File

JOINT COMMITTEE ON GOVERNMENT AND FINANCE

Done

Materials Distributed

May 21, 2002

Tuesday, April 16, 2002

11:00 - 12:00 Noon **Joint Committee on Government and Finance**

Senate	House
Tomblin, Chair	Kiss, Chair
Chafin (absent)	Amores
Craigo (absent)	Mezzatesta
Sharpe	Michael
Wooton	Staton
Deem	Hall (absent)
Sprouse	Trump (absent)

President Tomblin, Cochair, presided.

1. **Approval of Minutes.**

Upon motion by Speaker Kiss, properly seconded and adopted, the minutes of the January 8, 2002, meeting were approved.

2. **2002 Interim Studies.**

Upon motion by Speaker Kiss, properly seconded and adopted, committee chairs were authorized to study any issue and assign to appropriate subcommittee with notification to the President and Speaker.

Upon motion by Speaker Kiss, properly seconded and adopted, the President and Speaker were authorized to appoint as many members as desired to any committee other than statutory committees.

Upon motion by Speaker Kiss, properly seconded and adopted, the following studies were authorized:

Resolutions Adopted by the Legislature

HCR 25-Single Retirement Plan for Uniformed Services Public Employees was referred to

Pensions and Retirement.

HCR 27-Implementing a Medicaid Buy-in for People with Disabilities was referred to Finance.

HCR 33-Recruitment and Retention of Volunteer Fire Fighters was referred to Government Organization.

HCR 47-Retirement Program for Volunteer Fire Fighters and EMS Personnel was referred to Pensions.

HCR 50-Cost-of-Living Increase for Public Employees and State Teachers Retirement Systems was referred to Pensions.

HCR 53-Technical and Adult Education Services was referred to Education.

HCR 68-Health Care Practitioners Shortage was referred to Legislative Oversight Commission on Health and Human Resources Accountability (LOCHHRA).

HCR 73-Effects of Identity Theft and Proposed Federal Regulations Relating to Antiterrorist Measures was referred to Judiciary.

HCR 76-Unemployment and Socioeconomic Problems Confronting African Americans was referred to LOCHHRA.

HCR 84-Healthcare Delivery Study Commission was referred to newly created Select Committee on Nursing Homes.

HCR 91-Nursing Homes Staffing was referred to Select Committee on Nursing Homes.

SCR 18-Vision Examination Required for Elementary School Children was referred to Education.

SCR 25-Economic Potential of Equestrian and Horse-related Activities and Tourism was referred to Joint Commission on Economic Development.

SCR 38- County and Municipal Land Use Planning was referred to Government Organization.

SCR 41-Creation of a Joint Mineral Owners Trust and Mineral Conservation Act was referred to Judiciary.

SCR 43-Controlled Substance Prescription Pain Medication Oxycodone was referred to LOCHHRA.

SCR 53-Medical Malpractice Insurance was referred to Insurance Availability and Medical Malpractice Insurance.

SCR 54-Mandating Insurance Coverage for Certain Persons in Clinical Trials was referred to Insurance Availability and Medical Malpractice Insurance.

<u>Resolutions Adopted by the House:</u>

HCR 49-Computerizing Personal Property Tax Records and Payments of Tax for use by the DMV was referred to Government Organization.

HCR 52-Truancy Diversion Social Work Program was referred to Education.

HCR 54-Processes for Evaluation Teachers was referred to Education.

HCR 57-Implementation of 911 Cellular Emergency Service was referred to Government Organization.

HCR 72-Establishment or Enhancement of Retirement Benefits for All Employees of the Licensed Racing Association was referred to Pensions.

HCR 82-Current Foster Care System was referred to Juvenile Foster Care, Detention and Placement Task Force.

HCR 86-Fees Dedicated to the Courthouse Facilities Improvement Fund was referred to Finance.

HCR 92-Managed Timberland and Farmland Classifications for Assessment of Real Property for Ad Valorem Property Taxation was referred to Forest Management Review Commission.

Resolutions Adopted by the Senate:

SCR 14-Establishment of Residential Community for Senior Citizens was referred to Government Organization.

SCR 17-Allowing Counties and or Cities to Have Own Taxing Power was referred to Finance.

SCR 34-Medicaid Aged and Disabled Waiver Program was referred to LOCHHRA.

SCR 37-State and Local Governments Responsibilities in Flood Damage Prevention was referred to Government Organization.

SCR 42-Proposed Legislation to Enact Clean Elections Act was referred to Judiciary.

SCR 51-Practice Guidelines for Reducing Medical Costs was referred to Insurance Availability and Medical Malpractice Insurance.

SCR 61-Impact of Administrative and Regulatory Requirements Imposed by the State on the Care Home Industry was referred to Select Committee on Nursing Homes.

Also SCR 46 (introduced at the 2002 Regular Session) relating to predatory mortgage activities in the state was referred to Judiciary.

Created a new Select Committee on Nursing Homes.

Continued the Agriculture and Agri-business Committee.

Continued the Insurance Rate & Forms Issues (Mitchell v. Broadnax) and Medical

Malpractice Insurance Committee, but renamed "Insurance Availability and Medical Malpractice Insurance Committee."

Continued Education Subcommittee D - Accountability.

Continued the Parks and Recreation Subcommittee.

Continued the Post Audits Subcommittee.

Continued the Joint Committee on Technology.

Continued the Juvenile Foster Care, Detention and Placement Task Force.

3. **Expense Reimbursement and Compensation.**

a. Upon motion by Speaker Kiss, properly seconded and adopted, the Joint Committee authorized reimbursement of expenses and payment of compensation to the following for attending regular monthly interim meetings during the 2002 interim period of authorized commissions, committees and subcommittees:

-Members of the Legislature serving on various commissions, committees and subcommittees; and

-Citizens serving on various commissions, committees and subcommittees, who are not otherwise disqualified, and who request expense reimbursement and compensation.

b. Upon motion by Speaker Kiss, properly seconded and adopted, the Joint Committee authorized reimbursement of expenses and payment of compensation during the current fiscal year to judges of the Court of Claims for days served in excess of the statutorily required maximum of 100 days.

4. **Interim Meeting Dates.**

Upon motion by Speaker Kiss, properly seconded and adopted, the next interim dates of May 19 - 21, 2002, were authorized.

5. **Department of Health and Human Resources Monthly Reports.**

Distributed to members of the Committee were the following: Medicaid Report for month of February 2002; Welfare Reform Report for month of March 2002; and Colin Anderson Center Report for month of April 2002.

Mr. Paul Nusbaum, Secretary, Department of Health and Human Resources, spoke briefly and responded to questions.

6. **2002 Interim Studies.**

Upon motion by Speaker Kiss, properly seconded and adopted, the Select Committee to Study Court Facilities (from 2000 interim period) was continued and be responsible for studying all issues relating to courthouse facilities.

7. **Lottery, Unemployment Compensation and Workers' Compensation Status Reports.**

Distributed to members of the Committee were the following: Lottery Operations report for month ended February 2002; Unemployment Compensation Trust Fund report for month ended February 2002; and Workers' Compensation Trust Fund report for month ended January 2002. Attached with each of these reports was an analysis prepared by legislative staff.

8. **General Revenue Report.**

Distributed to members was a report on the status of the state's general revenue as of March 31, 2002.

9. **Public Employees Insurance Agency.**

Mr. Tom Susman, Executive Director of the Public Employees Insurance Agency, distributed the following information: (1) PEIA Balance Sheets February 28, 2002 and 2001, Accrual Basis; (1) PEIA Monthly Management Report, Total Claims, February 2002, FY 2002; (3) PEIA Monthly

Management Report, Per Capita Claims, February 2002, FY 2002; PEIA Monthly Management Report, Per Capita Utilization, February 2002, FY 2002; PEIA Monthly Management Report, Total Claims, January 2002, FY 2002; PEIA Monthly Management Report, Per Capita Claims, January 2002, FY 2002; PEIA Monthly Management Report, Per Capita Utilization, January 2002, FY 2002.

Mr. Susman responded to questions from members of the Committee.

The meeting was adjourned.

Joint Committee on Government and Finance

May 21, 2002

Department of Health and Human Resources

MEDICAID REPORT

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES
BUREAU FOR MEDICAL SERVICES
MEDICAID CASH REPORT
SFY2002

MONTH OF MARCH 2002	ACTUALS 07/01/01 THRU 03/31/02	PROJECTED 04/01/02 THRU 06/30/02	TOTAL SFY2002
REVENUE SOURCES			
BEG. BAL. 7/01/01	$17,934,047		$17,934,047
MATCHING FUNDS			
GENERAL REVENUE	134,652,798	45,854,789	180,507,587
LOTTERY - WAIVER	9,400,000	3,200,000	12,600,000
LOTTERY - TRANSFER	7,800,000	2,500,000	10,300,000
TRUST FUND APPROPRIATION	21,455,897	10,483,033	31,938,930
TRUST FUND BACKLOG	0	0	0
PROVIDER TAX	109,300,000	37,800,000	147,100,000
MCH TRANSFER	1,122,643	977,357	2,100,000
OTHER FUNDS	1,442,333	657,667	2,100,000
TOTAL MATCHING FUNDS	303,107,718	101,472,846	404,580,564
FEDERAL FUNDS	870,763,684	323,886,367	1,194,650,051
TOTAL REVENUE SOURCES	$1,173,871,402	$425,359,213	$1,599,230,615
TOTAL EXPENDITURES:			
PROVIDER PAYMENTS	$1,162,270,429	$389,870,619	$1,552,141,248
SUB - TOTAL	$11,600,972 94		$47,089,366 83
ACCOUNTS PAYABLE 03/31/02			($45,310,844.00)
BALANCE	$11,600,972.94		$1,778,522 83

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DEPARTMENT OF HEALTH AND HUMAN RESOURCES
BUREAU FOR MEDICAL SERVICES
MONTHLY FINANCIAL SUMMARY
MONTH OF MARCH 2002
FISCAL YEAR 2001-2002

CATEGORY OF EXPENDITURES	ACTUALS SFY 2001	ORIGINAL ESTIMATE SFY 2002	CURRENT ESTIMATE SFY 2002	ESTIMATE MARCH 2002	ACTUAL MARCH 2002	ESTIMATE YEAR TO DATE MARCH 2002	ACTUAL YEAR TO DATE MARCH 2002	Incr/(Decr) Over ESTIMATE	PERCENT
INPATIENT HOSPITALS	$146,711,093	$154,744,896	147,062,048	$11,889,307	$13,339,450	$114,734,464	$107,036,727	($7,697,737)	-6.71%
MENTAL HEALTH HOSPITALS	36,154,352	30,634,361	32,687,198	2,306,101	$2,472,457	22,407,007	$24,296,727	1,889,720	8.43%
OUTPATIENT HOSPITALS	65,545,731	74,159,061	78,847,806	5,950,924	5,315,407	56,952,140	$56,328,114	(624,026)	-1.10%
CLINICS	18,570,690	20,507,283	15,459,376	1,321,311	1,159,821	13,577,825	$11,410,006	(2,167,819)	-15.97%
PHYSICIANS	121,231,871	123,881,484	126,597,517	10,009,481	11,046,804	97,585,757	$92,701,285	(4,884,472)	-4.99%
LABS	6,064,464	6,147,295	6,140,093	476,466	515,062	4,618,580	$4,527,187	(91,393)	-1.98%
DRUGS	246,488,703	286,730,491	294,158,053	21,009,122	24,456,602	203,818,451	$208,112,811	4,294,360	2.11%
OTHER PRACTITIONERS	15,276,872	11,555,096	15,491,278	773,677	1,274,081	7,753,302	$11,215,190	3,461,888	44.65%
DENTIST	22,917,233	29,343,470	29,639,973	2,156,793	2,502,958	21,119,257	$21,336,941	217,684	1.03%
NURSING HOMES	281,627,475	292,075,715	300,102,162	22,751,526	28,881,626	218,933,163	$227,750,599	8,817,436	4.03%
GROUP HOMES	47,442,066	50,112,045	44,807,683	3,918,200	4,547,748	37,855,676	$33,522,761	(4,332,915)	-11.45%
OTHER CARE	119,559,800	119,298,096	112,988,211	9,375,161	9,380,471	89,840,171	$86,058,194	(3,781,977)	-4.21%
EPSDT	4,094,361	4,177,766	4,238,983	325,821	354,630	3,160,453	$3,143,502	(16,951)	-0.54%
MEDICARE BUY-IN	40,262,943	42,931,501	42,339,055	3,577,625	3,665,058	32,196,625	$31,930,408	(266,217)	-0.83%
FAMILY PLANNING	2,197,482	2,308,871	1,348,600	164,836	132,115	1,765,493	$1,213,196	(552,297)	-31.28%
HOME HEALTH	20,973,348	22,212,981	23,088,085	1,798,180	1,773,042	17,218,274	$17,260,265	41,991	0.24%
RURAL HEALTH	24,447,227	24,880,231	26,006,175	1,700,341	2,360,751	17,263,450	$19,390,031	2,126,581	12.32%
HOME & COMMUNITY - AGED/DISABLED	40,239,220	45,864,016	48,331,158	4,137,897	4,422,413	37,926,693	$37,294,833	(630,860)	-1.66%
HOME & COMMUNITY - MR/DD	97,574,478	113,153,706	120,319,797	10,032,984	10,421,096	91,956,822	$87,416,521	(4,540,301)	-4.94%
PASARR	10,789	253,606	8,476	21,085	375	189,879	$6,415	(183,464)	-96.62%
PERSONAL CARE	24,841,977	26,429,712	23,505,323	2,034,770	1,651,291	19,577,282	$16,192,233	(3,385,049)	-17.29%
HOSPICE	1,347,397	1,832,660	1,603,150	197,206	43,673	1,738,913	$1,019,616	(719,297)	-41.36%
TARGETED CASE MANAGEMENT	12,273,989	14,623,622	10,263,325	976,941	793,212	9,912,423	$7,139,543	(2,772,880)	-27.97%
GROUP HEALTH PLAN	10,239	0	33,622	0	7,616	0	$33,297	33,297	
MANAGED CARE	56,509,694	58,242,703	61,927,147	4,853,559	5,532,983	43,682,031	$48,282,100	4,600,069	10.53%
SUB-TOTAL	1,452,342,465	1,566,903,626	1,585,154,896	121,849,314	136,672,741	1,165,763,131	$1,154,618,502	(11,144,629)	-0.96%
LESS: DRUG REBATES	(44,502,150)	(53,052,739)	(57,086,201)	(3,888,346)	(3,978,544)	(37,711,815)	($42,235,703)	(4,523,888)	12.00%
DSH PAYMENTS PRIVATE INSTITUTIONS	56,558,131	60,478,526	62,769,406	15,119,632	15,099,488	45,358,895	$45,697,643	338,748	0.75%
DSH PAYMENTS STATE INSTITUTIONS	17,114,495	25,501,839	26,623,989	6,375,460	0	19,126,380	$22,612,769	3,486,389	18.23%
TOTAL	$1,481,412,981	$1,599,831,254	$1,597,452,092	$139,446,060	$147,792,685	$1,192,536,591	$1,180,693,211	($11,843,380)	-0.99%

NOTE: This report is based on estimates of approved claims to be received during the year.

WV DEPARTMENT OF HEALTH AND HUMAN RESOURCES
BUREAU FOR MEDICAL SERVICES
MEDICAL SERVICES TRUST FUND AND INTEREST REPORT
FOR THE MONTH OF MARCH 2002
SFY 2002

TRANSFER DATE	ACTIVITY	DESCRIPTION	DEPOSIT (WITHDRAWAL) PRINCIPAL	INTEREST & DSH DEPOSITS (WITHDRAWAL)	TRUST FUND BALANCE
07/01/01	DEPOSIT	BEG BAL	5,358,862.34		5,358,862.34
07/01/01	WITHDRAWAL	Eligibility Expansion		(106,171.34)	5,252,691.00
07/01/01	WITHDRAWAL	Facilities DSH Match	(1,455,834.00)		3,796,857.00
07/01/01	WITHDRAWAL	Private DSH Backlog	(323,846.00)		3,473,011.00
07/31/01	INTEREST	Rate AT 4.92 %		17,080.17	3,490,091.17
08/01/01	DEPOSIT	Facilities DSH Payment		9,577,580.50	13,067,671.67
08/01/01	WITHDRAWAL	Facilities DSH Match	(1,425,436.00)		11,642,235.67
08/31/01	INTEREST	Rate AT 4.2 %		26,435.36	11,668,671.03
09/01/01	WITHDRAWAL	Private DSH Backlog	(3,290,917.00)		8,377,754.03
09/01/01	DEPOSIT	DSH Cost Settlement		284,388.00	8,662,142.03
09/30/01	INTEREST	Rate AT 4.2 %		33,171.86	8,695,313.89
10/01/01	DEPOSIT	Special Appropriation	366,667.00		9,061,980.89
10/31/01	INTEREST	Rate AT 3.1 %		23,117.83	9,085,098.72
11/01/01	WITHDRAWAL	Facilities DSH Match	(1,317,248.60)		7,767,850.12
11/01/01	WITHDRAWAL	Private DSH Backlog	(271,728.00)		7,496,122.12
11/01/01	DEPOSIT	Special Appropriation	366,667.00		7,862,789.12
11/30/01	INTEREST	Rate AT 3.1 %		21,090.58	7,883,879.70
12/01/01	DEPOSIT	Facilities DSH Payment		5,326,517.50	13,210,397.20
12/01/01	WITHDRAWAL	Match Drop	(5,236,000.00)		7,974,397.20
12/01/01	DEPOSIT	Special Appropriation	366,667.00		8,341,064.20
12/01/01	WITHDRAWAL	Private DSH Backlog	(3,393,717.00)		4,947,347.20
12/31/01	INTEREST	Rate AT 3.1 %		12,577.12	4,959,924.32
01/01/02	DEPOSIT	Special Appropriation	600,000.00		5,559,924.32
01/01/02	DEPOSIT	Facilities DSH Payment		5,678,041.50	11,237,965.82
01/01/02	WITHDRAWAL	Facilities DSH Match	(1,404,180.00)		9,833,785.82
01/01/02	WITHDRAWAL	Match Drop	(2,618,000.00)		7,215,785.82
01/01/02	WITHDRAWAL	Special Appropriation	(1.00)		7,215,784.82
01/31/02	INTEREST	Rate AT 2.7 %		12,345.24	7,228,130.06
02/01/02	DEPOSIT	Special Appropriation	600,000.00		7,828,130.06
02/28/02	INTEREST	Rate AT 2.6 %		14,469.83	7,842,599.89
03/01/02	WITHDRAWAL	Eligibility Expansion		(385,506.00)	7,457,093.89
03/01/02	DEPOSIT	Special Appropriation	600,000.00		8,057,093.89
03/01/02	WITHDRAWAL	Private DSH Backlog	(227,313.00)		7,829,780.89
03/31/02	INTEREST	Rate AT 2.2 %		14,710.30	7,844,491.19
04/01/02	DEPOSIT	Special Appropriation	700,000.00		8,544,491.19
04/01/02	WITHDRAWAL	Match Drop	(2,618,000.00)		5,926,491.19
04/30/02	INTEREST	Rate AT 2.2 %		14,686.26	5,941,177.45
05/01/02	WITHDRAWAL	Facilities DSH Match	(963,656.00)		4,977,521.45
05/01/02	WITHDRAWAL	Private DSH Backlog	(7,050,079.00)		(2,072,557.55)
05/01/02	DEPOSIT	Special Appropriation	700,000.00		(1,372,557.55)
05/31/02	INTEREST	Rate AT 2.2 %		11,143.82	(1,361,413.73)
06/01/02	WITHDRAWAL	Facilities DSH Payment		8,795,290.50	7,433,876.77
06/01/02	WITHDRAWAL	Hospice		(342,975.00)	7,090,901.77
06/01/02	WITHDRAWAL	Special Appropriation	700,000.00		7,790,901.77
06/30/02	INTEREST	Rate AT 2.2 %		13,943.66	7,804,845.43

TOTALS	(21,237,092.26)	29,041,937.69	7,804,845.43

April 2002

HMO	PAYMENT	RECIPIENTS ENROLLED	AVERAGE COST PER RECIPIENT
THE HEALTH PLAN	$2,885,579	31,683	$91.08
CARELINK	$1,508,023	16,610	$90.79
TOTAL	$4,393,602	48,293	$90.98
ESTIMATED COMPOSITE ACTUARY RATE (THE 95% RATE IS $92.08)			$96.92
PERCENT ESTIMATED SAVINGS			6.13%

Joint Committee on Government and Finance

May 2002

Department of Health and Human Resources

WELFARE REFORM REPORT

WV WORKS Caseload
2002

County	January	February	March	April
Barbour (01)	208	208	206	207
Berkeley (02)	415	422	441	453
Boone (03)	371	388	385	371
Braxton (04)	149	153	151	151
Brooke (05)	106	110	107	90
Cabell (06)	705	700	695	714
Calhoun (07)	110	107	111	104
Clay (08)	115	109	114	107
Doddridge (09)	66	66	61	67
Fayette (10)	531	502	498	507
Gilmer (11)	55	55	58	60
Grant (12)	44	40	37	36
Greenbrier (13)	167	169	169	161
Hampshire (14)	93	93	97	100
Hancock (15)	198	194	182	189
Hardy (16)	49	53	48	49
Harrison (17)	625	629	630	627
Jackson (18)	143	139	142	145
Jefferson (19)	162	168	174	174
Kanawha (20)	1,279	1,278	1,292	1,248
Lewis (21)	179	185	190	195
Lincoln (22)	349	333	334	345
Logan (23)	404	378	388	391
Marion (24)	299	295	299	295

County	January	February	March	April
Marshall (25)	297	307	288	293
Mason (26)	266	261	251	248
Mercer (27)	894	905	926	908
Mineral (28)	100	100	100	93
Mingo (29)	574	553	541	525
Monongalia (30)	123	121	120	106
Monroe (31)	82	79	85	93
Morgan (32)	85	96	93	95
McDowell (33)	864	839	818	806
Nicholas (34)	156	156	156	158
Ohio (35)	308	286	283	282
Pendleton (36)	37	32	33	31
Pleasants (37)	49	51	52	45
Pocahontas (38)	26	27	31	36
Preston (39)	125	125	132	125
Putnam (40)	169	185	178	170
Raleigh (41)	700	705	713	716
Randolph (42)	113	118	120	128
Ritchie (43)	65	62	65	64
Roane (44)	119	123	132	124
Summers (45)	165	158	174	174
Taylor (46)	98	97	94	87
Tucker (47)	28	26	24	26
Tyler (48)	38	36	35	32
Upshur (49)	316	314	309	302
Wayne (50)	584	552	554	551
Webster (51)	181	182	177	175

County	January	February	March	April
Wetzel (52)	113	112	109	112
Wirt (53)	43	45	46	45
Wood (54)	750	760	785	788
Wyoming (55)	404	391	406	388
Total	**14,694**	**14,578**	**14,639**	**14,512**

Characteristics of the Current WV WORKS Caseload

- ✓ 4,476 Child Only Cases—parents are not in the home and children are living with a relative, or parents are in the home, receive SSI and are excluded from the WV WORKS payment.
- ✓ 581 cases currently receiving WV WORKS received TANF in another state before moving to West Virginia.
- ✓ 108 cases in which the parents are excluded from the payment because they were convicted of a drug related felony after August 22, 1996.
- ✓ 448 cases receive Medicaid but do not receive Food Stamps.
- ✓ 1,321 cases receive Food Stamps but adults do not receive Medicaid.
- ✓ 1,869 cases receive the Marriage Incentive. The Incentive was increased to $100 monthly effective July 1, 2000.
- ✓ 2,239 adults receiving WV WORKS are employed.

4/02

Supportive Services Payments: Types and Amounts
April 2002

Type	Current WV WORKS	Former WV WORKS	Number of Payments	Average Payment	Total Amount
Clothing: Work or dress clothing when there is a verified offer of employment or short term training. *$600 year*	$118,389	$41,240	1,033	$155	$159,629
Collateral: Items include grooming expenses, test fees and other expenses related to employment. *$300 year*	$20,152	$3,589	264	$90	$23,741
Car Repair: For personally owned vehicles; includes tires, mufflers, or brakes necessary to pass state inspection, state inspection stickers, license plates, vehicle insurance, and driver's education classes. Funds cannot be used to purchase a vehicle. *$1,500 lifetime*	$245,286	$61,877	586	$524	$307,163
Contract Training: A training contract may be written when training is not available on a no-cost basis and the training will be provided to an individual or a group of participants. There is an expectation that the individuals will be able to find employment when they successfully complete the training course. *$5,000 year*	$2,708	$0	11	$246	$2,708
Commercial Driver's License: Payment to purchase license. *$600 lifetime*	$996	$44	4	$260	$1,040
Driver/Chauffeurs License: Does not include payment for test required due to traffic violations or classes required for DUI convictions. *$120 lifetime*	$132	$0	7	$19	$132
Employer Incentive: Agreements between employers and local DHHR offices placing WV WORKS recipients in jobs. Employers are reimbursed ½ of the employee's wages for the first 200-600 work hours under these contracts.	$1,840	$265	6	$351	$2,105
Professional License: When the cost of the license is not paid by the employer or is not included in the cost of a training course, and obtaining the license is part of the course completion. *$600 lifetime*	$826	$0	9	$92	$826

Type	Current WV WORKS	Former WV WORKS	Number of Payments	Average Payment	Total Amount
Relocation: When there is a verified offer of employment, the family can be relocated to a different state, a different area of the state, or to the same area if the move reduces travel time to one hour or less. *$1,500 year*	$7,675	$7,800	16	$967	$15,475
Tools/Equipment: When needed for a verified offer of employment or for specialized training. *$1,000 year*	$8,833	$4,436	37	$359	$13,269
Transportation: Payments are made based on miles traveled to employment or a work activity when there is a cost involved. Public transportation is reimbursed at actual cost. *(2-40 miles-$10 day; 40+ -$16) $400 month limit*	$674,637	$284,121	6,216	$154	$958,758
Vehicle Insurance: Payment for vehicle insurance premium. Does not include vehicle insurance premium for vehicles leased through WV WHEELS as vendor is responsible for payment as part of the lease. *$500 lifetime*	$51,975	$13,148	245	$266	$65,123
DUI offenses: Costs related to reinstatement of driver's license which have been revoked due to substance abuse. Includes DUI classes, license reinstatement fees, new license, ignition interlock system. Does not include fines, treatment programs or tests for drug and alcohol use. *$500 lifetime*	$1,500	$500	8	$250	$2,000
Total	**$1,134,949**	**$417,020**	**8,442**	**$184**	**$1,551,969**

Length of Time on Assistance

Number of Months	Number of Cases
12 months or less	3,656
13-24	2,823
25-36	1,655
37-48	1,004
49-60	487
Total	**9,625**

Does not include child only cases.

4/02

WORKS Closures Due to Expiration of 60 Months

Month	Number of Closures
12/01	108
1/02	40
2/02	23
3/02	29
4/02	21
Total	**221**

5/10/02

Joint Committee on Government and Finance

May 2002

Department of Health and Human Resources

COLIN ANDERSON CENTER REPORT

Colin Anderson Center Report

May 2002

West Virginia Department of Health and Human Resources

Paul L. Nusbaum, Secretary

Colin Anderson Center
Summary Report – May 2002

The Colin Anderson Center (Center) was successfully closed on April 3, 1998. The Department of Health and Human Resources (Department) has completed all required monitoring for persons who left the Center.

Seventy-eight people were discharged from the Center into community settings in West Virginia, and one person was discharged from Ruby Memorial Hospital to Lakin Hospital. The individual who was discharged to Lakin Hospital expired four months after admission.

Two people were discharged to out-of-state placements at the request of their legal representatives. One of those individuals returned to West Virginia and resides at Pinecrest Hospital at the request of their legal representative.

Twelve people have died (all due to natural causes) since being discharged from the Center.

