counted" in the budgets of several different spending units. Since the budgetary basis differs from GAAP, this causes the budgetary figures to exceed the amounts contained in the state's Comprehensive Annual Financial Report (CAFR).

The Governor's Executive Budget documents do not include quasigovernmental entities (e.g., West Virginia Parkways, Economic Development, and Tourism Authority; West Virginia Investment Management Board) along with certain other financial information that would be included in the West Virginia CAFR for reporting purposes but not directly appropriated by the Legislature.

The State's CAFR presents the State's finances in conformity with GAAP for governments. GAAP requires that the State's Proprietary Funds apply GAAP in a similar manner as applied to business activities in the private sector. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental and financial accounting.

Cash Management and Investment Procedures

The State Treasurer's Office is the bank of state government. The office maintains modern and efficient systems for the collection and disbursement of state monies. These services include paper and electronic lockboxes, electronic funds transfer (EFT) and credit card collections through Web-based systems and point-of-sale.

The State Treasurer's Office manages the state's banking relationships including the establishment of approved depositories, ensuring that all bank accounts are properly collateralized and general safekeeping through the use of a custodian. A reverse positive pay system is used to manage the state's disbursement account and to assist in the establishment of daily liquidity.

The West Virginia Constitution was amended at a special election held on September 27, 1997 to authorize investment of state and public funds in equities. Legislation specified various restrictions and limitations on the investments and places the authority for long-term investment trusts with the West Virginia Investment Management Board.

The West Virginia Board of Treasury Investments (BTI) is responsible for investing the operating funds of the state which are referred to as the Consolidated Fund. The State Treasurer is chairperson of this five-member board. The BTI maintains eleven investment pools. Three main pools are utilized for investing excess state cash and local government monies. The West Virginia Money Market Pool and the West Virginia Government Money Market Pool are both rated AA+ by Standard and Poor's. The West Virginia Short Term Bond Pool is a bond mutual

Budget Overview

fund and is used for investments which have a perceived longer investment horizon.

The Board contracts with professional investment advisors to manage the portfolios within the Board approved investment policy guidelines. The BTI staff is responsible for the investment accounting and reporting as well as estimating the daily amount available to invest. The Board also employs an internal auditor and contracts with a custodian and an investment consultant who provides performance reporting as well as policy guidance, due diligence assistance and manager searches.

Evaluation and Monitoring Procedures

In addition to the evaluation undertaken as part of the budgetary process, the State Budget Office conducts special analyses of the operations of State agencies. There are also reviews undertaken by the Legislative Auditor, who is appointed by the State legislature, and by internal programs within departments that monitor the achievement of budget objectives.

The budget is predicated on estimates of revenues by sources that are evaluated on a monthly basis. Subsequent to the passage of the Budget Bill, the Department of Revenue monitors and forecasts revenues to evaluate their flow and the accuracy of the estimates that have been made. The State Budget Office issues monthly revenue reports that reflect collections compared to the estimate and to the prior fiscal year. Various monitoring techniques are used to make sure that the revenue collections are sufficient to support the appropriations made by the Legislature. If the Governor believes the revenues may fall short of estimates, he must direct the State Budget Office to reduce pro rata all expenditures within his control in such degree as may be necessary to prevent a deficit, or he may convene the Legislature to request a supplementary appropriation from the Revenue Shortfall Reserve Fund. If the Governor determines that a pro rata reduction will dangerously impair essential services of government, he can instruct the State Budget Office to reduce expenditures from separate appropriations in accordance with a statutorily defined method. In addition, the Governor can, by executive action, institute certain other selective spending reduction measures as may be necessary to prevent a deficit.

Upon final approval of the budget, State agencies undertake the process of preparing expenditure schedules that must be filed with the State Budget Office and Legislative Auditor's Office. The expenditure schedules provide a detail of expenditure planning and include a request for quarterly releases of funds to meet such plans. Several large appropriations, such as the State Aid to Schools and Human Services are controlled on a monthly or daily basis for cash flow and control purposes. After review and approval, the schedules become the basis for expenditures by each agency during the upcoming fiscal year. The State Budget Office is responsible, during the year, for evaluating all proposed payroll changes, encumbering all planned expenditures and preventing expenditures from exceeding appropriations for each agency. The State Auditor and State Treasurer are prohibited by law from issuing a State check that exceeds the amount appropriated for any particular account. They also maintain accounts of the revenue collected and expenditures made pursuant to appropriation and reconcile their accounts on a monthly basis. Because of these records, the State Budget Office's encumbrance control is extended to cash control by the Auditor and Treasurer.

Risk Management

The State of West Virginia is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to and illnesses of employees; and natural disasters.

The State has obtained coverage for job-related injuries of employees by its participation in the private, employer-owned mutual insurance company BrickStreet Insurance. In exchange for the payment of premiums the State has transferred its risk related to job-related injuries for employees.

The State has obtained health coverage for its employees through its participation in West Virginia Public Employees Insurance Agency (PEIA) which provides the following basic employee benefit coverage to all participants: hospital, surgical, group major medical, basic group life, accidental death, and prescription drug

Budget Overview

coverage for active and retired employees of the State of West Virginia and various related State and non-State agencies. In exchange for the payment of premiums the State has transferred its risk related health coverage for employees.

The State participates in the West Virginia Board of Risk and Insurance Management (BRIM) to obtain coverage for general liability, property damage, business interruption, error and omissions, and natural disasters. Coverage is offered in exchange for an annual premium.

Asset Inventory Management

Agencies are responsible for all property under its jurisdiction, regardless of its state (removable or fixed), origin, or acquisition cost. Agencies are responsible for maintaining equipment from date of purchase to date of retirement and must ensure that equipment is secure, asset information is entered into the WVFIMS Fixed Asset system, conduct physical inventories, submit annual certification and retire assets properly.

Removable property is defined as equipment, machinery, furniture, and fixtures which are not attached to the land, building, or improvements and is capable of being removed. Fixed property is defined as fixtures attached to land, buildings, or improvements in such a way that removal alters the intended use of the facility or site.

Reportable property has been established at a capitalization figure of \$1,000 and useful life of one year or more. The exceptions are all firearms and computers which must be entered in the WVFIMS Fixed Asset system regardless of the cost.

All agencies are required to take a physical inventory once every three years, and shall have completed such physical inventory by June 30.

Compensated Absences

Accumulated vacation leave is recorded as an expense and a liability as the benefits accrue to employees. State employees earn sick leave benefits which accumulate but do not vest. When separated from employment with the State, an employee's sick leave benefits are considered ended and no reimbursement is provided. At the time of retirement, however, any employee enrolled in the West Virginia Public Employees Retirement System prior to June 30, 2001, may convert any unused or accumulated sick leave to pay a portion of an employee's post employment health care insurance premiums. If this option is not selected, the leave amount may be applied toward an increase in the employee's retirement benefits, with such sick leave counting as additional credited service in computation of such benefits. Any employee enrolled in the West Virginia Public Employees Retirement System after June 30, 2001, may not apply accumulated sick leave toward the cost of premiums for extended insurance coverage.

Performance Measurement in the Budget Process

State agencies are required to submit division-level performance measures as part of the appropriation request process.

Performance measures are a tool used by all levels of management, as well as the public, to determine whether a program is accomplishing its mission efficiently and effectively. Although every effort is made to provide services at the lowest possible unit, it is most important to ensure that an agency provides a measurable benefit to the citizens it is designed to serve.

The focus for the FY 2010 performance measures is to show the trend of the agency's performance for the three most current fiscal years (FY 2006 to FY 2008) and the performance-level objectives the program is trying to achieve in FY 2009 and FY 2010 based on current level funding. For the most recently completed year, both projected and actual performance data is shown to provide information on the success of the agency in meeting their goals.

Budget Overview

Although the performance measure data is generally expressed in terms of the State fiscal year (July 1 through June 30), occasionally the data is in either calendar year (January 1 through December 31), federal fiscal year (October 1 through September 30), or federal program year (depending upon the established guidelines for the program). If the performance measurement data is not in the State fiscal year, then only two years of the most recent data is shown rather than three years.

During the appropriation request process, the intent of performance measurement is to encourage cabinet secretaries/agency heads to internally review their programs and make their recommendations to the State Budget Office and the Governor regarding the best use of limited funds. The performance measurement process is not intended to provide information to a central organization (i.e., the State Budget Office or the Governor's Office) for the purpose of making recommendations on behalf of the agency.

Many grants, federal and other sources, currently require the use of performance measures as a condition to receive the grant funds.

Legislative Performance Review

The Legislature's Performance Evaluation and Research Division (PERD) operates under the authority of the West Virginia Performance Review Act, W.Va. Code §4-10-1. PERD also conducts performance reviews under authority of West Virginia Code §4-2-5, which gives the Legislative Auditor authority to examine the performance of every spending unit of the State. The division conducts evaluations of executive agencies in compliance with generally accepted government auditing standards. Results of the evaluations are reported to the Joint Committee on Government Operations during interim sessions of the Legislature.

The performance review process begins each year when the Legislature passes a bill that sets a schedule of agencies to be statutorily reviewed by PERD. Also, performance reviews other than statutorily required reviews can be initiated by the Joint Committee on Government Operations or the Legislative Auditor. There are three basic types of reviews under the Performance Review Act: 1) Agency Review; 2) Compliance Review; and 3) Regulatory Board Review.

Agency Reviews may address the following issues:

- Do activities of the agency duplicate or overlap those of other agencies?
- Does the agency effectively and efficiently carry out its statutory duties?
- A cost-benefit analysis on privatization of an agency's function.
- Should the agency be continued, consolidated or terminated?
- Would there be significant and discernible adverse effects on the public, health, safety or welfare if the agency were abolished?

Agency Reviews are on departments that have oversight over several agencies. Therefore, any of the agencies within the department's oversight can be reviewed for its performance.

Regulatory Board Reviews are conducted on regulatory boards of Chapter 30 of the State Code that regulate certain professions. A regulatory board must be reviewed at least once every 12 years. There are three primary determinations the evaluation must make:

- Does the board comply with the general policies and provisions of Chapter 30 of the State Code and other applicable laws and rules?
- Does the board follow a disciplinary procedure that observes due process rights and protects the public interest?
- Does public health and safety require that the board be continued or have there been changes since the initial creation of the board that warrant increased, decreased or the same degree of regulation?

Budget Overview

Compliance Reviews determine if an agency has complied with recommendations contained in a completed agency review or a regulatory board evaluation, or it may involve a further review of the agency. However, a compliance review must be requested by the Joint Committee on Government Operations specifying in writing the reasons for the compliance review and its expected completion date.

Upon receiving the evaluation report from PERD, the Joint Committee on Government Operations makes one of several possible recommendations. First, the audited agency may be terminated. Second, the audited agency may be continued and reestablished. Third, the statutes governing the audited agency may be amended in specific ways. Corrective legislation might address ineffective or discriminatory practices or procedures, burdensome rules and regulations, lack of protection of public interest, overlapping or duplicating jurisdictions, unwarranted exercise of authority either in law or in fact, or any other deficiencies.

Agencies subject to Performance Reviews in upcoming years are listed below.

- * 2009, the Department of Education and the Arts, including the Higher Education Policy Commission and the West Virginia Council for Community and Technical College Education
- * 2010, the Department of Revenue and the Department of Commerce
- * 2011, the Department of Environmental Protection and the Department of Military Affairs and Public Safety
- * 2012, the Department of Health and Human Resources and the Bureau of Senior Services
- * 2013, the Department of Transportation

Agencies subject to Regulatory Board Reviews are listed below.

- * 2009, Board of Hearing Aid Dealers; Board of Licensed Dietitians; and Nursing Home Administrators Board
- * 2010, Board of Dental Examiners; Board of Medicine; and Board of Pharmacy
- * 2011, Board of Chiropractic Examiners; Board of Osteopathy; and Board of Physical Therapy
- * 2012, Board of Occupational Therapy; Board of Examiners for Speech-Language Pathology and Audiology; and Medical Imaging and Radiation Therapy Board of Examiners
- * 2013, Board of Professional Surveyors; Board of Registration for Foresters; and Board of Registration for Professional Engineers

Human Resources

The Division of Personnel was created within the Department of Administration by statute in 1989 to provide leadership in human resource management for the executive operating agencies of state government, including administration of a merit system (i.e., civil service). A comprehensive system of personnel management is achieved through the integration of five functional areas administered by the director of personnel with oversight by a six-member State Personnel Board.

The **Classification and Compensation Section** establishes and maintains class specifications and classification plans based on job analysis and develops and maintains compensation plans that consider responsibility and difficulty of work, labor market competition, and internal equity.

The **Employee Communications and Information Section** provides information to employees and administrators on topics of statewide interest and importance, serves as liaison to the State Personnel Board, and provides administrative and fiscal support services for the division. It also establishes and maintains employee information systems and records for all employees and assures compliance with merit system standards and other applicable rules, policies, and procedures through a system of audits.

The **Employee Relations Section** formulates and interprets consistent personnel policies and procedures for employees and employers and provides technical assistance and consultation in grievance and disciplinary matters.

The **Organization and Human Resource Development Section** provides training and development programs for all state employees. In addition to providing advice and services for agency-specific training and development programs, the section administers the supervisor/manager training program policy.

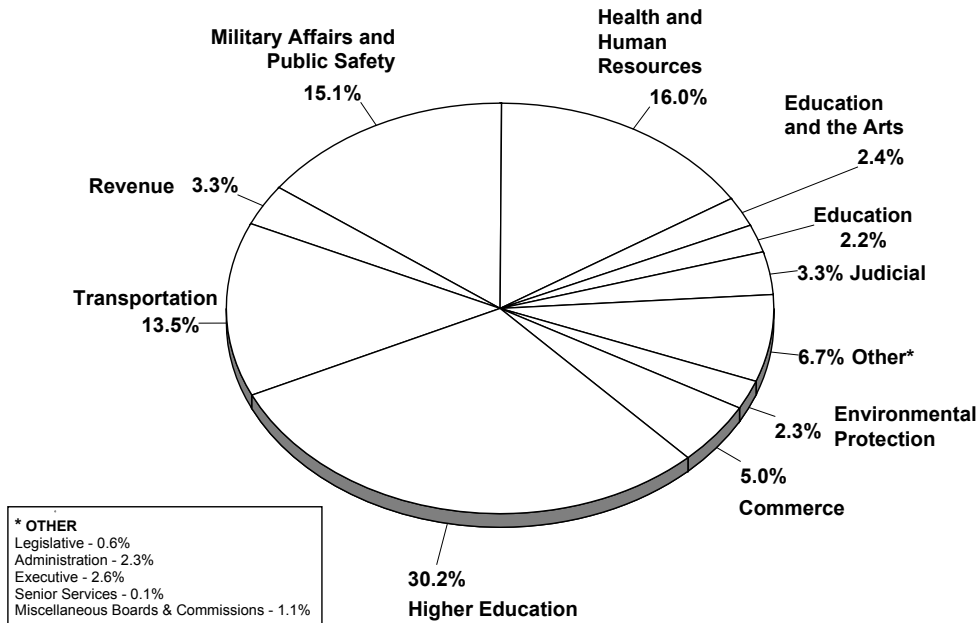
The **Staffing Services Section** provides information for individuals seeking employment with the state and administers an integrated system for recruiting, screening, and referring applicants for merit system and other employment in state government. The Section also has oversight responsibilities for assurance that promotions and interagency transfers comply with merit system standards as well as responsibility for research and development of job-related employment examination procedures.

As of November 30, 2008, the State had approximately 36,088 permanent filled full-time equivalent employees, including approximately 10,468 employed by the Higher Education Policy Commission and approximately 928 employed by the Council for Community and Technical College Education. Public school teachers and school service personnel for grades K-12 are not included in these totals, as they are county school board employees.

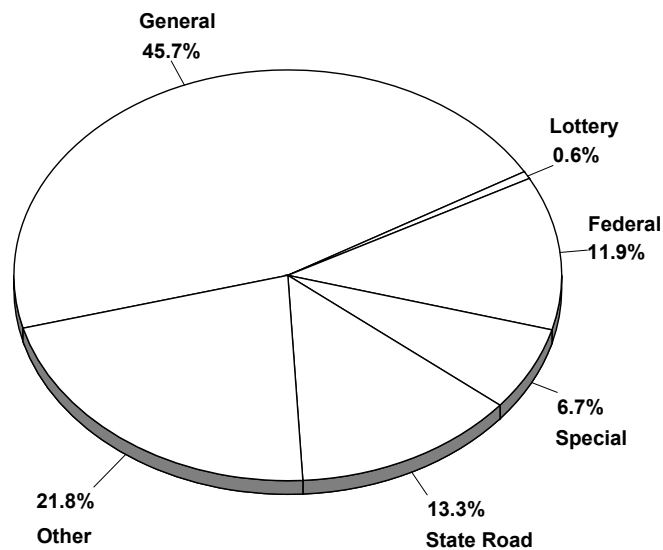
The State has undertaken a multiyear effort to reduce vacant full-time equivalents that have been unfilled for over a year. The FY 2010 Recommended Budget reflects a reduction of 25–33% of positions that were vacant for a year or more. General Revenue and Lottery Fund vacancies were cut 56 FTEs, \$2,242,017; Federal Funds were reduced 47 FTEs, \$1,803,489; Special Revenue (both appropriated and nonappropriated) were reduced a total of 135 FTEs, \$5,045,296. The dollars associated with the General and Lottery deleted positions were available for improvements in the FY 2010 budget.

Schedule of Recommended Budgeted Full-Time Equivalents (FTE) Permanent Positions FY 2010 38,792.76 FTEs

By Department



By Fund



Schedule of Budgeted Full-Time Equivalents All Funds

Permanent Positions FY 2008 through FY 2010

Department/Agency	FY 2008 11-30-2007	FY 2009 11-30-2008	FY 2010 Recommended
TOTAL BUDGETED FTE PERMANENT POSITIONS	38,460.68	38,916.07	38,792.76
LEGISLATURE			
Senate	39.00	39.00	39.00
House of Delegates	58.00	58.00	58.00
Joint Expenses	122.00	127.00	127.00
TOTAL - LEGISLATURE	219.00	224.00	224.00
TOTAL - JUDICIAL	1,222.85	1,277.85	1,277.85
EXECUTIVE			
Governor's Office	94.50	94.50	94.00
Auditor's Office	167.90	174.90	174.90
Treasurer's Office	133.50	143.15	143.15
Agriculture, Department of	350.80	355.75	354.70
Attorney General's Office	192.80	189.07	188.57
Secretary of State	54.00	55.00	54.00
TOTAL - EXECUTIVE	993.50	1,012.37	1,009.32
DEPARTMENT OF ADMINISTRATION			
Office of the Secretary	9.00	9.00	9.00
Consolidated Public Retirement Board	78.00	82.00	78.00
Finance, Division of	15.60	13.35	13.35
Information Services & Communications, Division of ¹	481.00	384.60	384.60
General Services, Division of	118.85	122.15	122.15
Purchasing, Division of	68.60	69.00	68.60
Board of Risk and Insurance Management	25.60	25.60	26.50
Education & State Employees' Grievance Board	10.00	11.00	11.00
Ethics Commission	5.75	5.75	5.50
Public Defender Services	13.00	16.00	16.00
Personnel, Division of	66.08	66.08	66.08
Public Employees Insurance Agency	39.80	41.90	40.00
WV Prosecuting Attorneys Institute	8.23	6.00	6.00
Children's Health Insurance Agency	8.60	8.60	8.60
Office of Technology	8.00	8.00	8.00
WV Retiree Health Benefits Trust Fund	21.06	18.96	18.96
Real Estate Division	5.15	7.85	7.85
TOTAL - ADMINISTRATION	982.32	895.84	890.19

¹ FY 2009 deleted 56 vacant positions.

FTE Schedule of All Funds (Continued)

Department/Agency	FY 2008 11-30-2007	FY 2009 11-30-2008	FY 2010 Recommended
DEPARTMENT OF COMMERCE ¹			
Office of the Secretary	5.00	5.00	5.00
Tourism, Division of	72.30	72.30	70.30
Forestry, Division of	122.75	119.75	117.75
Geological and Economic Survey	61.60	59.50	57.00
WV Development Office	120.35	118.00	114.30
Labor, Division of	113.00	112.00	111.00
Natural Resources, Division of	852.55	854.44	846.44
Miners' Health, Safety and Training, Division of ²	133.00	133.00	138.00
Board of Coal Mine Health and Safety	2.00	1.60	1.60
WORKFORCE WV (formerly Employment Programs) ³	435.61	465.07	454.07
Energy, Division of	12.00	12.00	12.00
Governor's Workforce Investment Office ³	29.60	0.00	0.00
TOTAL - COMMERCE	1,959.76	1,952.66	1,927.46
¹ FY 2010 recommendation deleted 30.2 FTE vacancies departmentwide.			
³ FY 2010 recommendation added five FTEs for additional mine inspectors.			
² FY 2009 combines Governor's Workforce Investment Office and WORKFORCE WV.			
DEPARTMENT OF EDUCATION			
Education, State Department of ¹	562.20	597.20	598.69
WV Schools for the Deaf & the Blind	217.70	217.70	217.20
State FFA-FHA Camp & Conference Center	37.80	37.80	37.80
School Building Authority ²	10.00	10.00	11.00
TOTAL - EDUCATION	827.70	862.70	864.69
¹ FY 2010 recommendation includes 5.5 FTEs for the Youth Academy.			
² FY 2010 recommendation includes one FTE for architectural services section.			
DEPARTMENT OF EDUCATION AND THE ARTS ¹			
Office of the Secretary	28.10	28.10	27.60
Culture and History, Division of ²	115.47	115.17	118.07
Library Commission	55.90	56.00	55.00
Educational Broadcasting Authority	98.50	98.50	96.50
Rehabilitation Services, Division of	613.50	613.50	610.50
TOTAL - EDUCATION AND THE ARTS	911.47	911.27	907.67
¹ FY 2010 recommendation deleted 8.4 FTE vacancies departmentwide.			
² FY 2010 recommendation includes eight new FTEs for West Virginia State Museum and does not include 3.20 FTEs previously funded with reappropriated funds.			
DEPARTMENT OF ENVIRONMENTAL PROTECTION			
Air Quality Board	1.30	1.30	1.30
Environmental Protection, Division of ¹	892.63	902.65	888.98
Environmental Quality Board	1.70	1.70	1.70
Solid Waste Management Board	13.00	13.00	12.50
Oil and Gas Conservation Commission	2.50	1.50	1.50
TOTAL - ENVIRONMENTAL PROTECTION	911.13	920.15	905.98
¹ FY 2010 recommendation deleted seven FTEs from vacancies.			

FTE Schedule of All Funds (Continued)

Department/Agency	FY 2008 11-30-2007	FY 2009 11-30-2008	FY 2010 Recommended
DEPARTMENT OF HEALTH AND HUMAN RESOURCES			
Office of the Secretary ¹	6.42	7.52	7.52
Barbers and Cosmetologists, Board of	9.00	9.00	9.00
Health, Division of ²	2,671.23	2,662.12	2,656.12
Health Care Authority	51.00	50.80	49.80
Human Rights Commission	31.00	31.00	31.00
Human Services, Division of ³	3,481.58	3,496.63	3,460.63
TOTAL - HEALTH AND HUMAN RESOURCES	6,250.23	6,257.07	6,214.07

¹ FY 2009 includes an additional one FTE for the Women's Commission.

² FY 2009 deleted 7.50 FTEs from vacancies; FY 2010 recommendation deleted 11 FTEs from vacancies and added five FTEs for Chief Medical Examiner.