Therefore, sixty-six people continue to receive services and supports in West Virginia communities. Twenty people receive residential services in an ICF/MR facility. The ICF/MR facilities are between six and eight bed homes. Forty-six people receive residential services through the Home and Community-Based MR/DD Waiver Program. Home and Community-Based residential services are between one and four bed homes.

All those discharged from the Center receive day habilitation services from day programs, community-based day programs, volunteering, senior centers, supported employment and competitive employment.

Sixty-six people have had compliance clocks successfully completed. The compliance clock is the list of services identified prior to discharge by Center staff and community staff as needed services for the individual. Each compliance clock service is required to complete eighteen consecutive months of service. Zero compliance clocks remain active. The Department continues to monitor, on an individual basis, those who were discharged from the Colin Anderson Center.

Colin Anderson Center
Summary Report - May 2002
Division of Developmental Disabilities
Bureau for Behavioral Health and Health Facilities

Date of Closure: April 3, 1998

Status	**Total**
Number Discharged in Community Settings	78
Number Discharged in Medical Settings	1
Total Number of Individuals Discharged	**79**

Total Number of Individuals Deceased Since Discharge (all due to natural causes)	**12**

Number in ICF/MR Group Homes (6-8 Beds)	20
Number in MR/DD Waiver Residences (1-4 beds)	46
Total Currently in Community Settings	**66**

Number of Individuals with Compliance Clocks* Closed	66
Number of Individuals with Compliance Clocks* Open	0
Total Number of Individuals with Compliance Clocks*	**66**

*A compliance clock is a list of services an individual's treatment team identified prior to discharge as needed services for the individual. In order for a compliance clock to be closed, all of the identified services must be provided for a period of eighteen consecutive months. Zero compliance clocks remain active.

WEST VIRGINIA LEGISLATURE
Office of the Legislative Auditor

Budget Division
Building 1, Room 332-West Wing
1900 Kanawha Blvd. East
Charleston, WV 25305-0590

304-347-4870

MEMORANDUM

To: Joint Committee on Government and Finance
Honorable Senator Tomblin, Senate President
Honorable Delegate Robert Kiss, Speaker of the House

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

Date: May 16, 2002

Re: Review of West Virginia Lottery Financial Information
As of March 31, 2002. (FY 2002)

We performed an analysis of the Statement of Revenues, Expenses and Retained Earnings for the period ended March 31,2002 from monthly unaudited financial reports furnished to our office by the West Virginia Lottery Commission. The results are as follows:

Lottery Revenues:

Gross lottery revenues are receipts from on-line games, instant games and video lottery. These gross receipts were 40.89% ABOVE the preceding July - March of fiscal year 2000-2001. This number does not include commission and prize deductions. Gross profit for July-March 2002 was $220,143,000.00; for the previous fiscal year, July - March 2001 it was $149,234,000.00. Expressed as a percentage, gross profit is **47.52% higher** in 2001-2002 than in fiscal year 2000-2001.

Net Income:

Net income for months of July - March 2002 was $ 209,673,000.00; the previous fiscal year it was $135,838,000.00 This is an increase of 54.34%

Operating Transfers to the State of West Virginia:

A total of $ 209,673,000.00 has been accrued to the state of West Virginia for fiscal year 2001-2002. This is on an accrual basis and may not correspond to the actual cash transfers made during the same time period. (Amounts owed to the different accounts according to the Lottery Act are calculated monthly and accrued to the state; actual cash transfers are often made based upon actual cash flow needs of the day-to-day operation of the lottery.)

A schedule of cash transfers follows:

Bureau of Senior Services	$ 38,361,000.00
Department of Education	$ 34,737,000.00
Educational Broadcasting Authority	$ 2,600,000.00
Library Commission	$ 9,752,000.00
Higher Education-Central Office	$ 39,679,000.00
Tourism	$ 12,870,000.00
Department of Natural Resources	$ 6,503,000.00
Division of Culture and History	$ 7,531,000.00
Department of Education and Arts	$ 7,652,000.00
State Building Commission	$ 9,000,000.00
School Building Authority	$ 16,200,000.00
SUBTOTAL BUDGETARY TRANSFERS	**$184,885,000.00**

Excess Lottery Fund General Revenue **9,331,000.00**

Veterans Instant Ticket Fund **812,000.00**

VIDEO LOTTERY TRANSFERS:	
Tourism Promotion Fund	$12,511,000.00
Veterans Memorial Archives	$100,000.00
John F. "Jack" Bennett Fund	$20,000.00
Department of Administration	$4,330,000.00
SUBTOTAL VIDEO LOTTERY TRANSFERS:	**$16,961,000.00**
TOTAL TRANSFERS OF CASH	***$211,989,000.00**

* CASH BASIS
Actual accrual based accounting FY 2002: $209,673,000.00.

P.O. BOX 2067
CHARLESTON, WV 25327

PHONE: 304-558-0500
FAX: 304-558-3321

Bob Wise
Governor

John C. Musgrave
Director

LEGISLATIVE
APR 19 2002
MANAGER

MEMORANDUM

TO: Joint Committee on Government and Finance

FROM: John C. Musgrave, Director

RE: Monthly Report on Lottery Operations
Month Ending March 31, 2002

DATE: April 19, 2002

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

Financial statements of the Lottery for the month ending March 31, 2002 are attached. Lottery revenue, which includes on-line, instant and video lottery sales, was $81,271,793 for the month of March.

Transfers of lottery revenue totaling $8,085,874 were made for the month of March to the designated state agencies per House Bill 101 and the Racetrack Video Lottery Act (§29-22A-10). The amount transferred to each agency is shown in Note 9 on page 13 of the attached financial statements.

The number of active lottery retailers as of March 31, 2002, was 1622.

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

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

JCM/jt
Attachment

pc: Honorable Bob Wise
Brian Kastick, Cabinet Secretary - Tax & Revenue
John Perdue, Treasurer
Glen B. Gainer III, Auditor
Members of the West Virginia Lottery Commission

WEST VIRGINIA LOTTERY

STATE OF WEST VIRGINIA

FINANCIAL STATEMENTS

MARCH 31, 2002

WEST VIRGINIA LOTTERY

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WEST VIRGINIA LOTTERY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE NINE MONTH PERIOD ENDED MARCH 31, 2002
(Expressed in Thousands)

	CURRENT MONTH		YEAR TO DATE	
	2002	2001	2002	2001
Lottery revenues				
On-line games	$ 7,180	$ 7,395	$ 91,989	$ 63,698
Instant games	8,503	7,290	68,264	54,931
Racetrack video lottery	56,933	41,835	431,795	312,745
Limited video lottery	8,656	-	15,698	-
	81,272	56,520	607,746	431,374
Direct Costs				
Commissions				
On-line games	449	462	5,751	3,983
Instant games	538	456	4,268	3,433
Racetrack video lottery	36,073	27,228	273,586	204,391
Limited video lottery	5,938	-	10,770	-
	42,998	28,146	294,375	211,807
Prizes				
On-line prizes	3,628	3,575	45,484	31,702
Instant prizes	5,793	5,017	46,324	37,462
	9,421	8,592	91,808	69,164
Ticket Costs	179	152	1,420	1,169
Total Direct Costs	52,598	36,890	387,603	282,140
Gross profit	28,674	19,630	220,143	149,234
Operating expenses				
Vendor fees and costs	593	585	6,331	4,751
Advertising and promotions	606	487	6,090	4,910
Wages and related benefits	310	214	2,429	1,773
Telecommunications	225	423	2,623	2,245
Contractual and professional	446	347	1,582	1,192
Rental	45	33	426	278
Depreciation and amortization	63	46	509	359
Other general expenses	76	57	650	412
	2,364	2,192	20,640	15,920
Other Operating Income	999	78	9,160	524
Operating Income	27,309	17,516	208,663	133,838
Nonoperating income(expense)				
Investment income	92	428	1,360	2,412
Interest expense	(37)	(43)	(350)	(400)
	55	385	1,010	2,012
Income before nonoperating distributions	27,364	17,901	209,673	135,850
Nonoperating distributions to the State of West Virginia	27,364	17,901	209,673	135,850
Net income	-	-	-	-
Retained earnings, beginning of period	250	250	250	250
Retained earnings, end of period	$ 250	$ 250	$ 250	$ 250

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

WEST VIRGINIA LOTTERY
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTH PERIOD ENDED MARCH 31, 2002
(Expressed in Thousands)

	2002	2001
Cash received from customers	$ 610,283	$ 428,648
Cash paid to employees	(2,431)	(1,777)
Cash paid to suppliers	(21,312)	(7,777)
Other operating cash payments	(387,465)	(282,129)
Net cash provided by (used for) operating activities	199,075	136,965
Cash flows from noncapital financing activities		
Transfers to the State of West Virginia	(211,989)	(142,033)
Deferred jackpot prize obligations and related interest paid	(1,041)	(1,041)
Cash used in noncapital financing activities	(213,030)	(143,074)
Cash flows from capital and related financing acitivities		
Purchase of fixed assets	(699)	(2,133)
Cash flows from investing activities		
Maturities of investments held in trust	1,251	1,251
Investment earnings received	1,468	1,830
Cash provided by investing activities	2,719	3,081
Increase (Decrease) in cash and cash equivalents	(11,935)	(5,161)
Cash and Cash Equivalents - beginning of period	101,966	62,630
Cash and Cash Equivalents - end of period	$ 90,031	$ 57,469

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

WEST VIRGINIA LOTTERY
BALANCE SHEETS
(Expressed in Thousands)

	March 31, 2002	June 30, 2001
ASSETS		
Current assets		
Cash and cash equivalents	$ 90,031	$ 101,966
Accounts receivable	14,740	8,118
Ticket Inventory	514	692
Other assets	826	1,169
Total current assets	106,111	111,945
Leasehold improvements and equipment	4,912	4,213
Less accumulated depreciation and amortization	(2,817)	(2,308)
	2,095	1,905
Investments held in trust	5,598	6,568
Total assets	$ 113,804	$ 120,418
LIABILITIES AND FUND EQUITY		
Current liabilities		
Accrued nonoperating distributions to the State of West Virginia	$ 71,449	$ 86,972
Estimated prize claims	12,088	9,907
Accounts payable	2,163	1,532
Other accrued liabilities	22,526	15,737
Total current liabilities	108,226	114,148
Deferred jackpot prize obligations	5,328	6,020
Fund equity		
Retained earnings	250	250
Total liabilities and fund equity	$ 113,804	$ 120,418

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

WEST VIRGINIA LOTTERY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. LEGISLATIVE ENACTMENT

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of the Lottery is presented below. These policies were applied on a basis consistent with that of the preceding year.

BASIS OF PRESENTATION – The West Virginia Lottery is a component unit of the State of West Virginia, and is accounted for as a proprietary type enterprise fund. In accordance with generally accepted accounting principles, the financial statements are prepared on the accrual basis of accounting which requires recognition of revenue when earned and expenses when incurred. As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the Lottery has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989 unless the GASB specifically adopts such FASB statements or interpretations.

USE OF ESTIMATES – The preparation of the financial statements requires management to make certain estimates and develop assumptions that affect the amounts reported in the financial statements and related notes to financial statements. Actual results could differ from management's estimates.

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

Revenue from instant games is recognized when game tickets are sold to the retailers, and the related prize expense is recorded based on the specific game prize structure. Instant ticket sales and related

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

prizes do not include the value of free plays issued for the purpose of increasing the odds of winning a prize.

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

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

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

Racetrack video lottery legislation has established specific requirements for video lottery and imposed certain restrictions limiting the licensing for operation of video lottery games to horse and dog racetracks in West Virginia, subject to local county elections permitting the same. The legislation further stipulates the distribution of revenues from video lottery games, and requires any licensed racetrack to be responsible for acquiring the necessary equipment and bearing the risk associated with the costs of operating and marketing the games.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH AND CASH EQUIVALENTS – Cash and cash equivalents consist of interest-earning deposits with the West Virginia Investment Management Board (IMB) and are recorded at fair value.

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

OTHER ASSETS – Other assets consist primarily of deposits restricted for payment of certain Multi-State Lottery Association activities, and promotional items for which re-sale is not intended.

LEASEHOLD IMPROVEMENTS AND EQUIPMENT – The Lottery leases, under a cancelable operating lease, its office and warehouse facilities. A portion of these facilities are subleased to the Lottery's game vendors. The Lottery also leases various office equipment under agreements considered to be cancelable operating leases. Rental expense for the nine months ended March 31, 2002 and March 31, 2001 approximated $425,863 and $277,523, respectively. Sublease rental income for the nine months ended March 31, 2002 and March 31, 2001 approximated $77,796 and $77,631, respectively.

Leasehold improvements and purchased equipment, comprised principally of office furnishings and equipment necessary to administer lottery games, are carried at cost. Depreciation is computed by the straight-line method using three to ten year lives.

COMPENSATED ABSENCES – The Lottery has accrued $404,000 and $351,000 for fiscal years 2001 and 2000, respectively, for estimated obligations that may arise in connection with compensated absences for vacation and sick leave at the current rate of employee pay. Employees fully vest in all earned but unused vacation. In accordance with State personnel policies, employees vest in unused sick leave only upon retirement, at which time such unused leave can be converted into employer paid premiums for post-retirement health care coverage or additional periods of credited service for purposes of determining retirement benefits.

NOTE 3. ACCOUNTING PRONOUNCEMENT

In June 1999, the GASB issued Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". This statement establishes financial reporting standards for state and local governments by revising the basic financial statement requirements and also requiring a management's discussion and analysis to introduce the basic financial statements and to provide an analytical overview of the entity's financial activities. The Lottery intends to adopt the provisions of this statement for the fiscal year ending June 30, 2002, which is consistent with the State of West Virginia's planned adoption period. Because the Lottery is an enterprise fund, the adoption of GASB Statement No. 34 is not expected to have a material effect on the financial statements.

NOTE 4. LEGISLATIVE ENACTMENT

During the fiscal year ended June 30, 2001 the West Virginia Legislature approved House Bill 102, which included the Limited Video Lottery Act. Under this bill, up to 9,000 video lottery terminals will be placed in limited licensed retailer areas restricted for adult amusement. These licensed retailers must hold a qualifying permit for the sale on premises of alcohol or non-intoxicating beer. The Lottery has been charged with the administration, monitoring and regulation of these machines. The addition of these responsibilities in future years is expected to generate a substantial increase in video lottery revenues and related expenses, including commission, personnel and administrative.

House Bill 102 also contains language that changes, for fiscal years beginning on or after July 1, 2001, the State's share of racetrack video lottery revenue as well as the distribution percentage paid to racetracks and one other private entity associated with the racing industry (See Note 7) after the net terminal income benchmark amount for fiscal year ending June 30, 2001 has been met.

NOTE 5. CASH AND CASH EQUIVALENTS

A summary of the amount on deposit with the West Virginia Investment Management Board (IMB) follows (in thousands):

	March 31, 2002	June 30, 2001
Amount on deposit with the IMB	$90,031	$101,966

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

NOTE 6. PARTICIPATION IN THE MULTI-STATE LOTTERY

The Lottery is a member of the Multi-State Lottery (MUSL), which operates the semi-weekly POWERBALL jackpot lotto game and the three day a week ROLLDOWN game, on behalf of participating state lotteries. Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the total prize pool less the amount of prizes won in each state. Lesser prizes are paid directly to the winners by each member lottery. The prize pool for POWERBALL, and ROLLDOWN is 50% of each drawing period's sales, with minimum jackpot levels.

Revenues derived from the Lottery's participation in the MUSL POWERBALL jackpot game for the month and year-to-date periods ended March 31, 2002 were $3,825,873 and $64,949,219 while related prize costs for the same periods were $1,933,866 and $32,437,730.

NOTE 6. PARTICIPATION IN THE MULTI-STATE LOTTERY (continued)

Revenues derived from the Lottery's participation in the ROLLDOWN game for the month and year-to-date periods ended March 31, 2002 were $55,768 and $619,985 while related prize costs for the same periods were $31,743 and $309,244.

MUSL places 2% of each POWERBALL drawing period's sales in separate prize reserve funds that serve as a contingency reserve to protect the respective MUSL Product Groups from unforeseen prize liabilities. Currently, the MUSL Board of Directors has placed a $52,000,000 limit on the POWERBALL prize reserve fund. These funds can only be used at the discretion of the respective MUSL Product Group. Once the prize reserve funds exceed the designated limit, the excess becomes part of that particular prize pool. Prize reserve fund monies are refundable to MUSL Product Group members if the MUSL disbands or, after one year, if a member leaves the MUSL. At March 31, 2002 the POWERBALL prize reserve funds had a balance of $77,000,000 of which the Lottery's share was $2,979,140. The Lottery has charged amounts placed into the prize reserve funds to prize costs as the related sales have occurred.

NOTE 7. RACETRACK VIDEO LOTTERY

The Racetrack Video Lottery legislation stipulates that sixty-six percent (66%) of racetrack video lottery revenues, net of prizes (gross terminal income) and lottery administrative costs (such costs limited to 4% of revenues), shall be allocated, in lieu of commissions, to: the racetracks (47%); other private entities associated with the racing industry (17%); and the local county governments (2%). The remaining income (34% of gross terminal revenues less administrative costs) from racetrack video lottery shall be made available for transfers to the State as specified in the Racetrack Video Lottery Act or subsequent State budget, as described in the Note 8 titled "Nonoperating Distributions to the State of West Virginia."

The Racetrack Video Lottery Act was amended in 1999 and requires for fiscal years beginning July 1, 1999 the local county government share (2%) be split 50-50 with incorporated municipalities for certain tracks after the effected tracks have met their fiscal year 1999 net terminal revenue benchmark.

The Racetrack Video Lottery Act was further also amended in 2001 and requires for fiscal years beginning on or after July 1, 2001 that each tracks share be reduced to 42% and the regular purse fund to 8% after each tracks net terminal revenue has reached the fiscal year 2001 net terminal revenue benchmark. In addition, after the fiscal year 2001 benchmark is met, the 4% for administrative costs is to be transferred to the excess lottery revenue fund; a 10% surcharge is deducted (58% will be transferred to the state excess lottery revenue fund and 42% will be held by the Lottery in a separate capital reinvestment fund) from gross terminal revenue. Amounts from the capital reinvestment fund may be distributed to each racetrack if qualifying expenditures are made within the statutory timeframe; otherwise amounts accumulated in the fund revert to the state excess lottery revenue fund. A summary of racetrack video lottery revenues for the month ended March 31, 2002 and year-to-date follows (in thousands):

NOTE 7. RACETRACK VIDEO LOTTERY (continued)

	Current Month		Year- to -Date	
	2002	2001	2002	2001
Total credits played	$661,209	$493,297	$5,042,282	$3,668,193
Credits (prizes) won	(604,276)	(451,462)	(4,610,487)	(3,355,448)
Gross terminal income	$56,933	$41,835	$431,795	$312,745
Administrative costs	(1,992)	(581)	(16,987)	(3,062)
Excess Administrative costs	(285)	-	(285)	-
Net Terminal Income	$54,656	$41,254	$414,523	$309,683
Less distribution to agents	(36,073)	(27,228)	(273,586)	(204,391)
Racetrack video lottery revenues	$18,583	$14,026	$140,937	$105,292

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

	March 31, 2002	Year-to Date
Lottery Fund	$16,396	$124,356
Tourism Promotion Fund	1,640	12,436
Veterans Memorial Archives	-	100
John F."Jack" Bennett Fund	-	20
Department of Administration	547	4,025
Total transfers	$18,583	$140,937

NOTE 8. LIMITED VIDEO LOTTERY

The Limited Video Lottery legislation stipulates that two percent (2%) of gross terminal income be deposited into the state lottery fund for administrative costs. Then, thirty percent (30%) of gross profits are to be transferred to the excess lottery fund. The remaining 70% of gross profit is paid to retailers and/or operators as prescribed in the Act, these amounts are recorded as limited video lottery commissions in the financial statements. A summary of limited video lottery revenues for the month ended March 31, 2002 and year-to-date follows (in thousands):

NOTE 8. LIMITED VIDEO LOTTERY (continued)

	Current Month	Year-to-Date
Total credits played	93,312	$163,246
Credits (prizes) won	(84,657)	(147,548)
Gross terminal income	$8,655	$15,698
Administrative costs	(173)	(314)
Gross Profit	$8,482	$15,384
Commissions	(5,938)	(10,770)
Limited video lottery revenues	$2,544	$4,614

NOTE 9. NONOPERATING DISTRIBUTIONS TO THE STATE OF WEST VIRGINIA

As required under its enabling legislation, retained earnings of the Lottery may not exceed $250,000. Therefore, the Lottery periodically transfers surplus funds, exclusive of amounts derived from racetrack video lottery, to the State of West Virginia in accordance with the legislation. For the year ending June 30, 2002 the State Legislature budgeted $186,562,158 of estimated profits of the Lottery for distributions to designated special revenue accounts of the State of West Virginia. The enabling legislation specifies that required payments to the West Virginia State Building Commission and School Building Authority for debt service have priority for payment in instances when estimated profits are not sufficient to provide for payment of all budgeted distributions. During the month ended March 31, 2002 the Lottery made such distributions and accrued additional distributions of $25,177,653. The Lottery does not have a legally adopted annual budget.

Since the enactment of the Racetrack Video Lottery Act, the Lottery is also statutorily required to distribute income from racetrack video lottery operations as described in Note 7. As of March 31, 2002 the Lottery accrued additional distributions relating to racetrack video lottery operations of $526,102.

The Racetrack Video Lottery Act stipulates that video lottery revenue will be distributed as follows: Lottery Fund distributions as specified in the State budget (30%); Tourism Promotion Fund (3%); and the Veterans Memorial Fund, the Veterans Memorial Archives, the John F. "Jack" Bennett Fund, or the Department of Administration (1%). A summary of the cash distributions made to certain state agencies to conform with the legislation follows (in thousands):

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

BUDGETARY DISTRIBUTIONS	March 31, 2002	Year-to-Date
Lottery Fund:		
Bureau of Senior Services	$ -	$38,361
Department of Education	-	34,737
Educational Broadcasting Authority	-	2,600
Library Commission	-	9,752
Higher Education-Central Office	-	39,679
Tourism	-	12,870
Natural Resources	-	6,503
Division of Culture & History	-	7,531
Department of Education & Arts	-	7,652
Building Commission	1,000	9,000
School Building Authority	1,800	16,200
Total Lottery Fund	$2,800	$184,885
Excess Lottery Fund:		
General Revenue Fund	3,282	9,331
Total Excess Lottery Fund	$3,282	$9,331
Total Budgetary distributions:	$6,082	$194,216
Veterans Instant Ticket Fund	$77	$812
Racetrack Video Lottery distributions:		
Tourism Promotion Fund	1,445	12,511
Veterans Memorial Archives	-	100
John F. "Jack" Bennett Fund	-	20
Department of Administration	482	4,330
Total	1,927	16,961
Total nonoperating distributions to the State of West Virginia (cash basis)	8,086	211,989
Accrued nonoperating distributions, beginning	(65,378)	(86,972)
Accrued nonoperating distributions, end	84,656	84,656
Total nonoperating distributions to the State of West Virginia	$27,364	$209,673

NOTE 10. DEFERRED JACKPOT OBLIGATIONS AND INVESTMENTS HELD IN TRUST

Prior to becoming a member of the Multi-State Lottery in 1988, the prize structure of certain games operated solely by the Lottery included jackpot prizes. The Lottery, at its discretion, could choose to award such prizes in the form of either a lump sum payment or in equal installments over a period of 10 or 20 years, through March 31, 2002, the Lottery has awarded twenty-one deferred jackpot prizes totaling approximately $28,868,786. Deferred prize awards were recognized as prize liabilities equivalent to the present value of future prize payments discounted at interest rates for government securities in effect on the date prizes were won. The imputed interest portion of the deferred prize awards is calculated using the effective interest method at rates ranging from 7.11% to 9.13%. A summary of the present value of the remaining obligations for deferred jackpot prize awards follows (in thousands:

	March 31, 2002	June 30, 2001
Present value of deferred prize award obligations:		
Discounted obligations outstanding	$5,112	$5,784
Imputed interest accrued	216	236
Total Deferred Jackpot Prize Award Obligations	$5,328	$6,020

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

NOTE 11. RETIREMENT BENEFITS

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

NOTE 11. RETIREMENT BENEFITS (continued)

Employees who retire at or after age sixty with five or more years of contributory service or who retire at or after age fifty-five and have completed twenty-five years of credited service are eligible for retirement benefits as established by state statute. Retirement benefits are payable monthly for life, in the form of a straight-line annuity equal to two percent of the employee's final average salary, multiplied by the number of years of the employee's credited service at the time of retirement.

Covered employees are required to contribute 4.5% of their salary to the PERS. The Lottery is required to contribute 9.5% of covered employees' salaries to the PERS. The required employee and employer contribution percentages have been established and changed from time to time by action of the State Legislature. The required contributions are actuarially determined; however actuarial valuations are performed to assist the Legislature in determining appropriate values. The Lottery and employees contributions, for the period ending March 31, 2002 are as follows (in thousands):

	March 31, 2002	Year-to Date
Lottery contributions (9.5%)	$21	$171
Employee contributions (4.5%)	10	82
Total contributions	$31	$253

NOTE 12. RISK MANAGEMENT

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

WORKERS' COMPENSATION FUND (WCF)

West Virginia operates an exclusive state-managed Workers' Compensation Insurance Fund (WCF), which means that private insurance companies cannot offer coverage to employers. In accordance with Chapter 23 of the Workers' Compensation Law (the Law), generally, every employer who has a payroll must have coverage except for employers in the agricultural industry with five or fewer employees, volunteer organizations, domestic workers and employers qualifying for territorial coverage. WCF's general objective is to provide a prompt and equitable system for compensation for injury sustained in the course of and growing out of employment. West Virginia Code §21A-3 established the Compensation Programs Performance Council (the Performance Council) to oversee the unemployment compensation system and the workers' compensation system. The Performance Council is responsible for recommending legislation and establishing regulations designed to ensure the effective administration and financial viability of WCF; approval of base premium rates and analyzing

NOTE 12. RISK MANAGEMENT (continued)

opportunities for internal operational improvements. The WCF risk pool retains all risk related to the compensation of injured employees under the program.

PUBLIC EMPLOYEES' INSURANCE AGENCY (PEIA)

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

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

BOARD OF RISK AND INSURANCE MANAGEMENT (BRIM)

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

NOTE 13. SUBSEQUENT EVENT

The Lottery was named, among other parties, in a civil action filed on July 19, 2001, whereby a request for a preliminary injunction was made by a group of plaintiffs which requested the Lottery discontinue all video lottery operations as a result of the passage of House Bill 102, which included the Limited Video Lottery Act (see Note 4), which was enacted and became effective April 21, 2001. The United States District Court of Southern West Virginia, by order dated August 31, 2001, dismissed the case for

NOTE 13. SUBSEQUENT EVENT (continued)

lack of jurisdiction. On September 24, 2001, the plaintiffs appealed this order in the United States Court of Appeals for the Fourth Circuit. The financial statements of the Lottery have not been adjusted for the effect of this matter, if any, as the likelihood of an unfavorable outcome is not determinable.

WEST VIRGINIA LEGISLATURE

Office of the Legislative Auditor

Budget Division
Building 1, Room 332-West Wing
1900 Kanawha Blvd. East
Charleston, WV 25305-0590

304-347-4870

To: Honorable Earl Ray Tomblin, Senate President
Honorable Robert Kiss, Speaker of the House
Honorable Members of the Joint Committee on Government and Finance

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

Date: May 18, 2002

Re: West Virginia Unemployment Compensation Trust Fund

We have reviewed the monthly reports of the Unemployment Compensation Trust Fund we received from the Bureau of Employment Programs.

For the ninth month(March 2002) of year 2001-2002, the trust fund cash flow was as follows:

Trust Fund Beginning Cash Balance 7-1-2001	$237,250,143.78
Receipts July 1, 2001 thro March 31, 2002	$122,622,754.18
Disbursements July 1 thro March 31, 2002	$110,491,883.15
Balance March 31, 2002	$249,381,014.81

(This balance is $ 52,535,246.75 higher than at same time period in the last fiscal year.)