³ FY 2009 deleted 15 FTEs from vacancies. Added 22 FTEs for children/adult-protective services workers and six FTEs for Foster Care-Title IV-E; added eight FTEs for child advocate attorneys and paralegals. FY 2010 recommendation deleted 36 FTEs from vacancies.

DEPARTMENT OF MILITARY AFFAIRS AND PUBLIC SAFETY

Office of the Secretary ¹	17.00	20.00	25.00
Adjutant General ²	373.00	411.00	390.25
State Armory Board	50.00	50.00	49.00
WV Board of Parole	15.00	16.00	16.00
Homeland Security & Emergency Management ³	54.75	53.00	51.00
Corrections, Division of ⁴	1,968.25	1,970.75	1,963.65
WV State Police ⁵	1,047.50	1,056.50	1,040.00
Veterans Affairs, Division of (includes Veterans Home) ⁶	271.80	272.00	275.60
Regional Jail and Correctional Facility Authority ⁷	1,035.00	1,034.00	1,032.00
Fire Commission	43.00	43.00	41.00
Criminal Justice, Division of	30.50	34.40	30.12
Juvenile Services ⁸	787.00	849.00	895.00
Division of Protective Services	31.00	42.00	42.00
TOTAL - MILITARY AFFAIRS AND PUBLIC SAFETY	5,723.80	5,851.65	5,850.62

¹ FY 2010 recommendation added five FTEs for the Fusion Center.

² FY 2010 deleted 16.75 FTEs per agency request for federally funded positions; Recommendation also deleted three FTEs from vacancies.

³ FY 2010 recommendation deleted two FTEs from vacancies.

⁴ FY 2010 recommendation deleted four FTEs from vacancies.

⁵ FY 2010 recommendation deleted 16 FTEs per agency request from general revenue funding; Recommendation also deleted .50 FTE from vacancies.

⁶ FY 2010 recommendation added one FTE for Veterans Cemetery and four FTEs for counselors at VA hospitals.

⁷ FY 2010 recommendation deleted two FTEs from vacancies.

⁸ FY 2010 recommendation added 35 FTEs for the new James H. "Honey" Rubenstein Center and 19 FTEs for three new day reporting centers; Deleted eight FTEs from vacancies.

DEPARTMENT OF REVENUE

Office of the Secretary	9.00	9.00	9.00
Tax Division ¹	480.00	480.00	481.00
State Budget Office	10.00	10.00	10.00
Insurance Commissioner	400.40	400.10	396.00
Lottery Commission	187.00	187.00	187.00
Racing Commission	40.50	40.50	40.00
Alcohol Beverage Control Administration	120.12	118.12	117.00
Office of Tax Appeals	9.00	9.00	9.00
Municipal Bond Commission	4.00	4.00	4.00
Banking, Division of	32.50	32.50	32.50
TOTAL - REVENUE	1,292.52	1,290.22	1,285.50

¹ FY 2010 recommendation includes two new FTEs for disaster recovery site.

FTE Schedule of All Funds (Continued)

Department/Agency	FY 2008 11-30-2007	FY 2009 11-30-2008	FY 2010 Recommended
DEPARTMENT OF TRANSPORTATION			
Motor Vehicles, Division of	600.00	596.00	596.00
Highways, Division of ¹	4,498.00	4,618.50	4,618.50
State Rail Authority	24.00	24.00	24.00
Public Transit, Division of	10.00	10.00	10.00
Public Port Authority	4.00	4.00	4.00
Aeronautics Commission	3.00	3.00	3.00
TOTAL - TRANSPORTATION	5,139.00	5,255.50	5,255.50
¹ FY 2009 increase for Division of Highways to reflect FTE quotas.			
TOTAL - BUREAU OF SENIOR SERVICES ¹	36.40	36.40	35.40
¹ FY 2010 recommendation deleted one FTE from vacancies.			
HIGHER EDUCATION POLICY COMMISSION			
HEPC - Administration	54.00	61.10	59.10
West Virginia University	6,415.90	6,490.60	6,490.60
Marshall University	1,678.21	1,684.88	1,684.88
Osteopathic School of Medicine	195.88	205.18	205.18
Bluefield State College	217.35	217.03	216.03
Concord University	270.29	276.51	271.59
Fairmont State University ¹	449.49	451.31	449.31
Glenville State College	180.01	188.01	188.01
Shepherd University	399.34	414.85	412.10
West Liberty State College	244.20	253.67	253.67
West Virginia State University	374.59	379.46	378.46
WVNET	45.93	45.73	45.53
TOTAL - HIGHER EDUCATION POLICY COMMISSION	10,525.19	10,668.33	10,654.46
¹ Fairmont State University does not reflect FTEs of Pierpont Community and Technical College.			
COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION			
Council - Administration	7.00	7.00	7.00
Marshall Community and Technical College	72.75	84.75	84.75
New River Community and Technical College	83.00	87.60	87.60
Pierpont Community and Technical College ¹	94.36	88.83	88.83
Blue Ridge Community and Technical College	57.41	64.41	64.41
WV State Community and Technical College	64.00	67.94	67.94
Comm. and Tech. College of WVU Institute of Technology	43.00	47.00	47.00
WVU at Parkersburg	192.10	198.50	198.50
Southern West Virginia Community and Technical College	249.78	249.27	244.76
West Virginia Northern Community and Technical College	139.00	142.82	141.82
West Virginia Eastern Community and Technical College	27.20	28.60	28.60
TOTAL - COUNCIL FOR C&T COLLEGE EDUCATION	1,029.60	1,066.72	1,061.21
¹ A division of Fairmont State University in FY 2008 and FY 2009.			

FTE Schedule of All Funds (Continued)

Department/Agency	FY 2008 11-30-2007	FY 2009 11-30-2008	FY 2010 Recommended
MISCELLANEOUS BOARDS AND COMMISSIONS			
Board of Treasury Investments	5.00	0.00	0.00
Courthouse Facilities Improvement Authority	2.00	2.00	0.00
Hospital Finance Authority	1.00	1.00	1.00
Licensed Practical Nurses	4.00	4.00	4.00
Public Service Commission ¹	333.67	331.67	325.92
Real Estate Commission	11.00	11.00	11.00
Registered Nurses	9.50	9.50	10.00
Water Development Authority	12.00	12.00	12.00
West Virginia Economic Development Authority	9.88	9.88	9.88
Other Boards	48.16	52.29	55.04
TOTAL - MISC. BOARDS AND COMMISSIONS	436.21	433.34	428.84

¹ FY 2010 recommendation deleted five FTEs from vacancies.

Schedule of Budgeted Full-Time Equivalents By Source of Funds

Permanent Positions FY 2008 through FY 2010

Department/Funding Source	FY 2008 11-30-2007	FY 2009 11-30-2008	FY 2010 Recommended
ALL DEPARTMENTS/AGENCIES			
General	17,334.97	17,751.92	17,732.48
Federal	4,670.12	4,684.55	4,618.99
Lottery	312.94	275.20	238.67
Special	2,768.30	2,627.90	2,611.17
State Road Fund	5,042.00	5,158.50	5,158.50
Nonappropriated Special	8,332.35	8,418.00	8,432.95
TOTAL	38,460.68	38,916.07	38,792.76
LEGISLATURE			
General	214.00	218.00	218.00
Federal	0.00	0.00	0.00
Lottery	0.00	0.00	0.00
Special	5.00	6.00	6.00
Nonappropriated Special	0.00	0.00	0.00
TOTAL	219.00	224.00	224.00
JUDICIAL			
General	1,222.85	1,277.85	1,277.85
Federal	0.00	0.00	0.00
Lottery	0.00	0.00	0.00
Special	0.00	0.00	0.00
Nonappropriated Special	0.00	0.00	0.00
TOTAL	1,222.85	1,277.85	1,277.85
EXECUTIVE			
General	608.96	605.97	602.97
Federal	58.77	56.90	58.16
Lottery	0.00	0.00	0.00
Special	189.83	176.79	158.06
Nonappropriated Special	135.94	172.71	190.13
TOTAL	993.50	1,012.37	1,009.32
DEPARTMENT OF ADMINISTRATION			
General	121.14	126.50	126.25
Federal	7.70	6.60	6.60
Lottery	0.00	0.00	0.00
Special	552.16	454.63	461.83
Nonappropriated Special	301.32	308.11	295.51
TOTAL	982.32	895.84	890.19

FTE Schedule by Source of Funds (Continued)

Department/Funding Source	FY 2008 11-30-2007	FY 2009 11-30-2008	FY 2010 Recommended
DEPARTMENT OF COMMERCE			
General ¹	679.51	771.24	771.78
Federal ²	603.28	599.08	579.89
Lottery ³	181.30	137.30	135.30
Special ⁴	306.91	279.44	277.76
Nonappropriated Special ⁵	188.76	165.60	162.73
TOTAL	1,959.76	1,952.66	1,927.46
¹ FY 2009 added two FTEs for Fossil Energy Program and moved 34 DNR FTEs from Special Revenue and 46 DNR FTEs from Excess Lottery. FY 2010 added five FTEs for mine inspectors.			
² FY 2010 recommendation deleted 8.99 FTEs from vacancies.			
³ FY 2009 moved 46 DNR FTEs from Excess Lottery to General Revenue.			
⁴ FY 2009 moved 21.75 FTEs from Nonappropriated Special Revenue to Special Revenue for Marketing and Communications Office and 34 FTEs to General Revenue for DNR Law Enforcement.			
⁵ FY 2009 moved 21.75 FTEs from Nonappropriated Special Revenue to Special Revenue for Marketing and Communications Office.			
DEPARTMENT OF EDUCATION			
General	587.30	605.21	606.89
Federal	126.02	140.06	139.37
Lottery	45.47	47.92	25.50
Special	35.25	35.50	58.92
Nonappropriated Special	33.66	34.01	34.01
TOTAL	827.70	862.70	864.69
DEPARTMENT OF EDUCATION AND THE ARTS			
General	436.17	444.85	451.31
Federal	419.63	410.41	407.45
Lottery	21.48	21.58	17.88
Special	4.54	4.18	4.18
Nonappropriated Special	29.65	30.25	26.85
TOTAL	911.47	911.27	907.67
DEPARTMENT OF ENVIRONMENTAL PROTECTION			
General	96.83	100.57	100.64
Federal	323.50	333.37	331.15
Lottery	0.00	0.00	0.00
Special	292.54	287.74	275.02
Nonappropriated Special	198.26	198.47	199.17
TOTAL	911.13	920.15	905.98
DEPARTMENT OF HEALTH AND HUMAN RESOURCES			
General	3,489.44	3,514.56	3,500.31
Federal	2,437.79	2,413.76	2,390.51
Lottery	0.00	0.00	0.00
Special	129.60	140.05	139.05
Nonappropriated Special	193.40	188.70	184.20
TOTAL	6,250.23	6,257.07	6,214.07

FTE Schedule by Source of Funds (Continued)

Department/Funding Source	FY 2008 11-30-2007	FY 2009 11-30-2008	FY 2010 Recommended
DEPARTMENT OF MILITARY AFFAIRS AND PUBLIC SAFETY			
General	4,083.65	4,182.50	4,213.25
Federal	385.86	414.82	394.26
Lottery	0.00	0.00	0.00
Special	106.14	107.28	105.28
Nonappropriated Special	1,148.15	1,147.05	1,137.83
TOTAL	5,723.80	5,851.65	5,850.62
DEPARTMENT OF REVENUE			
General	438.00	439.00	440.00
Federal	0.00	0.00	0.00
Lottery	0.00	0.00	0.00
Special	624.52	621.22	615.50
Nonappropriated Special	230.00	230.00	230.00
TOTAL	1,292.52	1,290.22	1,285.50
DEPARTMENT OF TRANSPORTATION			
General	12.50	12.50	12.50
Federal	16.00	16.00	16.00
Lottery	0.00	0.00	0.00
Special	49.00	49.00	49.00
State Road Fund	5,042.00	5,158.50	5,158.50
Nonappropriated Special	19.50	19.50	19.50
TOTAL	5,139.00	5,255.50	5,255.50
BUREAU OF SENIOR SERVICES			
General	0.00	0.00	0.00
Federal	14.67	14.52	12.36
Lottery	2.83	2.83	2.83
Special	0.00	1.00	1.00
Nonappropriated Special	18.90	18.05	19.21
TOTAL	36.40	36.40	35.40
HIGHER EDUCATION POLICY COMMISSION			
General	4,541.63	4,585.07	4,578.39
Federal	243.55	247.75	252.96
Lottery	61.86	65.57	57.16
Special	134.44	130.88	129.88
Nonappropriated Special	5,543.71	5,639.06	5,636.07
TOTAL	10,525.19	10,668.33	10,654.46
COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION			
General	802.99	868.10	832.34
Federal	6.00	6.00	5.00
Lottery	0.00	0.00	0.00
Special	0.00	0.00	0.00
Nonappropriated Special	220.61	192.62	223.87
TOTAL	1,029.60	1,066.72	1,061.21

FTE Schedule by Source of Funds (Continued)

Department/Funding Source	FY 2008 11-30-2007	FY 2009 11-30-2008	FY 2010 Recommended
MISCELLANEOUS BOARDS AND COMMISSIONS			
Federal	27.35	25.28	25.28
Lottery	0.00	0.00	0.00
Special	338.37	334.19	329.69
Nonappropriated Special	70.49	73.87	73.87
TOTAL	436.21	433.34	428.84

Revenue Sources

The revenues necessary to finance state government are collected from a variety of sources. All sources are dedicated to a specific fund or account and may only be appropriated or used in the manner as prescribed by law. Some of the funds of the State of West Virginia are subject to direct appropriation by the Legislature and are specifically included in the appropriations (budget) bill submitted by the Governor to the Legislature for their consideration and final passage of a budget.

All funds of the State of West Virginia fall into one of five categories and are subject to legislative review and oversight. Other than the exceptions mentioned below, these funds are subject to appropriation by the Legislature:

- General Revenue Fund
- State Road Fund
- Lottery and Excess Lottery Funds
- Federal Funds
- Special Revenue Funds

The **General Revenue Fund** consists of taxes, fees, and licenses that are dedicated to the state fund or are not specifically directed to special or other dedicated purposes.

The General Revenue Fund (or General Fund) consists primarily of the major tax revenue of the state such as Consumer Sales Tax and Use Tax, Personal Income Tax, Business and Occupation Tax, Corporate Net Income Tax/Business Franchise Tax, Tobacco Excise Tax, and Severance Tax. These taxes comprise approximately 91% percent of the General Revenue Fund. The remaining 9% of the General Revenue Fund is a combination of lesser taxes along with fees such as Racing Fees, Liquor Profit Transfers, and transfers from lottery revenues.

All General Revenue Fund expenditures, except refunds or overpayments, must be specifically appropriated by the Legislature and may be appropriated for any purpose as the Legislature so desires. The appropriations from the General Revenue Fund expire at the end of the state's fiscal year on June 30, except as otherwise provided. Bills may be paid through July 31 for obligations that were incurred on or before June 30 of the expiring fiscal year. The Legislature may reappropriate any General Revenue Fund account by adding language in the Budget Act that allows any unexpended balances to be carried forward and expended in the following fiscal year. For capital outlay appropriations, W.Va. Code §12-3-12 states that "appropriations for buildings and land or capital outlay shall remain in effect, and shall not be deemed to have expired until the end of three years . . ."

The **State Road Fund** consists of revenues from gasoline and other motor fuel excise and license taxes, motor vehicle registration and license tax, and all other revenue derived from motor vehicles or motor fuel which are solely dedicated to this fund. The State Road Fund is appropriated by the Legislature and used solely for construction, reconstruction, repair and maintenance of public highways, the payment of the interest and principal on all road bonds, and the administrative expenses of the Division of Highways and the Division of Motor Vehicles.

All federal funds received for road construction, reconstruction, and maintenance are also deposited into and become part of the State Road Fund.

Lottery Funds consist of revenue derived from the sale of lottery tickets or games, limited video lottery, and table games. House Bill 102 passed in 2001 provided for changes in the Lottery Act and Racetrack Video Lottery Act as well as the creation of the Limited Video Lottery Act. In addition, House Bill 102 created an Excess Lottery Fund and stipulates to which fund lottery profits are to be directed; the Lottery Fund or the Excess Lottery Fund. Also, during the 2007 Regular Legislative Session, HB 2718 allows for table games at West Virginia Racetracks (if approved by local option election).

Revenue Sources

Lottery Funds are, by law, considered Special Revenue Funds and are included in the Appropriated Special Revenue Fund column on the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances for Appropriated Funds" in the "Summary Financial Statements" chapter of this document.

The Lottery Funds may be used to support the operation of the West Virginia Lottery, including expenses and prizes. The net revenue from the Lottery must be appropriated by the Legislature. Currently, the Lottery Fund may only be expended for education, senior citizens, and tourism and parks.

The Excess Lottery Fund may be used for a variety of purposes including PROMISE scholarships, senior citizen tax credits, the School Building Debt Service Fund, the West Virginia Infrastructure Fund, Economic Development Project Fund, Higher Education Improvement Fund, State Park Improvement Fund, and the General Purpose Account.

The Table Games Fund may be used for the purpose of enabling the aged and disabled citizens of the state to maintain their residency in the community-based setting through the provision of home and community-based services from annual license fees. State revenues can be used for the purpose of accelerating the reduction of existing unfunded liabilities and existing bond indebtedness of the State.

Federal Funds are received directly from the federal government and may only be used for the specific purpose for which they are intended. Federal Funds consist of any financial assistance made directly to any state department/bureau/commission/division by the United States government, whether a loan, grant, subsidy, augmentation, reimbursement or any other form of such assistance, including federal matching funds.

Federal Funds have become a substantial part of the operation of state government, either as part of ongoing programs or structured to institute state action. In all cases, Federal Funds are a significant feature of state services and the budget process.

With the following exceptions, Federal funds must be included in the Budget Act and appropriated by the Legislature (as required by W.Va. Code §4-11-6):

- Federal Funds received by state institutions of higher education, by students, or by faculty members of such institutions for instructional or research purposes and federal funds received for student scholarships or grants-in-aid.
- Federal nondiscretionary pass-through funds earmarked in specified amounts or appropriations for transmittal to local political subdivisions or to designated classes of organizations and individuals which do not require State-matching funds and do not permit discretion in their distribution by the receiving state spending unit.
- Federal Funds made available to the State for costs and damages resulting from natural disasters, civil disobedience, or an occurrence declared by the Governor as a state of emergency.
- Federal Funds received by the West Virginia Division of Highways or the West Virginia Commissioner of Highways.

Special Revenue Funds consist of individual accounts created for a specific purpose and the revenues may be expended only for that specific purpose unless otherwise directed by the Legislature. These accounts generate revenue derived from permits, licenses, and established rates or fees for services provided either to the public, other state agencies, or non-state governmental entities. These accounts are generally "from collections" and the spending is limited to the amount collected or the amount appropriated by the Legislature, whichever is less. Proprietary funds and trust funds are included in the budget as Special Revenue Funds.

Revenue Sources

Certain special revenue accounts are specifically appropriated by the Legislature and included in the Budget Act. Other Special Revenue accounts, generally referred to as “nonappropriated,” are not specifically appropriated and are not included in the Budget Act. These nonappropriated Special Revenue accounts derive their authority to expend funds from general law and language contained in the Budget Act for that particular fiscal year.

Special Revenue accounts that are specifically appropriated in the Budget Act expire on June 30, and bills may be paid through July 31 in the same manner as General Revenue Funds. Appropriated Special Revenue accounts may also be reappropriated into the next fiscal year in the same manner as General Revenue accounts. Nonappropriated Special Revenue accounts do not expire but continue forward with the next fiscal year provided the requirements of general law are met.

Revenue Estimates

Under the guidance of the deputy Secretary of Revenue, the Tax Research Division develops revenue estimates for the State. The estimates are derived from economic forecasts provided Global Insight, the West Virginia University Bureau of Business and Economic Research and the U.S. Department of Energy. Revenue forecast simulations include both changes due to economic factors and tax law changes. The forecast incorporates the results of economic modeling, trend analysis, time series modeling and expert judgment.

The final forecast for an upcoming fiscal year is derived from the November economic forecasts some seven months prior to the beginning of a fiscal year. The forecast is adjusted at the conclusion of each Regular Legislative Session to incorporate any fiscal changes associated with tax law modifications. Even though numerous economic events and other changes occur seven to nineteen months after the development of the final fiscal year forecast, the official revenue estimates seldom change. However, staff monitors actual revenue collections on a daily and monthly basis. If the revenue estimates ever appear to be too optimistic given tax collection trends and economic conditions, such determinations are immediately forwarded to policymakers. Projected revenue shortfalls do result in mid-year budget reductions. Based upon results over the past two decades, the probability of revenue shortfall issue in any given year is less than 30%.

Additional Revenue Information

The following pages contain graphs and explanations of the sources of estimated revenues and areas of expenditure for General, State Road, Lottery, and Federal Funds. Due to the multitudinal sources of revenue, only the area of estimated expenditures is depicted for the Special Revenue Funds. The Medicaid State Share Fund is included in the Special Revenue Funds. However, since it is a substantial revenue source, a separate page providing actual/estimated revenues is also included.

For a graphic presentation of the total state revenue by source and the expenditures by function, refer to “Where the State Dollar Comes From” and “Where the State Dollar Goes” in the “Summary Financial Statements” chapter.