ITEMS OF NOTE:
Regular benefits paid for July - March 2002 are $12,141,783.91 HIGHER than the preceding July - March 2001.

Receipts are $ 39,177,143.77 HIGHER than the previous July- March 2001. Overall disbursements are $13,062,004.86 HIGHER than July - March 2001.

UNEMPLOYMENT RATES:

West Virginia's unemployment rate for the month of March 2002 was 6.4 percent. The national unemployment rate for March 2002 was 6.1 percent. Seasonally adjusted unemployment rates were 5.9 percent for West Virginia and 5.7 percent nationally.

During the past year West Virginia's economy has declined by 3,900 jobs. The gains were 1,500 jobs in services, 1,500 in mining and 400 in finance, insurance and real estate, and 200 in construction. Losses include 5,100 in manufacturing, 1,100 in trade, 900 in government and 400 in transportation and public utilities.

FINANCIAL CONDITION OF THE UNEMPLOYMENT COMPENSATION TRUST FUND
MONTHLY STATUS REPORT FOR THE JOINT COMMITTEE ON GOVERNMENT AND FINANCE
FOR THREE MONTHS STARTING MARCH 2001 AND MARCH 2002

	JANUARY 01	FEBRUARY 01	MARCH 01	JANUARY 02	FEBRUARY 02	MARCH 02	THREE MONTH TOTAL VARIANCE *
Balance Forward	$220,673,882.57	$209,780,790.82	$207,682,610.88	$239,623,929.42	$227,384,287.67	$224,493,131.14	$53,364,084.18
Add Receipts:							
Bond Assessment	$2,714.87	$1,304.51	$363.43	$238.03	$249.86	$834.71	($3,060.21)
Regular Contributions	$5,490,028.55	$10,684,052.32	$596,609.53	$5,722,800.03	$11,381,417.83	$637,435.05	$970,962.51
Extended Benefit Funds	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Emergency Unemployment Funds	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
TEUC Unemployment Funds	$0.00	$0.00	$0.00	$0.00	$0.00	$1,075,000.00	$1,075,000.00
UCFE (Federal Agencies)	$150,000.00	$125,000.00	$100,000.00	$100,000.00	$75,000.00	$100,000.00	($100,000.00)
Reduced Tax Credits	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Reed Act Funds	$0.00	$0.00	$0.00	$0.00	$0.00	$36,210,068.00	$36,210,068.00
Treasury Interest Credits	$0.00	$0.00	$3,469,959.84	$0.00	$0.00	$3,707,963.50	$238,003.66
UCX (Military Agencies)	$200,000.00	$150,000.00	$100,000.00	$200,000.00	$150,000.00	$200,000.00	$100,000.00
Total Monthly Receipts	$5,842,743.42	$10,960,356.83	$4,266,932.80	$6,023,038.06	$11,606,667.69	$41,931,301.26	$38,490,973.96
Less Disbursements:							
Debt Bond Repayment	(Retired)	(Retired)	(Retired)	(Retired)	(Retired)	(Retired)	NA
Regular Benefits	$16,410,554.02	$12,786,394.16	$14,824,474.69	$17,965,630.88	$14,234,666.57	$15,947,390.62	$4,126,265.20
Extended Benefits	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Emergency Benefits	($1,190.00)	($410.00)	($605.00)	($420.00)	($404.00)	$867,746.00	$869,127.00
UCFE (Federal Workers)Benefits	$134,088.18	$129,439.53	$118,255.03	$93,465.37	$94,557.63	$70,070.79	($123,668.95)
UCX (Military Workers)Benefits	$192,382.97	$143,113.30	$161,650.68	$203,983.56	$169,004.02	$158,210.18	$34,050.81
Reed Act Funds	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Other Adjustments	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Monthly Disbursements	$16,735,835.17	$13,058,536.99	$15,103,775.40	$18,262,679.81	$14,497,824.22	$17,043,417.59	$4,905,774.06
Trust Fund Balance	$209,780,790.82	$207,682,610.88	$196,845,768.08	$227,384,287.67	$224,493,131.14	$249,381,014.81	$86,949,264.08

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

WEST VIRGINIA LEGISLATURE
Office of the Legislative Auditor

Budget Division
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Charleston, WV 25305-0590

304-347-4870

MEMORANDUM

To: Honorable Senator Earl Ray Tomblin, Senate President
Honorable Delegate Robert Kiss, Speaker of the House
Honorable Members of the Joint Committee on Government and Finance

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

Date: May 19, 2002

Re: Workers' Compensation Trust Fund

We have reviewed the monthly report of receipts and disbursements for the Workers' Compensation Trust Fund for the month ended February 28, 2002. (FY 2001-2002)

Total receipts for the fiscal year are $404,394,506.11 . This amount is $ 121,753,138.56 LESS than the receipts reported for fiscal year 2000-2001 during the July to February time period.

Disbursements paid out for the fiscal year are $ 495,408,454.83. This amount is $ 68,399,045.05 HIGHER than the same time period last fiscal year.

Total administrative expenses for this eight month period are $ 33,318,124.43; which is $2,041,464.75 HIGHER than the same eight months of the previous fiscal year.

The ending trust fund balance as of February 28, 2002 was $ 1,011,571,322.94. At the same date the previous fiscal year the trust fund balance was $ 1,236,205,863.02. The difference is a $ 224,634,540.08 DECREASE in ending trust fund balance.

These calculations are based upon cash received and cash disbursed, (i.e. similar to a checkbook register). Accrual based calculations would change the financial data significantly.

WORKERS' COMPENSATION FUND
UNAUDITED STATEMENT OF RECEIPTS AND DISBURSEMENTS (CASH BASIS)
FOR THE THREE MONTHS STARTING DECEMBER 2000 AND DECEMBER 2001

RECEIPTS AND DISBURSEMENTS				BENEFITS			
MONTH	RECEIPTS	DISBURSEMENTS	ENDING BALANCE	WCF	SELF-INSURERS	TOTAL	ADMINISTRATIVE EXPENSE
BALANCE FORWARD *			$1,202,626,172.08				
DEC 2000	$ (11,160,027.27)	$ 50,120,516.81	1,141,345,628.00	$ 47,025,141.82	$ 8,103,442.02	$55,128,583.84	$ 3,095,374.99
JAN 2001	104,124,931.83	62,537,835.51	1,182,932,724.32	58,680,953.76	9,005,396.64	67,686,350.40	3,856,881.75
FEB 2001	103,673,740.81	50,400,602.11	1,236,205,863.02	46,201,262.57	8,240,725.43	54,441,988.00	4,199,339.54
TOTALS	$196,638,645.37	$163,058,954.43	N/A	$151,907,358.15	$25,349,564.09	$177,256,922.24	$11,151,596.28

MONTH	RECEIPTS	DISBURSEMENTS	ENDING BALANCE	WCF	SELF-INSURERS	TOTAL	ADMINISTRATIVE EXPENSE
BALANCE FORWARD *			$1,002,695,537.40				
DEC 2001	$ 37,844,740.16	$ 55,738,781.52	984,801,496.04	$ 52,000,960.95	$ 9,267,705.96	$61,268,666.91	$ 3,737,820.57
JAN 2002	86,991,274.81	69,903,550.71	1,001,889,220.14	65,037,164.10	11,765,203.87	76,802,367.97	4,866,386.61
FEB 2002	69,715,782.36	60,033,679.56	1,011,571,322.94	55,802,908.49	9,269,126.92	65,072,035.41	4,230,771.07
TOTALS	$194,551,797.33	$185,676,011.79	N/A	$172,841,033.54	$30,302,036.75	$203,143,070.29	$12,834,978.25

* Balance forward amount includes $210,000,000 transferred from the Coal-Workers' Pneumoconiosis Fund in December 1990

Notes: Accrual basis financial information could significantly change the data provided.
This report includes the Workers' Compensation Fund and the Disabled Workers' Relief Fund. It does not include the Employers' Excess Liability Fund or the Coal-Workers' Pneumoconiosis Fund.

WEST VIRGINIA LEGISLATURE
Office of the Legislative Auditor

Budget Division
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Charleston, WV 25305-0590

304-347-4870

Memorandum

To: Honorable Senator Earl Ray Tomblin, Senate President
Honorable Delegate Robert Kiss, Speaker of the House
Honorable Members of the Joint Committee on Government and Finance

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

Date: May 18, 2002

Re: Status of General Revenue Fund April 30, 2002

We have reviewed the cash revenue flows of the West Virginia general revenue fund for the month of April 2002. The status of the fund collections are as follows:

The net year-to-date collections are **101.37%** of the estimate for the fiscal year as of April 30, 2002. **The amount over estimate is $ 31,210,010.05 for the year.** (See Note 1)

Consumer sales tax collections are $ 12,484,410.31 ABOVE the estimate for the year. Collections of consumer sales tax were 101.72% of the yearly estimate.

Corporate net income tax collections are **at 75.96% of the estimate.** Corporate net income tax refunds for the first four months of the calendar year have totaled $ 36,375,791.28. This accounts for 33% of the total general revenue tax refunds in all categories.

Personal income tax collections for July - April are at 105.08% of the estimate.

Smokeless tobacco tax collections which began January 1, 2002 are $ 768,169.86 over the year to date estimate of $ 600,000.00.

The Special Income Tax Reserve Fund had a cash balance of $23,625,219.96 as of April 30, 2002.

Balance July 1, 2001	23,625,035.96
Revenues July 2001-April 2002	00,000,000.00
Disbursements July 2001 - April 2002	9,999,816.00
Other adjustments	00,000,000.00
Balance April 30, 2002	13,625,219.96

The Rainy Day Fund (Revenue Shortfall Reserve Fund) had a cash balance of $63,178,308.63 as of April 30, 2002.

Balance July 1, 2001	79,085,243.86
Revenues July 1-June 30, 2002 Surplus from 2001 (transferred 8-1-2001)	+ 15,755,064.77
Disbursements July 1-June 30, 2002 Loan to General Revenue (transferred 7-6-2001) Loan repaid on September 27, 2001	- 40,000,000.00 + 40,000,000.00
Legislative Appropriation for flood relief (House Bill 402) Passed August 8, 2001.	- 30,162,000.00
Legislative Appropriation for flood relief (House Bill 512)to Governors Civil Contingent Fund October 1, 2001 (signed by Governor 9-25-01)	- 1,500,000.00
Balance April 30, 2002	63,178,308.63

State Road Fund

The collections in the state road fund are at 104.50% of the yearly estimate as of April 30, 2002. This translates to a $19,795,786.59 excess over the estimate.

The category over the estimate is the privilege tax which is collected on the certificate of title at the time a vehicle is purchased. This category is $ 12,867,310.08 over the estimate. Licenses and registration taxes are $ 4,095,413.80 over the estimate for the period July 2001 through April 2002.

Notes:

Note 1

The Department of Administration, Division of Finance, amended the general revenue estimate at the end of March. The change in estimate occurred in the insurance tax category. This total estimate was changed from $65,500,000.00 to $74,900,000.00, which was an increase of $ 9,400,000.00 for the fiscal year. This revises the total general revenue fund estimate from $2,800,100,000.00 to $ 2,809,500,000.00.

GENERAL REVENUE FUND FY 2001-2002
Monthly Revenue Estimates, Revised March 2002
as of April 30, 2002

SOURCE OF REVENUE	MONTH ESTIMATES	NET MONTH COLLECTIONS	MONTHLY AMOUNT OVER OR UNDER ESTIMATE	YTD ESTIMATES	NET YTD COLLECTIONS	YEARLY AMOUNT OVER OR UNDER ESTIMATE
Business and Occupation Tax	14,100,000	14,341,324	241,324	136,800,000	136,761,523	(38,477)
Consumer's Sales Tax	69,900,000	73,752,701	3,852,701	723,900,000	736,384,410	12,484,410
Personal Income Tax	139,000,000	163,994,070	24,994,070	832,780,000	875,101,749	42,321,749
Liquor Profit Transfers	500,000	500,000	0	5,700,000	5,737,593	37,593
Racing Fees	625,000	500,000	(125,000)	1,875,000	1,500,000	(375,000)
Beer Tax and Licenses	590,000	675,386	85,386	5,850,000	6,274,521	424,521
Cigarette Tax	2,070,000	2,841,953	771,953	25,910,000	27,143,505	1,233,505
Estate and Inheritance Tax	390,000	622,598	232,598	14,750,000	11,308,106	(3,441,894)
Business Franchise Registration	10,000	25,034	15,034	470,000	759,484	289,484
Charter Tax	50,000	43,969	(6,031)	2,470,000	3,012,536	542,536
Use Tax	8,700,000	9,678,049	978,049	68,100,000	66,650,451	(1,449,549)
Property Transfer Tax	560,000	611,351	51,351	5,660,000	6,051,656	391,656
Property Tax	540,000	562,160	22,160	3,560,000	3,378,499	(181,501)
Cash Flow Transfer	0	0	0	0	0	0
Insurance Tax	14,750,000	11,639,999	(3,110,001)	72,400,000	72,094,754	(305,246)
Departmental Collections	660,000	440,750	(219,250)	10,620,000	8,533,626	(2,086,374)
Corporate Net Income Tax	20,000,000	12,993,721	(7,006,279)	92,700,000	70,416,368	(22,283,632)
Carrier Income Tax	0	0	0	0	0	0
Miscellaneous Receipts	120,000	103,326	(16,674)	2,580,000	2,334,968	(245,032)
Miscellaneous Transfers	0	0	0	500,000	552,796	52,796
Interest Income	1,910,000	888,120	(1,021,880)	19,160,000	18,181,322	(978,678)
Video Lottery Transfers	0	20,158	20,158	0	690,401	690,401
Severance Tax	14,000,000	12,044,197	(1,955,803)	120,300,000	129,649,006	9,349,006
Business Franchise Tax	16,300,000	21,732,878	5,432,878	80,900,000	104,617,187	23,717,187
Telecommunications Tax	950,000	2,358,571	1,408,571	8,850,000	11,627,535	2,777,535
Special Revenue	0	0	0		495	495
Smokeless Tobacco Tax	200,000	425,926	225,926	600,000	1,368,170	768,170
H.B. 102- Lottery Transfers	27,200,000	3,783,776	(23,416,224)	45,600,000	13,114,347	(32,485,653)
TOTALS	333,125,000	334,580,017	1,455,017	2,282,035,000	2,313,245,010	31,210,010
Minus Cash Flow Transfers		0				
TOTALS	333,125,000	334,580,017	1,455,017	2,282,035,000	2,313,245,010	31,210,010
Percent of Estimates		100.44%			101.37%	

Prepared by Legislative Auditor's Office, Budget Division

GENERAL REVENUE FUND FY 2001-2002
Monthly Revenue Estimates, Revised March 2002
as of April 30, 2002

SOURCE OF REVENUE	MONTH ESTIMATES	NET MONTH COLLECTIONS	MONTHLY PERCENT OF ESTIMATE COLLECTED	YTD ESTIMATES	NET YTD COLLECTIONS	YEARLY PERCENT OF ESTIMATE COLLECTED
Business and Occupation Tax	14,100,000	14,341,324	101.71%	136,800,000	136,761,523	99.97%
Consumer's Sales Tax	69,900,000	73,752,701	105.51%	723,900,000	736,384,410	101.72%
Personal Income Tax	139,000,000	163,994,070	117.98%	832,760,000	875,101,749	105.08%
Liquor Profit Transfers	500,000	500,000	100.00%	5,700,000	5,737,593	100.66%
Racing Fees	625,000	500,000	80.00%	1,875,000	1,500,000	80.00%
Beer Tax and Licenses	590,000	675,386	114.47%	5,850,000	6,274,521	107.26%
Cigarette Tax	2,070,000	2,841,953	137.29%	25,910,000	27,143,505	104.76%
Estate and Inheritance Tax	390,000	622,598	159.64%	14,750,000	11,308,106	76.67%
Business Franchise Registration	10,000	25,034	250.34%	470,000	759,484	161.59%
Charter Tax	50,000	43,969	87.94%	2,470,000	3,012,536	121.97%
Use Tax	8,700,000	9,678,049	111.24%	68,100,000	66,650,451	97.87%
Property Transfer Tax	560,000	611,351	109.17%	5,660,000	6,051,656	106.92%
Property Tax	540,000	562,160	104.10%	3,560,000	3,376,499	94.90%
Cash Flow Transfer	0	0		0	0	
Insurance Tax	14,750,000	11,639,999	78.92%	72,400,000	72,094,754	99.58%
Departmental Collections	660,000	440,750	66.78%	10,620,000	8,533,626	80.35%
Corporate Net Income Tax	20,000,000	12,993,721	64.97%	92,700,000	70,416,368	75.96%
Carrier Income Tax	0	0		0	0	
Miscellaneous Receipts	120,000	103,326	86.11%	2,580,000	2,334,968	90.50%
Miscellaneous Transfers	0	0		500,000	552,796	110.56%
Interest Income	1,910,000	888,120	46.50%	19,160,000	18,181,322	94.89%
Video Lottery Transfers	0	20,158		0	690,401	
Severance Tax	14,000,000	12,044,197	86.03%	120,300,000	129,649,006	107.77%
Business Franchise Tax	16,300,000	21,732,878	133.33%	80,900,000	104,617,187	129.32%
Telecommunications Tax	950,000	2,358,571	248.27%	8,850,000	11,627,535	131.38%
Special Revenue	0	0			495	
Smokeless Tobacco Tax	200,000	425,926	212.96%	600,000	1,368,170	228.03%
H.B. 102- Lottery Transfers	27,200,000	3,783,776	13.91%	45,600,000	13,114,347	28.76%
TOTALS	333,125,000	334,580,017	100.44%	2,282,035,000	2,313,245,010	101.37%
Minus Cash Flow Transfers		0				
TOTALS	**333,125,000**	**334,580,017**	100.44%	**2,282,035,000**	**2,313,245,010**	
Percent of Estimates		100.44%			101.37%	

Prepared by Legislative Auditor's Office, Budget Division

STATE ROAD FUND FY 2001-2002
REVENUE ESTIMATES AS OF JULY 2001
as of April 30, 2002

SOURCE OF REVENUE	MONTH ESTIMATES	NET MONTH COLLECTIONS	PERCENT OF MONTH ESTIMATE COLLECTED	YTD ESTIMATES	NET YTD COLLECTIONS	PERCENT OF YEAR ESTIMATE COLLECTED
Licenses and Registration	6,800,000	7,549,618	111.02%	59,200,000	63,295,414	106.92%
Privilege Tax	14,000,000	15,024,654	107.32%	129,450,000	142,317,310	109.94%
Gasoline and Motor Carrier Road Tax	18,400,000	22,829,256	124.07%	189,005,000	191,125,113	101.12%
Wholesale Fuel and Use Tax	5,700,000	7,412,816	130.05%	61,200,000	61,766,577	100.93%
Highway Litter Control Fund	125,000	211,870	169.50%	1,254,000	1,400,373	111.67%
TOTALS	45,025,000	53,028,214	117.78%	440,109,000	459,904,787	104.50%

Charleston Daily Mail

Changes to cost millions

State will lose money on federal tax code revisions

Jim Wallace <jimw@dailymail.com>
Daily Mail Capitol reporter

Friday May 10, 2002; 01:00 PM

Federal tax changes will cost West Virginia $18 million in the current fiscal year, $41 million in the fiscal year beginning July 1 and $31 million in the following fiscal year, according to the National Conference on State Legislatures

But state officials accepted those revenue losses by conforming state law to the federal tax code.

The report, which was released today, attempts to show how the Economic Growth and Tax Relief Act of 2001 and the Job Creation and Worker Assistance Act of 2002 have substantially reduced revenues to the states. However, the wide variety in state laws, states' reactions to the federal changes and the ways states forecast revenue make it complicated to rank the effects on the states.

"Our major concern is that Congress acts on these things without any understanding of the implications for the state tax systems," said William Pound, the organization's executive director. "To some extent, that's a problem of the states in that they chose to align their tax systems with the federal system. But they do that, because that makes life much easier for the taxpayers and it's much simpler."

Tax Secretary Brian Kastick said West Virginia officials considered not going along with the federal changes, but decided against making the system more complicated for taxpayers. Although they disagreed with the way Congress and the Bush administration attempted to stimulate the economy, they also wanted West Virginians to benefit from whatever stimulus could be achieved, he said.

In some states, changes in the federal tax code are automatically reflected in state tax codes.

But others, including West Virginia, require lawmakers to decide each year whether to accept the federal changes or decouple their systems from the federal law.

During this year's session, the West Virginia Legislature accepted each of the major changes imposed by Congress, despite the loss of revenue at a time when the state budget is getting tighter. Pound said pressure from constituents to keep things simple is a major reason some states choose to conform even though they lose lots of money.

"They find it to their advantage to be coupled to the federal tax system," he said. "That's obviously why the majority of them have done it over the years, even though it hurts."

Alysoun McLaughlin, a tax policy specialist who helped prepare the report, added that it may have been easier for West Virginia to go along with the federal changes, because it has not been facing the severe budget shortfalls other states have been coping with. Kastick said that was a consideration.

By contrast, Ohio lawmakers have been trying to cope with a $1.5 billion revenue shortfall, so they are considering decoupling from federal tax code regarding a tax break Congress provided businesses this year by allowing them to accelerate the depreciation allowance on some capital investments. That could save Ohio $175 million, but complicate the calculation of taxes for many businesses.

Because West Virginia has accepted the federal changes on that depreciation allowance, the state expects to lose $16 million during the current fiscal year, $35 million next fiscal year and $20 million the year after that. That accounts for the majority of tax revenue West Virginia will lose from the federal changes.

Overall, the National Conference on State Legislatures expects that one tax change to cost states $5.4 billion in the current fiscal year, $5.1 billion next year and $4.2 billion the year after that.

Another change that McLaughlin said was particularly unfair to the states was the decision to phase out their share of the federal estate tax, what has also been labeled the "death tax."

Although the federal tax is not scheduled to be eliminated until 2010, Congress decided to phase out sharing a portion of that revenue with states by 2005.

Some states, including West Virginia, have decided to discontinue collecting an estate tax linked to the federal tax. That will cost the state $1 million this fiscal year, $5 million next year and $9 million the year after that.

Other results of the legislation Congress passed last year change rules for individual retirement accounts and qualified retirement plans and rules for education tax incentives. In West Virginia, the aggregate cost of those provisions is estimated to be $1 million each in the current fiscal year and next year and $2 million each in the following three years.

But Kastick said West Virginia could benefit from some federal changes, such as increased unemployment benefits, so the state's overall loss in revenue would be reduced.

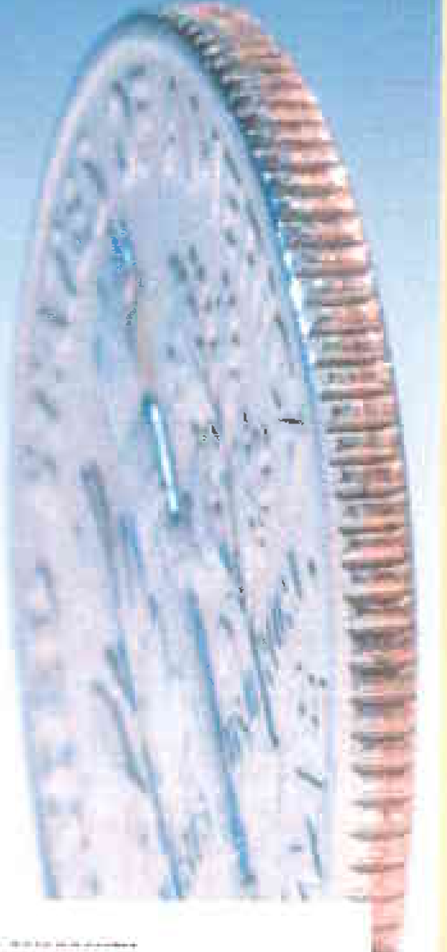
Pound said Congress is not expected to make any more major tax changes this year, but Treasury Secretary Paul O'Neill announced Wednesday that simplifying the federal tax system would be a major initiative of the Bush administration in 2003 and 2004.

"That is obviously something that the states will watch very carefully, because it has great implications for them," he said.

Writer Jim Wallace can be reached at 348-4819.

And

No one can anticipate all emergency situations, but with a little careful planning, wise consumers can balance their physical and financial health.



West Virginia PEIA Public Employees Insurance Agency

State Capitol Complex, Bldg. 5, Rm. 1001
1900 Kanawha Blvd., E.
Charleston, WV 25305-0710

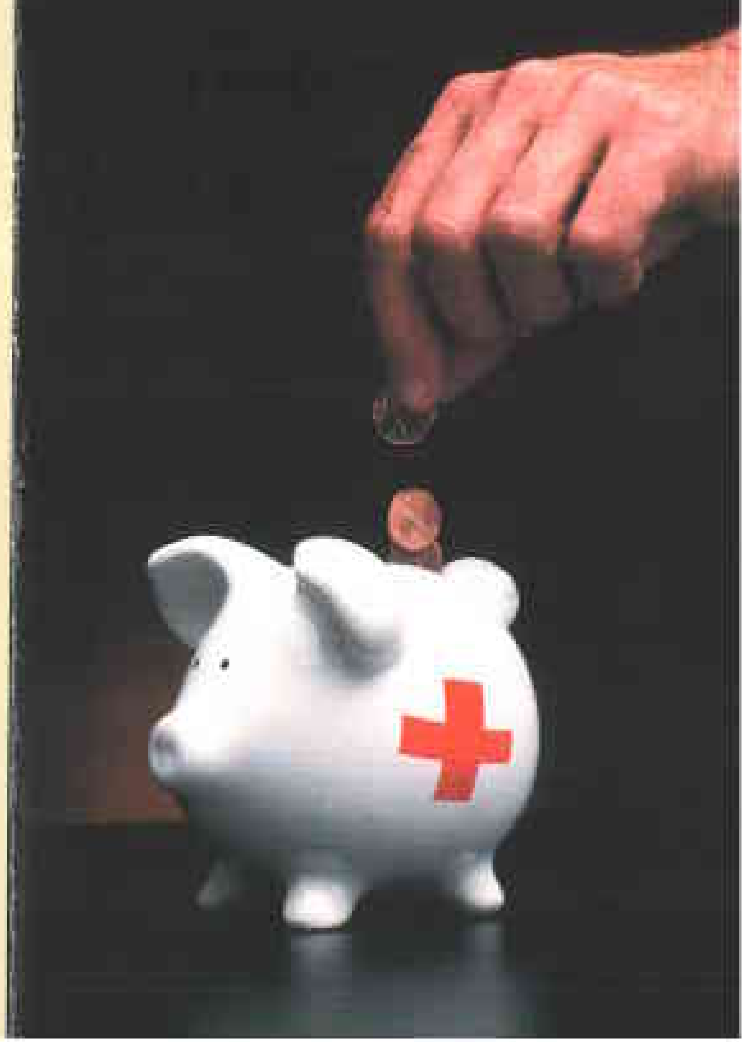
1-877-294-PEIA

For PEIA PPB Plan Members

West Virginia PEIA Public Employees Insurance Agency

State Capitol Complex, Bldg. 5, Rm. 1001
1900 Kanawha Blvd., E.
Charleston, WV 25305-0710

Your CostliER Healthcare Option



We all know how expensive healthcare can be. The PEIA PPB Plan is here to provide you with quality healthcare while keeping the cost to you as low as possible. One way your medical expenses can be kept low is to avoid going to the Emergency Room for non-Emergency cases. An ER visit can cost you 15 times what you might pay for other treatment options:

Cost of a Visit for the Flu

	Doctor's Office	Urgent Care	ER
Total allowed charge	$ 57.88	$ 57.88	$ 350.00
YOUR Cost*			
• Copayment	$ 15.00	$ 15.00	$ 50.00
• Deductible	$ 0.00	$ 0.00	$ 150.00
• Coinsurance	$ 0.00	$ 0.00	$ 30.00
Your cost TOTAL	**$ 15.00**	**$ 15.00**	**$ 230.00**

* This assumes no diagnostic testing, which would increase costs.

Emergency Room *Traumas*

ERs are very costly because they are set up to deal with the worst and most traumatic of cases. Their purpose is to ensure that the patient survives long enough to receive long term treatment from their physician or hospital. Yet nearly 53% of cases seen by ERs in the past year were classified as "non-Emergencies" – patients with simple ailments which could easily be treated by their Family Physician.

Emergency Room *Dramas*

In addition to the high cost of ERs, consider the ER experience: waiting for hours in an uncomfortable chair surrounded by people sicker than you, watching more severe cases come and go ahead of you, before finally being treated by a rushed, overworked physician or resident with no knowledge of your medical history. All this CAN be avoided.

Alternatives

If you have an emergency medical situation you should go to the Emergency Room. But how do you know if you are an emergency case?

- The best way to deal with potential medical emergencies is to discuss them before they happen with your Family Physician. Of course, no one can predict all possibilities, but you and your doctor can devise a plan of action for dealing with common after-hours ailments.
- In many communities, an Urgent Care Center may be an option. These clinics accept walk-ins and are priced like a standard office visit, thereby saving you money. Also, since patients are taken on a first come, first served basis, your wait time will be significantly reduced. Your Family Physician can recommend Urgent Care Centers in your area.
- Finally, be sure to seek medical attention for your illness promptly. If you feel ill during the day, call your doctor. If you wait until the middle of the night to seek relief, the costly ER may be your only option.

PEIA Prescription Drug Claim Report

Plan Demographics	2001/07 - Jul	2001/08 - Aug	2001/09 - Sept	2001/10 - Oct
Total Drug Cost	$11,110,116	$12,308,852	$11,572,117	$12,842,110
Amount Paid By Plan Sponsor	$5,220,790	$8,320,287	$8,229,125	$9,355,556
Amount Paid By Members	$5,889,326	$3,988,565	$3,342,992	$3,486,554
Total Claims	227,370.	245,243.	231,835.	258,236.
Average Eligible Member	182,982.	181,624.	181,887.	181,812.
Average # of Rx's Per Member Per Month	1.24	1.35	1.27	1.42
Plan Paid Per Member Per Month (PMPM)	28.53	45.81	45.24	51.46
Average Eligible Enrollees	90,237.	89,638.	89,781.	89,755.
Average # of Rx's Per Enrollee Per Month	2.52	2.74	2.58	2.88
Plan Paid Per Enrollee Per Month (PEPM)	$57.86	$92.82	$91.66	$104.23
Rx Cost Share				
Avg. Claim Cost to Plan	$22.96	$33.93	$35.50	$36.23
AVg. Member Cost/Claim	$25.90	$16.26	$14.42	$13.50
Percent member Cost Share	53.0%	32.4%	28.9%	27.1%
Average Ingredient Costs				
Single Source (no generics available)	$68.08	$69.73	$70.51	$70.86
Multi-Source Brand (generics available)	$41.84	$48.21	$47.81	$45.74
Generic Drugs	$15.21	$16.81	$17.35	$16.90
Brand/Generic Dispensing Rates				
Single Source (no generics)	57.10%	56.43%	56.18%	55.76%
Muli-Source Brand (generics available)	2.20%	2.30%	2.26%	2.29%
Generic Drug	40.70%	41.27%	41.56%	41.95%
Genelcs Dispensed when available	94.88%	94.73%	94.84%	94.82%
Percent of Plan Cost for Single Source	86.68%	83.20%	82.49%	82.65%
Retail Pharmacy Program				
Avg. Day Supply	30.6	31.2	31.0	30.4
Avg. Plan Cost/Day Supply	$0.73	$1.06	$1.12	$1.17
Avg. Claim Cost to Plan	$22.48	$33.17	$34.63	$35.59
Avg. Member Cost / Claim	$7.73	$10.97	$11.59	$11.74
Percent Member Cost Share	53.40%	32.66%	29.16%	27.36%
Special Maint Netwk (% of claims filled)	5.80%	6.64%	7.15%	6.90%
Maintenance Network (% of claims filled)	2.94%	2.94%	2.66%	2.50%
Avg. Days Supply for Maint. Netwks	86.8	87.0	87.2	87.1
Total # Claims Fills 1-34 Days Supply	205,024.	218,234.	205,460.	230,875.
Total # Claims Fills 35-60 Day Supply	1,598.	1,817.	1,619.	1,777.
Total # Claims Fills 61-90 Day Supply	18,086.	21,484.	20,940.	22,323.
Mail Service Program				
Avg. Days Supply	68.0	71.2	72.9	69.2
Avg. Plan Cost/Days Supply	$0.96	$1.16	$1.21	$1.25
Avg. Cost to Plan	$64.98	$82.58	$87.90	$86.45
Avg. Member Cost/Claim	$38.10	$27.50	$24.17	$21.34
Percent Member Cost Share	36.96%	24.98%	21.57%	19.80%
Total # Claims Fill 1-34 Days Supply	964.	1,124.	1,044.	1,108.
Total # Claims Fills 35-60 Days Supply	38.	54.	59.	38.
Total # Claims Fills 61-90 Days Supply	1,658.	2,519.	2,706.	2,110.
Formulary Program				
S/S Formulary Drugs (% by claim)	45.37%	44.83%	45.06%	44.85%
S/S Non-Formulary Drugs (% by claim)	11.73%	11.60%	11.12%	10.91%
M/S Drugs (% by claim)	2.2%	2.3%	2.3%	2.3%
Generic Drugs (% by Claim)	40.7%	41.3%	41.6%	41.9%
S/S Formulary Drugs (% by $)	74.54%	70.76%	70.74%	71.11%
s/s non-Formulary Drugs (% by $)	12.14%	12.43%	11.75%	11.54%
M/S Drugs (% by $)	1.3%	1.9%	1.8%	1.7%
Generic Drugs (% by $)	12.0%	14.9%	15.7%	15.6%

PEIA Prescription Drug Claim Report

Plan Demographics	2001/11 - Nov	2001/12 - Dec	2002/01 - Jan	2002/02 - Feb
Total Drug Cost	$12,527,684	$13,109,333	$13,571,818	$12,749,522
Amount Paid By Plan Sponsor	$9,241,142	$9,735,563	$10,194,655	$9,570,534
Amount Paid By Members	$3,286,543	$3,373,771	$3,377,163	$3,178,989
Total Claims	249,517.	256,952.	261,536.	247,992.
Average Eligible Member	182,028.	182,414.	183,130.	183,449.
Average # of Rx's Per Member Per Month	1.37	1.41	1.43	1.35
Plan Paid Per Member Per Month (PMPM)	50.77	53.37	55.67	52.17
Average Eligible Enrollees	89,827.	90,008.	90,430.	90,568.
Average # of Rx's Per Enrollee Per Month	2.78	2.85	2.89	2.74
Plan Paid Per Enrollee Per Month (PEPM)	$102.88	$108.16	$112.74	$105.67
Rx Cost Share				
Avg. Claim Cost to Plan	$37.04	$37.89	$38.98	$38.59
AVg. Member Cost/Claim	$13.17	$13.13	$12.91	$12.82
Percent member Cost Share	26.2%	25.7%	24.9%	24.9%
Average Ingredient Costs				
Single Source (no generics available)	$71.57	$72.33	$74.43	$74.10
Multi-Source Brand (generics available)	$45.05	$46.06	$46.49	$46.63
Generic Drugs	$16.89	$17.15	$16.93	$16.69
Brand/Generic Dispensing Rates				
Single Source (no generics)	56.00%	56.51%	56.06%	55.62%
Mull-Source Brand (generics available)	2.26%	2.14%	2.14%	2.27%
Generic Drug	41.74%	41.35%	41.80%	42.11%
Genelcs Dispensed when available	94.86%	95.09%	95.12%	94.88%
Percent of Plan Cost for Single Source	82.90%	83.12%	83.24%	83.00%
Retail Pharmacy Program				
Avg. Day Supply	30.6	30.9	30.6	30.1
Avg. Plan Cost/Day Supply	$1.19	$1.20	$1.25	$1.25
Avg. Claim Cost to Plan	$36.34	$37.09	$38.31	$37.78
Avg. Member Cost / Claim	$11.95	$12.14	$12.02	$11.94
Percent Member Cost Share	26.47%	26.00%	25.08%	25.20%
Special Maint Netwk (% of claims filled)	7.02%	7.47%	7.21%	7.03%
Maintenance Network (% of claims filled)	2.57%	2.56%	2.45%	2.53%
Avg. Days Supply for Maint. Netwks	87.3	87.3	87.2	87.3
Total # Claims Fills 1-34 Days Supply	222,425.	227,606.	233,252.	221,088.
Total # Claims Fills 35-60 Day Supply	1,632.	1,716.	1,764.	1,553.
Total # Claims Fills 61-90 Day Supply	22,146.	23,879.	23,305.	22,003.
Mail Service Program				
Avg. Days Supply	71.3	71.9	68.6	70.8
Avg. Plan Cost/Days Supply	$1.25	$1.27	$1.34	$1.38
Avg. Cost to Plan	$88.88	$91.61	$92.09	$97.61
Avg. Member Cost/Claim	$19.69	$19.81	$19.84	$19.56
Percent Member Cost Share	18.13%	17.78%	17.73%	16.69%
Total # Claims Fill 1-34 Days Supply	999.	1,095.	1,126.	1,043.
Total # Claims Fills 35-60 Days Supply	43.	46.	35.	33.
Total # Claims Fills 61-90 Days Supply	2,262.	2,608.	2,044.	2,265.
Formulary Program				
S/S Formulary Drugs (% by claim)	44.99%	45.71%	44.86%	44.36%
S/S Non-Formulary Drugs (% by claim)	11.01%	10.80%	11.20%	11.27%
M/S Drugs (% by claim)	2.3%	2.1%	2.1%	2.3%
Generic Drugs (% by Claim)	41.7%	41.4%	41.8%	42.1%
S/S Formulary Drugs (% by $)	70.98%	72.07%	71.54%	70.90%
s/s non-Formulary Drugs (% by $)	11.92%	11.04%	11.70%	12.09%
M/S Drugs (% by $)	1.7%	1.6%	1.5%	1.7%
Generic Drugs (% by $)	15.4%	15.3%	15.2%	15.3%

PEIA Prescription Drug Claim Report

Plan Demographics	2002/03 - March	2002/04 - April	2002 - Fiscal
Total Drug Cost	$13,841,791	$12,345,040	$125,978,384
Amount Paid By Plan Sponsor	$10,450,401	$9,359,104	$89,677,156
Amount Paid By Members	$3,391,390	$2,985,935	$36,301,228
Total Claims	265,174.	232,498.	2,476,353.
Average Eligible Member	183,519.	183,617.	1,826,462.
Average # of Rx's Per Member Per Month	1.44	1.27	1.36
Plan Paid Per Member Per Month (PMPM)	56.94	50.97	49.10
Average Eligible Enrollees	90,628.	90,710.	901,582.
Average # of Rx's Per Enrollee Per Month	2.93	2.56	2.75
Plan Paid Per Enrollee Per Month (PEPM)	$115.31	$103.18	$99.47
Rx Cost Share			
Avg. Claim Cost to Plan	$39.41	$40.25	$36.21
AVg. Member Cost/Claim	$12.79	$12.84	$14.66
Percent member Cost Share	24.5%	24.2%	28.8%
Average Ingredient Costs			
Single Source (no generics available)	$75.22	$76.01	$72.33
Multi-Source Brand (generics available)	$47.84	$47.38	$46.34
Generic Drugs	$16.62	$17.17	$16.78
Brand/Generic Dispensing Rates			
Single Source (no generics)	55.95%	56.38%	56.19%
Muli-Source Brand (generics available)	2.19%	2.12%	2.22%
Generic Drug	41.86%	41.50%	41.60%
Geneics Dispensed when available	95.02%	95.14%	94.94%
Percent of Plan Cost for Single Source	83.55%	83.83%	83.33%
Retail Pharmacy Program			
Avg. Day Supply	30.4	30.9	30.7
Avg. Plan Cost/Day Supply	$1.27	$1.28	$1.16
Avg. Claim Cost to Plan	$38.60	$39.59	$35.49
Avg. Member Cost / Claim	$12.05	$12.23	$11.47
Percent Member Cost Share	24.74%	24.38%	29.07%
Special Maint Netwk (% of claims filled)	7.25%	7.31%	6.99%
Maintenance Network (% of claims filled)	2.46%	2.48%	2.61%
Avg. Days Supply for Maint. Netwks	87.2	87.3	87.2
Total # Claims Fills 1-34 Days Supply	236,107.	207,077.	2,207,148.
Total # Claims Fills 35-60 Day Supply	1,811.	1,548.	16,835.
Total # Claims Fills 61-90 Day Supply	23,734.	21,160.	219,060.
Mail Service Program			
Avg. Days Supply	71.0	68.9	70.5
Avg. Plan Cost/Days Supply	$1.40	$1.41	$1.26
Avg. Cost to Plan	$99.23	$96.89	$89.16
Avg. Member Cost/Claim	$19.97	$19.56	$22.74
Percent Member Cost Share	16.76%	16.80%	20.32%
Total # Claims Fill 1-34 Days Supply	1,081.	931.	10,515.
Total # Claims Fills 35-60 Days Supply	36.	38.	420.
Total # Claims Fills 61-90 Days Supply	2,405.	1,744.	22,321.
Formulary Program			
S/S Formulary Drugs (% by claim)	44.87%	46.21%	45.10%
S/S Non-Formulary Drugs (% by claim)	11.08%	10.17%	11.09%
M/S Drugs (% by claim)	2.2%	2.1%	2.2%
Generic Drugs (% by Claim)	41.9%	41.5%	41.6%
S/S Formulary Drugs (% by $)	71.46%	71.91%	71.48%
s/s non-Formulary Drugs (% by $)	12.09%	11.93%	11.84%
M/S Drugs (% by $)	1.6%	1.5%	1.6%
Generic Drugs (% by $)	14.8%	14.7%	15.0%

PEIA

MONTHLY MANAGEMENT REPORT

TOTAL CLAIMS

MARCH 2002

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
MONTHLY MANAGEMENT REPORT - TOTAL CLAIMS
MARCH 2002

Reporting Category	Type of Service	Current Period PEIA Payments	Current Rolling Avg PEIA Payments	12 Months Prior PEIA Payments	12 Months Prior Rolling Avg PEIA Payments	Current Fiscal Yr PEIA Payments	Previous Fiscal Yr PEIA Payments
INPATIENT HOSPITAL FACILITY	BEHAVIORAL	244,220.36	172,445.74	209,523.10	141,191.11	1,520,152.43	1,293,992.13
	MATERNITY	172,419.43	133,503.10	149,066.36	110,334.81	1,170,495.44	1,005,964.69
	MEDICAL AND SURGICAL	8,481,105.50	6,325,782.66	7,194,932.37	4,227,887.73	55,325,626.32	38,738,834.36
	NEONATAL COMPLICATIONS	155,964.84	51,246.19	39,263.80	59,471.59	493,573.34	414,650.53
***************************							
sum		9,053,710.13	6,682,977.70	7,592,785.63	4,538,885.24	58,509,847.53	41,453,441.71
OUTPATIENT HOSPITAL FACILITY	BEHAVIORAL	32,994.87	15,582.52	25,212.32	14,728.31	146,027.94	142,664.28
	DIALYSIS	411,303.86	190,588.81	263,232.08	135,672.76	1,861,735.63	1,319,232.83
	EMERGENCY ROOM	246,603.06	164,166.31	162,947.57	93,819.78	1,575,563.66	964,646.59
	MATERNITY	26,961.98	20,411.08	25,736.05	12,859.44	183,549.43	133,920.41
	MEDICAL AND SURGICAL	4,374,125.56	3,102,255.81	3,342,291.41	2,476,871.00	28,490,820.71	21,914,281.61
***************************							
sum		5,091,989.33	3,493,004.53	3,819,419.43	2,733,951.28	32,257,697.37	24,474,745.72
PHARMACY	PRESCRIPTION DRUGS	9,954,184.50	9,129,089.90	11,715,104.14	6,315,701.03	83,973,258.49	60,189,995.25
***************************							
sum		9,954,184.50	9,129,089.90	11,715,104.14	6,315,701.03	83,973,258.49	60,189,995.25
PROFESSIONAL SERVICES	ADVANCED IMAGING	956,142.65	663,240.30	801,086.09	533,172.09	5,871,761.87	5,023,908.29
	AMBULANCE	301,479.71	227,852.28	361,174.60	162,764.14	1,882,635.91	1,758,995.16
	ANESTHESIA	784,316.11	540,669.78	645,390.82	406,589.12	5,038,711.34	3,852,334.93
	CARDIOVASCULAR MEDICINE	261,410.39	196,869.56	249,041.16	159,018.02	1,698,550.94	1,561,476.41
	CERVICAL CANCER SCREENING	62,370.67	38,525.18	39,394.95	19,114.32	381,764.97	199,317.49
	DME	360,890.60	357,501.62	496,126.49	253,562.00	2,893,060.90	2,488,213.32
	EVALUATION AND MANAGEMENT	4,620,547.65	3,231,883.90	4,082,321.62	2,661,363.57	29,336,050.34	25,522,935.42
	IMMUNIZATION	90,495.05	83,887.32	81,318.65	67,668.30	767,908.86	689,626.69
	INJECTION	809,659.42	530,176.80	659,515.48	386,589.95	4,735,867.34	3,651,928.45

SOURCE: MOUNTAIN STATE, ACORDIA NATIONAL, PCS HEALTH, AND MERCK-MEDCO PAID CLAIMS TAPES
NOTE: CLAIMS LISTED ARE ON A PAID BASIS

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
MONTHLY MANAGEMENT REPORT - TOTAL CLAIMS
MARCH 2002

Reporting Category	Type of Service	Current Period PEIA Payments	Current Rolling Avg PEIA Payments	12 Months Prior PEIA Payments	12 Months Prior Rolling Avg PEIA Payments	Current Fiscal Yr PEIA Payments	Previous Fiscal Yr PEIA Payments
PROFESSIONAL SERVICES	LAB AND PATHOLOGY	1,132,488.96	762,563.04	952,779.51	541,129.95	6,653,566.52	5,097,969.43
	MAMMOGRAPHY	197,576.11	160,121.68	182,071.55	121,609.01	1,485,550.71	1,250,292.55
	OTHER	385,640.64	337,544.38	294,414.74	260,999.46	3,286,166.27	2,492,758.88
	OTHER IMAGING	1,384,668.88	1,016,436.75	1,406,289.53	784,284.03	8,668,847.82	7,780,667.73
	OTHER MEDICINE	1,738,046.41	1,179,858.00	1,490,181.69	937,296.31	10,433,284.77	8,776,232.32
	PHYSICAL MEDICINE	498,841.79	332,379.17	405,357.47	233,707.12	2,990,021.79	2,258,463.61
	PROSTATE CANCER SCREENING	24,266.75	16,850.96	21,963.02	12,607.75	139,440.37	118,109.85
	SURGICAL	2,679,675.64	1,893,405.20	2,445,715.32	1,553,430.48	16,821,426.01	15,115,897.82
*****************************							
sum		16,288,517.43	11,569,765.91	14,614,142.69	9,094,905.63	103,084,616.73	87,639,128.35
sum		40,388,401.39	30,874,838.03	37,741,451.89	22,683,443.18	277,825,420.12	213,757,311.03

SOURCE: MOUNTAIN STATE, ACORDIA NATIONAL, PCS HEALTH, AND MERCK-MEDCO PAID CLAIMS TAPES
NOTE: CLAIMS LISTED ARE ON A PAID BASIS

27 rows selected.

PEIA

MONTHLY MANAGEMENT REPORT

PER CAPITA UTILIZATION

MARCH 2002

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
MONTHLY MANAGEMENT REPORT - PER CAPITA UTILIZATION
MARCH 2002

Reporting Category	Type of Service	Current Period Encounters	12 Months Prior Encounters	Current Fiscal Yr Encounters	Previous Fiscal Yr Encounters
INPATIENT HOSPITAL FACILITY	BEHAVIORAL	.0008	.0008	.0055	.0055
	MATERNITY	.0007	.0007	.0049	.0042
	MEDICAL AND SURGICAL	.0225	.0227	.1372	.1279
	NEONATAL COMPLICATIONS	.0002	.0001	.0011	.0012
***************************					
sum		.0242	.0244	.1486	.1388
OUTPATIENT HOSPITAL FACILITY	BEHAVIORAL	.0009	.0008	.0066	.0063
	DIALYSIS	.0087	.0034	.0318	.0127
	EMERGENCY ROOM	.0288	.0261	.1946	.1772
	MATERNITY	.0007	.0006	.0045	.0039
	MEDICAL AND SURGICAL	.0951	.0800	.6034	.6097
***************************					
sum		.1342	.1109	.8410	.8099
PHARMACY	PRESCRIPTION DRUGS	.9215	1.3309	8.4610	7.5715
***************************					
sum		.9215	1.3309	8.4610	7.5715
PROFESSIONAL SERVICES	ADVANCED IMAGING	.0359	.0308	.2297	.2033
	AMBULANCE	.0119	.0111	.0720	.0696
	ANESTHESIA	.0184	.0162	.1144	.1011
	CARDIOVASCULAR MEDICINE	.0109	.0104	.0725	.0721
	CERVICAL CANCER SCREENING	.0211	.0229	.1554	.1524
	DME	.0271	.0393	.2357	.2454
	EVALUATION AND MANAGEMENT	.7012	.6688	4.5431	4.5403
	IMMUNIZATION	.0164	.0136	.1616	.1423
	INJECTION	.0332	.0321	.2154	.2179
	LAB AND PATHOLOGY	.2388	.2162	1.5594	1.4208

SOURCE: MOUNTAIN STATE, ACORDIA NATIONAL, PCS HEALTH, AND MERCK-MEDCO PAID CLAIMS TAPES
NOTE: CLAIMS LISTED ARE ON A PAID BASIS

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
MONTHLY MANAGEMENT REPORT - PER CAPITA UTILIZATION
MARCH 2002

Reporting Category	Type of Service	Current Period Encounters	12 Months Prior Encounters	Current Fiscal Yr Encounters	Previous Fiscal Yr Encounters
PROFESSIONAL SERVICES	MAMMOGRAPHY	.0348	.0362	.2591	.2586
	OTHER	.0468	.0444	.3301	.3270
	OTHER IMAGING	.1873	.1862	1.2389	1.2194
	OTHER MEDICINE	.2581	.2447	1.7043	1.6353
	PHYSICAL MEDICINE	.1075	.0971	.6779	.5938
	PROSTATE CANCER SCREENING	.0079	.0077	.0544	.0526
	SURGICAL	.1167	.1057	.7587	.7716
***************************					
sum		1.8741	1.7835	12.3827	12.0235
sum		2.9539	3.2497	21.8333	20.5437

SOURCE: MOUNTAIN STATE, ACORDIA NATIONAL, PCS HEALTH, AND MERCK-MEDCO PAID CLAIMS TAPES
NOTE: CLAIMS LISTED ARE ON A PAID BASIS

27 rows selected.

"WORKING DRAFT"

State of West Virginia
Public Employees Insurance Agency
Balance Sheets
March 31, 2002 and 2001
Accrual Basis
(Unaudited-For Internal Use Only)

Assets	**March 2002**	**March 2001**	**Increase <Decrease>**
Cash and cash equivalents	$ 101,908,232	$ 122,453,983	$ (20,545,751)
Deposits with third-party administrators	291,827	826,327	(534,500)
Premium accounts receivable-net of allowance for doubtful accounts	11,238,827	10,167,629	1,071,198
Other accounts receivable	3,991,559	1,615,000	2,376,559
Total current assets	117,430,445	135,062,939	(17,632,494)
Furniture and equipment, net of accumulated depreciation	148,561	211,963	(63,402)
Restricted cash-premium stabilization life insurance	3,607,620	3,607,524	96
Restricted cash-new computer system	2,000,000		2,000,000
Total assets	$ 123,186,626	$ 138,882,426	$ (15,695,800)
Liabilities and Retained Earnings			
Claims payable	$ 43,750,000	$ 47,720,000	$ (3,970,000)
Premium deficiency reserve	7,242,000		7,242,000
Unearned revenue	2,310,000	3,352,700	(1,042,700)
Current claims payable	10,451,877	5,289,495	5,162,382
Accounts payable	8,431,852	8,621,891	(190,039)
Other accrued liabilities	961,157	585,122	376,035
Total liabilities	73,146,886	65,569,208	7,577,678
Retained earnings	50,039,740	73,313,218	(23,273,478)
Total liabilities and retained earnings	$ 123,186,626	$ 138,882,426	$ (15,695,800)

For internal use only. See financial comments.
Prepared April 12, 2002

"WORKING DRAFT"

State of West Virginia
Public Employees Insurance Agency
Statement of Revenues, Expenses and Changes in Retained Earnings
March 31, 2002 and 2001
Accrual Basis
(Unaudited-For Internal Use Only)

	Budgeted Nine Months Ended Mar 31, 2002	Actual Nine Months Ended Mar 31, 2002	Budget Varience Percent	Actual Nine Months Ended Mar 31, 2001	This Year vs Last Year Increase <Decrease>	This Year vs Last Year Varience Percent
Operating Revenue						
Premiums						
Employer	$ 259,200,614	$ 258,736,148	-0 18%	$ 249,139,005	$ 9,597,143	3 85%
Employee	54,792,700	54,304,527	-0 89%	48,398,457	5,906 070	12 20%
Total Premiums	313 993,314	313 040 675	-0 30%	297 537 462	15,503,213	5 21%
Less						
Payments to managed care organizations	(36,000,000)	(35,078,731)	-2 56%	(53,528,974)	18,450 243	-34 47%
Life insurance premiums-basic	(3,974,778)	(3,847,971)	-3 19%	(3,778,906)	(69,065)	1 83%
Net premium revenue	274,018,536	274,113,973	0 03%	240,229,582	33,884,391	14 11%
Administrative fees, net of refunds	2,625,003	2,578,695	-1 76%	2,557,980	20,715	0 81%
Net operating revenue	276 643,539	276 692,668	0.02%	242,787,562	33,905,106	13 96%
Operating Expenses						
Claims expense-medical	200,235,195	201,112,746	0 44%	159,578,308	41,534,438	26 03%
Claims expense-drugs	71,066,980	77,294,510	8 76%	59,436,199	17,858,311	30 05%
Administrative service fees	9,205,479	8 642,035	-6 12%	8,870,489	(228,454)	-2 58%
Other operating expenses	3,809,583	4,289,794	12 61%	3,782,090	507,704	13 42%
Total operating expense	284 317,237	291,339,085	2 47%	231,667,066	59,671,999	25 76%
Operating (deficit) surplus	(7,673,697)	(14 646,417)	90 87%	11,120,478	[illegible]	-231 71%
Nonoperating Revenues						
Interest income banks, net of fees	150,000	116 790	-22 14%	131,844	(15,054)	-11 42%
Interest income IMB	2,849,997	2,448,273	-14 10%	4,832,477	(2,384,204)	-49 34%
Operating transfers in	3,749,994	4,350,000	16 00%	7,500,000	(3,150,000)	-42 00%
Total nonoperating revenues	6,749,991	6,916,063	2 45%	12,464,321	(5 549 258)	-44 52%
Net Surplus (Deficiency)	$ (923,706)	(7,731,354)	736 99%	23,584,797	(31,316,151)	-132 78%
Retained Earnings, (deficiency) beginning of period		57,771,094		49 728 421	8,042,673	
Retained Earnings, end of period		$ 50,039,740		$ 73,313,218	$ (23,273,478)	

For internal use only See financial comments
Prepared April 12, 2002

"WORKING DRAFT"

State of West Virginia
Public Employees Insurance Agency
Statement of Revenues, Expenses and
Net Loss
Month of March 2002 and 2001
Accrual Basis
(Unaudited-For Internal Use Only)

	Actual Month of March 2002	Actual Month of March 2001	Increase (Decrease)
Operating Revenue			
Premiums			
Employer	$ 29,102,253	$ 27,537,053	$ 1,565,200
Employee	6,044,027	5,585,497	458,530
Total Premium	35,146,280	33,122,550	2,023,730
Less:			
Payments to managed care organizations	(3,906,285)	(5,930,448)	2,024,163
Life insurance premiums-basic	(431,000)	(422,663)	(8,337)
Net premium revenue	30,808,995	26,769,439	4,039,556
Administrative fees, net of refunds	296,920	285,713	11,207
Net operating revenue	31,105,915	27,055,152	4,050,763
Operating Expenses			
Claims expense-medical	28,638,892	24,580,161	4,058,731
Claims expense-drugs	9,617,082	10,030,751	(413,669)
Administrative service fees	858,124	1,032,172	(174,048)
Other operating expenses	639,366	409,740	229,626
Total operating expense	39,753,464	36,052,824	3,700,640
Operating loss	(8,647,549)	(8,997,672)	350,123
Nonoperating Revenues			
Interest income, from banks, net of fees	(57)	-	(57)
Interest income from IMB	155,599	551,828	(396,229)
Operating transfers in	1,017,000	833,000	184,000
Total nonoperating revenues	1,172,543	1,384,828	(212,286)
Net Loss	$ (7,475,007)	$ (7,612,844)	$ 137,837

For internal use only. See financial comments.
Prepared April 12, 2002

"WORKING DRAFT"

State of West Virginia
Public Employees Insurance Agency
Financial Comments

Month of March 2002 and 2001
Accrual Basis
(Unaudited-For Internal Use Only)

1) Effective July 1, 2000, the PEIA changed third party administrators. The process of medical claims adjudication and payment was taken over by Acordia National from Mountain State Blue Cross Blue Shield. Merck-Medco through its subsidiary ,Paid Prescriptions Plus, took over the adjudication and payment of prescription drug claims. Because of the many complexities involved in the adjudication and payment of medical and drug claims, it took the new third party administrators quite some time to begin paying these claims on a timely basis.