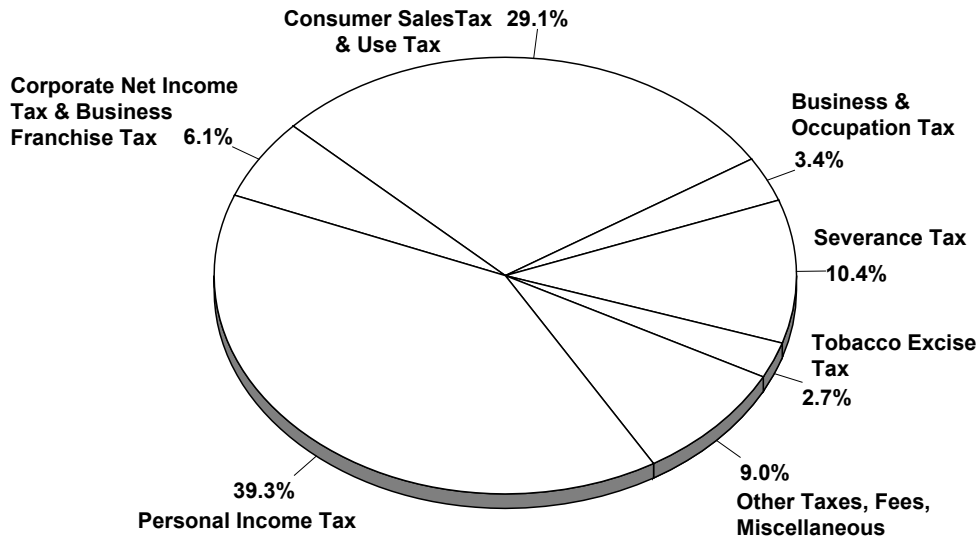
General Revenue Fund

Sources of Revenue

Fiscal Year 2010

\$3.972 Billion

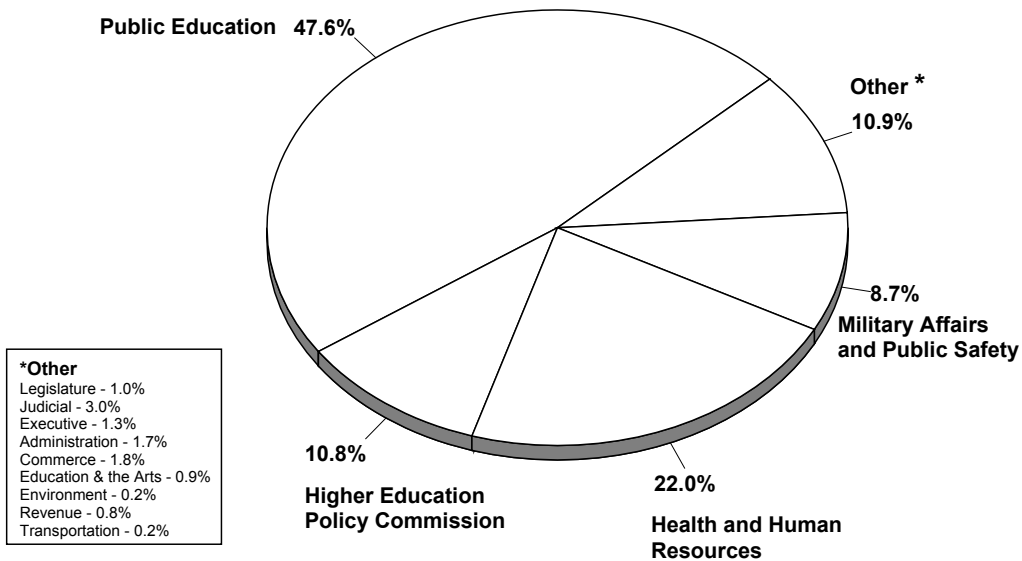
(Estimated)



Recommended Expenditures

Fiscal Year 2010

\$3.972 Billion



Personal Income Tax

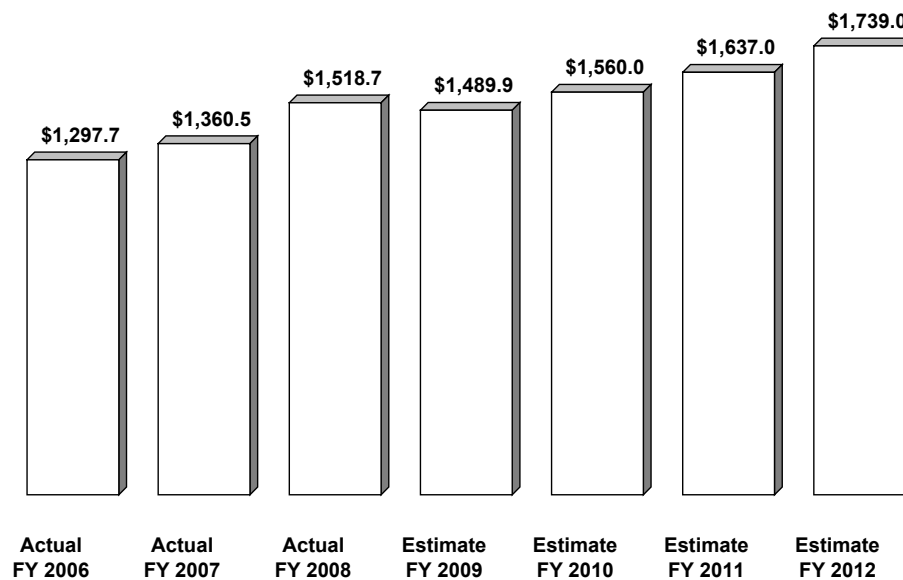
Personal Income Tax collection trends depend upon changes in population, employment, personal income, inflation rates, interest rates, and federal tax law. Employee withholding taxes account for roughly 68% of all Personal Income Tax receipts. Employment has increased by an average annual rate of 0.8% from 2004 through October 2008 and is forecast to grow by an average annual rate of less than 1.0% over the FY 2008–FY 2014 forecast period. For the same period, real personal income is projected to increase at an average annual rate of 4.0%.

Income tax collections are projected to rise at an average annual rate of roughly 5.0% during the FY 2008–FY 2014 forecast period. Projected growth rates are attributable to growth in employment and earnings, business profits and royalties. Revenue growth is forecast to fall to an annual rate of just 1.4% between FY 2008 and FY 2010 due to recessionary conditions with lower employment, lower business profits, and lower capital gain income. Thereafter, revenue growth is anticipated to gradually accelerate to an annual rate of more than 6.9%.

The State annually dedicates \$95.4 million of Personal Income Tax collections toward the payment of the old workers' compensation debt. Remaining collections are deposited in the State General Revenue Fund.

- Tax on West Virginia taxable income.
- 3.0% on the first \$10,000 of taxable income.
- 4.0% on taxable income between \$10,000 and \$25,000.
- 4.5% on taxable income between \$25,000 and \$40,000.
- 6.0% on taxable income between \$40,000 and \$60,000.
- 6.5% on taxable income in excess of \$60,000.
- Accounts for 39.3% of total General Revenue Fund.

Personal Income Tax (Expressed in Millions)



Consumer Sales Tax and Use Tax

Consumer Sales and Use Tax collections depend heavily upon retail sales (57%) and taxable services (23%) activities. The tax base includes most retail sales except for automobiles, gasoline, prescription drugs, purchases made with food stamps, and, due to a reduced tax rate of 3%, 50% of the value of food for home consumption.

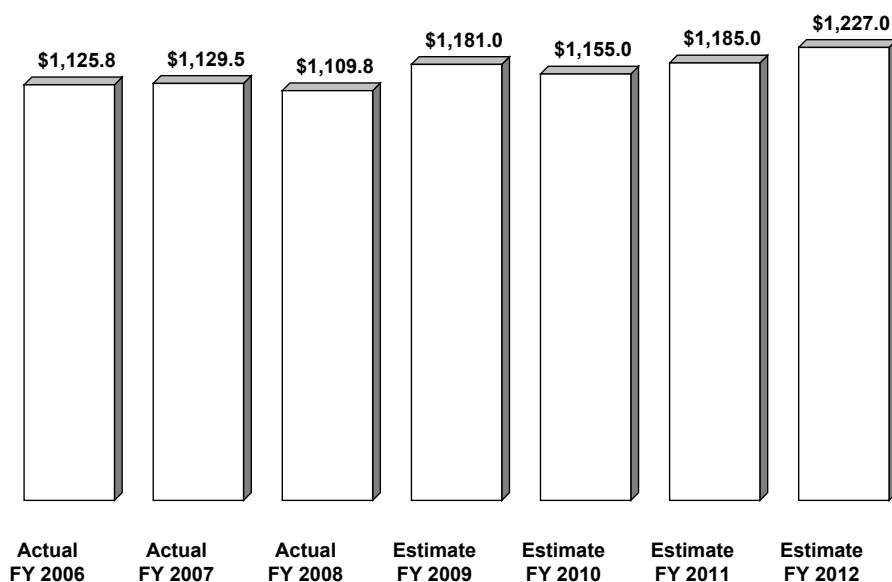
Retail sales growth depends upon changes in population, disposable personal income, inflation rates, interest rates, consumer debt, and consumer confidence. As state population is forecast to rise slightly over the forecast period, real disposable personal income growth will increase to roughly 1.7% per year.

Consumer Sales and Use Tax collections are forecast to rise at an average annual rate of 2.9% during the FY 2008–FY 2014 forecast period. Annual revenue growth should accelerate from less 2% during the next two years to roughly 3.5% by the end of the forecast period. Recessionary conditions will effectively limit revenue growth between FY 2008 and FY 2010 to little more than the general rate of inflation.

In addition to the General Revenue Fund, some Consumer Sales Tax collections go into special revenue accounts (i.e., \$46.4 million in FY 2009, \$47.1 million in FY 2010, \$47.6 million in FY 2011, and \$48.1 million in FY 2012).

- 6% Sales and Use Tax on most goods and services.
- 3% Sales and Use Tax on food and food ingredients that are not prepared.
- Total Sales and Use Tax accounts for 29.1% of total General Revenue Fund.

Consumer Sales Tax and Use Tax (Expressed in Millions)



General Revenue Fund

Severance Tax

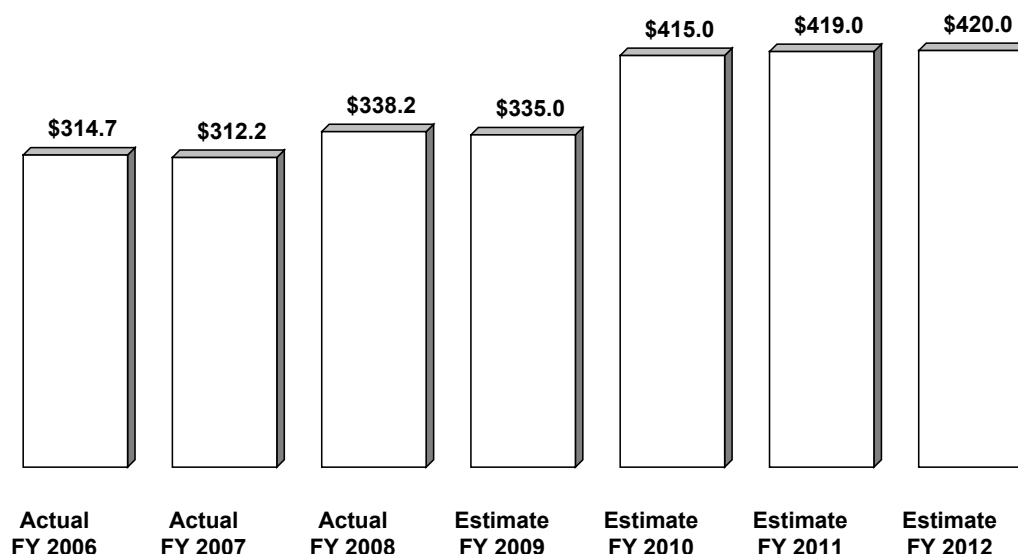
Severance Tax collections are attributable to coal production (79%), natural gas production (19%), and the production of various other natural resource products (two percent). Other natural resources products include timber, oil, limestone, sandstone, gravel, sand, and gob (coal refuse). During FY 2008, Severance Tax receipts were deposited in the State General Revenue Fund (64.5%), the State Infrastructure Fund (4.6%), local government funds (6.7%), the State Division of Forestry (0.3%), and the Worker's Compensation Debt Reduction Fund (23.8%). The first \$24 million of annual receipts is dedicated to the Infrastructure Fund.

Severance Tax collection growth largely depends upon changes in coal and natural gas production and their respective prices. Energy prices rose dramatically over the past four years due primarily to growing global demand and supply limitations in the world market. The average price per ton of West Virginia coal rose from slightly less than \$30 in 2003 to more than \$70 in 2008. Severance Tax receipts grew by more than 87% between FY 2004 and FY 2008 in response to these higher prices. Due to a global recession, coal prices are expected to decline over the next one to two years. The dedication of excess coal related tax revenue to a special fund for the reduction on the old Workers' Compensation liability will expire with a transfer made in late FY 2009. Absent the requirement for the transfer, FY 2010 General Revenue Fund Severance Tax deposits will increase, but the fall in prices and future challenges related to carbon emission regulation policies will result in declining collections through the remainder of the forecast period.

Uncertain long-run energy prices and the potential impact of environmental regulations on coal production and electric power generation are risks to the forecast. A decline in energy prices results in less production incentive for coal and natural gas producers. Further federal restrictions upon carbon and nitrogen-oxide emissions could also reduce the demand for West Virginia coal in future years.

- **Privilege tax on gross receipts with a base rate of 5.0%. (Reduced rates for underground thin seam coal, waste coal, and timber.)**
- **Applies to natural resources (coal, gas, oil, other) production.**
- **Accounts for 10.4% of total General Revenue Fund.**

Severance Tax (Expressed in Millions)



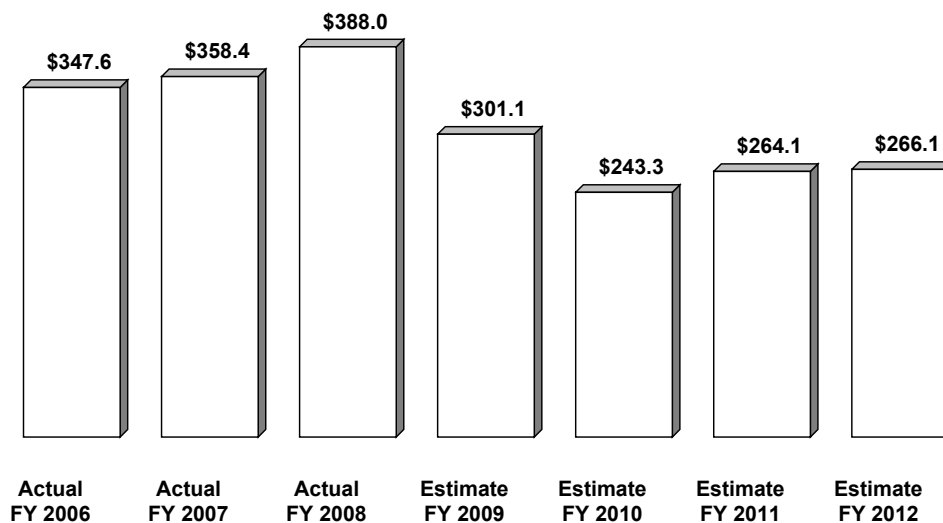
Corporation Net Income Tax and Business Franchise Tax

The Corporation Net Income Tax is a tax on net profits of incorporated entities doing business in West Virginia. The Business Franchise Tax is a tax on the net equity component (defined as the value of capital stock, preferred stock, paid-in capital, and retained earnings) of business balance sheets and applies to most corporations, partnerships, and limited liability companies. Collection trends for these taxes largely depend upon the overall health of the U.S. economy, corporate profits, interest rates, inflation rates, and changes in federal tax policy. Following an extended period of above average corporate profit growth, profits are forecast to decline by approximately 15.4% in calendar year 2008. Corporate profits are anticipated to rise at the average annual rate of approximately 3.2% between 2009 and 2014.

Combined Corporation Net Income Tax and Business Franchise Tax receipts increased by 54.7% in FY 2005. Collection growth was 23.8% in FY 2006 slowed to 3.1% growth in FY 2007. The growth rate was 8.3% in FY 2008. Over the FY 2009–FY 2014 forecast period, Corporation Net Income Tax and Business Franchise collections are forecast to decline at an average rate of 7.4%. The decrease would be attributable to sluggish profit growth and tax law changes.

Collection patterns tend to be very volatile because the majority of Corporation Net Income Tax and Business Franchise Tax receipts are attributable to a small number of taxpayers. A change in the financial status of just a few taxpayers can have a dramatic impact upon tax collection trends. Most large taxpayers have multistate operations.

Corporation Net Income Tax & Business Franchise Tax (Expressed in Millions)



*General Revenue Fund
Corporation Net Income Tax and Business Franchise Tax*

- **Corporation Net Income Tax applies to C corporations. The tax base is modified federal taxable income apportioned to West Virginia with a current tax rate of 8.5%.**
- **Business Franchise Tax applies to most corporations, partnerships, and limited liability companies. The tax base is net equity apportioned to West Virginia with a current tax rate of 0.48%.**
- **Under current law, the Corporation Net Income Tax rate will decrease from 8.5% to 6.5% effective January 1, 2014.**
- **Under current law, the Business Franchise Tax rate will decrease from 0.48% to 0.0% by January 1, 2015.**
- **Accounts for 6.1% of total General Revenue Fund.**

Business and Occupation Tax

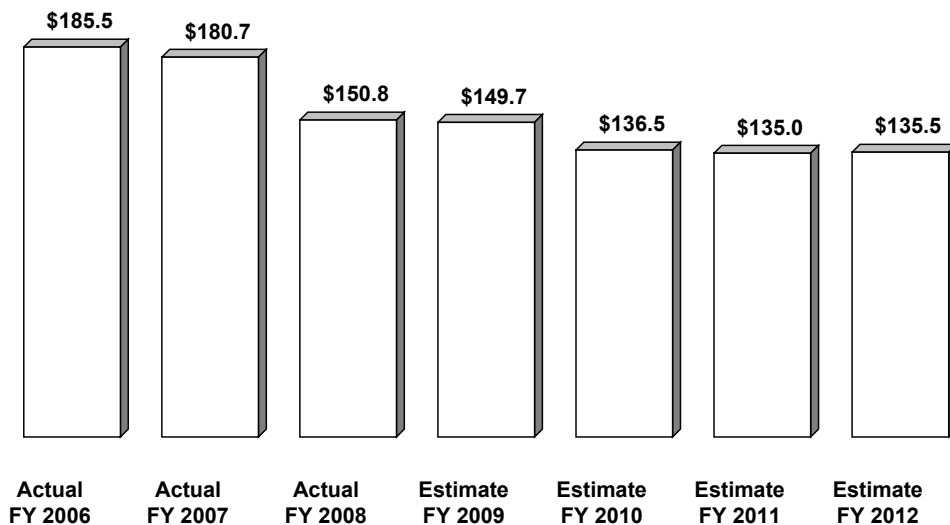
The Business and Occupation Tax (B&O Tax) consists of four distinct components: a capacity or unit-based tax on electric power generation and distribution, a gross receipts tax on nonelectric public utilities, a per unit tax on gas storage operators, and a per unit tax on producers of synthetic fuel from coal. However, the tax on synthetic fuel production from coal effectively ended with the expiration of a federal tax credit on December 31, 2007. During the forecast period, Business and Occupation Tax collections will decline in the beginning of the forecast period and then increase slowly through the remainder of the period.

For electric power producers, the general tax rate is \$22.78 per kilowatt of taxable capacity. Plants with flue gas desulphurization systems are subject to a lower tax rate of \$20.70 per kilowatt. The continued installation of fuel gas desulphurization systems at existing power plants will result in the shift of a large portion of the tax base to the lower tax rate. In addition, tax credits attributable to the investment will also lower future tax collections. Over the forecast period, the reductions in tax from electric power producers will contribute to overall lower tax collections in the first two years of the forecast period.

The tax on natural gas receipts applies only to public utility sales. Exempt nonutility sales represent roughly 43% of all natural gas sales in West Virginia. In addition to the tax on public utilities, West Virginia imposes a tax on natural gas storage activities. Increased domestic production, the weak economy, and declines in oil prices will result in a decline in natural gas prices and reduced tax collections from natural gas utilities. The reduced tax from the utilities will contribute to an overall decline in Business and Occupation Tax collections in the first two years of the forecast period.

- Privilege tax on units of activity or gross receipts.
- Applies to public utilities, electric power generators, natural gas storage.
- Tax rates and base vary.
- Accounts for 3.4% of total General Revenue Fund.

Business and Occupation Tax (Expressed in Millions)

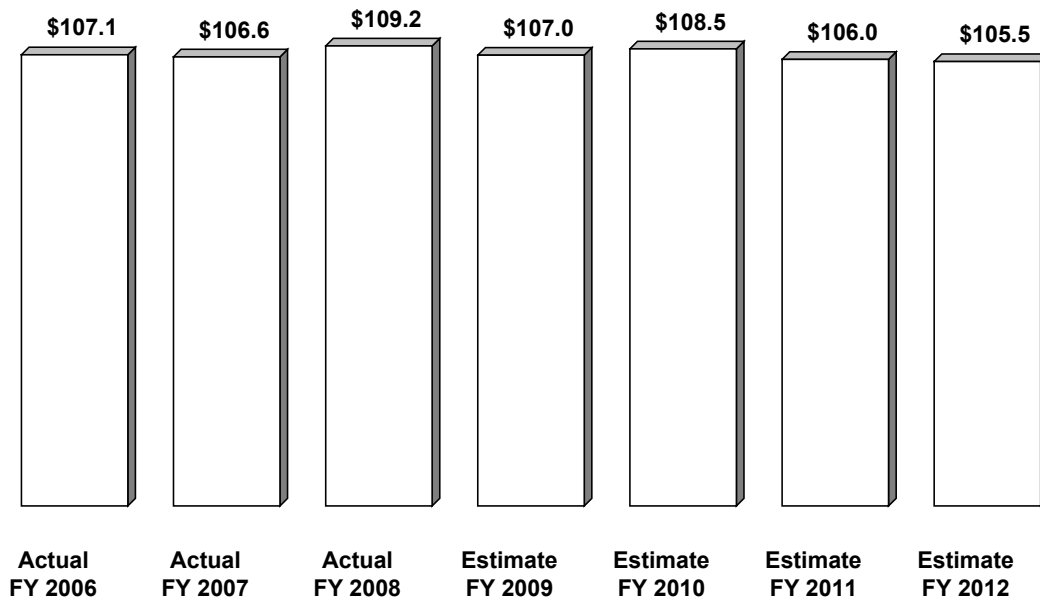


Tobacco Excise Tax

The Tobacco Excise Taxes consist of a per pack tax on cigarettes and a percentage tax on the wholesale price of other tobacco products. Continuing programs to discourage tobacco usage will dampen the outlook for long-term revenue growth for these taxes. However, tax rate increases that are implemented in the states surrounding West Virginia can result in short-term increases in revenue. The forecast assumes revenue growth averaging roughly 0.5% per year over the next five years with the growth in the early part of the forecast attributable to projected tax rate hikes in neighboring states followed by gradual declines due to reduced consumption.

- Tax of \$0.55 per pack of twenty cigarettes.
- Tax of 7% of the wholesale price on tobacco products other than cigarettes.
- Accounts for 2.7% of total General Revenue Fund.

Tobacco Excise Tax (Expressed in Millions)



Other Taxes and Fees

These other taxes, licenses, fees, and receipts consist of Liquor Profit Transfers, Racing Fees, Beer Tax and Licenses, Business Franchise Registration Fees, Charter Tax, Property Tax, Property Transfer Tax, Departmental Collections, Interest Income, Special Revenue Transfers, Miscellaneous Receipts, Miscellaneous Transfers, Video Gaming Revenues, and the Senior Citizen Tax Credit Reimbursement (from Lottery Revenue). Most of these other taxes and fees are dependent upon population growth, other demographic trends, and changes in consumer behavior.

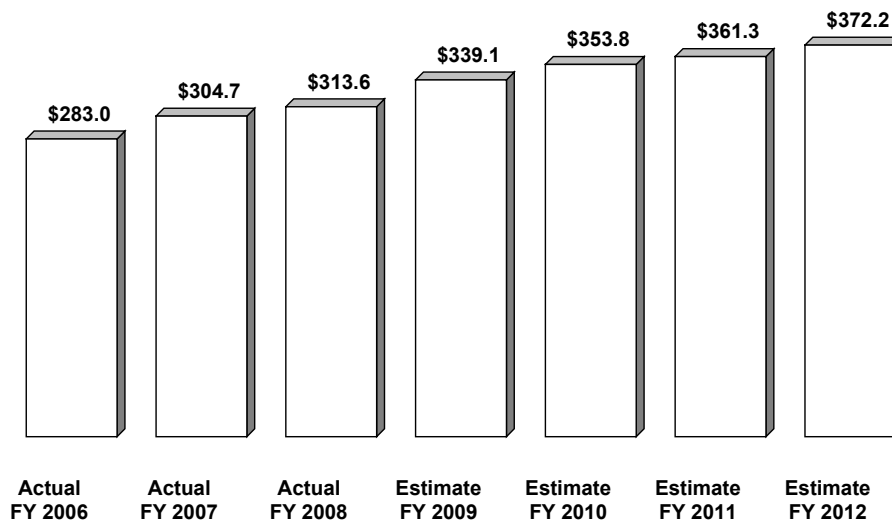
Although the Telecommunications Tax and the Estate Tax are included in this group, no net collections from these taxes are expected during the forecast period. In addition, enacted tax modernization legislation to eliminate the Charter Tax and Business Franchise Registration renewal fees will result in the gradual loss of these minor revenue sources.

Beginning in FY 2009, the annual appropriated Excess Lottery Transfer to the State General Revenue Fund rose from \$77.9 million to \$127.9 million.

Most of the other taxes, licenses, and fees in this category will remain little changed through the forecast period. However, the ten-year license renewals for retail liquor establishments should produce additional revenue in both FY 2010 and FY 2011.

- Accounts for 9.0% of total General Revenue Fund.

Other Taxes and Fees (Expressed in Millions)



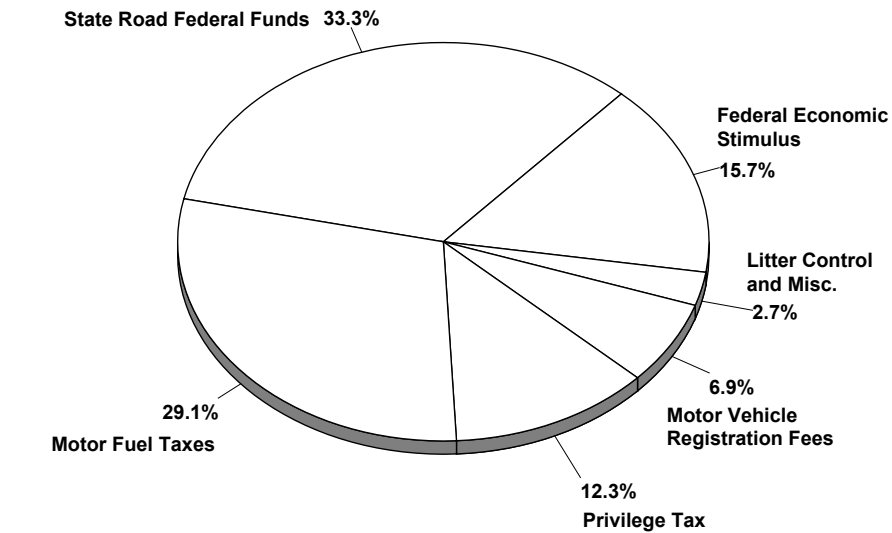
State Road Fund

Sources of Revenue

Fiscal Year 2010

\$1.398 Billion*

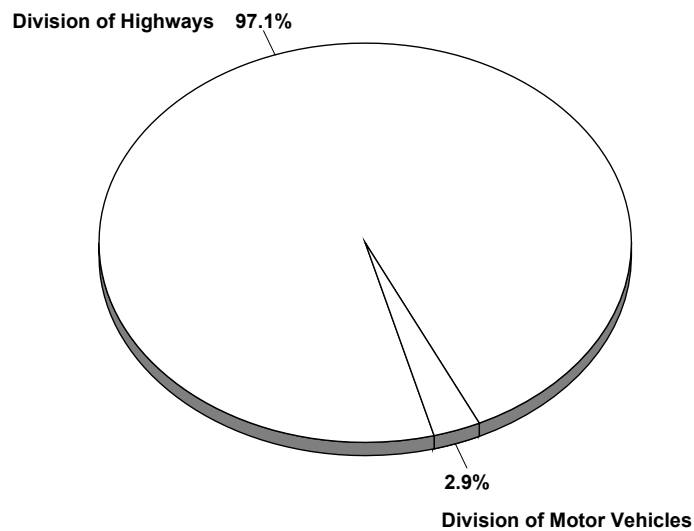
(Estimated)



Recommended Expenditures

Fiscal Year 2010

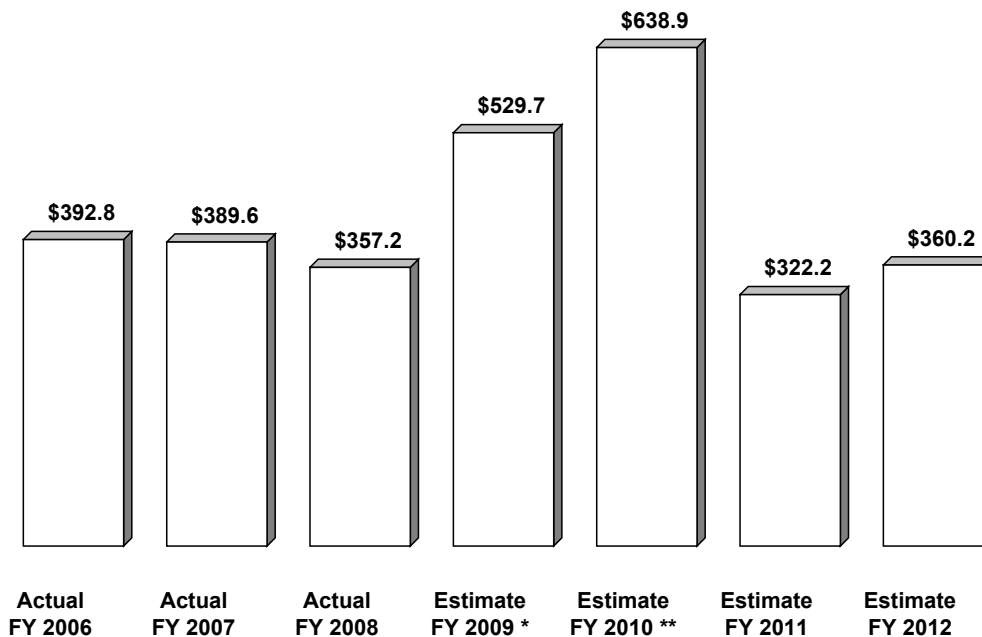
\$1.302 Billion



State Road Federal Funds

- Federal funds are received by the Division of Highways for Interstate Construction, Appalachian Programs, Other Federal Aid programs, and Federal Economic Stimulus.
- These funds become part of the State Road Fund or Coal Resource Transportation Road Fund and are included in the amounts budgeted for each fund.
- Accounts for 49.0% of the total State Road Fund.

State Road Federal Funds (Expressed in Millions)



* Includes \$40.0 million for Federal Economic Stimulus
** Includes \$204.6 million for Federal Economic Stimulus

Motor Fuel Taxes

The Motor Fuel Excise Tax and Motor Carrier Road Tax have been combined and are reported as Motor Fuel Taxes:

Motor Fuel Excise Tax

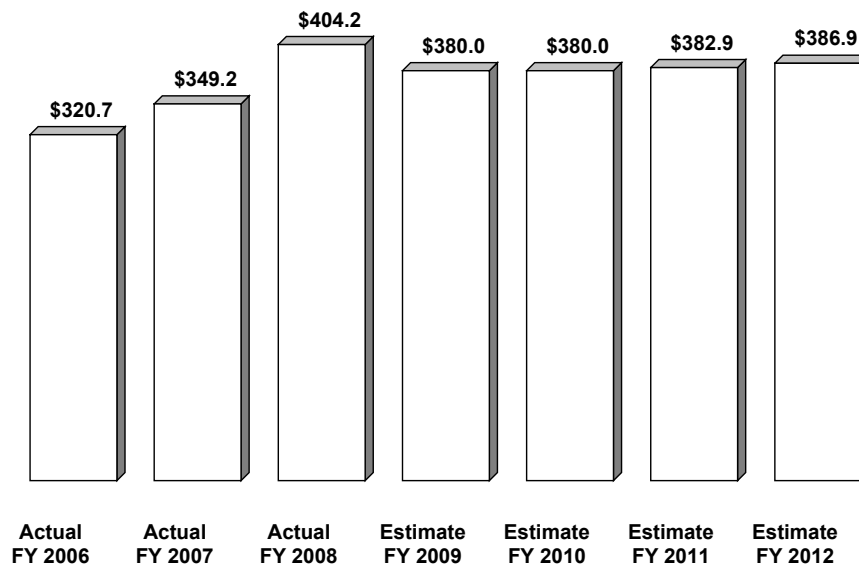
- Contains a flat rate and a variable rate.
- Current flat rate is \$.205 per gallon.
- Variable rate is equal to five percent of the average wholesale price of motor fuel.
- Imposed and payable on all motor fuel upon import into this state, removal from a terminal within this state, or removal from a terminal in another state for delivery in this state.
- The average wholesale price shall not be less than \$.97 per gallon which generates a minimum tax rate of \$.0485 per gallon.
- By December 1st of each year, the tax commissioner must calculate the average wholesale price and variable rate from sales data from the previous July through October. Calculated rate is effective for the next calendar year.

Motor Carrier Road Tax

- Equivalent to the Motor Fuel Excise Tax on motor fuel.
- Imposed upon every motor carrier with a vehicle that is designed to transport persons or property having two or more axles with a gross vehicle weight exceeding 26,000 pounds, including road tractors and tractor trucks.
- Based upon each gallon of motor fuel used in the carrier's operations in the state.
- Carrier is entitled to a refund for fuel purchased in the state but used out of state.
- Carriers domiciled in the state are charged an annual fee of \$10 for two identification markers.

- Accounts for 29.1% of the total State Road Fund.

Motor Fuel Taxes (Expressed in Millions)

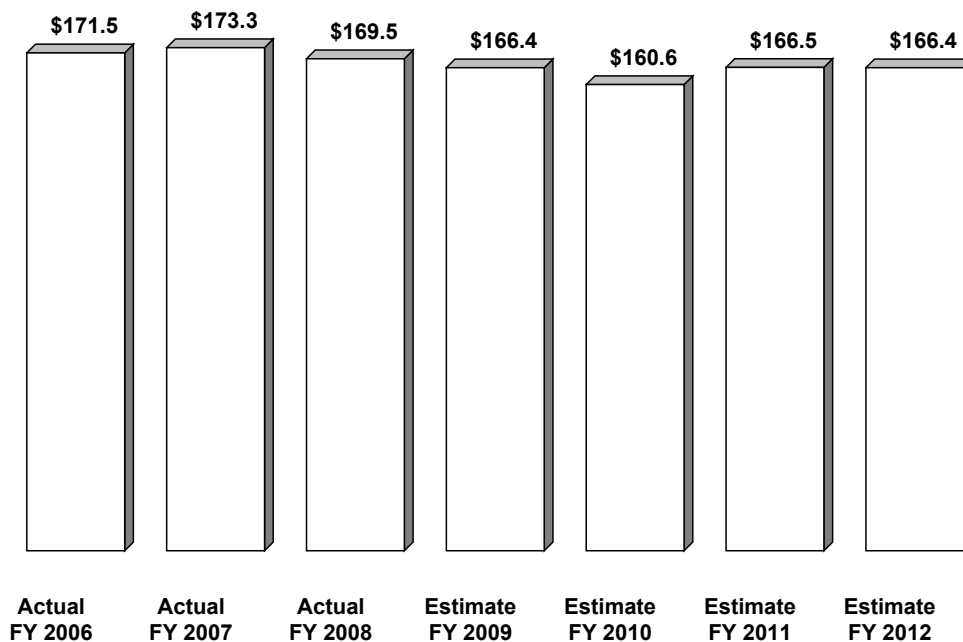


State Road Fund

Sales Tax **(formerly Privilege Tax)**

- The Sales Tax is imposed for obtaining the certificate of title on a vehicle at the time of purchase or lease.
- Tax amounts to 5% of the value of the vehicle at the time of such certification.
- Accounts for 12.3% of the total State Road Fund.

Sales (formerly Privilege) Tax **(Expressed in Millions)**



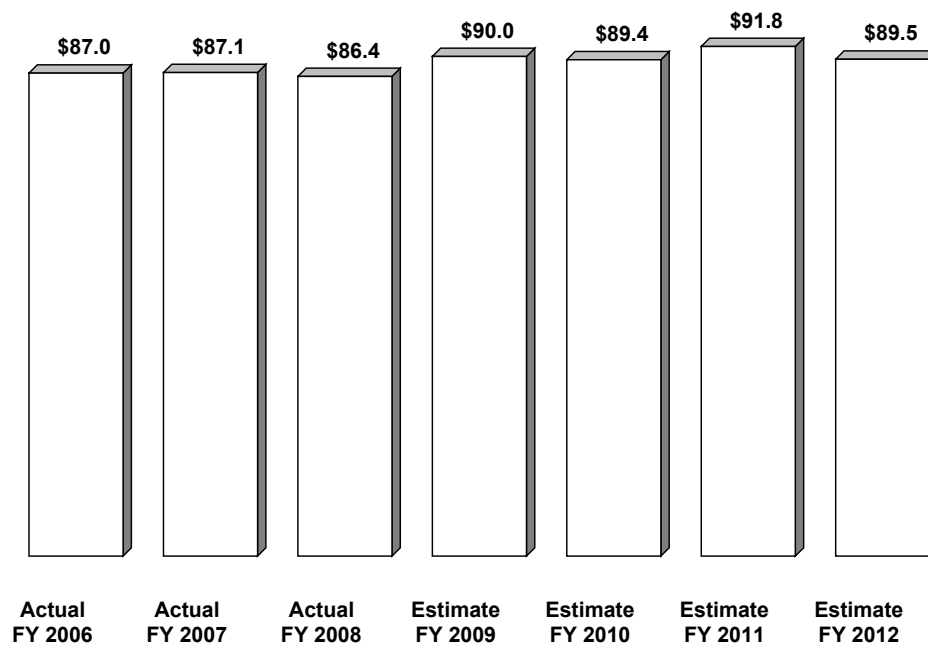
State Road Fund

Registration Fees

The Division of Motor Vehicles collects numerous fees which are required to be deposited in the State Road Fund, including certificate of title, vehicle licenses (registration), dealers' and wreckers' licenses, and operator licenses and renewals.

- Accounts for 6.9% of the State Road Fund.

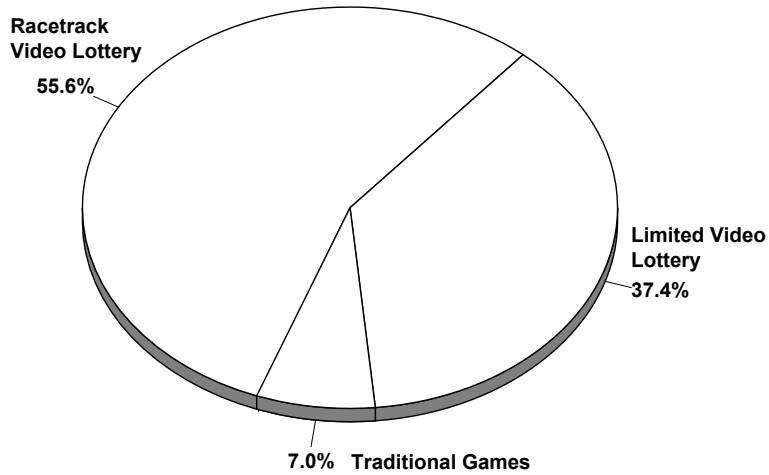
Motor Vehicle Registration Fees (Expressed in Millions)



West Virginia Lottery

Sources of Revenue

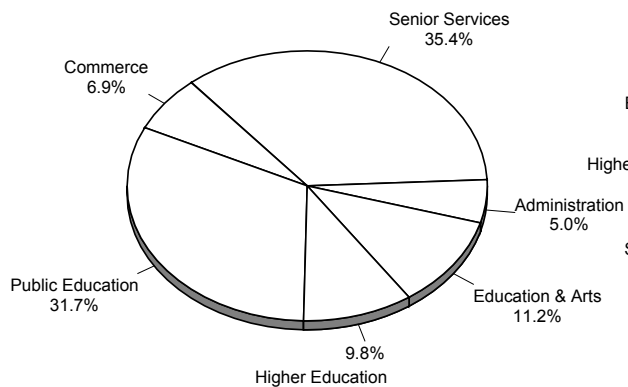
Fiscal Year 2010
\$522.6 Million
(Estimated)



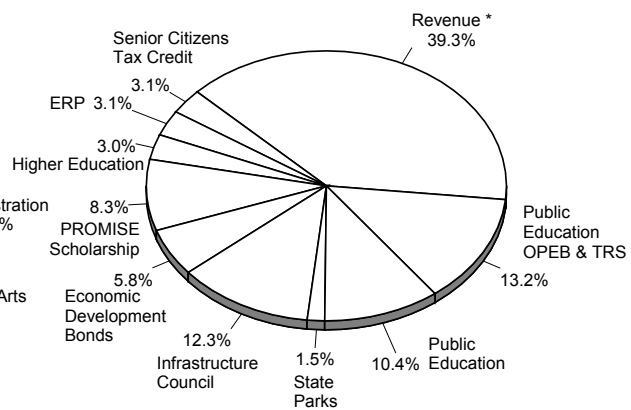
Recommended Expenditures

Fiscal Year 2010
\$491.8 Million

Lottery Fund
\$166.0 Million

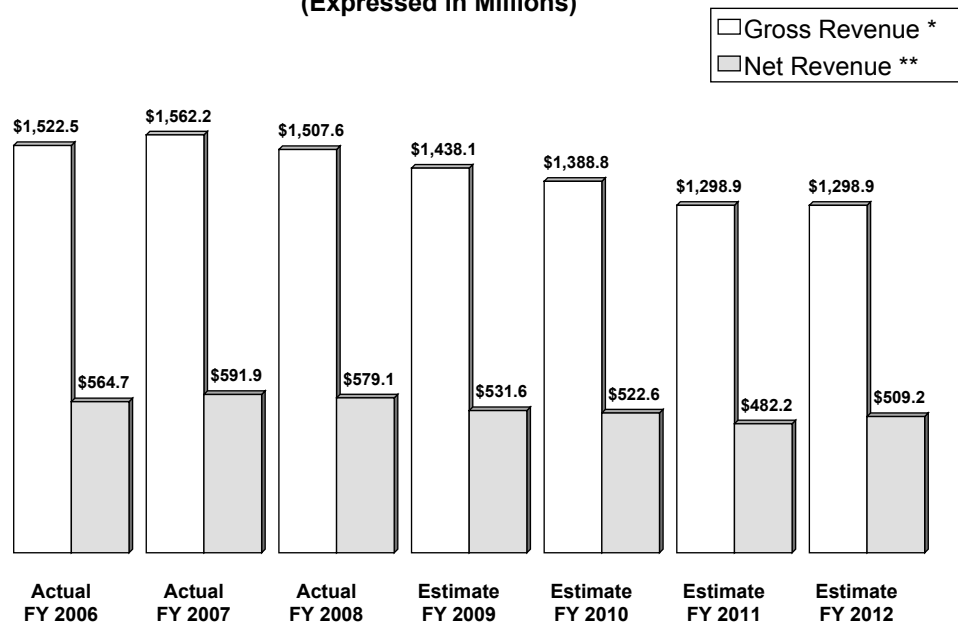


Excess Lottery Fund
\$325.8 Million



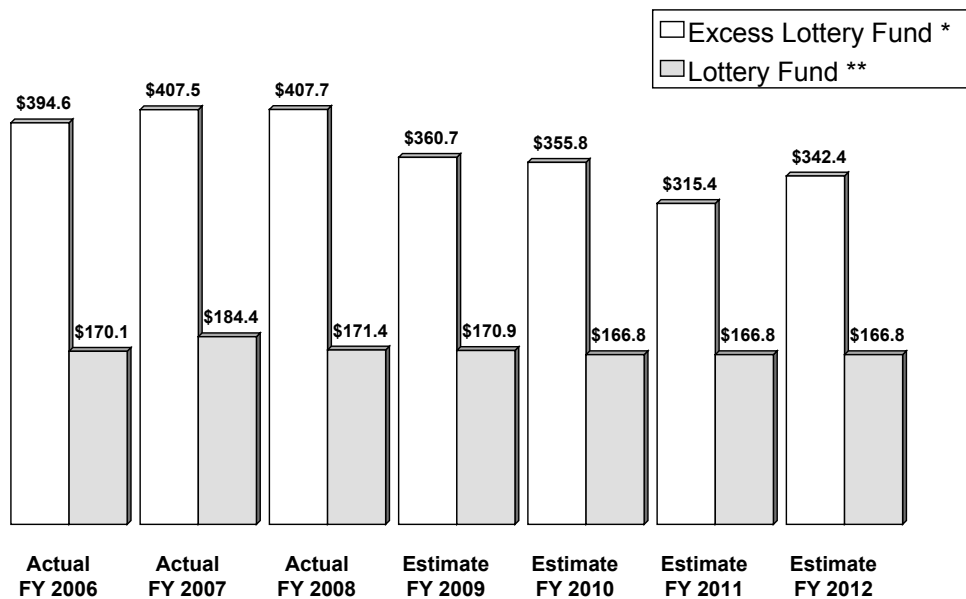
* Transfer to General Revenue Fund

West Virginia Lottery Gross and Net Revenue (Expressed in Millions)



* Includes \$30 million for catastrophic events and cash flow which are not available for appropriation which excludes table games.
** Includes \$800,000 for Veterans Lottery Fund.

West Virginia Lottery Net Revenue Distribution (Expressed in Millions)



* Includes \$30 million for catastrophic events and cash flow which is not available for appropriation.
** Includes \$800,000 for Veterans Lottery Fund.

West Virginia Lottery

West Virginia Lottery gross revenue (including table games) grew 3% in FY 2007 but decreased 2.5% in FY 2008. The decrease is primarily the result of increased competition in neighboring states and the downturn in the overall economy. Gross revenues include ticket sales of on-line and instant games, racetrack video lottery, limited video lottery revenue, and table games at two of the four racetracks. Correspondingly, net revenue for FY 2007 grew 5% but decreased in FY 2008 by 2.1%. Racetrack Video Lottery increased by 3% during FY 2007 but decreased 7.7% percent during FY 2008. Limited Video Lottery increased by 10% in FY 2007 and 3.7% in FY 2008.

The official estimate for FY 2009 reflects a decrease in gross revenue of 3.3% from the prior year. Racetrack Video Lottery is projected to decrease 5.5% and Limited Video Lottery is projected to decrease 5.4% due to increased competition in bordering states. On-line and instant ticket sales are expected to remain flat. Table Games is 100% statutorily distributed and should provide an additional \$20.8 million in net revenue to the State's debt reduction fund.

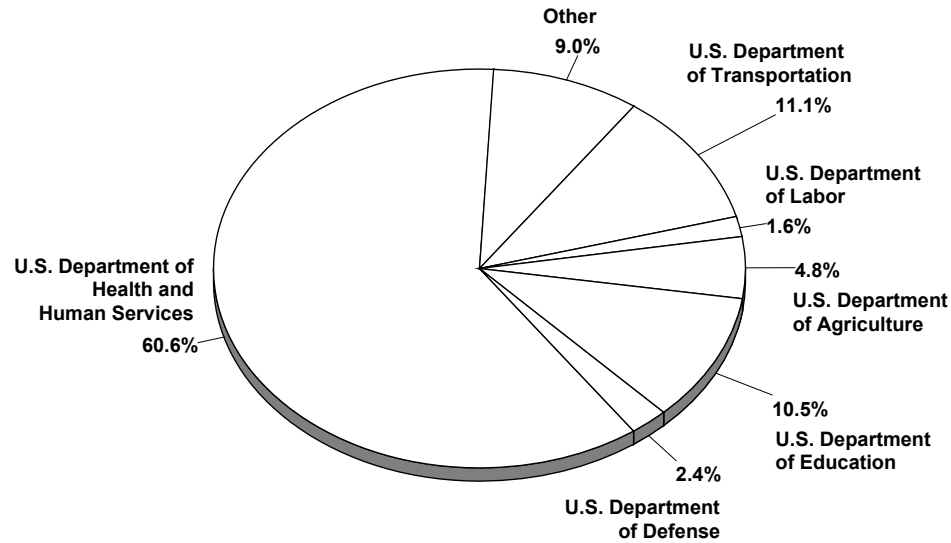
The estimate for FY 2010 and FY 2011 is expected to have a minimal increase. On-line and instant game sales are projected to show little growth and remain flat in both fiscal years. Racetrack Video Lottery revenue is projected to remain flat in FY 2010 and FY 2011. Limited Video Lottery revenue is not expected to grow in FY 2010 or in FY 2011, reflecting the 90% operating level of authorized machines. Table Games should provide \$22.3 million and \$22.7 million in net revenue to the State's debt reduction fund in FY 2010 and FY 2011, respectively.