2) The new third party administrators also had difficulty adjusting their systems of reporting to the PEIA's actuary. Consequently the actuary was unable to develop credible estimates of claims which had been incurred but not yet paid , claims payable, until late in the spring of year 2001.

3) Because of the difficulties discussed above, the amounts reported in these financial statements may not accurately reflect the PEIA's financial position and the results of its operations for the periods indicated.

4) Because these financial statements were prepared very shortly after the end of the month, there may be some unknown expenses attributable to these periods.

5) At the plan year end June 30, 2001 approximately 6,800 health policyholders transferred from managed care coverage to the preferred provider benefit plan. This resulted in total enrollment increase of approximately 10% from the prior year and is expected to produce a similar increase in claims expense in the year ending in 2002.

PEIA

MONTHLY MANAGEMENT REPORT

PER CAPITA CLAIMS

MARCH 2002

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
MONTHLY MANAGEMENT REPORT - PER CAPITA CLAIMS
MARCH 2002
Page: 1

Reporting Category	Type of Service	Current Period PEIA Payments	Current Rolling Avg PEIA Payments	12 Months Prior PEIA Payments	12 Months Prior Rolling Avg PEIA Payments	Current Fiscal Yr PEIA Payments	Previous Fiscal Yr PEIA Payments
INPATIENT HOSPITAL FACILITY	BEHAVIORAL	1.3381	.9838	1.2570	.8585	8.3772	7.8172
	MATERNITY	.9447	.7611	.8943	.6711	6.4503	6.0772
	MEDICAL AND SURGICAL	46.4675	36.0887	43.1641	25.7328	304.8865	234.0277
	NEONATAL COMPLICATIONS	.8545	.2940	.2356	.3629	2.7200	2.5050
***************************							
sum		49.6047	38.1277	45.5509	27.6252	322.4340	250.4271
OUTPATIENT HOSPITAL FACILITY	BEHAVIORAL	.1808	.0889	.1513	.0896	.8047	.8619
	DIALYSIS	2.2535	1.0858	1.5792	.8250	10.2596	7.9697
	EMERGENCY ROOM	1.3511	.9320	.9776	.5696	8.6826	5.8276
	MATERNITY	.1477	.1161	.1544	.0781	1.0115	.8090
	MEDICAL AND SURGICAL	23.9656	17.6522	20.0512	15.0739	157.0062	132.3878
***************************							
sum		27.8987	19.8750	22.9136	16.6361	177.7646	147.8560
PHARMACY	PRESCRIPTION DRUGS	54.5384	51.8132	70.2816	38.4060	462.7569	363.6177
***************************							
sum		54.5384	51.8132	70.2816	38.4060	462.7569	363.6177
PROFESSIONAL SERVICES	ADVANCED IMAGING	5.2386	3.7833	4.8059	3.2408	32.3579	30.3503
	AMBULANCE	1.6518	1.3041	2.1668	.9882	10.3748	10.6264
	ANESTHESIA	4.2972	3.0744	3.8718	2.4716	27.7672	23.2726
	CARDIOVASCULAR MEDICINE	1.4323	1.1240	1.4941	.9660	9.3603	9.4331
	CERVICAL CANCER SCREENING	.3417	.2183	.2363	.1161	2.1038	1.2041
	DME	1.9773	2.0437	2.9764	1.5417	15.9430	15.0317
	EVALUATION AND MANAGEMENT	25.3157	18.4040	24.4908	16.1746	161.6641	154.1883
	IMMUNIZATION	.4958	.4764	.4878	.4105	4.2318	4.1661
	INJECTION	4.4361	3.0245	3.9566	2.3505	26.0983	22.0619

SOURCE: MOUNTAIN STATE, ACORDIA NATIONAL, PCS HEALTH, AND MERCK-MEDCO PAID CLAIMS TAPES
NOTE: CLAIMS LISTED ARE ON A PAID BASIS

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
MONTHLY MANAGEMENT REPORT - PER CAPITA CLAIMS
MARCH 2002
Page: 2

Reporting Category	Type of Service	Current Period PEIA Payments	Current Rolling Avg PEIA Payments	12 Months Prior PEIA Payments	12 Months Prior Rolling Avg PEIA Payments	Current Fiscal Yr PEIA Payments	Previous Fiscal Yr PEIA Payments
PROFESSIONAL SERVICES	LAB AND PATHOLOGY	6.2048	4.3538	5.7159	3.2907	36.6662	30.7977
	MAMMOGRAPHY	1.0825	.9094	1.0923	.7382	8.1865	7.5532
	OTHER	2.1129	1.9100	1.7663	1.5843	18.1093	15.0592
	OTHER IMAGING	7.5865	5.8073	8.4367	4.7648	47.7720	47.0043
	OTHER MEDICINE	9.5227	6.7309	8.9399	5.6997	57.4954	53.0187
	PHYSICAL MEDICINE	2.7331	1.8947	2.4318	1.4205	16.4773	13.6438
	PROSTATE CANCER SCREENING	.1330	.0965	.1318	.0767	.7684	.7135
	SURGICAL	14.6818	10.7962	14.6724	9.4414	92.6989	91.3176
***************************							
sum		89.2438	65.9513	87.6736	55.2763	568.0751	529.4424
sum		221.2857	175.7672	226.4197	137.9437	1,531.0307	1,291.3431

SOURCE: MOUNTAIN STATE, ACORDIA NATIONAL, PCS HEALTH, AND MERCK-MEDCO PAID CLAIMS TAPES
NOTE: CLAIMS LISTED ARE ON A PAID BASIS

27 rows selected.

West Virginia Public Employees Insurance Agency
Summary of Fiscal Year 2002 Projections

Report	Financial Plan December 2000	December 31, 2000 Quarterly Report April 2001	March 31, 2001 Quarterly Report June 2001	June 30, 2001 Quarterly Report October 2001	Financial Plan December 2001	December 31, 2001 Quarterly Report April 2002
Local Fund						
Revenues	$ 32,739,031	$ 32,976,999	$ 32,976,999	$ 38,035,132	$ 37,609,248	$ 39,218,709
Claims	23,348,559	22,652,828	24,388,191	28,815,320	29,102,418	28,807,873
Capitations	2,939,372	2,939,372	2,939,372	2,408,123	2,408,123	2,030,558
Other Expenses	1,954,972	1,954,972	1,954,972	1,979,565	2,017,446	1,988,752
Retiree Subsidy	7,175,110	6,945,472	7,508,872	7,698,713	7,736,419	8,600,567
Fiscal Year Result	(2,678,982)	(1,515,645)	(3,814,408)	(2,866,589)	(3,655,158)	(2,209,041)
Retirees Fund						
Revenues	$ 38,103,151	$ 36,876,584	$ 36,876,584	$ 37,946,410	$ 36,928,489	$ 35,305,463
Claims	116,910,191	112,940,413	119,586,732	114,591,031	114,991,073	116,780,221
Capitations	4,102,316	4,102,316	4,102,316	1,142,240	1,142,240	3,350,511
Other Expenses	1,768,197	1,768,197	1,768,197	1,789,700	1,824,273	1,797,772
Retiree Subsidy	(84,677,553)	(81,934,342)	(88,580,661)	(79,576,561)	(81,029,097)	(86,623,041)
Fiscal Year Result	-	-	-	-	-	-
State Fund						
Revenues	$ 353,632,906	$ 356,046,068	$ 356,046,067	$ 355,109,115	$ 356,299,564	$ 355,783,604
Claims	192,549,805	198,774,001	201,686,410	221,597,373	223,710,572	233,475,880
Capitations	67,838,312	67,838,312	67,838,312	44,449,637	44,449,637	41,418,931
Other Expenses	19,847,078	19,847,078	19,847,078	18,930,443	19,277,987	19,010,478
Retiree Subsidy	77,502,443	74,988,870	81,071,789	71,877,848	73,292,678	78,022,474
Fiscal Year Result	(4,104,732)	(5,402,193)	(14,397,522)	(1,746,186)	(4,431,310)	(16,144,159)
PEIA Total						
Revenues	$ 424,475,088	$ 425,899,651	$ 425,899,650	$ 431,090,657	$ 430,837,301	$ 430,307,776
Claims	332,808,555	334,367,242	345,661,333	365,003,724	367,804,062	379,063,974
Capitations	74,880,000	74,880,000	74,880,000	48,000,000	48,000,000	46,800,000
Other Expenses	23,570,247	23,570,247	23,570,247	22,699,708	23,119,706	22,797,002
Retiree Subsidy	-	-	-	-	-	-
Fiscal Year Result	(6,783,714)	(6,917,838)	(18,211,930)	(4,612,775)	(8,086,467)	(18,353,200)

4/24/02

Bob Wise
Governor

Tom Susman
Director

WV Toll-free: 1-888-680-PEIA • Phone: 1-304-558-7850 • Fax: 1-304-558-2516 • Internet: www.peia.state.wv.us

To: Tom Susman, Director

From: Barbara Beane, Eligibility Supervisor

RE: Cumulative Migration Report

Date: May 15, 2002

TRANSFER FROM:

PPB	BASIC LIFE	CARE-LINK B	HEALTH PLAN A	HEALTH PLAN B	TOTAL
1042	360	1756	466	175	3799

TRANSFER TO:

PPB	BASIC LIFE	CARE-LINK ENHANCED	CARE-LINK BASIC	HEALTH PLAN A	HEALTH PLAN B	TOTAL
982	186	2137	275	125	94	3799

cc: Phil Shimer
Gloria Long
Larry Stover
Jan Long
Dave Bond
Jason Haught

State Capitol Complex • Building 5, Room 1001 • 1900 Kanawha Boulevard, E. • Charleston, WV 25305-0710

STATE OF WEST VIRGINIA

PUBLIC EMPLOYEES INSURANCE AGENCY

Quarterly Report December 31, 2001

Fiscal Years 2002 - 2006

April 2002

Finance Board
West Virginia Public Employees Insurance Agency
Capitol Complex
Building 5, Tenth Floor
Charleston, WV 25305

Ladies and Gentlemen:

I, Dave Bond, am a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, a Partner in the firm of CCRC Actuaries, LLC and a Senior Consulting Actuary in the firm of Ernst & Young LLP ("Ernst & Young").

Ernst & Young has been retained by the Finance Board ("Board") of the West Virginia Public Employees Insurance Agency ("Agency") to assist it as provided under the West Virginia Public Employees Insurance Act ("Act") as amended by Senate Bill 702 in 1998. As provided under the Act, the Board has retained Ernst & Young to review the financial plan prepared and proposed by the Board for the fiscal year ending June 30, 2002 ("FY 2002") and to provide quarterly financial reports. In addition, the analysis is to include reporting on a projection period of five years and to include an accrual and incurred basis. Accordingly, Ernst & Young has additionally provided preliminary forecasts for the fiscal years ending June 30, 2003 ("FY 2003"), June 30, 2004 ("FY 2004"), June 30, 2005 ("FY 2005"), and June 30, 2006 ("FY 2006"). This opinion of plan adequacy is based on the projections through FY 2006, using future revenue and plan modifications provided by the Finance Board.

Under the Act, it is the Board's responsibility to prepare a proposed financial plan designed to generate revenues sufficient to meet all insurance program and administrative costs of the West Virginia Public Employees Insurance Agency. Under the Act, the Board must provide a financing plan in which the State Fund costs are financed 80% by State employers and 20% by State employees in Fiscal Year 2007. It is also the Board's responsibility to review actual costs incurred, any revised cost estimates, expenditures, and other factors affecting the fiscal stability of the plan and to make any modifications to the plan necessary to insure that the total financial requirements of the Agency for the fiscal year are met. We have been requested to review the proposed financial plan, and as supported by our work, to render an opinion stating whether the plan may be reasonably expected to generate sufficient revenues to meet estimated insurance program and administrative costs of the Agency through FY 2006.

In preparing the plan, Ernst & Young utilized information concerning the plan's prior experience, covered individuals, plan revenues, plan benefits, plan administrative costs, and other expenses. This information was developed and provided by the Agency, the plan's third party administrators and other sources. In our review, we completely relied on the accuracy of this information and did not review or test the information in any way.

The preparation of any estimate of future health costs requires consideration of a broad array of complex social and economic events. Changes in reimbursement methodology, the emergence of new and expensive medical procedures and prescription drug options, the continuing evolution of the framework of the managed care options, and the changes currently experienced in the processing of non-drug claims, as are contemplated in the Board's proposed plan, increase the level of uncertainty of such estimates. As such, the estimate of insurance program costs contains considerable uncertainty and variability and actual experience may not conform to the assumptions used.

In the circumstances, and subject to the conditions described herein, based on our review, we believe the Financial Plan approved by the Board for FY 2002 through FY 2006 may be reasonably expected to generate sufficient revenues, when combined with the existing surplus, to meet estimated insurance program and administrative costs of the Agency. It is noted that we are now projecting slight deficiencies in the required 10% reserve beginning in Fiscal Year 2006 of approximately $10,700,000. We would suggest that the Finance Board to monitor these developments and address these deficiencies once the Fiscal Year open enrollment results are known and can be analyzed for their impact to the Financial Plan

Dave Bond

Dave Bond, F.S.A., M.A.A.A.
Senior Consulting Actuary

West Virginia Public Employees Insurance Agency
Report of Independent Actuary
December 31, 2001 Quarterly Report

OVERVIEW

This report analyzes revenues and expenses related to funding the life and health insurance benefits of active and retired employees of the State and various related agencies, together with their employees. This report is intended for the sole use of the Finance Board, and any other use requires written approval by Ernst & Young.

This report was compiled, based upon claims data collected by PEIA's third party administrators through February 2002 for prescription drugs and medical claims. Enrollment data was provided at special request from PEIA as was information on administrative expenses, managed care capitations, and plan revenues. Revenue assumptions are based on premium rates, assumed interest income and significant general and special revenue allocations provided by the Governor, some which have not been approved by the legislature. In addition, some information became available through presentations made at the Finance Board meetings, which has been used in arriving at our conclusions.

The State of West Virginia Public Employees Insurance Agency Act establishes the actuarial reporting requirements for PEIA as the incurred basis for medical claims and capitations and on an accrued basis for administrative expenses and revenue. In addition, the Act was amended in Senate Bill 702 in 1998 to include reporting on a projection period of not to exceed five years and to include an accrual and incurred basis for revenues and expenses. At the request of the Finance Board, the reporting basis is based upon the division of employees and retirees into three funds: Active Local Employee Fund, Retired Employee Fund and State Employee Fund. The Active Local Fund represents local governmental agencies, county governmental agencies and other public entities. The Retiree Fund represents all state and local agency retirees and their survivors. The State Fund represents active state employees, colleges and university employees and county boards of education employees. The Active Local Fund and the State Fund are allocated administrative costs and retiree subsidy costs based on each fund's proportionate premium levels.

KEY ASSUMPTIONS

A. Enrollment Changes

These projections include the assumption that Preferred Provider Benefit and Managed Care enrollment will not change from the March 31, 2002 enrollment for the duration of these forecasts for active employees. However, the PEIA Finance Board has requested for the projection to assume retiree enrollment growth consistent with the experience of the plan. These projections assume that the Retiree Fund will annually have 1,000 additional retirees. This assumption is based on estimates that PEIA has received from the Retirement Board for future retirements and are somewhat conservative with recent experience. Actual net increase of retirees over the last two years has averaged approximately 800.

Relatively minor enrollment changes have been observed since the December 2001 Financial Plan report. Local Agency Active enrollment has increased by approximately 500 coverages. The following chart summarizes the current enrollment as of the selected periods of December 2000, December 2001 and as of March 2002 for purposes of comparison:

		Preferred Provider Benefit			Managed Care		
Fund	Coverage	12/00	12/01	03/02	12/00	12/01	03/02
State Active	Single	15,150	17,335	17,342	5,880	3,469	3,469
	Family	33,173	36,292	36,361	9,440	5,882	5,851
Local Active	Single	2,234	2,839	3,110	400	293	288
	Family	3,759	4,427	4,618	428	272	266
Retirees	Single - Medicare	14,544	14,635	14,668	-	-	-
	Family - Medicare	5,452	5,632	5,640	-	-	-
	Single - NonMedicare	2,105	2,376	2,363	314	180	190
	Family - NonMedicare	5,739	5,929	5,938	237	154	170
Total		82,156	89,465	90,040	16,699	10,250	10,234

B. Changes in Claim Backlog

The claim backlog has remained relatively stable over the last 12 months through March 2002 with the exception of the months of November and December where the backlog increased to higher levels.

Month	Average Backlog
September 2000	104,000
October 2000	92,000
November 2000	114,000
December 2000	109,000
January 2001	98,000
February 2001	92,000
March 2001	86,000
April 2001	77,000
May 2001	69,000
June 2001	70,000
July 2001	68,000
August 2001	72,000
September 2001	81,000
October 2001	74,000
November 2001	97,000
December 2001	113,000
January 2002	80,000
February 2002	70,000
March 2002	71,000

C. Trend Analysis

Ernst & Young performed a detailed trend analysis in the report titled, "Medical Trend Report - October, 2001". This report included a detailed trend analysis of PEIA experience by medical category and whether PEIA or Medicare was primary. Based on our most recent experience, we have adjusted these assumptions to reflect claim trends that were better than expected for medical claims and worse than expected for prescription drugs. The program has most recently experienced relatively flat trend for medical claims where Medicare was primary. The Centers for Medicare and Medicaid Studies (CMMS) has recently reduced physician reimbursement that reduces the PEIA liability for these claims. In addition, medical claims experience for insureds where PEIA is primary has been slightly favorable to the plan. Prescription drug trends have been increased significantly for insureds where PEIA is primary. The previous assumed trend was increased by 4% based on the most recent analysis. It should be noted that there is some concern regarding the correct identification of claims as Medicare or Non-Medicare that is currently being investigated. Because of the current rapid changes in reimbursement issues for PEIA, Ernst & Young will update the detailed report in the coming months. The most recent trend assumptions that resulted from the current analysis are summarized in the following chart:

Claim Type	Fiscal Year 2002 Trend Assumptions	Fiscal Year 2003 Trend Assumptions
Non-Medicare – Medical	9.5%	9.5%
Non-Medicare – Drugs	23.0%	23.0%
Medicare – Medical	7.0%	7.0%
Medicare – Drugs	21.0%	21.0%

In addition we have assumed that trends will be increase by 0.5% in each successive Fiscal Year beginning in Fiscal Year 2004.

At the Finance Board's request the baseline trend assumptions have been established to reflect the most likely or expected trends. In order to provide information on the impact of varying trend assumptions, two alternative trend scenarios were developed. The Optimistic Scenario incorporates trend assumptions 2% below the Baseline Scenario and the Pessimistic Scenario incorporates trend assumptions 2% above the Baseline Scenario.

The chart below summarizes the trend results observed for the plan using data through February 2002. It is important to note that these trends ***have not*** been adjusted to reflect savings as a result of the drug rebate program or the claim savings due to changes in provider reimbursement methodologies nor changes in the benefit structure. In other words, the 0% trend indicated in Fiscal Year 1998 reflects the reductions in provider reimbursement, not the underlying gross trend, which was closer to 10%. Adjustments for these changes have been made subsequently as an adjustment to the gross trend assumptions.

PEIA Historical Trends

Fiscal Year	Non-Drugs		Drugs		Plan
Trend	**Medicare**	**Non-Medicare**	**Medicare**	**Non-Medicare**	**Total**
1991	6%	1%			2%
1992	1%	12%			11%
1993	2%	8%	20%	25%	10%
1994	5%	3%	15%	20%	6%
1995	5%	9%	12%	18%	7%
1996	12%	12%	15%	31%	15%
1997	3%	10%	7%	19%	10%
1998	4%	-3%	8%	4%	0%
1999	4%	3%	15%	22%	8%
2000	9%	-6%	-10%	-14%	-6%
2001	6%	19%	29%	37%	22%
2002	4%	10%	20%	24%	13%

D. Claim, Expense and Revenue Assumptions

Using PEIA paid claim data through February 2002 for medical claims and for prescription drug claims, average annualized incurred unit claim costs were developed for type of coverage as shown in the following chart. Ernst & Young has developed the claim cost on an adjusted exposure basis using the respective credibility of each claim category. For example, prescription drug claims are generally paid in the month of incurral and the most recent incurred months are credible. Conversely, medical claims take longer to be paid, so the most recent incurred months are not credible. The adjusted exposure basis weights the claim cost under each coverage type based on observed differences in health care cost. For example, under this methodology single coverage types are given a weight of 1.0 exposure, whereas member and children coverages are given a greater weighting based on historical expected health care cost relationships. It should be noted that these weights have been adjusted for this report reflecting changes in the cost relationships have occurred. The values that follow are the assumed FY 2002 claim costs per adjusted exposure:

	Claim Costs Per Adjusted Exposure Per Month	
	Non Drugs	Drugs
Active		
State	$145.30	$41.76
Local	$142.63	$39.13
Retired		
Medicare Eligible	$112.42	$133.38
Non-Medicare Eligible	$227.70	$70.28

These unit costs were trended to project claims based on the total cost trend assumptions discussed in the previous paragraphs. These projected claims in this report have been adjusted to reflect all changes that have been formally approved by the Finance Board through March 2002 and implemented by PEIA management.

Projected plan revenues, administrative expenses, life insurance premiums, and the amount to be spent on wellness programs were provided by PEIA. Interest income is currently allocated to each fund based on reserve levels for each fund. The unit claim costs shown above do not reflect the discretionary fund that allows the Director to expend limited additional funds on plan changes without additional prior Finance Board approval.

The Finance Board approved the following changes to the Financial Plan at its meeting in December 2001:

Source	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006
Additional State Revenue	$37,000,000	$42,000,000	$40,000,000	$48,000,000
Additional Local Agency Revenue	$8,100,000	$8,000,000	$6,000,000	$7,000,000
Additional Employee Contributions	$14,700,000	$14,700,000	$16,200,000	$16,200,000
Additional Retiree Premiums	$4,000,000	$6,000,000	$7,000,000	$8,000,000

Additional state revenues are based on the current commitment received from the Governor in 2002 and have been approved by the legislature through the end of Fiscal Year 2003. Future state revenue increases will require legislative appropriation. Additional local agency revenue represents premium increases to be charged to local agencies. Additional employee contributions represent employee premiums paid by active employees of the State Fund. Additional retiree premiums represent premiums paid by retirees either directly or through Sick and Annual Leave credits.

In addition, PEIA management has assumed that the Retiree Premium Assistance program will grow as a direct result from the required retiree premium increases in the Financial Plan. The program's cost is currently projected to grow from $1.3 million in FY 2002 to $3.5 million in FY 2006, based on the substantial increases in retiree premiums.

E. Provider Reimbursement Changes

PEIA management has reacted to the emerging trends experienced by the program in Fiscal Year 2001 with adjustments to provider reimbursement. These adjustments are detailed in the following chart with effective dates and expected savings to the program.

Adjustment	Effective Date	FY2002 Savings	FY2003 Savings
Inpatient Hospital - Move to Statewide Standardized Payment	8/1/2001	$ 920,000	$ 1,080,000
Outpatient Hospital - Increase Discount from 42% to 45%	10/1/2001	$ 300,000	$ 430,000
RBRVS Technical Correction including RVU 5.26% Reduction	10/1/2001	$2,550,000	$ 3,670,000
Professional Services - Anesthesia - RBRVS RVU reduction of $1.55	10/1/2001	$ 150,000	$ 220,000

Adjustment	Effective Date	FY2002 Savings	FY2003 Savings
Prescription Drugs - Move to EPN Network	9/1/2001	$1,250,000	$ 1,770,000
Other: DME, Ambulance, Specialty Hospitals	10/1/2001	$ 380,000	$ 540,000
Retrospective Claims Adjustment for Global Period	7/1/2001	$2,000,000	$ 2,160,000
Transfer of Overage from 1% Reserve Amount	7/1/2001	$ 800,000	$ 860,000
Other Adjustments including: 1.) Utilization Management Contract Adjustment 2.) Miscellaneous Provider Reimbursement Modifications 3.) Other Vender Contracts	1/1/2002	$ 250,000	$ 540,000
Total Projected Savings		$8,600,000	$11,270,000

In addition to these changes, recent legislation has mandated that PEIA will reduce hospital expenses by approximately $12,000,000 beginning in FY 2003. This will be offset by the loss of the annual direct transfer of approximately $5,800,000. West Virginia PEIA expects substantial savings beginning in Fiscal Year 2003 as a result of its participation in RXIS, the multi-state drug purchasing initiative and these projections assume a $6,000,000 annual savings beginning in Fiscal Year 2003.

FISCAL YEAR 2002 FORECAST

The financial forecast for Fiscal Year 2002 under the Baseline Scenario is attached in Appendix A. For comparative purposes we have attached the five previous projections for Fiscal Year 2002 beginning with the December 2000 Financial Plan and ending with the December 2001 Financial Plan adopted by the Board. These projections can be found in Appendix B.

Key trend assumptions for the Baseline Scenario can be found at the bottom of each fiscal year projection. The updated Baseline forecast for Fiscal Year 2002, projects accrued revenue of $431,607,776 and incurred plan expenses of $449,960,975 to produce a fiscal year deficit of $18,353,200. The Fiscal Year deficit was originally projected to be $8,086,467 in the December Financial Plan based on revenue and expense data through October. This deterioration of $10,267,000 was largely based on a $9,700,000 increase in the projected expenses. This change is made up of a $6,100,000 increase in medical claims, a $7,000,000 increase in drug claims, but was somewhat offset by a $1,200,000 decrease in the Managed Care Capitations. As a result of these changes Fiscal Year results in the State Fund decreased from a deficit of $4,400,000 to a deficit of $16,100,000, while the Active Local Fund increased from a deficit of $3,700,000 to a deficit of $2,200,000.