Net revenue, as indicated on the preceding pages, does not include the portion of lottery profits earmarked by statute for other purposes and not available for appropriations.

Federal Funds

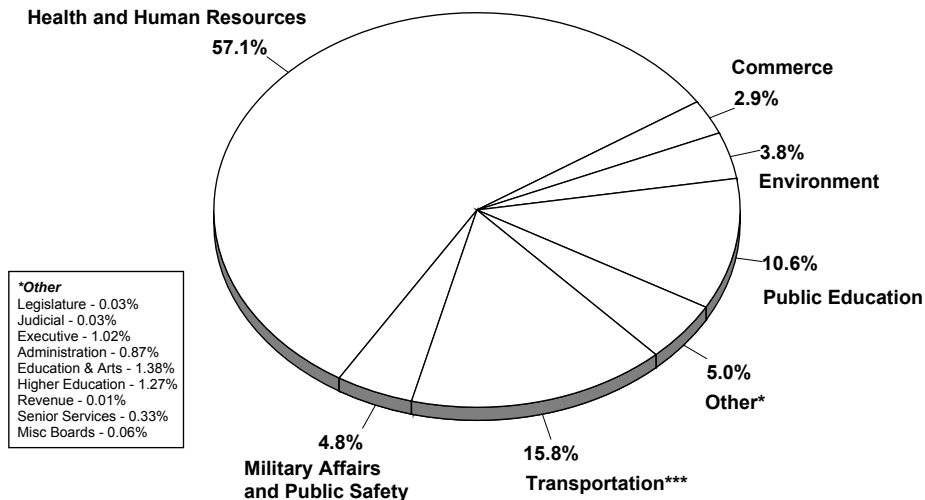
Sources of Revenues

Fiscal Year 2010
\$4.344 Billion
(Estimated)



Recommended Expenditures**

Fiscal Year 2010
\$4.358 Billion



** Expenditures include FY 2010 revenues and beginning balances.

***Includes Federal Funds that are appropriated as part of the State Road Fund.

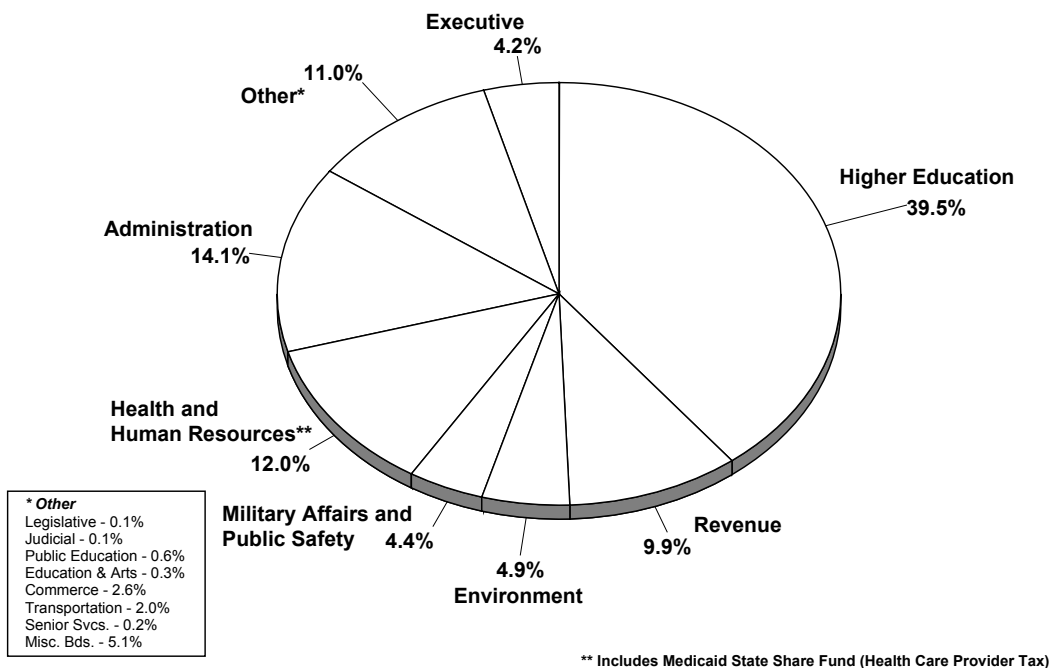
Special Revenue Funds

- Does not include:
- Payments of claims from the Insurance Commissioner Workers' Compensation Trust Funds.
- Payments of retiree benefits from the Consolidated Public Retirement Board.
- Payments of claims from the Public Employees Insurance Agency.
- Appropriated Lottery Funds and State Road Fund which are depicted separately.

Recommended Expenditures

Fiscal Year 2010

\$3.61 Billion



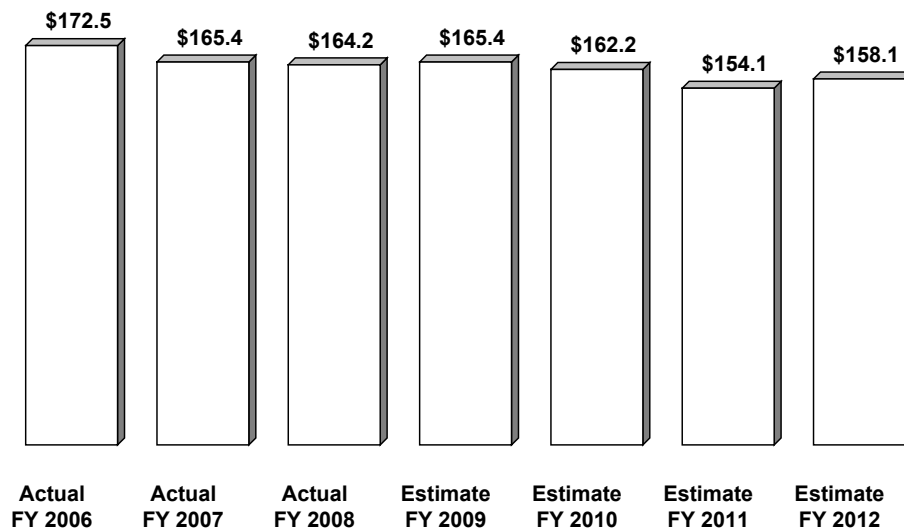
Medicaid State Share Fund

The Medicaid State Share Fund consists of provider taxes, paid by the various health care providers, to be utilized as matching funds for the Federal-State Medicaid Program. The provider taxes were initially enacted in 1993 as a funding mechanism to help supplement the general fund appropriation for the Medicaid Program. The Federal-State Medicaid Program grew significantly from roughly \$300 million in FY 1989 to nearly \$2.27 billion in FY 2008 (based on Legislative Oversight Commission on Health and Human Resources Accountability reports, which do not include prior period adjustments), a rate of growth that was more than two times greater than the growth rate for the State General Revenue Fund. The federal government funds roughly 72% of the Medicaid Program in West Virginia through a match of roughly \$3 per every \$1 of State funds appropriated for the program. In FY 2008, the Medicaid State Share Fund (Health Care Provider Tax/Severance Privilege Tax) generated nearly \$164.2 million or roughly 26.1% of the State matching funds for the Medicaid Program. Based upon long-term trends, Medicaid Program costs are rising by approximately 11.2% per year while General Revenue Fund collections are increasing by an average of roughly two to three percent per year.

Legislation enacted in 2001 phases out various individual provider taxes over a ten-year period beginning in FY 2002. The legislative change will eventually reduce total provider tax collections by one-third. However, even with the phase out of tax on certain provider groups, increases in utilization and gross receipts (as it relates to other taxed provider groups) provides some net growth in overall tax collections.

- 0.35% to 5.5% tax on gross receipts from various medical service providers in West Virginia.
- Accounts for 26.1% of State match for Medicaid Program.

Medicaid State Share Fund (Expressed in Millions)



Debt Summary

Over twenty independent agencies, authorities, boards and departments have the power to issue debt. Recognizing the need to manage debt, the West Virginia Debt Management Act of 1999 created the Division of Debt Management within the State Treasurer's Office. The division is authorized to develop long-term debt plans, evaluate cash flow projections for existing debt and proposed issues, act a liaison with the Legislature, assist in the issuance of debt, and issue a report on debt.

State Indebtedness

In 1997, in order to provide a mechanism by which necessary information may be provided to the Governor and the Legislature so that they may prudently manage the State's financial resources by attempting to keep the State within an average to low range of nationally recognized debt limits, the Legislature created the Debt Capacity Advisory Division within the State Treasurer's Office. The division is required to annually review the size and condition of the State's tax-supported debt and submit to the Governor and the Legislature an estimate of the maximum amount of new tax-supported debt that prudently may be authorized for the next fiscal year together with a report explaining the basis for the estimate. The division is also authorized to conduct ongoing reviews of the amount of bonds, notes, and other security obligations of the State's spending units.

Approval of State Bond Issues

Senate Bill 1002, enacted in January 2005, provides that on and after February 1, 2005, bonds may not be issued or refunded by the State or any of its agencies, boards or commissions without the express written direction of the Governor if (1) the ultimate user of the proceeds of the bonds is the State or any of its agencies, board, commission or departments, or (2) the issuance or refunding of the bonds implicated the State's credit rating.

West Virginia's commitment to fiscal integrity and economic development should enable it to continue experiencing positive growth and to continue meeting the needs of its citizens. At the same time, the State is committed to maintaining its moderate debt levels and debt management practices.

Ratings and Ratios

The State's general obligation bonds are rated AA- by Standard & Poor's Corporation and Fitch Investors Service. The Moody's Investors Service rating is Aa3. There are eleven other states which carry a Aa3 rating on their general obligation debt from Moody's Investors Service (Arizona's Aa3 rating is actually an issuer rating since they do not have general obligation debt). These states, of course, differ from West Virginia in their fiscal composition, debt issuance practices, population, income levels, and other economic indicators. However, a comparison of debt ratios demonstrates that West Virginia is within the low to moderate range of these key indicators as shown below.

Net Tax Supported Debt as a Percentage of Personal Income and Per Capita of Similarly Rated States (Rated Aa3 by Moody's Investors Service) (taken from Moody's Investors Service, 2008 State Debt Medians, March 2008)

% of Personal Income		Per Capita	
Oklahoma	1.5%	Oklahoma	\$493
Maine	1.9%	Maine	\$618
Arizona	2.0%	Arizona	\$630
Michigan	2.2%	Michigan	\$748
West Virginia	3.9%	West Virginia	\$1,101
Wisconsin	4.1%	Mississippi	\$1,283
Rhode Island	4.7%	Wisconsin	\$1,407
Mississippi	4.8%	Rhode Island	\$1,766
Illinois	5.2%	Illinois	\$1,985
New York	6.3%	New York	\$2,762
Connecticut	7.3%	New Jersey	\$3,478
New Jersey	7.5%	Connecticut	\$3,698

Debt Summary

Debt Limits

Short-Term Debt

The state constitution does not permit the issuance of short-term general obligation debt except for ordinary expenses.

Long-Term Debt

The State has a constitutional limitation on its ability to incur debt as provided in Article X, Section 4 of the State Constitution:

“No debt shall be contracted by the State, except to meet casual deficits in the revenue, to redeem a previous liability of the State, to suppress insurrection, repel invasion or defend the State in time of war; but the payment of any liability other than that for the ordinary expenses of the State shall be equally distributed over a period of at least twenty years.”

General obligation debt for other State purposes may only be authorized by constitutional amendment. Two thirds of the members of both the Senate and House of Delegates must approve a proposed amendment before it can be submitted to the voters for ratification or rejection. Upon approval of a constitutional amendment authorizing the issuance of general obligation debt, specific enabling legislation must be passed by both houses of the Legislature providing for the issuance of such debt.

West Virginia has various debt policies which are set forth in the West Virginia State Code; however, there is currently no centralized debt management policy. Instead, each policy is specific to each bonding authority.

Neither the West Virginia Constitution nor its statutes establish a general limit on all types of debt. For general obligation bonds, the limits are established in the amendment authorizing the debt. For revenue bonds and mortgages, debt limits are established at the individual issuer level, either by establishing a dollar ceiling on the total outstanding principal or setting the amount of the appropriation for debt service. While no limits are placed on the other debt instruments, all agreements for installment purchases or capital leases must be approved in advance by the Department of Administration. That review encompasses the entire transaction, including the repayment ability of the agency.

The existing and any proposed debt is well within acceptable limits and our debt levels are considered moderate. At the present time, the current and planned future bonded debt does not have any adverse impact on the general operating budget of the State.

Debt Summary

State of West Virginia Bond Issuing Authorities	
Issuing Authority	Debt Limit (Cap)
Governor	Per amendment
Armory Board	Per available revenues
Community Infrastructure Authority	Per available revenues
Division of Natural Resources, Director	Per available revenues
Economic Development Authority	N/A
Economic Development Authority	
Grant Committee	Per authorized projects
Education, Board of	Per available revenues
Governing Board of Higher Education	Per available revenues
Hatfield-McCoy Regional Recreation Authority	Per available revenues
Higher Education Policy Commission	Various—Per available revenues
Highway Commissioner	Per available revenues
Hospital Finance Authority	N/A
Housing Development Fund	N/A
Independent Higher Education Loan	
Bond Program	\$30 million
Infrastructure and Jobs Development Council	Per available revenues
Outdoor Heritage Conservation Board	Per available revenues
Parkway Authority	\$200 million
Public Energy Authority	N/A
Public Port Authority	Per revenues
Rail Authority	Per revenues
Regional Jail & Correctional Facilities Authority	Various—per project and available revenues
Solid Waste Management Board	\$100 million
School Building Authority	Per appropriation
Tobacco Settlement Finance Authority	Per available revenues
Water Development Authority	Per available revenues

Debt Summary

General Obligation Bonds

General obligation bonds pledging the full faith and credit of the State may be authorized only by constitutional amendment. Each amendment must be approved by two-thirds of both houses of the Legislature before submission to the voters. Enabling legislation is then required for amendments receiving voter approval. At June 30, 2008, \$679,139,000 (net of advance refunded bonds) was outstanding in general obligation bonds.

General Obligation Bonds Outstanding June 30, 2008 Principal Outstanding		
Amendment	June 30, 2008 (in thousands)	Payable From
Infrastructure Improvement Amendment of 1994	(net) \$277,949	First \$24 million of Severance Tax
Safe Roads Amendment of 1996	(net) \$401,190	Road Fund

General Obligation Debt Various Ratios as of June 30:				Notes for June 30, 2008, Ending (figures listed in thousands)
Ratio	2006	2007	2008	
GO Debt Service as a percent of the General Revenue Fund (GRF)	2.1%	1.7%	1.9%	GO Debt Service of \$73,026 GRF of \$3,928,288
GO Debt as a percent of Personal Income (PI)	1.5%	1.3%	1.3%	GO Debt of \$679,139 PI of \$53,522,000
GO Debt per Capita	\$409	\$394	\$375	GO Debt of \$679,139 Population of 1,812

Issued General Obligation Bonds

1950 Veterans Bonus Amendment

The 1950 amendment authorized general obligation bonds to be issued in an amount not to exceed \$90 million for the purpose of paying a bonus to veterans of World War I and World War II. In 1951 and 1952, \$67.5 million were sold and have been retired.

1956 Korean Veterans Bonus Amendment

The 1956 amendment authorized general obligation bonds to be issued in an amount not to exceed \$90 million for the purpose of paying a bonus to veterans of the Korean Conflict. In 1957 and 1958, \$21.652 million were sold, and \$11 million were refunded in 1962. All outstanding bonds have been retired.

1972 Better School Building Amendment

The 1972 amendment authorized \$200 million in general obligation bonds to be distributed to the county boards of education for the construction, renovation, remodeling, and equipping of elementary and secondary public school buildings or facilities. All outstanding bonds have been retired.

1973 Better Highways Amendment

General obligation bonds were authorized to be issued in an amount not to exceed \$500 million, with \$230 million for bridge replacement and improvement, \$130 million for completion of the Appalachian Highway System, \$50

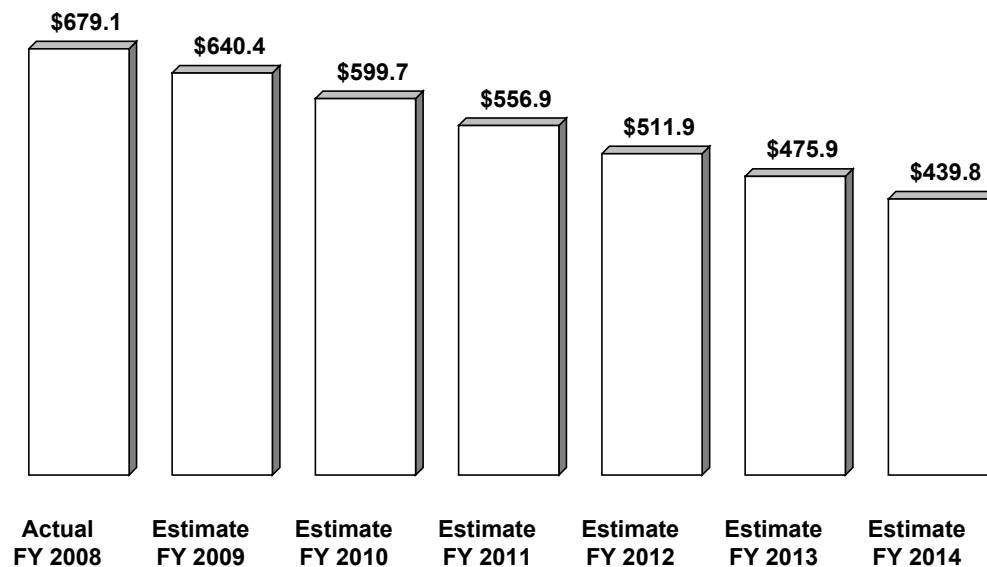
Debt Summary
General Obligation Bonds

million for upgrading sections of trunkline and feeder systems, \$50 million for upgrading West Virginia Route 2, \$100 million for upgrading state and local service roads, and \$50 million for construction, reconstruction, improving, and upgrading of U.S. Route 52 between Huntington and Bluefield. All outstanding bonds have been retired.

1994 Infrastructure Improvement Amendment

The 1994 amendment authorized \$300 million in general obligation bonds for construction, repair, and improvement of water supply and sewage treatment systems and for the acquisition, preparation, construction, and improvement of economic development sites. Severance taxes have been dedicated to fund repayment of the bonds. Enabling legislation was enacted in 1995. Litigation challenging the passage of the amendment was decided on December 14, 1995, by the West Virginia Supreme Court of Appeals validating the amendment. The initial issue of \$60 million was sold May 22, 1996, and the second issue of \$57 million was sold December 10, 1996. An issuance of approximately \$92 million occurred in February 1998. The final issue of approximately \$91 million was issued in May 1999, bringing the aggregate amount of bonds to the authorized \$300 million amount. By structuring one of the issues with capital appreciation bonds to minimize debt service over the next seven years, an additional \$50 million was available for projects. In November 2006, the West Virginia Infrastructure and Jobs Development Council issued \$94.2 million of refunding bonds which refunded more than \$95 million of outstanding bonds. The principal outstanding at June 30, 2008 was \$277,949,000, net of advance refunded bonds. All of the bonds will be fully retired in 2027.

General Obligation Debt Outstanding
Fiscal Years 2008 - 2014
As of June 30, 2008
(Expressed in Millions)



Debt Summary
General Obligation Bonds

1996 Safe Roads Amendment

The 1996 amendment authorized \$550 million in general obligation bonds to match available federal funds for highway construction and general highway construction or for improvements in each of the 55 counties. The legislation authorizing the amendment specified the bonds to be sold over a five-year period in increments of \$110 million each. The bonds are payable from the State Road Fund. Enabling legislation was passed during the 1997 legislative session. \$220 million in Road Bonds were issued in July 1998 and another \$110 million were issued in July 1999, July 2000, and July 2001, respectively. In May 2005, the State issued \$321.4 million of refunding bonds which refunded approximately \$320 million of the previously issued bonds. At June 30, 2008, \$401,190,000 (net of advance refunded bonds) were outstanding. The bonds will be fully retired by 2025.

Authorized But Unissued General Obligation Bonds

1973 Vietnam Veterans Bonus Amendment

This amendment authorized general obligation bonds to be issued in an amount not to exceed \$40 million to pay a bonus to veterans of the Vietnam Conflict. However, General Revenue Funds were appropriated to pay the bonuses in lieu of the issuance of bonds.

1992 Veterans Bonus Amendment

This amendment authorized general obligation bonds to be issued in an amount not to exceed four million dollars to pay a bonus to veterans who served in conflicts in the Persian Gulf, Lebanon, Grenada, and Panama. However, General Revenue Funds were appropriated to pay the bonuses in lieu of the issuance of the bonds.

2004 Veterans Bonus Amendment

This amendment authorized general obligation bonds to be issued in an amount not to exceed eight million dollars to pay a bonus to veterans who served in Kosovo, Afghanistan, and Iraq. However, General Revenue Funds were appropriated to pay the bonuses in lieu of the issuance of the bonds.

Debt Summary

General Obligation Debt Outstanding at June 30, 2008 (Expressed in Thousands)

	Final Maturity Date	Interest Rate(s) %	06/30/08 Balance
Road Bonds			
(Payable from State Road Fund)			
Issued Under:			
1996 Amendment (net)	2025	3.00 - 5.50	401,190
SUBTOTAL			401,190
Infrastructure Bonds			
(Payable from dedicated Severance Tax revenues)			
Issued Under:			
1994 Amendment (net)	2027	4.00 - 7.625	277,949
TOTAL			<u>\$679,139</u>

Summary of Debt Service Requirements

Future amounts required to pay principal and interest on general obligation debt at June 30, 2008, were as follows (expressed in thousands):

Year Ending June 30	Principal	Interest	Amount to be accrued	Total
2009	43,354	29,562	111	73,027
2010	44,886	27,687	444	73,017
2011	46,515	25,724	775	73,014
2012	48,307	23,617	1,088	73,012
2013	38,759	21,450	1,426	61,635
2014-2018	180,415	81,377	11,305	273,097
2019-2023	168,542	43,771	20,358	232,671
2024-2028	108,361	8,306	22,429	139,096
TOTAL	<u>\$679,139</u>	<u>\$261,494</u>	<u>\$57,936</u>	<u>\$998,569</u>

Debt Summary

Revenue Bonds

Revenue bonds are issued by various state departments, agencies, and authorities which are part of the primary government pursuant to specific statutory provisions enacted by the Legislature. Principal and interest payments are made from specifically dedicated fees and other revenues. Revenue bonds do not constitute general debt of the State.

Certain revenue bonds have call provisions providing for redemption at the option of the State, beginning ten years following the date of issuance, in whole or in part, in inverse order of maturity, and pay a redemption price not exceeding 103% of par value.

Approximately \$2 billion in revenue bonds were outstanding at June 30, 2008. A brief review of each issuer follows.

Tobacco Settlement Finance Authority

The Tobacco Settlement Finance Authority was created to issue special revenue obligation bonds which are payable from and secured by the State of West Virginia's right, title and interest to tobacco settlement revenue. This revenue is received under the terms of the Master Settlement Agreement (MSA) between participating tobacco product manufacturers (PMs), 46 states and six other U.S. jurisdictions. In June 2007, the Authority issued \$1.1 billion (accrued value) in two different series of bonds which are anticipated to mature in 2029. The proceeds of the first two series of bonds were directed to the West Virginia Teachers' Retirement System. At June 30, 2008 the principal outstanding on the bonds totaled \$899 million.

West Virginia Commissioner of Highways

In October 2006 and April 2007 the Commissioner of Highways issued special obligation notes in the form of Grant Anticipation Revenue Vehicles or GARVEEs, as they have become known. The issuance of GARVEEs requires that a highway project be approved as a Federal-aid debt-financed (bond, certificate, note, or other debt instrument) project in order to receive payments for eligible debt-related costs. Once a project is selected for bond financing, the project is submitted to the Federal Highway Administration (FHWA) for approval as an advance construction (AC) project. The AC designation will ensure that the project follows Federal-aid procedures and will preserve the eligibility to reimburse debt-related costs with future Federal-aid funds. At June 30, 2008 the principal outstanding on the two series of notes totaled \$99 million. The notes are expected to mature in 2015.

West Virginia Infrastructure and Jobs Development Council

The West Virginia Infrastructure and Jobs Development Council was created to review the preliminary application for waste water facilities, water facilities or combination projects, or infrastructure projects seeking state funding. The council is to make a written recommendation as to the infrastructure project financing in terms of the kind, amount, and source of funding, which the project sponsor should pursue and which the state infrastructure agency or agencies should consider an appropriate investment of public funds. In the alternative, the council may make a determination that the project or infrastructure project is not eligible for funding assistance from any state infrastructure agency or the project or infrastructure project is not otherwise an appropriate or prudent investment of State funds, and make a recommendation that the project sponsor not seek funding from any state infrastructure agency. The primary source of repayment for the revenue bonds is the receipt of repayments of principal and interest on a set of loans, known as defined loans, previously made to projects from general obligation bond proceeds. At June 30, 2008, \$125 million was outstanding.

State Building Commission Lottery Revenue Bonds

The State Building Commission issued bonds secured by a pledge of revenues appropriated by the Legislature from certain net profits of the West Virginia Lottery and deposited in the debt service fund. Bond proceeds were used to provide financial support for constructing, equipping, improving, and maintaining capital improvement projects promoting education, arts, sciences, and tourism (EAST Fund) in West Virginia. At June 30, 2008, \$25 million were outstanding.

Debt Summary
Revenue Bonds

Economic Development Grant Committee/Economic Development Authority

The West Virginia Economic Development Grant Committee was created to issue economic development grants throughout the State of West Virginia. During FY 2004, the Economic Development Authority issued bonds totaling more than \$249.8 million to fund the grants of the committee. The bonds are secured by an annual pledge of \$19 million from the Excess Lottery Fund. At June 30, 2008, \$214 million were outstanding.

Debt Summary

Revenue Bonds

Summary of Debt Service Requirements Outstanding at June 30, 2008 (Expressed in Thousands)

	Issue Date	Final Maturity Date	Interest Rate(s) %	Balance
School Building Authority	1997-2007	2022	3.60-5.60	215,675
School Building Authority (Lottery)	2004	2014	3.00-5.25	99,040
Tobacco Settlement Finance Authority*	2007	2047	7.467-8.5	1,156,088
Highways, Commissioner of	2006-2007	2015	4.00-5.00	98,875
WV Infrastructure and Jobs Development Council	2001	2045	4.50-5.75	124,530
Education, Arts, Sciences, and Tourism Fund (Lottery)	1997	2011	5.00-5.50	25,465
Economic Development Authority (Lottery)	2004	2026	1.20-6.07	<u>214,125</u>
Subtotal				1,933,798
Less: School Building Authority Debt Service Reserve Fund				(23,021)
School Building Authority Debt Service Reserve Fund (Lottery)				(14,180)
Economic Development Authority Debt Service Reserve Fund (Lottery)				(18,990)
Education, Arts, Sciences, and Tourism Debt Service Reserve Fund (Lottery)				<u>(2,600)</u>
Net revenue bonds outstanding				<u><u>\$1,875,007</u></u>

Summary of Debt Service Requirements

Future amounts required to pay principal and interest on revenue bonds at June 30, 2008, were as follows (expressed in thousands):

<u>Year Ending June 30</u>	Principal	Interest	Amount to be accreted	Total
2009	66,780	98,057	6,114	170,951
2010	83,410	94,281	6,658	184,349
2011	87,090	89,634	7,239	183,963
2012	84,885	84,871	7,874	177,630
2013	90,705	79,873	8,545	179,123
2014-2018	445,280	315,687	55,262	816,229
2019-2023	448,140	175,142	83,764	707,046
2024-2028	555,976	35,986	77,088	669,050
2029-2033	28,257	13,114	7,880	49,251
2034-2038	25,545	7,402	0	32,947
2039-2043	13,815	2,243	0	16,058
2044-2048	3,915	243	0	4,158
	<u>\$1,933,798</u>	<u>\$996,533</u>	<u>\$260,424</u>	<u>\$3,190,755</u>

*Balance represents accreted value of bonds.

Debt Summary

Capital Leases

A capital lease is a lease in which the lessee (entity leasing from another) assumes substantially all the risks and benefits associated with the asset, which must meet one or more of the following criteria:

- The lease transfers ownership of the leased asset at the end of the lease term.
- The lease terms and conditions contain a bargain purchase option which allows the state to buy the leased asset for substantially less than the estimated value of the leased item.
- The term of the lease is 75% or more of the estimated economic life of the leased asset. Estimated economic life is the estimated useful life of the asset for the purpose for which it was intended, regardless of the term of the lease. For example, if a copier with an estimated economic life of ten years were leased for eight years, it would meet this criterion.
- The present value of the future minimum lease payments at the beginning of the lease equals or exceeds 90% of the fair value of the asset.

Capital leases have been entered into by numerous state agencies to meet equipment needs, such as telecommunications and postal equipment. The leases are short-term and are subject to annual appropriation and availability of general and special revenues.

The outstanding balance of primary government capital leases was \$339 million at June 30, 2008.

Glossary

A

Activity - The individual item of appropriation as listed in the budget bill, such as Personal Services, Employees' Benefits, and Capital Outlay.

Agency - An organizational unit of state government, usually a department, bureau, commission, board, or a subdivision within a department or bureau.

Annual Increment - Funds appropriated for eligible employees and paid at the rate of \$60 per full year of service with a minimum of three years of service.

Appropriation - A legal authorization to incur obligations and to make expenditures for specific purposes.

Appropriated Special Fund - Consists of accounts that generate revenue from established rates or fees and must be expended for a specific purpose; amount authorized for expenditure is specifically contained in the budget bill.

Budget Act/Budget Bill - The legislation that appropriates the expenditures required to operate state government for each fiscal year.

Budgetary Basis - The basis of accounting used to estimate financing sources and uses in the budget. West Virginia's annual budget is prepared on a cash basis.

Budgetary Control - The control or management of a government in accordance with the approved budget for keeping expenditures within the limitations of available appropriations and resources.

Buildings - Expenditures for new construction and major alteration of existing structures, or the improvement of lands and can include shelter, support, storage, protection, or the improvement of a natural condition.

Bureau - An organizational unit of state government established by law and headed by a commissioner or other statutory officer of an agency within that bureau, such as the Bureau of Senior Services.

B

Balanced Budget - A budget in which the estimated revenues plus unappropriated fund balances are equal to or greater than the appropriations.

Base Budget - The amount required for ongoing expenditures for current programs—does not contain items of a onetime nature.

Bond - A long-term IOU or promise to pay. It is a promise to repay a specified amount of money (the face amount of the bond) on a particular date (the maturity date). Bonds are primarily used to finance capital projects.

Budget - A plan of financial activity for a specified period (fiscal year or biennium) indicating all planned revenues and expenses for the budget period.

C

Capital Improvements/Programs/Expenditures -

Related to the acquisition, expansion, or rehabilitation of an element of the government's physical plant, sometimes referred to as infrastructure. New construction, renovation, or repairs of \$100,000 or more are considered capital improvements for budgetary purposes. Also, major equipment purchases of like equipment of \$50,000 or more are considered to be capital improvement programs for budgetary purposes.

Cash Basis - A basis of accounting in which transactions are recognized only when cash is increased or decreased.

Civil Contingent Fund - The civil contingent fund is appropriated by the Legislature to the Governor to be available for payment of expenses incurred when executing a law for which there is no specific appropriation or any other expenses for which the Governor deems necessary or proper, such as unanticipated emergencies.

Commission - An organizational unit of state government established by law that is headed by a group of persons directed to perform a specific duty, such as the Higher Education Policy Commission or Public Service Commission.

Current Expenses - Expenditures for operating costs other than personal services and shall not include equipment, repairs and alterations, buildings, or lands.

Current Level - Refers to the same amount of total dollars in the current fiscal year, which are available for next fiscal year.

D

Debt Service - The cost of paying principal and interest on borrowed money according to a predetermined payment schedule.

Department - An organizational unit of state government established by law and headed by an cabinet secretary or department head, such as the Department of Administration, Department of Education, or Department of Revenue.

Disbursement - The expenditure of monies from an account.

Division - Each primary entity of government which receives an appropriation in the budget bill. Also may be referred to as an agency.

E

Employee Benefits - Expenditures for social security matching, workers' compensation, unemployment compensation, pension and retirement contributions, public employees' insurance matching, personnel fees, or any other benefit normally paid by the employer as direct cost of employment.

Encumbrance - The commitment of funds to purchase an item or service. To encumber funds means to set aside or commit funds for a specified future expenditure.

Enterprise Funds - These funds are used to account for operations of those state agencies providing goods or services to the general public on a user-charge basis, or where the State has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Examples include the West Virginia Lottery, Board of Risk and Insurance Management, Public Employees' Insurance Agency, and the West Virginia Prepaid College Plan.

Equipment - Expenditures for equipment items which have an appreciable and calculable period of usefulness in excess of one year.

Excess Lottery - A Special Revenue fund that supports items set by statute such as the senior citizens tax credit, college scholarships for West Virginia students, capital projects and improvements for public and higher education and for state parks, bond backing for economic development endeavors, infrastructure projects (including water and sewer projects), General Revenue transfer to support FY 2002 pay raises, and additional items as may be appropriated by the Legislature.

Expenditure - The payment of cash on the transfer of property or services for the purpose of acquiring an asset, service, or settling a loss.

Expenses - A category for the usual, ordinary, and incidental expenditures by an agency, including, but not limited to, such items as salaries, benefits, contractual services, commodities, and supplies of a consumable nature, current obligations, fixed charges, and capital outlay. Payments to other funds or local, state, or federal agencies may be included in this budget classification of expenditures.

F

Federal Fiscal Year - October 1 through September 30.

Federal Fund - Consists of any financial assistance made directly to a state agency by the United States government.

Fiscal Year - A twelve-month period designated as the operating year for accounting and budgeting purposes in an organization. West Virginia's fiscal year runs from July 1 to June 30.

Full-time Equivalent Position (FTE) - A part-time position converted to the decimal equivalent of a full-time position based on 2,080 hours per year. For example, a part-time typist working for 20 hours per week would be the equivalent to 0.5 of a full-time position.

Fund - A fiscal entity with revenues and expenses which are segregated for the purpose of carrying out a specific purpose or activity.

Fund Balance - The balance of cash and investments less reappropriated funds and reserves for cash flow.

G

GASB 34 - The Government Accounting Standards Board statement 34 (June 1999) that establishes financial reporting standards for governmental entities.

GASB 43 - The Government Accounting Standards Board statement 43 (April 2004) titled "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans."

GASB 45 - The Government Accounting Standards Board statement 45 (June 2004) titled "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions."

General Fund - Consists of tax revenues collected by the state which are not dedicated to a specific purpose and require legislative appropriations for expenditure.

General Obligation (GO) Bond - This type of bond is backed by the full faith, credit, and taxing power of the government.

Goals - Established by agency/division, goals are issue-oriented statements that declare what an agency/division intends to accomplish to fulfill its mission.

I

Improvement Package (Request) - The process of requesting additional dollars for expenditure in the upcoming fiscal year above the current level.

Income Tax Refund Reserve Fund - A fund established by law that may only be used to ensure payment of personal income tax refunds, interest, and penalties to taxpayers in a timely manner or to be used by the Legislature as it determines necessary, such as for unanticipated emergencies.

Infrastructure - The physical assets of a government (e.g., streets, water, sewer, public buildings, and parks).

Internal Service Funds - These funds account for the operations of those state agencies that provide goods and services to other state agencies and governmental units on a cost-reimbursed basis. Examples include the State Building Commission, Information Services and Communications, and the Travel Management Office.

L

Lands - Expenditures for the purchase of real property or interest in real property.

Long-term Debt - Debt with a maturity of more than one year after the date of issuance.

Lottery - A Special Revenue fund that supports programs for senior citizens, education, and tourism and parks, as appropriated by the Legislature.

M

Mission - Developed in accordance with strategic planning principles, the mission gives the reason for the agency/division's existence. The mission is a succinct account of what the agency/division is trying to achieve.

N

Nonappropriated Special Fund - Consists of accounts that generate revenue from established rates or fees and must be expended for a specific purpose; amounts expended are authorized by general law.

O

Object of Expenditure - An expenditure classification, referring to the lowest and most detailed level of classification, such as vehicle rental, association dues, and office equipment.

Objectives - Detailed, quantifiable, time-specific statements of activities that are related to achieving the goals. They are targets for specific agency or program actions.

Operations - As used in the agency narratives in the *Operating Detail*, the “Operations” section details the activities of a division and may include subdivisions/units within a division.

P

Performance Measures - Tool used by all levels of management, as well as the public, to determine whether a program is accomplishing its mission efficiently and effectively.

Personal Services - Expenditures for salaries, wages, and other compensation paid to full-time, part-time, and temporary employees of the spending unit.

Program - A group of related activities performed by one or more organizational units for the purpose of accomplishing a function for which the government is responsible. A unit can be a division, a section, or a workgroup. Each program has an identifiable service or output and objectives to effectively provide the service.

Proprietary Funds - These funds account for the operations of state agencies that provide goods and/or services to the general public or state agencies and governmental units. (See “Enterprise Funds” and “Internal Service Funds.”)

R

Rainy Day Fund - (See “Revenue Shortfall Reserve Fund.”)

Reappropriated Funds - Those funds which are remaining at the end of the fiscal year which, through specific language in the budget bill, are authorized to be made available for expenditure in the next fiscal year.

Reimbursements - Repayments from one agency to another to properly allocate expenditures to the correct agency and adjust account ledger balances/disbursements.

Repairs and Alterations - Expenditures for routine maintenance and repairs to structures and minor improvements to property which do not increase the capital assets.

Revenue - Sources of income financing the operation of government.

Revenue Bonds - Bonds issued by various state departments, agencies, and authorities that are part of the primary government pursuant to specific statutory provisions enacted by the Legislature. The principal and interest payments are made from specifically dedicated fees and other revenues, but such bonds do not constitute general debt of the State.

Revenue Shortfall Reserve Fund - A “fund” to be used by the Legislature to offset a shortfall in revenues and to allow the Governor to borrow funds when revenues are inadequate to make timely payments of the State’s obligations. The Legislature may also appropriate funds for emergency revenue needs such as natural disasters. (Also known as the Rainy Day Fund.) Additional details are located in the Budget Planning chapter in Volume I of the *Executive Budget*.

Revenue Shortfall Reserve Fund—Part B - A “fund” to be used by the Legislature to offset a shortfall in revenues or fiscal emergencies of an extraordinary nature. No moneys in the fund may be expended for any purpose unless all moneys in the Revenue Shortfall Reserve Fund have first been expended. Additional details are located in the Budget Planning chapter in Volume I of the *Executive Budget*.

S

Special Obligation Notes - Bonds issued by entities of the primary government pursuant to specific statutory authorizations and are payable from specifically dedicated fees, other revenues, and legislative appropriations of general and special revenues.

Special Revenue Funds - Consists of revenues from fees, permits, licenses, services, or other purposes and may be used only for that specific purpose for which the individual account is intended unless otherwise directed by the Legislature.

Spending Authority - The dollar limit the Legislature authorizes an agency to spend from funds the agency collects.

Spending Unit - The department, bureau, division, office, board, commission, agency, or institution to which an appropriation is made.

State Road Fund - Consists of revenues from gasoline and other motor fuel excise and license taxes, motor vehicle registration and license tax, and all other revenue derived from motor vehicles or motor fuel. Used solely for construction, reconstruction, repair, and maintenance of public highways, the payment of the interest and principal on all road bonds, and the administrative expenses of the Division of Highways and the Division of Motor Vehicles. All federal funds received for road construction, reconstruction, and maintenance are also deposited into and become part of the State Road Fund.

Supplemental Appropriation - An appropriation made by the governing body that is contingent upon excess funds being available after all regular appropriations have been funded.

Surplus Appropriation - An additional appropriation made by the governing body from excess funds generally from the prior year after the budget year has started.

U

Unclassified - An appropriation that may be spent at the discretion of the department secretary/bureau commissioner. An unclassified appropriation may have no limitations, or it may be limited to current expenses, repairs and alterations, equipment, other disbursements, and other extraordinary disbursements.

Unencumbered Balance - The amount of an appropriation that is neither expended nor encumbered. It is essentially the amount of money still available for future purposes.

User Charges or User Fees - A payment for direct receipt of a public service by the party who benefits from the service.

Glossary of Acronyms

A

AARP	American Association of Retired Persons
ABCA	Alcohol Beverage Control Administration
ABE	Adult basic education
ACH	Automated Clearing House
ACA	American Correctional Association
ACT	American College Test
	Association of Classroom Teachers
ACT EXPLORE	
	A test for eighth graders
ACT PLAN	A test for tenth graders
ADA	Americans with Disabilities Act of 1990
AFIS	Automated Fingerprint Identification System
AHERA	Asbestos Hazard Emergency Response Act
AIDS	Acquired immunodeficiency syndrome
AML&R	Abandoned Mine Lands and/ Reclamation Reclamation
APD	Appalachian Development
APS	Adult Protective Services
ARC	Appalachian Regional Commission
ATM	Asynchronous transfer mode
ATSDR	Agency for Toxic Substances and Disease Registry
ATV	All-terrain vehicle

B

B&O	Business and Occupation
B4WV	Business for West Virginia
BBER	Bureau of Business and Economic Research
BCSE	Bureau for Child Support Enforcement
BHHF	Behavioral Health and Health Facilities
BLS	Bureau of Labor Statistics
BOCMS	Board of Coal Mine Health and Safety
BMPs	Best management practices
BMS	Bureau for Medical Services
BRFSS	Behavioral Risk Factor Surveillance System
BRIM	Board of Risk and Insurance Management
BTI	West Virginia Board of Treasury Investments

C

C&T	Community and Technical
CAFR	Comprehensive Annual Financial Report
CAPTA	Child Abuse Prevention and Treatment Act
CCP	Community Corrections Program
CCTCE	Council for Community and Technical College Education
CD or CD-ROM	
	Compact disc (read-only memory)
CDC	Center for Disease Control
CDL	Commercial Driver's License
CDR	Continuing disability reviews
CEO	Chief executive officer
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
CERT	Community Emergency Response Team
	Computer Emergency Response Team
CFDA	Catalog of Federal Domestic Assistance
CFO	Chief financial officer
CFR	Code of Federal Regulations
CJSAC	Criminal Justice Statistical Analysis Centers
CLIA	Clinical Laboratory Improvement Act
CMS	Center for Medicare and Medicaid Services
CMV	Commercial motor vehicle
CNA	Certified Nursing Assistants
CNP	Child Nutrition Program
CON	Certificate of Need
COPS	Community-oriented policing services
CPD	Center for Professional Development
CPI	Consumer Price Index
	Cost per Inquiry
CPR	Cardiopulmonary resuscitation
CPRB	Consolidated Public Retirement Board
CPS	Child Protective Services
CPU	Central processing unit
CRTS	Coal Resource Transportation System
CSR	Code of State Regulations
CT	Computerized tomography
CTC	Community and Technical College
CVISN	Commercial Vehicles Information Systems Network
CWSRF	Clean Water State Revolving Fund
CY	Calendar year

Appendix C/Glossary of Acronyms

D

DARE.....	Drug Abuse Resistance Education
DASIS.....	Drug and Alcohol Services Information System
DDS.....	Disability Determination Services
DEA.....	U.S. Drug Enforcement Administration
DEP.....	Department/Division of Environmental Protection
DHHR.....	Department of Health and Human Resources
DHSEM.....	Division of Homeland Security and Emergency Management
DJS.....	Division of Juvenile Services
DMV.....	Division of Motor Vehicles
DNA.....	Deoxyribonucleic Acid
DNR.....	Division of Natural Resources
DOC.....	Division of Corrections
DOH.....	Division of Highways
DOJ.....	U.S. Department of Justice
DOL.....	Division of Labor
DOT.....	Department of Transportation
DRA.....	Deficit Reduction Act of 2005
DREAM.....	Data Reengineering and Modernization
DSL.....	Digital Subscriber Line
DSRS.....	Deputy Sheriff's Retirement System
DUI.....	Driving under the influence
DVD.....	Digital video disk
DWTRF.....	Drinking Water Treatment Revolving Fund

E

EAST.....	Education, Arts, Science, and Tourism
EBA.....	Educational Broadcasting Authority
EBT.....	Electronic benefits transfer
EDA.....	Economic Development Authority
EDMS.....	Electronic document management system
EEO.....	Equal employment opportunity
EEOC.....	U.S. Equal Employment Opportunity Commission
EMS.....	Emergency Medical Services
EPA.....	U.S. Environmental Protection Agency
EPICS.....	Employees Payroll Information Control System
EPSCoR.....	Experimental Program to Stimulate Competitive Research
EPSCoT.....	Experimental Program to Stimulate Competitive Technology

E-Rate.....	Schools and Libraries Universal Service Program (electronic rate)
EPSDT.....	Early and Periodic Screening, Diagnosis, and Treatment
ERP.....	Enterprise Resource Planning
ESL.....	English as a Second Language
ESPN.....	Entertainment and Sports Programming Network
EZ/EC.....	Empowerment zone/Enterprise community

F

FAA.....	Federal Aviation Administration
FACTS.....	Family and children tracking system
FAIR.....	Families with Alzheimer's In-Home Respite
FARS.....	Financial Accounting and Reporting Section
FAST.....	Federal and state technology
FBI.....	Federal Bureau of Investigation
FCC.....	Federal Communications Commission
FDIC.....	Federal Deposit Insurance Corporation
FEMA.....	Federal Emergency Management Agency
FFY.....	Federal fiscal year
FHWA.....	Federal Highway Administration
FLOW.....	Future Leaders of Watershed
FMAP.....	Federal Medical Assistance Percentages
FOIA.....	Freedom of Information Act
FPL.....	Federal Poverty Level
FPY.....	Federal program year
	Federal performance year
FRM.....	Forest resources management
FRN.....	Family Resource Network
FTA.....	Federal Transit Administration
FTE.....	Full-time equivalent
FY.....	Fiscal year