Under the Baseline Scenario, Fiscal Year 2002 is projected to end with a reserve of $46,659,896. Under the Optimistic Scenario, which assumes trends 2% lower than the Baseline Scenario, the ending reserve is expected to increase to $50,368,931. Under the Pessimistic Scenario, which assumes trends 2% greater than the Baseline Scenario, the ending reserve is expected to decrease to $42,970,032. Please note that the alternative scenarios are no longer attached to the report as requested by the Finance Board. This modification was made in an attempt to achieve some brevity to the report.

FISCAL YEAR 2003 FORECAST

The financial forecast for Fiscal Year 2003 under the Baseline scenario is presented in Appendix A. The Baseline forecast for Fiscal Year 2003, projects accrued revenue of $490,947,437 and incurred plan expenses of $488,543,149 to produce a fiscal year surplus of $2,404,288. This deficit was projected to be a $8,245,933 surplus in the December Financial Plan.

Under the Baseline Scenario, Fiscal Year 2003 is projected to end with a reserve of $49,064,185. Under the Optimistic Scenario, the ending reserve is expected to increase to $64,074,886 and under the Pessimistic Scenario, the ending reserve is expected to decrease to $33,951,229.

FISCAL YEAR 2004 FORECAST

The financial forecast for Fiscal Year 2004 under the Baseline scenario is presented in Appendix A. The Baseline forecast for Fiscal Year 2004, projects accrued revenue of $564,686,960 and incurred plan expenses of $553,139,199 to produce a fiscal year surplus of $11,547,761. This surplus was projected to be $14,658,124 in the December Financial Plan, however the current revenue projection is approximately $7,600,000 less than the prior projection.

Under the Baseline Scenario, Fiscal Year 2004 is projected to end with a reserve of $60,611,945. Under the Optimistic Scenario, the ending reserve is expected to increase to $96,818,687 and under the Pessimistic Scenario, the ending reserve is expected to decrease to $23,707,693.

FISCAL YEAR 2005 FORECAST

The financial forecast for Fiscal Year 2005 under the Baseline scenario is presented in Appendix A. The Baseline forecast for Fiscal Year 2005, projects accrued revenue of $637,175,939 and incurred plan expenses of $630,836,326 to produce a fiscal year surplus of $6,339,613. This surplus was projected to be $6,659,557 in the December Financial Plan.

Under the Baseline Scenario, Fiscal Year 2005 is projected to end with a reserve of $66,951,558. Under the Optimistic Scenario, the ending reserve is expected to increase to $137,017,180 and under the Pessimistic Scenario, the ending reserve is expected to decrease to ($5,358,759).

FISCAL YEAR 2006 FORECAST

The financial forecast for Fiscal Year 2006 under the Baseline scenario is presented in Appendix A. The Baseline forecast for Fiscal Year 2006, projects accrued revenue of $719,604,308 and incurred plan expenses of $724,796,601 to produce a fiscal year deficit of $5,192,293. This deficit was projected to be $7,686,896 in the December Financial Plan.

Under the Baseline Scenario, Fiscal Year 2006 is projected to end with a reserve of $61,759,265. Under the Optimistic Scenario, the ending reserve is expected to increase to $181,950,676 and under the Pessimistic Scenario, the ending reserve is expected to decrease to ($63,856,964).

It should be noted that under the Baseline Scenario that the updated ending reserve does not meet the 10% of program expenses as required by the PEIA statute by the amount of $10,720,395.

LITIGATION

The forecasts presented in the attached tables do not contemplate any additional revenues or expenses to be generated from litigation activities.

DATA CONCERNS

1. There continues to be a problem identifying non-Medicare claims for retirees whose premiums are the obligation of their prior employing unit. Additionally, the retiree enrollment data needs to accurately identify the retiree as formerly a local or state employee.
2. Changes in the enrollment system has resulted in increased difficulty for PEIA to report accurately and consistently the number of coverages under each coverage category.

SUMMARY

We are forecasting that the Plan will continue to have modest surpluses through the projection period ending with Fiscal Year 2006 using the Baseline assumptions. Beginning in Fiscal Year 2006, PEIA will not meet the required 10% reserve target and the Finance Board may want to consider alternative actions. These surplus projections are based on significant revenue increases projected by PEIA and are contingent on legislative approval. These forecasts are based on assumptions including the estimated cost and savings of plan changes, expected trend levels and exposure levels. The continued enrollment changes of the managed care options, changes in physician, ambulatory and hospital provider reimbursement; possible changes in methodology of managed care premium calculation; and changes in the prescription drug program, can be expected to further exacerbate the difficulty of projecting future medical and drug claim levels and lags. These projections do not incorporate any anticipated effects of national or state health care reform, such as Medicare and Medicaid reform. As such, actual results deviating from those amounts projected in these pages should not be unexpected. With the advent of a five-year projection, it should be assumed that constant modifications would be required.

APPENDIX A
BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

FINANCIAL FORECAST

FISCAL YEAR 2002

PERIOD 7/1/2001 - 6/30/2002

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Revenues				
Employer Premiums - PPB	$ 35,784,743	$ -	$ 252,652,591	$ 288,437,334
Employer Premiums - MCO	2,819,759	-	42,517,217	45,336,976
Employee Premiums - PPB	-	32,902,269	39,466,199	72,368,468
Employee Premiums - MCO	-	1,488,534	9,376,550	10,865,084
Direct Transfers	-	-	5,800,000	5,800,000
Investment Income	273,957		2,792,447	3,066,403
Retiree Subsidy Revenue		2,214,660		2,214,660
Administrative Fees	340,250		3,178,600	3,518,850
Total Revenue	$ 39,218,709	$ 36,605,463	$ 355,783,604	$ 431,607,776
Program Expenses				
Medical Claims	$ 22,637,036	$ 66,892,985	$ 181,254,857	$ 270,784,878
Prescription Drug Claims	6,155,637	49,825,621	52,097,837	108,079,095
Managed Care Capitations	2,030,558	3,350,511	41,418,931	46,800,000
Administration	1,479,169	1,350,026	13,570,806	16,400,001
Life Insurance	509,583	447,746	4,439,672	5,397,001
Wellness	-	-	1,000,000	1,000,000
Retiree Assistance Program	-	1,300,000	-	1,300,000
Director's Discretionary Fund	15,199	61,615	123,185	200,000
Total Expenses	$ 32,827,182	$ 123,228,504	$ 293,905,289	$ 449,960,975
Retiree Subsidy Allocations	$ 8,600,567	$ (86,623,041)	$ 78,022,474	$ -
Fiscal Year Results	$ (2,209,041)	$ -	$ (16,144,159)	$ (18,353,200)
Beginning Plan Reserve	4,885,084	-	60,128,012	65,013,096
Ending Plan Reserve	$ 2,676,043	$ -	$ 43,983,853	$ 46,659,896

KEY ASSUMPTIONS

Additional State Employer Premiums	$	-
Additional Local Agency Revenue	$	-
Additional State Employee Premiums	$	-
Additional Retiree Premiums	$	-
Savings from Benefit Reductions	$	-
Number of Net New Retirees		1,000

Claim and Other Expense Trends		
Eligibility	Medical	Drugs
Non-Medicare	9.5%	23.0%
Medicare	7.0%	21.0%
Capitations		4.0%
Administrative Expense		6.0%

APPENDIX A
BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

FINANCIAL FORECAST

FISCAL YEAR 2003

PERIOD 7/1/2002 - 6/30/2003

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Revenues				
Employer Premiums - PPB	$ 43,293,101	$ -	$ 284,322,991	$ 327,616,092
Employer Premiums - MCO	3,411,401	-	47,846,817	51,258,218
Employee Premiums - PPB	-	38,713,353	51,344,178	90,057,531
Employee Premiums - MCO	-	1,751,434	12,198,571	13,950,005
Direct Transfers	-	-	-	-
Investment Income	177,946		1,888,376	2,066,321
Retiree Subsidy Revenue		2,480,420		2,480,420
Administrative Fees	340,250		3,178,600	3,518,850
Total Revenue	$ 47,222,698	$ 42,945,207	$ 400,779,533	$ 490,947,437
Program Expenses				
Medical Claims	$ 24,568,405	$ 70,670,760	$ 189,975,413	$ 285,214,598
Prescription Drug Claims	7,391,400	58,572,696	60,477,603	126,441,699
Managed Care Capitations	2,162,544	3,568,294	44,111,162	49,842,000
Administration	1,508,752	1,377,027	13,842,222	16,728,001
Life Insurance	535,062	470,133	4,661,656	5,686,851
Wellness	-	-	1,000,000	1,000,000
Retiree Assistance Program	-	1,650,000	-	1,650,000
Director's Discretionary Fund	155,274	627,919	1,216,806	2,000,000
Total Expenses	$ 36,321,437	$ 136,936,849	$ 315,284,862	$ 488,543,149
Retiree Subsidy Allocations	$ 9,907,404	$ (93,991,643)	$ 84,084,239	$ -
Fiscal Year Results	$ 993,857	$ -	$ 1,410,432	$ 2,404,288
Beginning Plan Reserve	2,676,043	-	43,983,853	46,659,896
Ending Plan Reserve	$ 3,669,900	$ -	$ 45,394,284	$ 49,064,185

KEY ASSUMPTIONS

Additional State Employer Premiums	$	37,000,000
Additional Local Agency Revenue	$	8,100,000
Additional State Employee Premiums	$	14,700,000
Additional Retiree Premiums	$	4,000,000
Savings from Reimbursement Changes	$	15,000,000
Number of Net New Retirees		1,000

Claim and Other Expense Trends		
Eligibility	Medical	Drugs
Non-Medicare	9.5%	23.0%
Medicare	7.0%	21.0%
Capitations		6.5%
Administrative Expense		2.0%

APPENDIX A
BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

FINANCIAL FORECAST

FISCAL YEAR 2004

PERIOD 7/1/2003 - 6/30/2004

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Revenues				
Employer Premiums - PPB	$ 50,708,763	$ -	$ 320,273,175	$ 370,981,938
Employer Premiums - MCO	3,995,739	-	53,896,633	57,892,372
Employee Premiums - PPB	-	46,916,819	63,222,157	110,138,976
Employee Premiums - MCO	-	2,122,568	15,020,592	17,143,160
Direct Transfers	-	-	-	-
Investment Income	212,909		2,020,686	2,233,594
Retiree Subsidy Revenue		2,778,070		2,778,070
Administrative Fees	340,250		3,178,600	3,518,850
Total Revenue	$ 55,257,661	$ 51,817,457	$ 457,611,843	$ 564,686,960
Program Expenses				
Medical Claims	$ 26,969,819	$ 78,770,843	$ 208,544,370	$ 314,285,032
Prescription Drug Claims	9,112,061	73,489,460	74,556,321	157,157,842
Managed Care Capitations	2,303,109	3,800,233	46,978,388	53,081,730
Administration	1,584,190	1,445,878	14,534,333	17,564,401
Life Insurance	561,815	493,640	4,894,739	5,950,194
Wellness	-	-	1,000,000	1,000,000
Retiree Assistance Program	-	2,100,000	-	2,100,000
Director's Discretionary Fund	153,070	645,933	1,200,997	2,000,000
Total Expenses	$ 40,684,064	$ 160,745,987	$ 351,709,148	$ 553,139,199
Retiree Subsidy Allocations	$ 11,736,194	$ (108,928,530)	$ 97,192,337	$ -
Fiscal Year Results	$ 2,837,403	$ -	$ 8,710,358	$ 11,547,761
Beginning Plan Reserve	3,669,900	-	45,394,284	49,064,185
Ending Plan Reserve	$ 6,507,303	$ -	$ 54,104,643	$ 60,611,945

KEY ASSUMPTIONS

Additional State Employer Premiums	$ 42,000,000
Additional Local Agency Revenue	$ 8,000,000
Additional State Employee Premiums	$ 14,700,000
Additional Retiree Premiums	$ 6,000,000
Savings from Benefit Reductions	$ -
Number of Net New Retirees	1,000

Claim and Other Expense Trends		
Eligibility	Medical	Drugs
Non-Medicare	10.0%	23.5%
Medicare	7.5%	21.5%
Capitations		6.5%
Administrative Expense		5.0%

APPENDIX A

BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

FINANCIAL FORECAST

FISCAL YEAR 2005

PERIOD 7/1/2004 - 6/30/2005

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Revenues				
Employer Premiums - PPB	$ 56,270,510	$ -	$ 354,511,445	$ 410,781,955
Employer Premiums - MCO	4,433,992	-	59,658,363	64,092,355
Employee Premiums - PPB	-	58,077,002	76,312,174	132,389,176
Employee Premiums - MCO	-	2,536,985	18,130,575	20,667,560
Direct Transfers	-	-	-	-
Investment Income	289,870		2,324,735	2,614,605
Retiree Subsidy Revenue		3,111,438		3,111,438
Administrative Fees	340,250		3,178,600	3,518,850
Total Revenue	$ 61,334,622	$ 61,725,425	$ 514,115,892	$ 637,175,939
Program Expenses				
Medical Claims	$ 29,740,857	$ 88,140,646	$ 229,971,448	$ 347,852,951
Prescription Drug Claims	11,278,854	92,496,791	92,285,363	196,061,008
Managed Care Capitations	2,452,811	4,047,248	50,031,983	56,532,042
Administration	1,663,400	1,516,172	15,261,050	18,442,622
Life Insurance	589,906	518,322	5,139,476	6,247,704
Wellness	-	-	1,000,000	1,000,000
Retiree Assistance Program	-	2,700,000	-	2,700,000
Director's Discretionary Fund	150,832	664,213	1,184,955	2,000,000
Total Expenses	$ 45,876,660	$ 190,085,391	$ 394,874,275	$ 630,836,326
Retiree Subsidy Allocations	$ 13,681,298	$ (128,359,966)	$ 114,678,668	$ -
Fiscal Year Results	$ 1,776,664	$ -	$ 4,562,949	$ 6,339,613
Beginning Plan Reserve	6,507,303	-	54,104,643	60,611,945
Ending Plan Reserve	$ 8,283,967	$ -	$ 58,667,592	$ 66,951,558

KEY ASSUMPTIONS

Additional State Employer Premiums	$	40,000,000
Additional Local Agency Revenue	$	6,000,000
Additional State Employee Premiums	$	16,200,000
Additional Retiree Premiums	$	7,000,000
Savings from Benefit Reductions	$	-
Number of Net New Retirees		1,000

Claim and Other Expense Trends		
Eligibility	Medical	Drugs
Non-Medicare	10.5%	24.0%
Medicare	8.0%	22.0%
Capitations		6.5%
Administrative Expense		5.0%

APPENDIX A

BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

FINANCIAL FORECAST

FISCAL YEAR 2006

PERIOD 7/1/2005 - 6/30/2006

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Revenues				
Employer Premiums - PPB	$ 62,759,214	$ -	$ 395,597,369	$ 458,356,583
Employer Premiums - MCO	4,945,287	-	66,572,439	71,517,726
Employee Premiums - PPB	-	66,193,902	89,402,191	155,596,093
Employee Premiums - MCO	-	2,994,685	21,240,558	24,235,243
Direct Transfers	-	-	-	-
Investment Income	345,095		2,549,907	2,895,002
Retiree Subsidy Revenue		3,484,811		3,484,811
Administrative Fees	340,250		3,178,600	3,518,850
Total Revenue	$ 68,389,846	$ 72,673,398	$ 578,541,064	$ 719,604,308
Program Expenses				
Medical Claims	$ 32,945,369	$ 99,010,900	$ 254,750,361	$ 386,706,629
Prescription Drug Claims	14,017,311	116,793,348	114,691,845	245,502,504
Managed Care Capitations	2,612,244	4,310,319	53,284,062	60,206,625
Administration	1,746,570	1,594,081	16,024,103	19,364,754
Life Insurance	619,401	544,238	5,396,450	6,560,089
Wellness	-	-	1,000,000	1,000,000
Retiree Assistance Program	-	3,456,000	-	3,456,000
Director's Discretionary Fund	148,567	682,699	1,168,734	2,000,000
Total Expenses	$ 52,089,461	$ 226,391,585	$ 446,315,555	$ 724,796,601
Retiree Subsidy Allocations	$ 16,250,210	$ (153,718,187)	$ 137,467,977	$ -
Fiscal Year Results	$ 50,175	$ -	$ (5,242,468)	$ (5,192,293)
Beginning Plan Reserve	8,283,967	-	58,667,592	66,951,558
Ending Plan Reserve	$ 8,334,141	$ -	$ 53,425,124	$ 61,759,265

KEY ASSUMPTIONS

Additional State Employer Premiums	$	48,000,000
Additional Local Agency Revenue	$	7,000,000
Additional State Employee Premiums	$	16,200,000
Additional Retiree Premiums	$	8,000,000
Savings from Benefit Reductions	$	-
Number of Net New Retirees		1,000

Claim and Other Expense Trends		
Eligibility	Medical	Drugs
Non-Medicare	11.0%	24.5%
Medicare	8.5%	22.5%
Capitations		6.5%
Administrative Expense		5.0%

APPENDIX B

FISCAL YEAR 2002
PRIOR BASELINE PROJECTIONS

TABLE B

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

INCURRED FINANCIAL FORECAST

FISCAL YEAR 2002

PERIOD 7/1/2001 - 6/30/2002

	Terminated Local Fund	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Accrued Premium -- Indemnity	$0	$27,586,344	$35,791,240	$231,948,968	$ 295,326,552
Accrued Premium -- Managed Care	0	4,828,857	1,989,563	75,552,613	82,371,033
Employee Contributions -- Indemnity	0	283,124	0	30,190,198	30,473,322
Employee Contributions -- Managed Care	0	40,706	0	15,941,127	15,981,833
Retiree Subsidy Revenue	1,355,071	0	0	0	1,355,071
Retiree Assistance Program	0	0	1,032,723	0	1,032,723
Claims -- Indemnity Program	0	23,204,740	116,242,139	191,361,676	330,808,555
Capitations -- Managed Care	0	2,939,372	4,102,316	67,838,312	74,880,000
Administration	0	1,482,278	1,352,863	13,599,332	16,434,473
Life Insurance	0	472,694	415,334	4,118,286	5,006,314
Discretionary Fund	0	143,819	668,052	1,188,129	2,000,000
Wellness Program	0	0	0	2,129,460	2,129,460
Retiree Subsidy	1,944,176	7,125,192	(86,032,625)	76,963,256	0
Local Terminated Retiree Charge	(589,105)	49,918	0	539,187	0
FISCAL YEAR RESULTS	$0	($2,678,981)	$0	($4,104,733)	($6,783,714)
BEGINNING PLAN RESERVE	(626,000)	5,822,497		66,657,364	71,853,861
ENDING PLAN RESERVE	($626,000)	$3,143,516		$62,552,631	$65,070,147

Trend Assumptions	
Medicare NonDrugs	12.0%
NonMedicare NonDrugs	9.0%
Medicare Drugs	17.5%
NonMedicare Drugs	15.5%
Managed Care Capitations	4.0%
Administrative Expense	5.0%

Date Prepared: 12/28/2000

TABLE B

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
INCURRED FINANCIAL FORECAST
FISCAL YEAR 2002

PERIOD 7/1/2001 - 6/30/2002

	Terminated Local Fund	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Accrued Premium -- Indemnity	$0	$27,786,859	$34,625,725	$233,621,983	$ 296,034,567
Accrued Premium -- Managed Care	0	4,863,956	1,924,774	76,097,563	82,886,293
Employee Contributions -- Indemnity	0	285,182	0	30,317,942	30,603,124
Employee Contributions -- Managed Care	0	41,002	0	16,008,579	16,049,581
Retiree Subsidy Revenue	1,626,085	0	0	0	1,626,085
Retiree Assistance Program	0	0	1,300,000	0	1,300,000
Claims -- Indemnity Program	0	22,509,009	112,272,361	197,585,871	332,367,241
Capitations -- Managed Care	0	2,939,372	4,102,316	67,838,312	74,880,000
Administration	0	1,482,278	1,352,863	13,599,332	16,434,473
Life Insurance	0	472,694	415,334	4,118,286	5,006,314
Discretionary Fund	0	143,819	668,052	1,188,129	2,000,000
Wellness Program	0	0	0	2,129,460	2,129,460
Retiree Subsidy	1,875,382	6,924,339	(83,560,427)	74,760,705	0
Local Terminated Retiree Charge	(249,297)	21,133	0	228,164	0
FISCAL YEAR RESULTS	$0	($1,515,645)	$0	($5,402,193)	($6,917,838)
BEGINNING PLAN RESERVE	(626,000)	7,834,250		73,137,523	80,345,773
ENDING PLAN RESERVE	($626,000)	$6,318,605		$67,735,330	$73,427,935

Trend Assumptions	
Medicare NonDrugs	10.0%
NonMedicare NonDrugs	8.0%
Medicare Drugs	19.5%
NonMedicare Drugs	17.5%
Managed Care Capitations	4.0%
Administrative Expense	5.0%

TABLE B

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

INCURRED FINANCIAL FORECAST

FISCAL YEAR 2002

PERIOD 7/1/2001 - 6/30/2002

	Terminated Local Fund	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Accrued Premium -- Indemnity	$0	$27,786,859	$34,625,725	$233,621,983	$ 296,034,567
Accrued Premium -- Managed Care	0	4,863,956	1,924,774	76,097,563	82,886,293
Employee Contributions -- Indemnity	0	285,182	0	30,317,942	30,603,124
Employee Contributions -- Managed Care	0	41,002	0	16,008,579	16,049,581
Retiree Subsidy Revenue	1,626,085	0	0	0	1,626,085
Retiree Assistance Program	0	0	1,300,000	0	1,300,000
Claims -- Indemnity Program	0	24,244,372	118,918,680	200,498,281	343,661,333
Capitations -- Managed Care	0	2,939,372	4,102,316	67,838,312	74,880,000
Administration	0	1,482,278	1,352,863	13,599,332	16,434,473
Life Insurance	0	472,694	415,334	4,118,286	5,006,314
Discretionary Fund	0	143,819	668,052	1,188,129	2,000,000
Wellness Program	0	0	0	2,129,460	2,129,460
Retiree Subsidy	1,875,382	7,487,739	(90,206,746)	80,843,625	0
Local Terminated Retiree Charge	(249,297)	21,133	0	228,164	0
FISCAL YEAR RESULTS	$0	($3,814,408)	$0	($14,397,522)	($18,211,930)
BEGINNING PLAN RESERVE	(626,000)	5,954,246		59,697,953	65,026,199
ENDING PLAN RESERVE	($626,000)	$2,139,838		$45,300,431	$46,814,269

Trend Assumptions	
Medicare NonDrugs	10.0%
NonMedicare NonDrugs	8.0%
Medicare Drugs	19.5%
NonMedicare Drugs	17.5%
Managed Care Capitations	4.0%
Administrative Expense	5.0%

Date Prepared: 6/22/2001

Ernst & Young LLP

TABLE B

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

INCURRED FINANCIAL FORECAST

FISCAL YEAR 2002

PERIOD 7/1/2001 - 6/30/2002

	Terminated Local Fund	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Accrued Premium -- Indemnity	$0	$34,767,973	$36,215,761	$261,589,540	$ 332,573,274
Accrued Premium -- Managed Care	0	2,856,442	1,404,564	43,179,317	47,440,323
Employee Contributions -- Indemnity	0	398,869	0	40,576,193	40,975,062
Employee Contributions -- Managed Care	0	11,848	0	9,764,064	9,775,912
Retiree Subsidy Revenue	1,626,085	0	0	0	1,626,085
Retiree Assistance Program	0	0	1,300,000	0	1,300,000
Claims -- Indemnity Program	0	28,671,500	113,922,979	220,409,244	363,003,723
Capitations -- Managed Care	0	2,408,123	1,142,240	44,449,637	48,000,000
Administration	0	1,479,169	1,350,026	13,570,807	16,400,002
Life Insurance	0	500,396	439,674	4,359,636	5,299,706
Discretionary Fund	0	143,819	668,052	1,188,129	2,000,000
Wellness Program	0	0	0	1,000,000	1,000,000
Retiree Subsidy	1,875,382	7,674,595	(81,202,646)	71,652,669	0
Local Terminated Retiree Charge	(249,297)	24,118	0	225,179	0
FISCAL YEAR RESULTS	$0	($2,866,589)	$0	($1,746,186)	($4,612,775)
BEGINNING PLAN RESERVE	(626,000)	5,198,084		60,441,012	65,013,096
ENDING PLAN RESERVE	($626,000)	$2,331,495		$58,694,826	$60,400,321

Trend Assumptions	
Medicare NonDrugs	10.0%
NonMedicare NonDrugs	8.0%
Medicare Drugs	19.5%
NonMedicare Drugs	17.5%
Managed Care Capitations	-33.0%
Administrative Expense	6.0%

Date Prepared: 10/11/2001

Ernst & Young LLP

Financial Plan for Fiscal Years 2002-2006
Report Date: December 2001

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

FINANCIAL FORECAST

FISCAL YEAR 2002

PERIOD 7/1/2001 - 6/30/2002

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Revenues				
Employer Premiums - PPB	$ 33,796,766	$ -	$ 254,282,307	$ 288,079,073
Employer Premiums - MCO	2,776,650	-	41,973,148	44,749,798
Employee Premiums - PPB	387,727	35,235,844	39,442,739	75,066,310
Employee Premiums - MCO	11,517	1,366,560	9,491,315	10,869,392
Direct Transfers	-	-	5,000,000	5,000,000
Investment Income	296,338		2,931,455	3,227,793
Retiree Subsidy Revenue		1,626,085		1,626,085
Administrative Fees	340,250		3,178,600	3,518,850
Total Revenue	$ 37,609,248	$ 38,228,489	$ 356,299,564	$ 432,137,301
Program Expenses				
Medical Claims	$ 23,210,394	$ 66,774,134	$ 174,732,008	$ 264,716,536
Prescription Drug Claims	5,733,775	47,591,654	47,762,097	101,087,526
Managed Care Capitations	2,408,123	1,142,240	44,449,637	48,000,000
Administration	1,517,050	1,384,599	13,918,351	16,820,000
Life Insurance	500,396	439,674	4,359,636	5,299,706
Wellness	-	-	1,000,000	1,000,000
Retiree Assistance Program	-	1,300,000	-	1,300,000
Director's Discretionary Fund	158,250	625,284	1,216,466	2,000,000
Total Expenses	$ 33,527,988	$ 119,257,586	$ 287,438,195	$ 440,223,768
Retiree Subsidy Allocations	$ 7,736,419	$ (81,029,097)	$ 73,292,678	$ -
Fiscal Year Results	$ (3,655,158)	$ -	$ (4,431,310)	$ (8,086,467)
Beginning Plan Reserve	4,885,084	-	60,128,012	65,013,096
Ending Plan Reserve	$ 1,229,926	$ -	$ 55,696,702	$ 56,926,629

KEY ASSUMPTIONS

Additional State Employer Premiums	$ -
Additional Local Agency Revenue	$ -
Additional State Employee Premiums	$ -
Additional Retiree Premiums	$ -
Savings from Benefit Reductions	$ -
Number of New Retirees	1,000

Claim and Other Expense Trends		
Eligibility	Medical	Drugs
Non-Medicare	10.0%	19.0%
Medicare	9.0%	21.0%
Capitations		4.0%
Administrative Expense		6.0%

Ernst & Young LLP

Prepared 12/19/2001

April 18, 2002

Hard Decisions for Employers as Costs Soar in Health Care

By REED ABELSON

Employers are bracing for their third year in a row of double-digit increases in health care costs, according to industry consultants and analysts. The sharply higher costs could lead many employers to offer fewer health plans, reduce what they cover or shift more costs to employees.

Companies will probably face average increases of 12 to 15 percent in 2003, compared with a projected increase of 12.7 percent this year, according to preliminary estimates from Mercer Human Resource Consulting, based on early discussions some employers are having with insurers.

But costs for some employers will rise much more sharply. The California Public Employees' Retirement System, known as Calpers, announced yesterday that premiums for the health maintenance organizations it uses would increase an average of 25 percent and premiums for other plans would rise around 20 percent.

Some other large employers are being asked to pay as much as twice what they had been paying, and increases of roughly 25 percent are common, said Kenneth Sperling, a consultant with Hewitt Associates.

Still, small companies will probably face some of the largest increases, according to health care experts. If premiums for Calpers, which provides health insurance to about 1.2 million state and local employees, dependents and retirees, are increasing by 25 percent, "we'll be seeing increases far exceeding that for small businesses," said Peter Lee, the president of the Pacific Business Group on Health, an employers' group that negotiates with health plans.

The steep increases could lead many employers to shift a greater proportion of health care costs to their workers, some of whom may not be able to afford the higher premiums and co-payments. Employees "are going to pay a lot more out of pocket, and we're going to see a huge spike in the number of uninsured," Mr. Lee said.

Many health care experts predict that employers could experience double-digit cost increases for the next several years.

"There is nothing on the horizon that would cause me to think that double-digit increases are going away," said Randall K. Abbott, a senior consultant at the consulting company Watson Wyatt, who predicts that these increases will continue three to five years.

The last time annual increases of more than 10 percent were common was in the late 1980's and early 1990's, before managed care took hold.

Cost increases slowed or reversed for a few years in the mid- 1990's. But managed care companies, especially those in California, have now wrung many easy-to-find costs out of the system, and hospitals facing rising admissions and increasing labor costs are demanding sharply higher payments from insurers. In addition, as ever more costly drugs are introduced, prescription costs are rising by double-digit percentages each year.

Many managed care companies are now choosing to risk losing a contract rather than holding premiums relatively steady as their own costs escalate. "They're not willing to destroy their margins to hold onto their unprofitable business," said Andrea Urban, a health care analyst for Merrill Lynch.

Officials at Calpers, which was particularly successful in using its influence to hold down health-care costs for much of the last decade, see fewer opportunities now to keep costs down as the population ages and makes greater use of new drugs and technology. The organization is choosing not to reduce the benefits it offers or to increase the proportion an employee pays for care, but people covered through Calpers will still face a substantial increase in their own costs.

Some consultants say California, which was early and enthusiastic in its embrace of managed care, is facing unusual pressures on its health care system today. "California is a very mature, very competitive H.M.O. marketplace," where cost pressures are particularly acute, Mr. Abbott said.

Calpers officials say, however, that their experience reflects what is happening around the country as employers struggle with double-digit health care cost increases at a time when the overall economy has been weak.

"This is a national problem," said William Crist, the president of the Calpers board of administration.

Calpers plans to work with other large employers to begin discussions with policy makers in Washington about what, if any, steps the government should take to address these issues.

"I don't think policy makers have woken up to how bad things are," Mr. Lee said.

As part of rethinking its health care strategy, Calpers has also decided to drop its PacifiCare and HealthNet plans and work more closely with existing plans through Blue Shield, Kaiser Permanente and some regional insurers.

Calpers is also considering other alternatives, including a self-financed health insurance plan managed by an outside company.

Other employers are expected to follow the example of Calpers and reduce the number of plans they offer, as long as they do not force too many of their employees to find new doctors, several consultants said. The employers' decisions to drop plans could, in turn, force some insurers out of business and lead others to combine.

"The industry is going through a consolidation phase, and this will accelerate it further," Mr. Sperling said.

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Executive Summary

Introduction and Motivation

Historically, the southwestern quarter of West Virginia has been heavily dependent on the mining, preparation, and transport of coal as a basis of economic activity. In recent years, this dependence has been marginally reduced by laudable efforts to diversify the economies of some counties, within the overall region. Nonetheless, the sustained production of coal is still of tremendous importance to regional economics and the commercial vitality of the State as a whole. Very few economic relationships are, however, static. Changing conditions in the markets in which West Virginia coal is bought and sold, combined with increased concerns regarding the environmental effects of mountaintop mining, may lead to significant reductions in the quantity of coal produced in southwestern West Virginia. These reductions will, in turn, have pronounced and predictable impacts on the economies of coal producing counties.

The current analysis first develops a range of scenarios that reasonably captures foreseeable changes in coal production within the region. The study next assesses the economic impacts under each scenario in order to provide policy-makers with the information necessary to cope with the economic, demographic, and governmental challenges that are likely to stem from reduced coal mining activity.

To be clear, the current study *is not* a benefit-cost analysis that comprehensively evaluates the aggregate, State-wide (or even national) benefits of any particular policy, nor is it long-run in nature. Instead, the analysis presented here is offered as a short-run planning tool, developed with the expectation that the immediate economic consequences and resulting needs of reduced coal production are likely to fall most heavily on a relatively small number of West Virginians who live and work in the coal field region.

The Study Region, Analytical Methodology, and Predicted Outcomes

The study region is comprised of nine southwestern West Virginia counties: Boone, Fayette, Kanawha, Logan, McDowell, Mingo, Nicholas, Raleigh, and Wyoming. Demographic and economic statistics summarizing conditions within these counties are provided in Table E.1. Further information is provided in Chapter 2.

After defining the study region, the next analytical step involved forecasting coal production within each study region county under what are viewed as base-line conditions. This process is described at length in Chapter 4.

Table E.1

Study Area County	1997 Population	1997 Per Capita Income	1997 Full and Part Time Employment
Boone	26,347	$17,735	9,436
Fayette	48,566	15,961	16,540
Kanawha	203,195	24,489	134,345
Lincoln	22,165	12,860	4,514
McDowell	30,558	13,482	7,213
Mingo	32,475	15,923	11,189
Nicholas	27,580	14,743	10,508
Raleigh	78,970	18,421	36,612
Wyoming	27,662	13,816	7,214

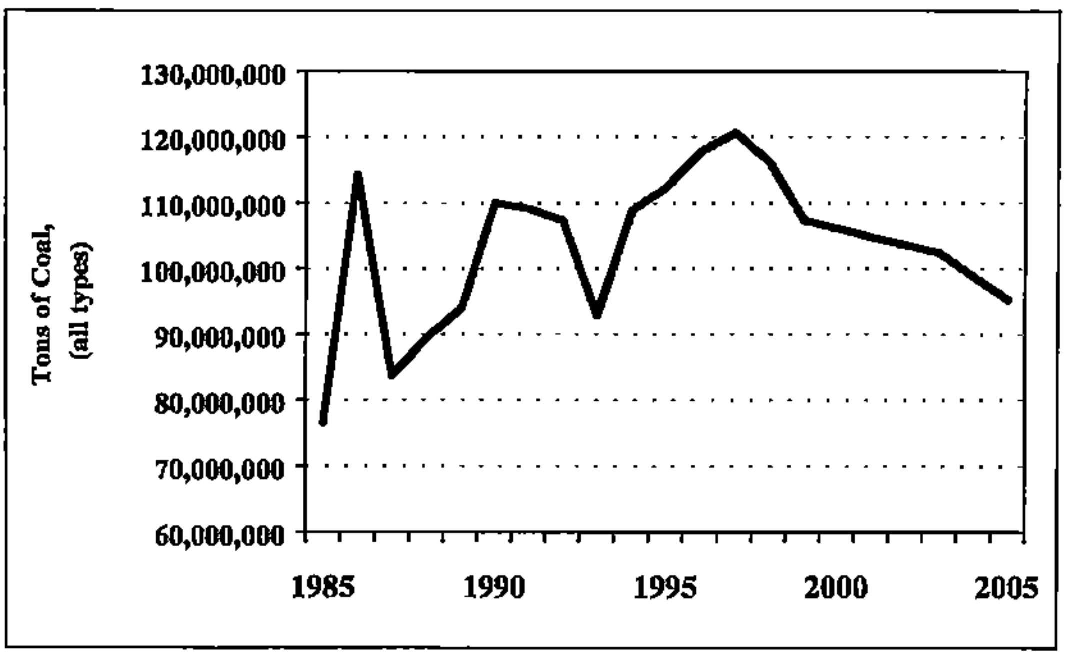
This base-line scenario does not simply rely on historical production levels in order to produce estimates of future economic activity. To the contrary, the base-line forecast specifically accounts for a number of economic factors that are currently affecting the market for study region coal. These include:

- The degree to which more stringent clean air standards are leading electricity producers to substitute natural gas and western coal for coal mined within the study region.
- Increased international competition from both Columbia and Australia that is displacing West Virginia coal in both international and even domestic markets.
- The probable impacts of electric utility restructuring on the demand for study region coal.

The aggregate 5-year base-line forecast for the study region is depicted graphically in Figure E.1.[1] The baseline forecast predicts a roughly 7.1 percent decline in coal production in the study region. This is the expected change in coal production absent any additional regulatory changes.

Next, the analysis was modified to predict the county-specific changes in coal production that may be expected if the Haden decision regarding the disposal of the overburden.[2] The study treats the potential impacts of this legal ruling under two differing scenarios. Under the first of these, those mines that are currently permitted to engage in valley fills would be allowed to do so until existing permits expire.

Figure E.1
Baseline Forecast



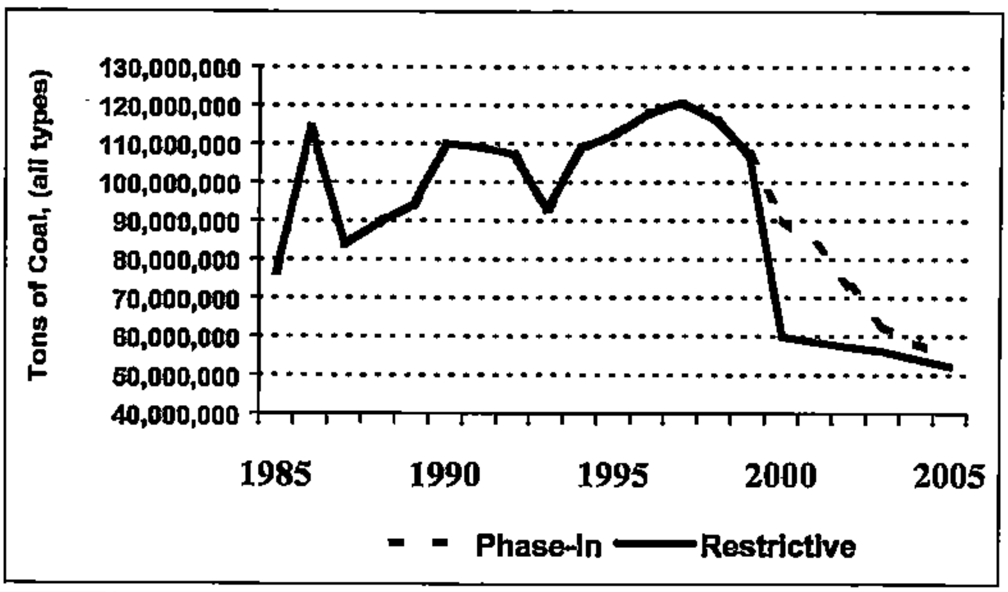
[1] The forecasting model is discussed at length in Chapter 4 and Appendix B. Within-sample forecast suggest that the model is able to predict aggregate regional production with little more than 2% error.

[2] Patricia Bragg, et al, Plaintiffs, vs. Colonel Dana Robertson, et al, Defendants. Civil Action 2:98-0636, U.S. District Court for Southern West Virginia, Charleston Division. This decision, currently under review at the Fourth U.S. District Court of Appeals, interprets the Clean Water Act to prohibit the use of valley fills that disturb any segment of a full or intermittent stream.

However, no additional valley fill permits would be issued.[3] The second scenario would eliminate all mountaintop operations immediately if the Haden decision is upheld. While this latter scenario may seem extreme, it represents a "worst case" outcome and, therefore, is useful in bounding the economic potential impacts of reduced surface mining.[4] The most likely results of the Haden decision lie between the base case and the worse case of immediate cessation. Predicted regional coal production under the two Haden scenarios are combined with the baseline forecast in Figure E.2.

The final analytical step involves converting the predicted reductions in coal production into more general economic outcomes for each of the study region counties. First-year impacts on employment, incomes, and aggregate economic activities are summarized for the study region in Table E.2.[5]

Figure E.2
Simulations



[3] For economic reasons discussed within Chapter 3, we have operated under the assumption that coal producers would not seek permits for the measurably smaller mountaintop mining operations that may be permissible under the Haden ruling.

[4] Importantly, the cost complementarities that exist in the preparation and transportation of combined surface and underground mining outputs are captured within the forecasts. Thus, reductions in surface mining also decrease underground quantities by increasing the cost of underground mining.

[5] Economic impacts were generated through the application of regional simulation software developed by IMPLAN, Inc. A full range of county-specific economic profiles and predicted impacts are provided in Appendix D.

Table E.2

Predicted Changes	Baseline Forecast	Gradual Implementation of Haden Ruling	Immediate Cessation of Mountaintop Mining
Regional Employment	-1,646 (-.8%)	-3,575 (-1.8%)	-10,632 (-5.3%)
Regional Incomes	-$58 M (-1.1%)	-$124 M (-2.3%)	-$281 M (-5.3%)
Aggregate Regional Economic Activity	-$264 M (-1.2%)	-$620 M (-2.9%)	-$1,765 M (-8.1%)

Predicted Changes	Boone County			Fayette County		
	Baseline	Phase-In	Restrictive	Baseline	Phase-In	Restrictive
County Employment	-85	-255	-1716	1	-256	-984
County Incomes (in millions)	-$3.7	-$7.4	-$73.7	$0.1	-$8.7	-$33.1
Aggregate County Economic Activity (in millions)	-$16.4	-$96.5	-$330.2	$0.2	-$40.8	-$158.8
	Kanawha County			**Logan County**		
	Baseline	Phase-In	Restrictive	Baseline	Phase-In	Restrictive
County Employment	9	-1033	-3088	-727	-893	-1896
County Incomes (in millions)	$0.4	-$37.3	-$111.4	-$26.7	-$32.9	-$69.7
Aggregate County Economic Activity (in millions)	$1.6	-$0.2	-$480.4	-$116.4	-$143.2	-$303.7
	McDowell County			**Mingo County**		
	Baseline	Phase-In	Restrictive	Baseline	Phase-In	Restrictive
County Employment	-26	-58	-253	-176	-295	-1004
County Incomes (in millions)	-$0.9	-$1.8	-$8.3	-$7.0	-$11.7	-$39.7
Aggregate County Economic Activity (in millions)	-$4.4	-$9.8	-$42.6	-$32.6	-$54.2	-$185.1
	Nicholas County			**Raleigh County**		
	Baseline	Phase-In	Restrictive	Baseline	Phase-In	Restrictive
County Employment	-627	-662	-861	69	45	-106
County Incomes (in millions)	-$19.5	-$20.2	-$26.3	$2.2	$1.4	-$3.4
Aggregate County Economic Activity (in millions)	-$90.9	-$90.9	-$118.5	$9.5	$6.0	-$14.7
	Wyoming County					
	Baseline	Phase-In	Restrictive			
County Employment	-84	-168	-724			
County Incomes (in millions)	-$3.1	-$6.2	-$26.8			
Aggregate County Economic Activity (in millions)	-$15.0	-$30.4	-$131.5			

There are several important points to be noted in connection with these results. First, even under the baseline forecast, the competitive forces currently impacting markets for study region coal are predicted to lead to reduced coal industry employment. This outcome is consistent with recent trends that have witnessed falling industry employment for the last several years. It also suggests that, even under the best possible circumstances, continued reliance on coal production as a base of economic activity may generate economic hardships that require a public-policy response.

Secondly, the impacts of the more modest Haden scenario are pronounced. Even if current permits remain in force, the ruling is predicted to more than double the anticipated declines in study region employment. Moreover, if mountaintop mining is curtailed immediately and entirely as a result of the Haden decision, the associated impacts will be devastating to many of the study region counties. In aggregate, the more than 10,500 predicted job losses represents a 5.3% decline regional employment.[6] However, within the most coal-dependent counties, the predicted impacts of curtailing mountaintop mining are much more severe. For example, in Logan County the nearly 1,900 job losses represent more than 12% of total current employment. In Boone County the predicted 1,700 job losses amounts to over 18% of total employment.

Finally, the economic impact results are based on changing coal production in the *first* forecast year. Thus, these predictions do not reflect the full magnitude of the economic changes that may be expected over the long-run. Instead, they capture the most immediate impacts on the most vulnerable segment of the State's population. The compounded impact of reduced coal production over a multi-year period is likely to generate more extreme results that will almost certainly impact every West Virginian.

[6] The reader will recall that the study region includes Kanawha County in which many of the estimated 135,000 jobs are largely insulated from fluctuations in coal-related economic activity.

Conclusions

Again, the analysis described within the remainder of this document is, by no means comprehensive. By design, it explicitly ignores the external costs associated with various forms of coal mining. The current study is also short-run in nature. Differences in how competing policy options may affect the *long-run* economic well-being of the study region are not considered. Finally, the analysis presented here focuses entirely on nine coal producing counties rather than on the State as a whole.

Importantly, however, none of these qualifications negate the value of the information developed within this investigation. To the contrary, we believe the study answers a very important question – how will *foreseeable changes* in regional coal production affect the economic lives of those who live and work in the coal field region *in the near term*. Appropriately formed public policy may rest on the outcome of broad-based, long-run benefit-cost analyses. But it is the short-run impacts of these policies on a localized constituency that is likely to pose the greatest challenge for area residents, business leaders, and policy-makers. Long-run outcomes are much more easily planned for than immediate economic distress.

Unfortunately, some level of distress appears inevitable. Even if the Haden decision is not upheld, market pressures attributable to increased international competition, more stringent air quality standards, and electric utility restructuring are likely to yield reductions in regional coal production and accelerating reductions in coal-related employment. This outcome may be reversed at some point in the future, but in the near-term, the vitality of the region's coal production is highly suspect. If the Haden ruling is upheld, distress may give way to crisis in the most coal-dependent counties and the region as a whole will be noticeably impacted.

Finally, while the analysis described here depicts probable impacts on employment, incomes, and aggregate economic activity, the economic and non-economic effects of reduced coal production extend well beyond these outcome measures. Reduced economic activity diminishes the ability of State and local governments to develop revenues at a time when demands on public services may be measurably increased. Certainly, in the long-run, these decreased tax revenues may be partially balanced by out-migration and a reduction in the number of residents requiring government services, but in the short-run, government's ability to cope with the effects of economic distress is likely to be constrained by the same economic conditions that heighten needs.

Chapter 1 - Introduction and Motivation

If there is any single element that defines the bounds of a regional economy, it is the intensity of the interrelationships that inexorably bind the economic fate of one group to the well-being of all others. Thus, as policy-makers ponder the potential impacts of reduced coal production in West Virginia's southwestern counties, there is a clear understanding that the foreseeable decline in coal-related economic activity will very quickly affect the nature and magnitude of all other commercial activity within the region. This conclusion is hardly in need of validation by the academic community. Coal mines and miners' pay define the southern coal field region of the State.

Most of those concerned also understand that the markets in which West Virginia's coal is sold are changing rapidly. Increasingly stringent domestic and international air quality standards are reflected in the increasing demand for low sulfur western coal and in measurable declines in at least some of the coal produced east of the Mississippi River. Increased production in Columbia and Australia has brought new and voracious competition to international fuel markets and the on-going restructuring of the US electric utility industry appears to favor natural gas over coal as a fuel source. These economic forces have already had readily observable impacts on the fiscal vitality of West Virginia's coal producers.[1]

Finally, pending court rulings that further restrict surface mining methods will place additional economic pressure on coal producers and the communities they help to sustain. While many question the dire claims proffered by the mining community with regard to mountaintop mining, the vast sums that mining companies have spent to protect this practice stand as unshakable testimony to the importance West Virginia's mining industry places on mountaintop mining. Even the mining industry's most ardent detractors must realize that mining management would have preferred to distribute these monies as profits and would have, indeed, done so if not for the belief that protecting the controversial form of surface mining is essential to their future prosperity.

[1] For example, Arch Coal Inc. experienced a 166.1% decrease in earnings growth over the last 60 months. (Source: Zacks Investment Research, http://za.zacks.com/advisor).

While many understand the challenges facing the State's coal producing region, few have attempted to quantify the degree to which increased competition and additional surface mining restrictions will affect the level of coal production or the broader regional economy. It is within this context and in response to a request from West Virginia Senate Finance Committee Chair Oshel Craigo, that Marshall University's Center for Business and Economic Research is attempting to provide the first glimpse of what the future may hold for West Virginia's southwestern coal producing counties. Readers should note that the following analysis is not intended to provide the sort of comprehensive information necessary to a formal cost-benefit analysis. Specifically, we do not seek to estimate the magnitude of any environmental costs within the region nor do we attempt to value the extent to which some regional residents are negatively impacted by coal mining operations.[2] Instead, the current analysis is strictly focused on foreseeable changes in coal production and the ways in which these changes may be expected to affect regional commerce, employment, and incomes in the near future.

The remainder of the current study is organized into five sections and a set of appendices. The first of these, Chapter 2, is an examination of the historical role of coal production within the study region. Chapter 3 details the current economics of coal production, including the impact of increased international competition, more strict air quality standards, and the potential impacts of electric utility restructuring. Within Chapter 4, we develop a county-level model for forecasting the supply of and demand for coal. In addition to a baseline forecast, this Chapter contains two alternative scenarios that depict varying regulatory outcomes. Chapter 5 extends the variations in coal production forecasted under each scenario to broader economic impacts within each study region county. Finally, we provide concluding comments in Chapter 6. Appendix A contains county level data, while Appendices B and C explain and demonstrate the models and estimation techniques used in the study.

[2] West Virginia University's Bureau for Business and Economic Research is currently working in conjunction with the U.S. Environmental Protection Agency to conduct a long-run, comprehensive economic analysis within the Environmental Impact Statement process.

Chapter 2 - The Study Region, Coal Production, & Regional Economy

2.1 Study Region Definition

The study region, pictured in Figure 2.1, is comprised of Boone, Fayette, Kanawha, Logan, McDowell, Mingo, Nicholas, Raleigh, and Wyoming counties. This study region was established based on a number of criteria. First, these contiguous counties provide a rough outline of West Virginia's southern coal fields. Second, this regional definition includes counties with largely homogeneous economies and coal reserves. Were we to extend the analysis to include northern coal producing counties, it would be necessary to account for the measurably different economic conditions observed in those counties, as well as the vastly different characteristics of the coal mined within that region. Finally, the study region was defined based on the historical (and current) dominance of coal production within the region's nine counties. Current population, personal income, and employment data for these counties is summarized in Table 2.1. These data indicate that as late as 1998 (the last year for which data are currently available) coal production directly represented an overwhelming portion (over 18%) of the economic activity within the study region.

Figure 2.1
The Study Region

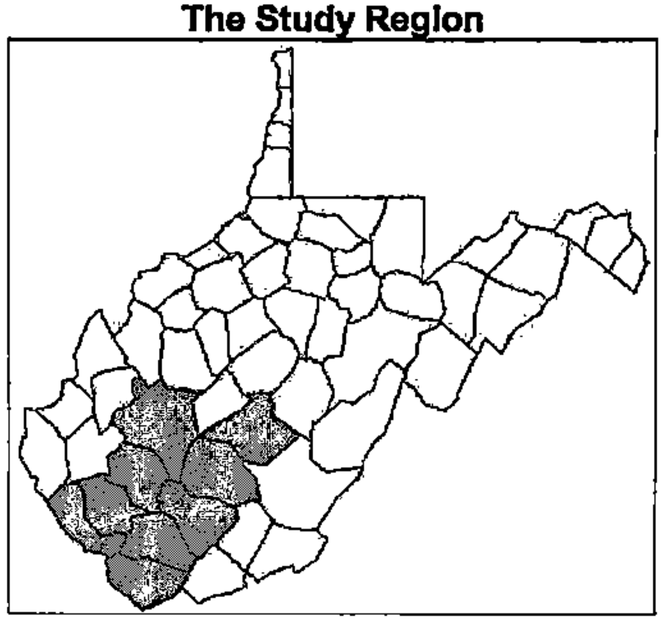


Table 2.1
The Study Region, 1998

	Population	Per-Capita Income	Total Employment	Direct Coal-Related Employment	Percentage of Coal-Related Employment
Boone	26,347	$17,735	9,436	3,116	33.0%
Fayette	48,566	$15,961	16,540	625	3.8%
Kanawha	203,195	$24,489	134,345	2,296	1.7%
Logan	41,294	$16,383	15,682	1,902	12.1%
McDowell	30,558	$13,482	7,213	908	12.6%
Mingo	32,475	$15,923	11,189	2,713	24.2%
Nicholas	27,580	$14,743	10,508	593	5.6%
Raleigh	78,970	$18,421	36,612	1,836	5.0%
Wyoming	27,662	$13,816	7,214	1,329	18.4%

2.2 A Brief Historical Context

Bituminous coal underlies more than two-thirds of West Virginia. These coal deposits are divided by a geological "hinge line" into northern and southern fields. Generally, coal mined in the southern fields has a higher heating value and lower sulfur content than northern West Virginia coal. Historically, however, the development of the State's coal industry first occurred in the north.[3]

While coal production in "western Virginia" dates to the early 19th century, development of the southern West Virginia coal fields did not begin until after the Civil War. The Flat Top-Pocahontas Field, located primarily in Mercer and McDowell counties, first shipped coal in 1883 and grew quickly from that time. Smaller operations within the area were consolidated into larger companies and the Pocahontas Fuel Company, organized in 1907, soon dominated McDowell County production.

Many of the southern coal fields, such as the Kanawha, New River, Winding Gulf, Logan and Greenbrier, owed their success to the development of the Norfolk Southern and Chesapeake & Ohio Railways. As the railway expanded into the region, coal was more easily marketed and the southern coal fields prospered. The Logan field, lying in Logan and Wyoming counties, did

[3] See US Energy Information Administration, State Coal Profiles, Washington, DC, 1998.

not open until 1904, when the railway finally reached that area. Once opened, Logan soon became the State's largest coal producing county.

Over the years, mining techniques and equipment have varied considerably. Early on, progress in mechanization was slow. Nonetheless, by 1890 electric coal cutting, loading, and hauling machines were in wide use. Beginning in the middle 1930s, mechanization moved forward even more rapidly, as shuttle cars, long trains, conveyor belts, and a variety of other equipment came into common use. Large-scale surface mining did not begin until 1913, but with the development of large earth moving equipment and draglines, the overburden could be removed more efficiently, so in recent years surface mining has become a major method of mining coal within the study region. Technological advancements, increasing concerns for health, and rising workers' compensation costs have lead to mine safety improvements.

2.3 Coal Production and the Study Region Economy

Table 2.3A provides estimates of coal production, employment, and mine-mouth prices from 1980 through 1998. Section 3 describes the largely exogenous market forces that have lead to variations in these outcomes. However, it is clear, even without these explanations, that the economic well-being of the study region has been directly tied to the magnitude of coal production. Table 2.3B provides an intertemporal glance at the relationship between the study region's coal production, populations, and incomes. When the demand for the study region's coal has been relatively strong (as in the 1970's), the regional economy was able to support a population of 611,175 in 1979, with an average real per-capital income of $13,797. In contrast, when the demand for the region's coal has been slack (as in the middle 1980's), incomes changed marginally while population fell measurably. During this latter period, region population declined by 12.8 percent in the decade from 1979 to 1989.

The study region is currently home to over 515,000 persons, who comprise roughly 200,000 households. Virtually every measure of economic well-being reflects the damage done by a 15 years of sustained out-migration. The 1999 unemployment rate, weighted by a county population of 8.3 percent was more than twice the national average of 4.1 percent and 125 percent of the West Virginia average of 6.6 percent. The average regional per-capita income of $16,772 is only 87.17 percent of the national average. Home values within the study region average only $38,700, while the State-wide figure is $47,600. And finally, in some counties the high school non-completion rate for those over 25 is substantially greater than 50 percent[4].