G

GAAP.....	Generally accepted accounting principles
GAO.....	Government Accountability Office
GARVEE.....	Grant Anticipation Revenue Vehicle
GASB.....	Governmental Accounting Standards Board
GDP.....	Gross Domestic Product

Appendix C/Glossary of Acronyms

GEAR UP.....	Gaining Early Awareness and Readiness for Undergraduate Programs	IEP	Individual education plan
GED	General Equivalency Diploma	IFLOWS.....	Integrated Flood Observing and Warning System
GFOA.....	Government Finance Officers Association of the United States and Canada	IFTA	International Fuel Tax Agreement
GIS	Geographical information system	INSITE	An in-house program for families of blind, preschool children
GO	General Obligation	IOU	I owe you
GPS	Global positioning satellite system	IRI	International roughness index
	Global positioning system	IRP	International Registration Plan
GRF.....	General Revenue Fund	IRS	Internal Revenue Service
GSP	Gross State Product	IS&C	Information Services and Communications

H

HAVA	Help America Vote Act
HAZMAT	Hazardous materials
HB	House Bill
HCA	Health Care Authority
HEAPS.....	Higher Education Adult Part-time Student
HEPC	Higher Education Policy Commission
HIDTA.....	High intensity drug trafficking area
HIPAA.....	Health Insurance Portability and Accountability Act
HIV.....	Human immunodeficiency virus
HMO	Health maintenance organization
HMVMT	Hundred million vehicle miles traveled
HOPE	Helping Others Pursue Excellence
HOPWA.....	Housing Opportunities for Persons with AIDS
HPI.....	Housing Price Index
HRIS	Human Resource Information System
HRSA.....	Health Resources and Services Administration
HSC.....	Health Sciences Center
HSTA.....	Health Sciences and Technology Academy
HSTW	High Schools That Work
HTF	Highway Trust Fund
HUD.....	U.S. Housing and Urban Development
HVAC.....	Heating, ventilation, and air- conditioning

I

ID	Identification
IDEA	Individuals with Disabilities Education Act

IT	Information technology
ITS/CVO	Intelligent Transportation System/ Commercial Vehicle Organization

J

JTPA.....	Job Training Partnership Act
JRS	Judges Retirement System

K

K-3	Kindergarten through 3rd grade
K-12	Kindergarten through 12th grade

L

LAN	Local area network
LATA.....	Local access transport area
LEAs	Local educational agencies
LEAP.....	Leveraging Education Assistance Partnerships
LIFE	Legislative Initiatives for the Elderly
LiHEAP.....	Low Income Home Energy Assistance Program
LIMS	Laboratory Information Management System
LLC	Limited liability companies
LPN	Licensed Practical Nurse
LVL	Limited video lottery

M

MAPD.....	Medicare Advantage Prescription Drug
MAPP.....	Matching Advertising Partnership Program
MAPS.....	Department of Military Affairs and Public Safety
MATRIC	Mid-Atlantic Technology, Research, and Innovation Center
METH	Methamphetamine
MFCU	Medicaid Fraud Control Unit
MHC	Mountain Health Choices
MIP.....	Major improvements program
MLMP.....	Mineral Lands Mapping Project
MMIS.....	Medicaid Management Information system
M.P.H.	Master of Public Health degree
MPMP.....	Mineral parcel mapping project
MR/DD	Mental retardation/developmental disabilities
MR/DD	Mentally retarded/developmentally disabled
MSA.....	Metropolitan statistical area
MSHA.....	Mine Safety and Health Administration (federal)

N

N/A.....	Not available/not applicable
NAAQS.....	National ambient air quality standards
NCAA	National Collegiate Athletic Association
NAICS.....	North American Industry Classification System
NASCAR	National Association for Stock Car Auto Racing
NASAO.....	National Association of State Aviation Officials
NBER.....	National Bureau of Economic Research
NBPTS	National Board of Professional Teaching Standards
NCIC.....	National Crime Information Center
NHS.....	National Highway System
NHTSA	National Highway Traffic Safety Administration
NOAA	National Oceanic and Atmospheric Administration
NPDES.....	National Pollutant Discharge Elimination System
NPS	Nonpoint pollution source
NRCS	Natural Resources Conservation Service (USDA)

O

OBHS.....	Office of Behavioral Health Services
OEPA.....	Office of Education Performance Audit
OIC.....	Offices of Insurance Commissioner
OMB	U.S. Office of Management and Budget
OMHS&T.....	Office of Miners' Health Safety and Training
OPEB	Other post employee benefits
OSCAR	On-line Support Collections and Reporting System
OSHA.....	Occupational Safety and Health Administration (federal)

P

PAC	Political action committee
PASS	Partnerships to Assure Student Success
PBS	Public Broadcasting Service
P-card.....	State purchasing card
PC	Personal computer
PCP.....	Primary care physician/provider
PCR.....	Phytosanitary certificates resources
.....	Polymerase chain reaction
PDF	Portable document format
PDL.....	Preferred drug list
P.E.	Professional Engineer
PECA.....	Program Enhancement Cooperative Agreement
PEIA.....	Public Employees Insurance Agency
PERD	Performance Evaluation and Research Division (section of the West Virginia Legislative Auditor's Office)
PERS	Public Employees Retirement System
PI	Personal Income
PICA.....	Program Improvement Cooperative Agreement
PICF	Patient Injury Compensation Fund
PIECES	Partners in Implementing an Early Care and Education System
PIMS	Position Information Management System
PLC	Public Land Corporation
PM 2.5.....	Particulate matter less than 2.5 microns in diameter
PPOD	Pollution Prevention and Open Dump Cleanup
PROMISE	Providing Real Opportunities for Maximizing In-State Student Excellence
PSC	Public Service Commission
.....	Potomac State College

Appendix C/Glossary of Acronyms

PSWF Public solid waste facility
PY Program year

R

R&D Research and development
RAPIDS Recipient Automated Payment and
Information Data System
RCL Regulated consumer lenders
RCRA Resource Conservation Recovery Act
READS Reading Excellence Accelerates
Deserving Students
REAP Rehabilitation Environmental Action
Plan
REDI Responder Emergency Deployment
Information
REIS Regional Economic Information System
REMI Regional Economic Models, Inc.
RESAs Regional educational service agencies
RFP Request for proposals
RFQ Request for quotations
RSP Responsible Student Program
RTIA Radiation Toxics and Indoor Air
RV Recreational vehicle

S

SACWIS Statewide automated child welfare
information system
SAFETEA Safe, Accountable, Flexible, and
Efficient Transportation Equity Act of
2003
SAFETEA-LU Safe, Accountable, Flexible, and
Efficient Transportation Equity Act: A
Legacy for Users
SB Senate Bill
SBA School Building Authority
SBDC Small Business Development Center
SBIC Small Business Investment Corporation
SBIR Small Business Innovation Research
SBVR South Branch Valley Railroad
SCC State Conservation Committee
SCIP Systematic, Continuous, Improvement
Process
SCORE Service Corps of Retired Executives
SCSEP Senior Community Service Employment
program
SEEDS Student Educational and Economic
Development Success

SERC Satellite Education Resources
Consortium
SHARES Saving History and Reaching Every
Student
SHINE Senior Health Insurance Network
SHP State Health Insurance Assistance
Program
SKI-HI An in-house program for families of
deaf and hard-of-hearing preschool
children
SRA State Rail Authority
SREB Southern Regional Education Board
SSI Supplemental Security Income
SSDI Social Security Disability Insurance
STARBASE Science and Technology Academics
Reinforcing Basic Aviation and Space
Exploration
STD Sexually transmitted disease
STEM Science, technology, engineering and
math
STS Slow the Spread
STTR Small Business Technology Transfer
SWA Solid waste authority
SWMB Solid Waste Management Board

T

TANF Temporary Assistance for Needy
Families
TCE Tax Counseling for the Elderly
TCR Telecommunication change request
TDC Teachers' Defined Contribution
Retirement System
TEA-21 Transportation Equity Act for the 21st
Century
TEAM Team effort for acquisition management
TEFAP The Emergency Food Assistance
Program
TMDL Total maximum daily load
TRS Teachers' Retirement System
TRAFFIC Tax Reduction and Federal Funding
Increased Compliance
TSA Transportation Security Administration
TTY/TDD Telecommunications device for the deaf
TV Television

U

U&CF Urban and Community Forestry

Appendix C/Glossary of Acronyms

UAAL.....	Unfunded Actuarial Accrued Liability
UCC	Uniform Commercial Code
U.S.	United States
USDA.....	United States Department of Agriculture
USDC.....	United States Department of Commerce
USDOE	United States Department of Energy
USFDA.....	United States Food and Drug Administration

V

VA.....	Veterans Administration
VHF.....	Very high frequency
VIP.....	Voting Is Powerful
VISTA	Vendor Inquiry System to the Auditor
	Volunteers in Service to America
VITA.....	Volunteer Income Tax Assistance
VOI/TIS	Violent offender incarceration/Truth in sentencing

W

WCF	Workers' Compensation Fund
WCIS®	Workers' Compensation Insurance System
WDA	Water Development Authority
WESTEST.....	West Virginia Educational Standards Test
WIA.....	Workforce Investment Act
WIC.....	Women, Infants, and Children
WMA.....	Wildlife management area
WISH	Workflow and Imaging Solution System
WMA.....	Wildlife management area
WTI.....	West Texas Intermediate
W.Va.	West Virginia
WV.....	West Virginia
WV REDI.....	West Virginia Responder Emergency Deployment Unformation System
WV WORKS.....	West Virginia's welfare reform initiative
WVaPR.....	West Virginia Public Radio
WVCHIP.....	Children's Health Insurance Program
WVCR.....	West Virginia Central Railroad
WVCTCS.....	West Virginia Community and Technical College System
WVDA	West Virginia Department of Agriculture
WVDE.....	West Virginia Department of Education
WVDO	West Virginia Development Office
WVEIS.....	West Virginia Educational Information

	System
WVFAIR	West Virginia Financial Aid Information and Resources
WVFIMS.....	West Virginia Financial Information Management System
WVIHY	West Virginia Industrial Home for Youth
WVIJDC	West Virginia Infrastructure and Jobs Development Council
WVIOF	West Virginia Industries of the Future
WVLC.....	West Virginia Library Commission
WVMEP.....	West Virginia Manufacturing Extension Partnership
WVNET	West Virginia Network for Educational Telecomputing
WVPASS.....	West Virginia Partnership to Assure Student Success
WVPBS.....	West Virginia Public Broadcasting Service
WVPMIC	West Virginia Physicians' Mutual Insurance Company
WVPPA.....	West Virginia Public Port Authority
WVRC.....	West Virginia Rehabilitation Center
WVRDC.....	West Virginia Rural Development Council
WVREDI.....	West Virginia Responder Emergency Deployment Information system
WVU	West Virginia University
WVU BBER.....	West Virginia University Bureau of Business and Economic Research
WVUIT	West Virginia University Institute of Technology

Y

YTD	Year to Date
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Appendix D

Index

A

Abandoned Mine Lands and Reclamation (DEP) 315
Academy Services/Staff Training and Development (Corrections/MAPS) 368
Accounting and Auditing (State Auditor's Office) 156
Accounting and Reporting Section (Finance/Administration) 189
Accounting (Finance/Administration) 189
Acquisition and Contract Administration (Purchasing/Administration) 203
Addressing and Mapping Board, West Virginia Statewide 526
Adjudication (Utilities/PSC) 513
Adjutant General (MAPS) 364
Administration (ABCA/Revenue) 432
Administration and Finance, Office of (Medical Services/DHHR) 346
Administration and Oversight (Secretary/Education & the Arts) 288
Administration (Behavioral Health/DHHR) 339
Administration-Cash Management (Treasurer's Office) 165
Administration/Central Office (Regional Jail/MAPS) 390
Administration (Culture & History) 293
Administration, Department of 169
Administration Division (Attorney General) 123
Administration, Grants Management, and Fire Suppression (Forestry) 237
Administration (HEPC) 473
Administration (Juvenile Services/MAPS) 382
Administration, Motor Carrier (PSC) 512
Administration (OMHS&T) 232
Administration (Racing/Revenue) 421
Administration (Secretary of State's Office) 145
Administration (Tourism) 248
Administrative Appeals (Air Quality/DEP) 319
Administrative Appeals (Environmental Quality/DEP) 321
Administrative Law (Secretary of State's Office) 148
Administration/Program Services (Commission for National and Community Service/Governor) 117
Administrative Office (EBA) 302
Administrative Services (IS&C/Administration) 194
Administrative Services (Library Commission) 299
Administrative Services (Purchasing/Administration) 203
Administrative/Support Services (Corrections/MAPS) 369
Adult Education and Workforce Development (Education) 276

Adult Offender Services (Corrections/MAPS) 369
Advanced Placement Program (CPD/Education & the Arts) 290
Advertising (Tourism) 248
Advocacy (Utilities/PSC) 513
Aeronautics Commission (Transportation) 443
Agribusiness Development 133
Agricultural Lime Incentive Program 140
Agriculture, Department of 127
Air Quality Board (DEP) 319
Air Quality, Division of (DEP) 308
Air Transportation Systems and Aviation Infrastructure 443
Alcohol Beverage Control Administration 432
American Correctional Association Accreditation (Juvenile Services/MAPS) 382
AmeriCorps National Service Programs 117
Amusement Rides (Labor) 241
Animal Health 130
Apiary Program 133
Appalachian High Intensity Drug Trafficking Area (Prosecuting Attorneys) 210
Appellate Division (Attorney General) 124
Applied Coal Resources (Geological) 251
Applied Oil and Gas Resources (Geological) 252
Archives and History (Culture & History) 293
Arts (Culture & History) 294
Assessment and Accountability, Office of 269
Attorney General 121
Auditing (Tax/Revenue) 428
Aviation Division (Purchasing/Administration) 203

B

Banking, Division of 409
Barbers and Cosmetologists, Board of (Public Health/DHHR) 349
Behavioral Health and Health Facilities, Bureau for 338
Behavioral Health Services, Office of 338
Blackfly Monitoring and Treatment Program 136
Board of Barbers and Cosmetologists (Public Health/DHHR) 349
Board of Coal Mine Health and Safety 227
Board of Examiners for Licensed Practical Nurses 490
Board of Examiners for Registered Professional Nurses 492
Board of Examiners for Speech-Language Pathology and Audiology, West Virginia 520
Board of Hearing Aid Dealers (Public Health/DHHR) 349
Board of Licensed Dietitians 494
Board of Medicine (Public Health/DHHR) 349
Board of Pharmacy, West Virginia 522

Appendix D/ Index

- Board of Registration for Sanitarians (Public Health/DHHR) 350
 - Board of Respiratory Care 496
 - Board of Risk and Insurance Management 175
 - Board of Treasury Investments 498
 - Boilers (Labor) 241
 - Brief History (State Profile/Appendix) 529
 - Budget Office, State 426
 - Bulletproof Vest Partnership Program (Criminal Justice/MAPS) 374
 - Bureau for Behavioral Health and Health Facilities 338
 - Bureau for Children and Families 343
 - Bureau for Child Support Enforcement 341
 - Bureau for Medical Services 346
 - Bureau for Public Health 349
 - Bureau of Senior Services 463
 - Business and Financial Assistance Program (SWMB/DEP) 325
 - Business and Licensing (Secretary of State's Office) 146
 - Business Division (Secretary of State's Office) 146
 - Business Travel Services (Purchasing/Administration) 203
 - Byrne-Justice Assistance Grant Program (Criminal Justice/MAPS) 374
- C**
- Cabinet on Children and Families, Governor's (DHHR) 344
 - Capital Assistance Program for Elderly Persons and Persons with Disabilities, Section 5310 (Public Transit/Transportation) 454
 - Capital Investment Grants, Section 5309 (Public Transit/Transportation) 454
 - Capital Projects 57, 58
 - Career and Technical Instruction (Education) 277
 - Catastrophic Illness Commission, James "Tiger" Morton (DHHR) 333
 - Cedar Lakes Conference Center (Education) 277
 - Center for Professional Development 290
 - Central Mail Operations (IS&C/Administration) 194
 - Central Office (Child Support/DHHR) 341
 - Chief Inspector's Division (State Auditor's Office) 153
 - Chief Medical Examiner, Office of the (Public Health/DHHR) 350
 - Child Advocacy Centers Grant Program (Criminal Justice/MAPS) 374
 - Child Nutrition Program (Education) 274
 - Children and Adult Services (Children & Families/DHHR) 343
 - Children and Families, Bureau for 343
 - Children's Health Insurance Agency, West Virginia 208
 - Children's Protection Act (Corrections/MAPS) 369
 - Child Support Enforcement, Bureau for 341
 - Civil Aviation Programs (Aeronautics/Transportation) 443
 - Classification and Compensation 183
 - Clean Water State Revolving Fund (DEP) 313
 - Clements State Tree Nursery (Forestry) 237
 - Client Services Division (Attorney General) 125
 - Client Services (IS&C/Administration) 194
 - Coal and Non-Coal (DEP) 312
 - Coalfield Community Development Program (Energy) 234
 - Coal Heritage Highway Authority 500
 - Coal Mine Health and Safety, Board of 227
 - Coal Mine Safety and Technical Review Committee 229
 - Cold Water Fish Management, Wildlife Resources 245
 - College Readiness (Secretary/Education & the Arts) 288
 - College Savings (Treasurer's Office) 165
 - Commerce, Department of 221
 - Commissioner, Office of the (Public Health/DHHR) 349
 - Commissioner's Office (Behavioral Health/DHHR) 338
 - Commissioner's Office (Children & Families/DHHR) 343
 - Commissioner's Office (Medical Services/DHHR) 346
 - Commission for National and Community Service 117
 - Commission for the Deaf and Hard-of-Hearing (DHHR) 332
 - Commission on Drunk Driving Prevention (State Police/MAPS) 402
 - Commission on Uniform State Laws 178
 - Committee for the Purchase of Commodities and Services from the Handicapped (Purchasing/Administration) 203
 - Communications and Legislative Affairs (DHHR) 332
 - Communications (Department of Agriculture) 131
 - Communications Division (State Auditor's Office) 154
 - Communications, Office of (Education) 267
 - Community and Technical College Education, West Virginia Council for 482
 - Community-Based In-Home Programs (Senior Services) 465
 - Community Corrections Program, West Virginia (Criminal Justice/MAPS) 376
 - Community Development (WVDO) 254
 - Community Health Systems, Office of (Public Health/DHHR) 350
 - Community Resource Program (Juvenile Services/MAPS) 382
 - Community Services Block Grant 116
 - Compliance (Tax/Revenue) 428
 - Conservation Agency, West Virginia 140
 - Consolidated Public Retirement Board 180
 - Construction (Regional Jail/MAPS) 390
 - Consumer Advocate (Insurance/Revenue) 413
 - Consumer Advocate (PSC) 510
 - Cooperative Agricultural Pest Survey Program 136

Appendix D/Index

Cooperative Forest Health Program 136
Cooperative Tourism/MAPP (Tourism) 248
Correctional Facility Authority 390
Correctional Industries, West Virginia 369
Corrections, Division of 367
Corrections (Juvenile Services/MAPS) 383
Council for Community and Technical College
Education, West Virginia 482
Courtesy Patrol (Tourism) 248
Court Security Fund (Criminal Justice/MAPS) 374
Crane Operator Certification (Labor) 241
Crime Victims Compensation Fund 104
Criminal Investigations (Tax/Revenue) 428
Criminal Justice Research and Development Program
374
Criminal Justice Services, Division of 373
Criminal Justice Statistical Analysis Center 374
Culture and History, Division of 293
Curriculum and Instructional Services, Division of 269
Customer Service Centers (Tourism) 248

D

Deaf and Hard-of-Hearing, Commission for the (DHHR)
332
Demographics and Economics (State Profile/Appendix)
544
Department of Administration 169
Department of Agriculture 127
Department of Commerce 221
Department of Education 261
Department of Education and the Arts 285
Department of Environmental Protection 305
Department of Health and Human Resources 327
Department of Military Affairs and Public Safety 357
Department of Revenue 405
Department of Transportation 439
Depository (Banking/Revenue) 409
Deputy Secretary for Administration (DHHR) 335
Deputy Secretary's Office (DHHR) 335
Deputy Superintendent and Administrative Services
(Education) 267
Deputy Superintendent, Office of (Education) 267
Detention (Juvenile Services/MAPS) 383
Developmental Disabilities Council (DHHR) 332
Development Office, West Virginia 254
Dietitians, Board of Licensed 494
Director's Office (Personnel/Administration) 183
Disability Determination Services (Rehabilitation) 296
Division Administrative Costs Program (Criminal
Justice/MAPS) 374
Division of Air Quality (DEP) 308
Division of Banking 409
Division of Corrections 367

Division of Criminal Justice Services 373
Division of Culture and History 293
Division of Curriculum and Instructional Services 269
Division of Energy 234
Division of Forestry 237
Division of Highways 446
Division of Homeland Security and Emergency
Management 378
Division of Juvenile Services 382
Division of Labor 240
Division of Land Restoration 310
Division of Mining and Reclamation (DEP) 312
Division of Motor Vehicles 451
Division of Natural Resources 244
Division of Personnel 183
Division of Protective Services 387
Division of Public Transit 454
Division of Rehabilitation Services 296
Division of Special Projects 272
Division of Student Support Services 274
Division of Technical and Adult Education Services 276
Division of Tourism 248
Division of Water and Waste Management (DEP) 313
DOH Reimbursement (Purchasing/Administration) 203
Driver Services (DMV/Transportation) 451
Drunk Driving Prevention, Commission on (State
Police/MAPS) 402

E

Early Care and Education (Children & Families/DHHR)
343
Early Childhood and Even Start, Office of (Education)
270
Early Warning Flood System (Homeland Security/
MAPS) 379
Economic Development (WVDO) 254
Economic Development Authority 524
Economic Forecast 31
Economic Opportunity, Office of 115
Educational Broadcasting Authority, West Virginia 302
Education and the Arts, Department of 285
Education, Department of 261
Education, Higher 469
Education Performance Audits, Office of 278
Education Policy Commission, Higher 471
E-Government (State Auditor's Office) 155
Election Administration 148
Election Fraud Unit 148
Elevator Safety (Labor) 241
Emergency Management (Homeland Security/MAPS)
379
Emergency Management Performance Grant (Secretary/
MAPS) 359

Appendix D/Index

Emergency Shelter Grants Program and Housing Opportunities for People with AIDS (OEO/Governor) 116
Emergency Watershed Protection-Stream Protection and Restoration 140
Employee Communications and Information (Personnel/Administration) 183
Employee Relations (Personnel/Administration) 183
Employment Services 257
Energy, Division of 234
Energy Efficiency Program 234
Enforcement and Licensing (ABCA/Revenue) 432
Enforcement (OMHS&T) 232
Enforcing the Underage Drinking Laws Grant Program (Criminal Justice/MAPS) 374
Engineering, Science, and Technology Scholarship Program 475
Environmental Enforcement 313
Environmental Health Services, Office of (Public Health/DHHR) 350
Environmental Protection, Department of 305
Environmental Quality Board 321
Environmental Remediation 310
Epidemiology and Health Promotion, Office of (Public Health/DHHR) 350
Equipment Support (Highways/Transportation) 447
Ethics Commission 186
Examination Revolving Fund (Insurance/Revenue) 413
Executive/Administration (DEP) 315
Executive/Administration (Department of Agriculture) 129
Executive Assistant to the State Superintendent, Office of 267
Executive Staff (DHHR) 332
Executive (Tax/Revenue) 428
Explosive and Blasting (DEP) 312
Extended and Early Learning 270

F

Family Assistance (Children & Families/DHHR) 344
Famous West Virginians (State Profile/Appendix) 551
Federal Funds Grant Match (Prosecuting Attorneys) 210
Federal Surplus Property (Purchasing/Administration) 203
Field Operations (Child Support/DHHR) 341
Field Services (Department of Agriculture) 138
Film Office, West Virginia 249
Finance and Administration (Lottery/Revenue) 435
Finance and Administration, Office of (Behavioral Health/DHHR) 338
Finance (Deputy Secretary/DHHR) 335
Finance Division (Administration) 188
Financial Aid and Outreach Services (HEPC) 475

Financial Services (State Auditor's Office) 156
Financial Statements, Summary 1
Fire Commission, State 394
Fire Services (State Profile/Appendix) 536
Fleet Management (Purchasing/Administration) 203
Food Distribution Program (Department of Agriculture) 133
Forensic Medical Examination Fund (Prosecuting Attorneys) 210
Forestry, Division of (Forestry) 237
Form of Government (State Profile/Appendix) 542

G

Game Management, Wildlife Resources 245
Gas Pipeline Safety (PSC) 511
General Administration and Management (DNR) 245
General Counsel (DHHR) 332
General Geoscience (Geological) 252
General Law Enforcement (DNR) 245
General Services 192
Geographic Information System (Geological) 252
Geography (State Profile/Appendix) 543
Geological and Economic Survey 251
Glossary (Appendix) 554
Glossary of Acronyms (Appendix) 559
Government, Form of (State Profile/Appendix) 542
Governor's Cabinet on Children and Families (DHHR) 344
Governor's Honors Schools (Secretary/Education & the Arts) 288
Governor's Mansion 114
Governor's Office 111
Grants Management and Fire Suppression 237
Grasslands Program 140
Greyhound Breeding Development Fund 421
Grievance Board, West Virginia Public Employees 216
Guaranty Risk Pool (Insurance/Revenue) 413
Gypsy Moth Slow the Spread Program 136

H

Health and Human Resources, Department of 327
Health Care Authority (DHHR) 353
Healthcare (State Profile/Appendix) 533
Health Facility Licensure and Certification, Office of (Public Health/DHHR) 350
Health Insurance Plan Fund, West Virginia (Insurance/Revenue) 413
Health Sciences Scholarship Program 476
Healthy Schools, Office of 275
HEAPS Grant Program (HEPC) 475

Appendix D/Index

Hearing Aid Dealers, Board of (Public Health/DHHR) 349
Help America Vote Act 148
Higher Education 469
Higher Education Grant Program, West Virginia 476
Higher Education Policy Commission 471
Higher Education (State Profile/Appendix) 532
High Intensity Drug Trafficking Area, Appalachian (Prosecuting Attorneys) 210
Highway Construction and Reconstruction 447
Highways, Division of 446
Historic Preservation (Culture & History) 294
History, Brief (State Profile/Appendix) 529
Homeland Security and Emergency Management 378
Homeland Security and Emergency Response (DEP) 315
Homeland Security Grant (Secretary/MAPS) 359
Hopemont Hospital (Behavioral Health/DHHR) 339
HOPE Youth Development Movement Grant Program (Criminal Justice/MAPS) 374
Hospital Finance Authority 502
Housing Opportunities for People with AIDS, Emergency Shelter Grants Program and (OEO/Governor) 116
Human Resources Management (DHHR) 332
Human Resources, Office of (Education) 267
Human Rights Commission (DHHR) 355

I

Index (Appendix) 565
Information and Infrastructure Projects (EBA) 302
Information Security (IS&C/Administration) 195
Information Services and Communications (Administration) 194
Information Services (Geological) 252
Information Systems and Technology Support (State Auditor's Office) 157
Information Systems (IS&C/Administration) 195
Information Systems, Office of (Education) 267
Information Technology (Department of Agriculture) 132
Information Technology Operations (IS&C/Administration) 195
Information Technology (Tax/Revenue) 429
Information Technology (Tourism) 249
Infrastructure Applications (IS&C/Administration) 195
Infrastructure Protection Grant-Buffer Zone Protection (Secretary/MAPS) 359
Inmate Medical/Mental Health Treatment Services (Corrections/MAPS) 369
Inspector General (DHHR) 333
Institute Core Operations (Prosecuting Attorneys) 210
Institutional Education Programs 274

Instructional Technology, Office of (Education) 270
Instruction, Office of (Education) 270
Insurance Commissioner 412
Insurance Commissioner Fund 413
Integrated Predation Management Program 129
Interesting Facts (State Profile/Appendix) 552
Internal Auditing (Tax/Revenue) 429
Internal Operations, Office of (Education) 268
International Education (Secretary/Education & the Arts) 288
International Schools 274
Interoperable Emergency Communications Grant (Secretary/MAPS) 359

J

James "Tiger" Morton Catastrophic Illness Commission (DHHR) 333
Job Access and Reverse Commute Program, Section 5316 (Public Transit/Transportation) 454
John Manchin, Sr. Health Care Center (Behavioral Health/DHHR) 339
Judicial System 105
Juvenile Accountability Incentive Block Grant (Criminal Justice/MAPS) 374
Juvenile Justice and Delinquency Prevention-Title II (Criminal Justice/MAPS) 374
Juvenile Justice Challenge Grants (Criminal Justice/MAPS) 374
Juvenile Services, Division of 382

K

K-12 Education (State Profile/Appendix) 531

L

Laboratory Services (Department of Agriculture) 138
Laboratory Services, Office of (Public Health/DHHR) 350
Labor, Division of 240
Lakin Hospital (Behavioral Health/DHHR) 339
Land Division (State Auditor's Office) 158
Landowner Stream Access Permitting (Department of Agriculture) 140
Land Restoration, Division of 310
Lands and Streams (DNR) 245
Law Enforcement (State Police/MAPS) 402
Law Enforcement (State Profile/Appendix) 535
Law Enforcement Training (Criminal Justice/MAPS) 374
Leadership Development (Education) 273

Appendix D/Index

Legal Services, Office of (Education) 268
Legal (Tax/Revenue) 429
Legislature 97
Library Commission 299
Library Development Services 300
Licensed Practical Nurses, Board of Examiners for 490
Licensing Program (Labor) 241
Livestock and Farm Programs 133
Local Government Purchasing Card Program (State Auditor's Office) 159
Local Government Reimbursement (Purchasing/Administration) 203
Local Law Enforcement Block Grants (Criminal Justice/MAPS) 374
Logging Sediment Control Act (Forestry) 237
Lottery, West Virginia 435

M

Maintenance (Highways/Transportation) 447
Management and Administration (Geological) 251
Management Information Services (Deputy Secretary/DHHR) 335
Manchin Sr. Health Care Center, John (Behavioral Health/DHHR) 339
Manufactured Housing Program (Labor) 241
Marketing and Development (Department of Agriculture) 133
Marketing (Lottery/Revenue) 435
Marketing (Tourism) 249
Massage Therapy Licensure Board 504
Maternal, Child, and Family Health, Office of (Public Health/DHHR) 350
Meat and Poultry Inspection 135
Medicaid Programs (Senior Services) 465
Medical Account (Racing/Revenue) 421
Medical Examiner, Office of the Chief (Public Health/DHHR) 350
Medical Services, Bureau for 346
Medical Student Loan Program 476
Medicine, Board of (Public Health/DHHR) 349
Merit-Based Financial Aid Programs (HEPC) 475
Mildred Mitchell-Bateman Hospital (Behavioral Health/DHHR) 339
Military Affairs and Public Safety, Department of 357
Miners' Health, Safety and Training, Office of 231
Mining and Reclamation, Division of 312
Miscellaneous Boards and Commissions 489
Mitchell-Bateman (Mildred) Hospital (Behavioral Health/DHHR) 339
Mitigation and Recovery (Homeland Security/MAPS) 379
Moorefield Environmental and Poultry Programs 138
Motor Carrier (PSC) 512

Motor Vehicle Inspection (State Police/MAPS) 402
Motor Vehicles, Division of 451
Mountaineer Challenge Academy (Adjutant General/MAPS) 364
Multiflora Rose Eradication Program 140
Municipal Bond Commission 416
Museums (Culture & History) 294

N

National and Community Service, Commission for 117
National Coal Heritage Area Authority 506
National Criminal History Improvement (Criminal Justice/MAPS) 375
Natural Resources, Division of 244
Need-Based Financial Aid Programs (HEPC) 475
Network Services (Library Commission) 300
New Freedom Program, Section 5317 (Public Transit/Transportation) 454
Nondepository (Banking/Revenue) 409
Non Title V—(Base Air Management Program) (DEP) 308
Nursing Home Administrators Licensing Board (Public Health/DHHR) 350
Nutrition Services, Office of (Public Health/DHHR) 350

O

Office of Administration and Finance (Medical Services/DHHR) 346
Office of Assessment and Accountability (Education) 269
Office of Behavioral Health Services (DHHR) 338
Office of Communications (Education) 267
Office of Community Health Systems (Public Health/DHHR) 350
Office of Deputy Superintendent (Education) 267
Office of Early Childhood and Even Start (Education) 270
Office of Economic Opportunity 115
Office of Education Performance Audits 278
Office of Environmental Health Services (Public Health/DHHR) 350
Office of Epidemiology and Health Promotion (Public Health/DHHR) 350
Office of Executive Assistant to the State Superintendent 267
Office of Finance and Administration (Behavioral Health/DHHR) 338
Office of Health Facilities (Behavioral Health/DHHR) 339

Appendix D/Index

- Office of Health Facility Licensure and Certification (Public Health/DHHR) 350
Office of Healthy Schools 275
Office of Human Resources (Education) 267
Office of Information Systems (Education) 267
Office of Instructional Technology (Education) 270
Office of Instruction (Education) 270
Office of Internal Operations (Education) 268
Office of Laboratory Services (Public Health/DHHR) 350
Office of Legal Services (Education) 268
Office of Maternal, Child, and Family Health (Public Health/DHHR) 350
Office of Miners' Health, Safety and Training 231
Office of Nutrition Services (Public Health/DHHR) 350
Office of Policy Coordination (Medical Services/DHHR) 346
Office of School Finance 268
Office of Special Programs, Extended and Early Learning (Education) 270
Office of State Superintendent (Education) 266
Office of Tax Appeals 418
Office of Technology (Administration) 197
Office of the Chief Medical Examiner (Public Health/DHHR) 350
Office of the Commissioner (Public Health/DHHR) 349
Office of the Ombudsman for Behavioral Health (DHHR) 339
Office of the Secretary (DHHR) 332
Office of the Secretary (Education & the Arts) 288
Office of Transportation (Education) 275
Oil and Gas Conservation Commission (DEP) 323
Oil and Gas Conservation (DEP) 323
Oil and Gas (DEP) 315
Older Americans Act Programs (Senior Services) 465
Ombudsman for Behavioral Health, Office of (DHHR) 339
Operation, Maintenance, and Repair of Flood Control Structures (Department of Agriculture) 141
Operations (Deputy Secretary/DHHR) 335
Operations (Regional Jail/MAPS) 390
Operations (Tax/Revenue) 429
Organization and Human Resource Development (Personnel/Administration) 183
OSHA Consultation Program (Labor) 241
OSHA Program (Labor) 241
Other Federal Grant Programs (Secretary/MAPS) 359
Other Financial Aid Programs (HEPC) 476
- P**
- Partnerships to Assure Student Success (Secretary/Education & the Arts) 288
Paul Coverdell National Forensic Science Program (Criminal Justice/MAPS) 375
Personnel, Division of 183
Pesticide Regulatory Programs 138
Pharmacy, West Virginia Board of 522
Pinecrest Hospital (Behavioral Health/DHHR) 339
Planning, Evaluation, Special Programs, and Support Services (Education) 277
Plant Industries 136
Plant Pest Regulatory Program 136
Policy Coordination, Office of (Medical Services/DHHR) 346
Port Operations (Port Authority/Transportation) 457
Port Planning and Development (Port Authority/Transportation) 457
Prepaid Tuition (Treasurer's Office) 165
Principals' Leadership Academy (CPD/Education & the Arts) 291
Product Registration and Compliance (Department of Agriculture) 139
Professional Development Collaborative (Secretary/Education & the Arts) 288
Professional Development Project (CPD/Education & the Arts) 290
Professional Personnel Evaluation Project (CPD/Education & the Arts) 291
Professional Preparation (Education) 273
Program for 21st Century Skills (Treasurer's Office) 165
Project Safe Neighborhood (Criminal Justice/MAPS) 375
Project Safe Neighborhoods Research Partner and Crime Analyst Grant (Criminal Justice/MAPS) 375
PROMISE Scholarship Program 475
Property Tax 429
Prosecuting Attorneys Institute, West Virginia 210
Protective Services, Division of 387
Public Defender Services 213
Public Division (Secretary of State's Office) 148
Public Employees Insurance Agency 199
Public Health, Bureau for 349
Public Information (Tourism) 249
Public Port Authority (Transportation) 457
Public Safety Interoperable Communication Grant (Secretary/MAPS) 359
Public Service Commission 508
Public Transit, Division of 454
Public Transportation for Nonurbanized Areas, Section 5311 (Public Transit/Transportation) 454
Public Utility Division (State Auditor's Office) 158
Purchasing Card (State Auditor's Office) 160
Purchasing Division (Administration) 202
Purchasing Improvement Fund (Purchasing/Administration) 203
- Parole Board, West Virginia (MAPS) 400
Parole Supervision Services (Corrections/MAPS) 369

Purdue Pharma Asset Forfeiture Funds Grant Program
(Criminal Justice/MAPS) 375

R

Racing Commission 420
Radiological Emergency Preparedness (Homeland
Security/MAPS) 379
Rail Planning (State Rail/Transportation) 459
Railroad Safety (Utilities/PSC) 514
Railroad, South Branch Valley (State Rail/
Transportation) 459
Railroad, West Virginia Central (State Rail/
Transportation) 459
Real Estate Commission 516
Real Estate Division (Administration) 206
Recreation and Culture (State Profile/Appendix) 537
Recycling, Market Development, and Planning Program
325
Regional Jail and Correctional Facility Authority 390
Registered Professional Nurses, Board of Examiners for
492
Regulatory and Environmental Affairs 138
Regulatory (Utilities/PSC) 514
Rehabilitation Environmental Action Plan 310
Rehabilitation Services, Division of 296
Research Information and Analysis (WORKFORCE
WV) 257
Research (Secretary/Education & the Arts) 288
Research (Tax/Revenue) 429
Residential Substance Abuse Treatment for State
Prisoners (Criminal Justice/MAPS) 375
Respiratory Care, Board of 496
Resurfacing (Highways/Transportation) 447
Retiree Health Benefits Trust Fund, West Virginia 218
Retirement Board, Consolidated Public 180
Revenue, Department of 405
Revenue Processing (Tax/Revenue) 429
Robert C. Byrd Honors Scholarship Program 475
Rural Domestic Violence and Child Victimization
Enforcement Program (Criminal Justice/MAPS)
375
Rural Rehabilitation Loan Program 129

S

Safe and Drug-Free Communities (Criminal Justice/
MAPS) 375
Safety and Law Enforcement (PSC) 512
Sanitarians, Board of Registration for (Public Health/
DHHR) 350
School and School System Continuous Improvement
273

School Building Authority 280
School Facilities 275
School Finance, Office of 268
Schools for the Deaf and the Blind, West Virginia 283
Secretary, Office of the (Education & the Arts) 288
Secretary of State's Office 143
Secretary's Office Staff (DHHR) 332
Section 5305 State Planning and Research Program
(Public Transit/Transportation) 454
Section 5309 Capital Investment Grants (Public Transit/
Transportation) 454
Section 5310 Capital Assistance Program for Elderly
Persons and Persons with Disabilities (Public
Transit/Transportation) 454
Section 5311 Public Transportation for
Nonurbanized Area (Public Transit/
Transportation) 454
Section 5316 Job Access and Reverse Commute Program
(Public Transit/Transportation) 454
Section 5317 New Freedom Program (Public Transit/
Transportation) 454
Securities Commission (State Auditor's Office) 161
Security and Licensing (Lottery/Revenue) 435
Security Risk Pool (Insurance/Revenue) 413
Seminars and Classes (Purchasing/Administration) 203
Senior Farmers' Market Nutrition Program 133
Senior Services, Bureau of 463
Sharpe, Jr. Hospital, William R. (Behavioral Health/
DHHR) 339
Single Audit (Finance/Administration) 189
Slow the Spread Program, Gypsy Moth 136
Solid Waste Management Board (DEP) 325
Sources (State Profile/Appendix) 553
South Branch Valley Railroad (State Rail/
Transportation) 459
Special Programs, Extended and Early Learning,
Office of (Education) 270
Special Programs, LIFE, Other Funding (Senior
Services) 465
Special Projects, Division of 272
Special Reclamation (DEP) 310
Special Services (Library Commission) 300
Speech-Language Pathology and Audiology, West
Virginia Board of Examiners for 520
Sr. Health Care Center 339
Staffing Services (Personnel/Administration) 183
STARBASE Academy (Adjutant General/MAPS) 364
State Athletic Commission 424
State Auditor's Office 151
State Board and State Superintendent (Education) 266
State Budget Office 426
State Election Commission 148
State Fire Commission 394
State Incentive Grant Program (Criminal Justice/MAPS)
375

State Park Improvements (DNR) 245
 State Park Operations (DNR) 245
 State Planning and Research Program, Section 5305
 (Public Transit/Transportation) 454
 State Police, West Virginia 402
 State Profile, West Virginia (Appendix) 529
 State Rail Authority 459
 State Superintendent, Office of (Education) 266
 State Superintendent, State Board and (Education) 266
 State Surplus Property (Purchasing/Administration) 204
 State Symbols (State Profile/Appendix) 547
 Statewide Broadcast Services (EBA) 302
 Statewide Reporting Centers 383
 Status Offender Security Program (Juvenile Services/
 MAPS) 383
 Stop Violence Against Women (Criminal Justice/MAPS)
 375
 Student Support Services, Division of 274
 Summary Financial Statements 1
 Superintendent's Leadership Center for 21st Century
 Schools 272
 Surface Mine Board (DEP) 317

T

Tax Appeals, Office of 418
 Tax Division 428
 Taxpayer Services 429
 Technical and Adult Education Services, Division of 276
 Technical and Secondary Program Improvement
 (Education) 277
 Technical Support, Wildlife Resources 245
 Technology, Office of 197
 Technology Support and Acquisition (Treasurer's Office)
 165
 Telecommunications Billing Unit (IS&C/Administration)
 195
 Thoroughbred Development Fund 421
 Title II, School and School System Continuous
 Improvement 273
 Title V—Incentive Grants for Local Prevention (Criminal
 Justice/MAPS) 375
 Title V—Operating Permit Program (DEP) 308
 Tourism, Division of 248
 Training (OMHS&T) 232
 Transition Center (Juvenile Services/MAPS) 383
 Transportation, Department of 439
 Transportation, Office of (Education) 275
 Transportation (State Profile/Appendix) 534
 Treasurer's Office 163
 Treasury Investments, Board of 498

U

Unclaimed Property (Treasurer's Office) 165
 Underwood-Smith Teacher Scholarship Program 475
 Undocumented Worker Program (Labor) 241
 Unemployment Compensation 257
 Uniform State Laws, Commission on 178
 Uninsured Employer's Fund (Insurance/Revenue) 413
 Urban and Community Forestry 238
 Utilities (PSC) 513

V

Vehicle Services (DMV/Transportation) 451
 Vendor Registration (Purchasing/Administration) 204
 Veterans Affairs 397
 Veterans Affairs Office 397
 Veterans Home 397
 Veterans Nursing Facility 397
 Victims Assistance (Criminal Justice/MAPS) 375
 Video Operations (Lottery/Revenue) 435
 Violent Offender Incarceration (Criminal Justice/MAPS)
 375
 Virginia Board of Examiners for, West 520
West Virginia Magazine, Wonderful 245
 Vocational Rehabilitation Services 296
 Volunteer and Community Service Programs (Governor's
 Office) 117

W

Wage and Hour Program (Labor) 241
 Warehouse and Sales (ABCA/Revenue) 432
 Warm Water Fish Management, Wildlife Resources
 (DNR) 245
 Waste Management (DEP) 314
 Water and Waste Management, Division of (DEP) 313
 Water Development Authority 518
 Water Quality (DEP) 314
 Water Quality Protection Program (Department of
 Agriculture) 141
 Water Resource Infrastructure (Department of
 Agriculture) 141
 Weatherization Assistance Program 116
 Weight Enforcement (Utilities/PSC) 514
 Weights and Measures Program (Labor) 242
 Welch Community Hospital (Behavioral Health/DHHR)
 339
 West Virginia Alcohol Beverage Control Administration
 432
 West Virginia Board of Examiners for Speech-
 Language Pathology and Audiology 520

Appendix D/Index

- West Virginia Board of Pharmacy 522
West Virginia Central Railroad (State Rail/
Transportation) 459
West Virginia Children's Health Insurance Agency 208
West Virginia Commission for National
and Community Service 117
West Virginia Community Corrections Program
(Criminal Justice/MAPS) 376
West Virginia Conservation Agency 140
West Virginia Correctional Industries 369
West Virginia Council for Community and Technical
College Education 482
West Virginia Crime Victims Compensation Fund 104
West Virginia Development Office 254
West Virginia Economic Development Authority 524
West Virginia Educational Broadcasting Authority 302
West Virginia Film Office (Tourism) 249
West Virginia Greyhound Breeding Development Fund
421
West Virginia Health Insurance Plan Fund (Insurance/
Revenue) 413
West Virginia Higher Education Grant Program 476
West Virginia Judicial System 105
West Virginia Legislature 97
West Virginia Lottery 435
West Virginia Network for Educational Telecomputing
(HEPC) 477
West Virginia Parole Board (MAPS) 400
West Virginia Prosecuting Attorneys Institute 210
West Virginia Public Defender Services 213
West Virginia Public Employees Grievance Board 216
West Virginia Retiree Health Benefits Trust Fund 218
West Virginia Retirement Plus Deferred Compensation
457(b) Plan (Treasurer's Office) 165
West Virginia Schools for the Deaf and the Blind 283
West Virginia STARBASE Academy (Adjutant General/
MAPS) 364
West Virginia State Police 402
West Virginia State Profile (Appendix) 529
West Virginia Statewide Addressing and Mapping Board
526
West Virginia Thoroughbred Development Fund 421
Where the State Dollar Comes From 2
Where the State Dollar Goes 3
Whitewater Study and Improvement (DNR) 245
Wildlife Diversity (DNR) 245
Wildlife Resources Administration (DNR) 245
Wildlife Resources Cold Water Fish Management (DNR)
245
Wildlife Resources Game Management (DNR) 245
Wildlife Resources Technical Support (DNR) 245
Wildlife Resources Warm Water Fish Management
(DNR) 245
William R. Sharpe, Jr. Hospital (Behavioral Health/
DHHR) 339
Wine License Fund (ABCA/Revenue) 432
Women's Commission (DHHR) 333
Wonderful West Virginia Magazine (DNR) 245
Workers' Compensation Old Fund (Insurance/Revenue)
413
Workforce Investment Act 258
WORKFORCE West Virginia 257
Work Release/Community-Based Corrections
(Corrections/MAPS) 369
WVNET (HEPC) 477
- ## Y
- Young Adult Offender Services (Corrections/MAPS)
369
Youth Environmental Education (DEP) 315