Table 2.3A

Year	Regional Coal Production (Tons x 1,000)	Real Mine-Mouth Price / Ton (92 $)	Direct Mining Employment	Tons per Mining Employee (Tons x 1,000)
1980	60,317	$46.00	40,391	1.493
1987	60,228	$35.08	19,813	3.040
1992	84,119	$28.15	18,657	4.509
1993	78,339	$26.88	14,021	5.587
1994	87,288	$26.14	15,153	5.760
1995	87,552	$25.26	15,073	5.809
1996	91,989	$24.23	14,017	6.563
% Change	53%	-47%	-65%	439%

Indeed, eight of the nine study region counties have been classified as "distressed" by the Appalachian Regional Commission.[5] There are those who would blame coal producers for these negative economic outcomes. To do so would, however, be largely unfair. Instead, the economic conditions within the study region reflect a lack of economic diversity coupled with the significant volatility observed in fuel markets. Figure 2.3 depicts real coal prices over a period of nearly 120 years. This figure reveals two important points. Over the long-run inflation-adjusted coal prices have proven remarkably stable. In the short-run, however, coal prices have been remarkably volatile.

While economic conditions within the study region generally lag behind those observed within the remainder of the State, there are indications that at least some study region counties have become less reliant on coal-based economic activities. Certainly, Kanawha County, with its diversity of manufacturing, service sector, and governmental activities, is less susceptible to

[4] U.S. Census Bureau, 1990 Census.

[5] These substandard economic conditions are reflected in other negative outcomes. For example, the widely dispersed population and lagging economic conditions have made it difficult for the region's residents to obtain adequate health care. As a result, health attainment within a number of study region counties ranks among the lowest in the nation. Appalachian Regional Commission Distressed Counties, FY 2000.

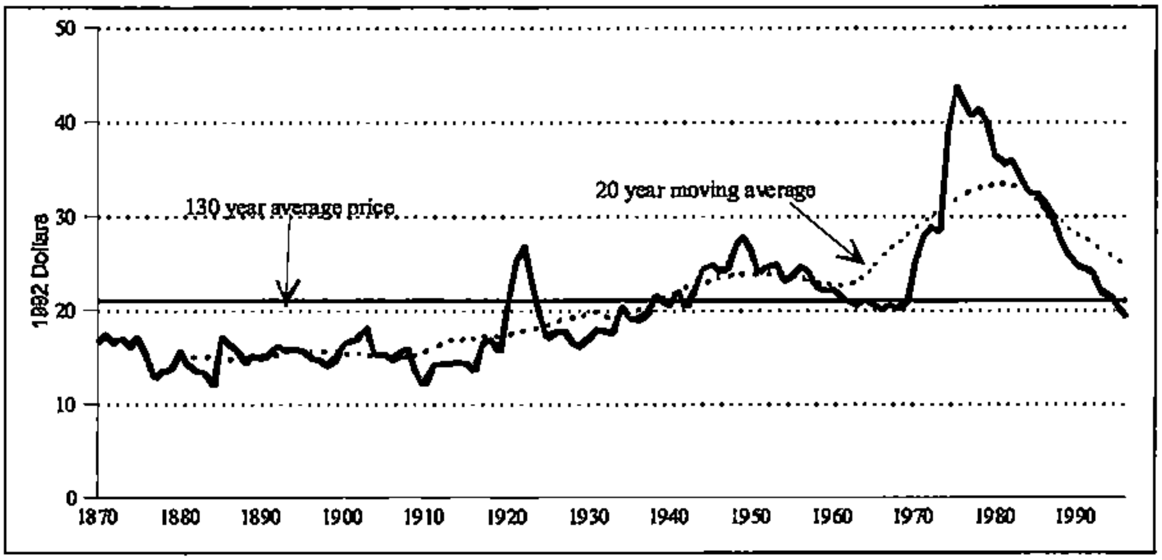
coal-related economic disruptions. Moreover, both Fayette and Raleigh Counties have enjoyed a measurable increase in tourist-related economic activity over the past decade. Indeed, since 1994, the number of tourism-related establishments and jobs in these two counties have both grown at an annual rate of over 20 percent.[6]

Table 2.3B

Year	Regional Coal Production (Tons x 1,000)	Real Mine-Mouth Price / Ton, WV Coal (92 $)	Regional Population	Average Regional Per-Capita Income (92 $)
1970	-	$28.67	557,238	$10,419
1971	-	$33.05	563,817	$10,834
1972	-	$34.61	569,593	$11,845
1973	-	$36.69	570,666	$12,187
1974	-	$61.61	569,551	$12,279
1975	-	$76.54	581,358	$13,003
1976	-	$74.27	594,416	$13,326
1977	-	$71.84	604,190	$13,552
1978	-	$71.33	609,506	$13,841
1979	-	$67.14	611,175	$13,797
1980	73,948	$59.39	608,400	$13,699
1981	69,590	$58.73	606,979	$13,279
1982	74,468	$54.84	605,500	$13,472
1983	64,857	$49.94	602,329	$12,614
1984	73,293	$46.15	593,899	$13,016
1985	76,619	$43.64	584,673	$12,973
1986	81,172	$39.56	574,445	$13,153
1987	83,728	$36.00	562,124	$13,059
1988	89,420	$33.47	546,257	$13,170
1989	93,870	$32.46	532,660	$13,216
1990	110,021	$30.72	524,998	$13,704
1991	109,060	$29.48	524,551	$13,852
1992	107,278	$28.15	524,838	$14,206
1993	92,860	$26.78	525,694	$14,132
1994	108,902	$25.96	523,698	$14,417
1995	112,616	$25.02	522,573	$14,433
1996	117,871	$22.11	520,353	$14,504
1997	120,666	$23.29	516,647	$14,662
1998	116,208	-	513,022	-

[6] This figure is based on the growth of employment and establishments within the categories of lodging, restaurants, and recreational establishments within the county. U.S. Bureau of the Census, County Business Patterns 1994-1998.

Figure 2.3
Long Run Bituminous Coal Prices in West Virginia, 1992 Constant Dollars



Chapter 3 - The Economics of the Coal Industry

Historically, coal and other related fuel markets have exhibited a significant degree of short-run volatility which has translated into instability and a paucity of economic development within those study region counties that rely heavily on coal production[7]. As West Virginia enters the 21st century, there is no indication that this pattern of instability or volatility will abate. To the contrary, a number of new pressures have emerged that make the course of coal production within the study region less, rather than more, certain. Among the issues affecting the State's coal industry are increased international and domestic competition, uncertain international petroleum prices, electric utility restructuring, and new environmental regulations. These affect both the production and consumption of West Virginia coal[8]. Within the remainder of this chapter, we carefully evaluate how each of these sources of instability may be expected to affect the study region's coal producers. The chapter also attempts to dispel various myths regarding production costs and alternative production techniques that cloud the debate surrounding further regulatory intervention and its impact on coal production.

3.1 The Demand for Study Region Coal

Like most raw materials, the demand for coal produced within the study region is derived from the demand for the products that coal is used to create and the technologies available for producing these "downstream" goods or services. Within the current context, this "derived demand" implies that the willingness to pay for study region coal depends on the demand for electricity and steel products, as well as the availability and pricing of other fuel substitutes. This includes coal from other regions, natural gas, and fuel oil, and generating and steel producing technologies. Changes in any of these other factors can materially affect the demand for coal produced in southern West Virginia. The demand for study region coal is further complicated, since bituminous coal is sold in commodity markets that recognize qualitative differences in

[7] Specifically, the volatility of regional economic activity within the study region has served to weaken investment, hindering economic growth relative to other regions.

[8] The 1990 Clean Air Act Amendments (CAAA), which became effective January 1, 2000, outline stricter sulfur emission reduction requirements of Phase II.

sulfur dioxide, ash, moisture, and Btu content.[9] Metallurgical coal users and utilities that face few air quality compliance issues may be attracted to the relatively high Btu content of study region coal, while other electricity users may favor the low sulfur content and relatively low transportation costs of western coal, even though most such coal has a significantly lower Btu content.[10]

As the opening paragraph of this chapter indicates, a number of evolving forces will potentially impact the volume of coal produced within the study region over coming decades. With the exception of environmental restrictions on surface mining practices, these emerging forces represent demand-side changes that are effecting consumers' willingness to pay for study region coal.

3.1.1 Clean Air Standards and the Demand for Study Region Coal

The *U.S. Environmental Protection Agency's* implementation of the 1990 amendments to the *Clean Air Act* have increasingly restricted electric utility emissions of a variety of pollutants. These pollutants include sulfur dioxide, nitrogen oxides, and particulate matter. Coal burning utilities generally have four options or strategies available for compliance with these standards -- (1) high-emission facilities can be retired; (2) high-emission facilities can be retrofitted to burn low-sulfur coal, a low-sulfur/high sulfur coal mix, or an alternative fuel; (3) high-emission facilities can be modified to include scrubber equipment that reduces the volume of pollutants emitted from the burn of high-sulfur coal; or (4) operators of high-emissions facilities can acquire (either internally or through purchase) emissions credits that will allow the facility to legally exceed the applicable emission standards.

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[9] The British Thermal Unit (Btu) is the most common measure of heat producing capacity. It reflects the amount of heat required to raise the temperature of one pound of pure water by one degree Fahrenheit.

[10] The complexity of coal markets is, perhaps, highlighted by the diversity of coal products available in the western United States. Powder River Basin (PRB) coal from Montana and Wyoming is of the low sulfur, low Btu variety noted in the text. However, the low sulfur coal produced in Colorado, Utah, and British Columbia has a consistently higher Btu content. However, the non-PRB western coal does not routinely compete in eastern fuel markets because moving it through the Rocky Mountains requires relatively high expenditures for transportation.

Some compliance strategies allow electricity producers to continue the use of study region coal, while other strategies preclude this use[11]. However, just as emission standards have made southern Appalachian coal less desirable for some customers, the same regulations have caused other users to substitute study region coal for Illinois basin and northern Appalachian coal that has an appreciably higher sulfur content. Thus, it is difficult to assess the current net effect of clean air standards on the demand for study region coal.

If there is one clear outcome associated with more stringent air quality standards, it is the growth in popularity of Powder River Basin (PRB) coal mined in Wyoming and Montana.[12] PRB coal is mined at a cost of roughly $4.50 per ton and can be transported into the Illinois and Ohio River Basins at rates that result in delivered prices that are comparable to the mine-mouth price of study region coal.[13] The difference, of course, is that the low Btu content of PRB coal means that much more coal must be burned to achieve the same power generation. To date, it appears that PRB coal is primarily displacing Illinois Basin coal, but the same qualities that make western coal attractive to users in Illinois and Indiana may eventually sway utilities further east.[14]

Air quality issues are also leading many utilities to substitute natural gas for coal as a generating fuel. Tampa Electric Company (TECO) recently announced plans to convert all coal-fired generating facilities to natural gas within the next two years and Ontario Hydro is rumored to be contemplating similar changes. Both utilities have historically consumed West Virginia Coal.

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[11] The purchase of sulfur dioxide permits cellars for continued burning of study region coal without retrofitting plants with emissions curtailing technologies.

[12] Historically, the relatively high costs of mining and transporting eastern coal allowed PRB coal to compete in markets west of the Mississippi River. Relative declines in transportation costs from the Powder River Basin during the 1990's moved the east-west boundary between eastern and western coal dominance further east into the Illinois and Ohio River basins. More recently, however, the continued eastern expansion of western coal appears to owe to the effects of more stringent clean air standards, rather than any further decline in relative transport rates.

[13] The Energy Information Administration Coal Industry Annual 1998 reports a real mine price (1992$) of $4.80. However, anecdotal evidence suggests that Powder River Basin coal costs have lowered since 1998.

[14] For a discussion of the expanded use of PRB coal, see Energy Information Administration. While there is no evidence at this point to support our contention, the authors suspect that the attractiveness of using PRB coal as a compliance strategy is enhanced by the knowledge that this strategy will be effective for the foreseeable future, whereas alternative strategies – for example blending – may cease to be effective if standards are raised further.

3.1.2 International Competition and the Demand for Study Region Coal

Table 3.1 summarizes West Virginia coal exports between 1993 and 1997. On average, exports accounted for roughly 25% of all sales during that period.[15] Tables 3.2 and 3.3 provide additional information on the export destinations of the State's coal production. These data, in combination with additional anecdotal data, tell a clear story of increased international competition.

Table 3.1

Year	WV Sales to Domestic Users (x 1,000)	WV Sales to International Users (x 1,000)	Total WV Sales (x 1,000)	Percentage of Export Sales
1993	102.7	33.2	135.9	24.43%
1994	122.8	36.2	159.0	22.77%
1995	120.9	44.3	165.2	26.82%
1996	127.2	42.0	169.2	24.82%
1997	133.8	38.4	172.2	22.30%

The majority of West Virginia's coal exports (47% in 1997) are bound for European destinations. However, throughout the period of record, European nations have been purchasing less coal from West Virginia and more from other exporting nations, such as Columbia.[16] Columbian coal is even making inroads into US domestic markets. Unpublished sources suggest that Alabama Power, beginning in 2001, plans to import more than four million tons of Columbia coal over the Port of Mobile.

The second largest importer of West Virginia coal (23% in 1997) is Canada. Of the coal shipped to Canadian users, roughly one-third is purchased by Ontario Hydro, with the remainder going to other generating and industrial users. During the 1993-1997 period, annual Canadian use of West Virginia coal grew by 2.9 million tons (71%). This growth clearly helped offset

[15] Energy Information Administration data do not allow the segregation of study region exports from other West Virginia exports.

[16] The decline in European coal purchases would appear greater still if the 112 percent increase in West Virginia exports to Romania are excluded from calculations.

export losses to other international customers. It is important to note, however, that the growth in Canadian usage reflects a one-time increase in Ontario Hydro's consumption that resulted from the utility's need to rapidly replace generating capacity lost with the unplanned shutdown of nuclear facilities.[17]

Increased low sulfur, high Btu Australian coal production is also placing additional competitive pressures on West Virginia exports. In 1996, Australia embarked on a program designed to increase coal production by approximately 5 percent annually through 2002.[18] This increased production is principally aimed at Asian markets which accounted for roughly 11 percent of West Virginia exports in 1997.[19] However, there are secondary effects arising from the Australian expansion. Anecdotal information suggests that Australian coal has displaced a significant amount of low-sulfur, high-Btu coal mined in British Columbia. As British Columbian producers seek alternative markets, it may well affect West Virginia's ability to export coal to eastern Canada.

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[17] It is worth noting that one issue that has arisen in the proposed railroad merger between Burlington Northern – Santa Fe and the Canadian National – Illinois Central is the degree to which a combined system would allow for the more efficient transport of Powder River Basin coal to eastern Canada customers. If this merger is allowed, it could place additional competitive pressure on West Virginia coal exports.

[18] See "Australian Coal Supply: Risks and Prospects to 2002," *Australian Commodities*, Vol. 4, No. 2, June 1997, pp. 214-26.

[19] *Ibid.*

Table 3.2
West Virginia Coal Exports

Destination Country	1993 Tons (x 1,000)	1994 Tons (x 1,000)	1995 Tons (x 1,000)	1996 Tons (x 1,000)	1997 Tons (x 1,000)
Argentina	132	35	—	—	—
Belgium	1,396	1,302	1,175	1,261	822
Brazil	2,496	4,109	4,329	4,247	3,927
Bulgaria	644	1,571	1,360	1,152	1,008
Canada	4,071	5,605	5,759	6,907	6,956
Chile	—	—	—	43	—
China	141	284	355	353	188
Croatia	63	—	—	—	—
Egypt	601	593	714	303	807
Finland	212	375	683	507	324
France	2,864	3,514	3,594	2,859	2,286
Germany	286	382	254	584	419
India	—	—	—	11	—
Italy	3,111	2,927	2,873	2,361	2,084
Japan	2,260	2,148	3,222	2,062	2,585
Korea	318	523	1,013	1,050	829
Mexico	—	—	—	—	25
Netherlands	2,014	1,717	1,523	1,223	1,977
Nigeria	43	—	—	—	—
Portugal	151	—	33	164	118
Romania	820	925	1,623	1,315	1,737
South Africa	577	771	946	947	706
Spain	1,071	1,255	1,084	818	681
Sweden	603	866	1,352	882	857
Turkey	1,370	1,468	1,560	1,643	1,295
United Kingdom	1,261	1,212	1,182	1,024	897
Total	29,498	31,582	34,634	31,716	30,528

Table 3.3
West Virginia Coal Exports

Destination Country	1993 % of Total Exports	1994 % of Total Exports	1995 % of Total Exports	1996 % of Total Exports	1997 % of Total Exports
Argentina	0.50%	0.11%	—	—	—
Belgium	5.27%	4.12%	3.39%	3.98%	2.69%
Brazil	9.42%	13.01%	12.50%	13.39%	12.86%
Bulgaria	2.43%	4.97%	3.93%	3.63%	3.30%
Canada	15.36%	17.75%	16.63%	21.78%	22.79%
Chile	—	—	—	0.14%	—
China	0.53%	0.90%	1.03%	1.11%	0.62%
Croatia	0.24%	—	—	—	—
Egypt	2.27%	1.88%	2.06%	0.96%	2.64%
Finland	0.80%	1.19%	1.97%	1.60%	1.06%
France	10.81%	11.13%	10.38%	9.01%	7.49%
Germany	1.08%	1.21%	0.73%	1.84%	1.37%
India	—	—	—	0.03%	—
Italy	11.74%	9.27%	8.30%	7.44%	6.83%
Japan	8.53%	6.80%	9.30%	6.50%	8.47%
Korea	1.20%	1.66%	2.92%	3.31%	2.72%
Mexico	—	—	—	—	0.08%
Netherlands	7.60%	5.44%	4.40%	3.86%	6.48%
Nigeria	0.16%	—	—	—	—
Portugal	0.57%	—	0.10%	0.52%	0.39%
Romania	3.09%	2.93%	4.69%	4.15%	5.69%
South Africa	2.18%	2.44%	2.73%	2.99%	2.31%
Spain	4.04%	3.97%	3.13%	2.58%	2.23%
Sweden	2.28%	2.74%	3.90%	2.78%	2.81%
Turkey	5.17%	4.65%	4.50%	5.18%	4.24%
United Kingdom	4.76%	3.84%	3.41%	3.23%	2.94%
Total	100%	100%	100%	100%	100%

3.1.3 The Potential Impacts of Electric Utility Restructuring

As of December 1, 1999, 12 states enacted restructuring legislation, six states had comprehensive regulatory orders issued, and seven states had legislation/orders pending.[20] The status of these regulatory reforms is summarized in Table 3.4. This electric utility industry

[20] FL and SD have no significant ongoing activity. TX allows competitive wholesale wheeling, as authorized by SB 373, 1995. CA, MA, and NH have regulatory orders and legislation in place. See "Challenges of Electric Power

restructuring is predicted, in the long-run, to measurably impact the markets in which study region coal is bought and sold in a number of important ways. According to the *U.S. Department of Energy's Energy Information Administration*, electric utility deregulation will simultaneously place downward pressure on coal prices, favor the use of natural gas – even in base-load generation, reduce or eliminate long-term contracts for coal, and introduce greater levels of uncertainty for coal producers.[21]

For two reasons, the full implications of electric utility restructuring on study region coal production will not be apparent for several years. First, under most restructuring scenarios, states will retain residual regulatory powers. Moreover, any federal regulatory restructuring will take considerable time to reach fruition, so that competition and its effects on fuel markets will emerge gradually. Second, existing coal-fired plants – particularly those already adapted to meet more stringent air quality standards – are likely to remain in use until these assets can be efficiently retired. Any premature retirement of coal-fired facilities will leave the utilities "stranded" with the capital costs of those facilities. The ability of utilities to recover such costs is uncertain.[22]

Industry Restructuring for Fuel Suppliers," U.S. Department of Energy, Energy Information Administration, DOE/EIA-0623, September, 1998.

[21] *Ibid.*

[22] The treatment of "stranded costs" – capital costs that are unrecoverable due to the transition from regulation to competition – remains as a complex issue within the topic of electric utility restructuring. Certainly, while most states' restructuring plans provide some relief in this area, it is to the utility's advantage to minimize the value of such costs. Moreover, the costs of investments made during an era when restructuring is foreseeable may be *completely* vulnerable.

Table 3.4
Electricity Restructuring

Restructuring Legislation Enacted	Comprehensive Regulatory Order Issued	Legislation/ Orders Pending	Commission or Legislative Investigation Ongoing	
CA	AZ	AK	AL	NE
CN	MD	DE	AR	NM
IL	MI	KY	CO	NC
ME	NJ	MO	GA	ND
MT	NY	OH	HI	OR
NV	VT	SC	ID	TN
NH		WV	IN	TX
OK			IO	UT
PA			KS	WA
RI			LA	WI
VA			MN	WY
			MS	
			District of Columbia	

3.2 The Cost Structure of Study Region Coal Producers

Changing demands will not act in isolation to affect changes in study region coal production levels within the study region. Instead, it is the interaction of changing demands with cost-dependent supply conditions that will ultimately determine the region's economic outcomes. With the exception of pending additional restrictions on surface mining methods, the future structure of study region mining costs is largely devoid of any public policy influence. Instead, it is the mining interests who will decide how and where coal may be efficiently produced.

3.2.2 Capital, Labor, and Labor Productivity

The structure of coal mining has changed dramatically since the widespread introduction of the continuous miner in the 1950's. The once labor intensive production process has been replaced by the use of capital assets that resulted in a precipitous decline in mining employment. The southern West Virginia coal fields primarily employ long-wall and continuous miner technologies. The productivity gains resulting from these techniques are reflected in the significant increase in output per worker (see Table 2.3A).

Many have concluded that the decline in employment is strictly attributable to the growth in surface mining – mining that now accounts for roughly one-third of all West Virginia production. Indeed, State-wide underground mining employment fell from 45,000 in 1980 to 16,000 in 1996, while surface mining's share of State output increased from 21 percent to 33 percent. However, the conclusion that surface mining is at the root of employment declines largely ignores two critical facts.

First, without regard to surface operations, the productivity of underground miners increased dramatically over the 1980-1996 period. In 1980, 45,000 underground miners produced roughly 96 million tons of coal – about 2,100 tons per worker. In 1996 16,000 underground miners, only one-third of those employed in 1980, produced more than 112 million tons of coal, or approximately 7,000 tons per employee. Thus, it appears that improvements in underground mining productivity are more responsible for declines in mining employment than the continuing emergence of surface mining. Finally, it is worth observing that surface mining employment also declined. In 1980, there were 7,500 West Virginians employed in surface mining operations. By 1996, their number had fallen to 4,118, due to strong productivity growth.

In considering the future costs of regional producers, it is reasonable to examine any potential inter-firm variations that might make it possible for some sellers to respond more effectively than others to changing demand conditions. If such variations exist, they are more than likely the result of accidents of geography rather than any structural differences between firms. Indeed, the productivity-enhancing technologies noted above appear to spread rapidly across producers, so that it is unlikely that large scale inter-firm cost differences are attributable to equipment use. Similarly, there may be modest differences between the productivity of unionized and non-union mining operations, but these differences are also likely tied to geography-dictated mining methods rather than actual productivity differences[23]. In the end, variations in the costs incurred by mining firms are dictated primarily by the disaggregated spatial nature of the natural resource they extract. Simply put, in coal mining, geology plays a

[23] In 1997 firms east of the Mississippi River produced 3.89 short tons of coal per miner per hour compared to firms west of Mississippi River, who produced 16.04 short tons of coal per miner per hour. 1997 Productivity Data, Energy Information Administration.

critical role in determining the overall costs of production. Though new cost-reducing technologies will continue to emerge, firms have remarkably little control over their individual production costs.

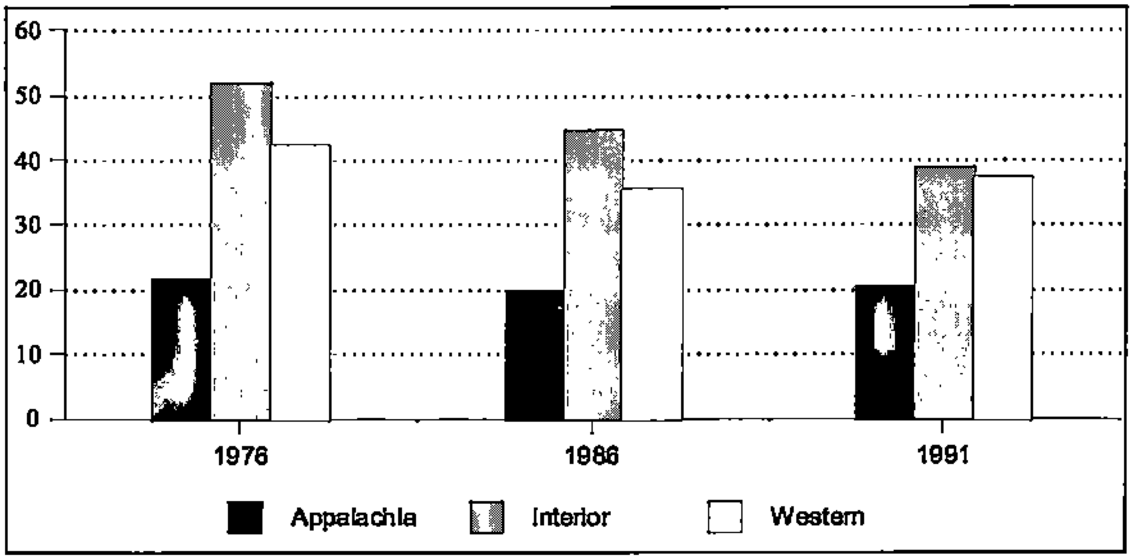
3.2.3 The Issues of Scale and Scope Economies

The conclusion that regional coal producers have only minimal control over production costs differs from the typical case in which firms may affect unit costs by pursuing different scales of production. However, the current analysis of the regional production process directly supports the contention that firms are not able to improve productive efficiency by increasing the scale of their operations. This issue is empirically modeled and further described in Appendix C. In many ways, this outcome relates to the distinction between "plant level" and "firm level" scale economies. In many instances, firms can reduce unit costs by making individual plants bigger. In the case of regional mining operations, however, the "plant" is the mine property which, absent regulatory constraint, is limited in size by the geography and geology of coal reserves. As a consequence, the only additional scale economies available to regional producers are the "firm" level savings that might come from averaging administrative and overhead costs over the output from a number of consolidated mining operations."[24]

Based on this discussion, the relevant question is whether or not there are significant potential cost savings attainable through the consolidation of regional coal producers. While the evidence is limited, the answer to this question would appear to be "No". Figure 3.1 depicts the four firm concentration ratio (the percentage of market output produced by the largest four producers) for Appalachian coal producers, other interior coal producers, and mining operations in the western US from 1970 forward. Certainly, Appalachian coal producers have had the incentive to reduce costs in any way possible, yet the level of concentration has remained constant. One implication of this relatively static concentration ratio is that attainable cost reductions through consolidation are minimal at best.

[24] This conclusion that available scale economies are firm level in nature appears to be largely shared by the Energy Information Administration (EIA). In its evaluation of the probable impacts of electric utility restructuring, the EIA suggests capturing scale economies through consolidations may be important. However, it also suggests that the source of available economies is limited to lowering per-unit overhead costs and by, "[increasing] producer's negotiating power to deal with larger generating and transportation counterparts." See "Challenges of Electric Power Industry Restructuring for Fuel Suppliers," Ch. 1, p. 6. U.S. Department of Energy, Energy Information Administration, DOE/EIA-0623, September, 1998.

Figure 3.1
Share of Regional Coal Production by Four Largest Producers in Region



The potential savings from the capture of firm level economies are illustrated in Figure 3.2. Within this figure, mine-level Average Total Costs are depicted by ATC_0. The ability to lower these average costs by expanding the mine size is, however, constrained by the geography and geology of the mining region. It is impossible to move downward along this curve beyond the quantity denoted as Q_{MX}. Any additional cost savings can only be achieved by lowering average overhead and administrative costs by averaging these expenditures across additional output from other mining facilities. Doing so would result in a new mine-specific Average Total Cost curve represented in the figure as ATC_1.

Figure 3.2

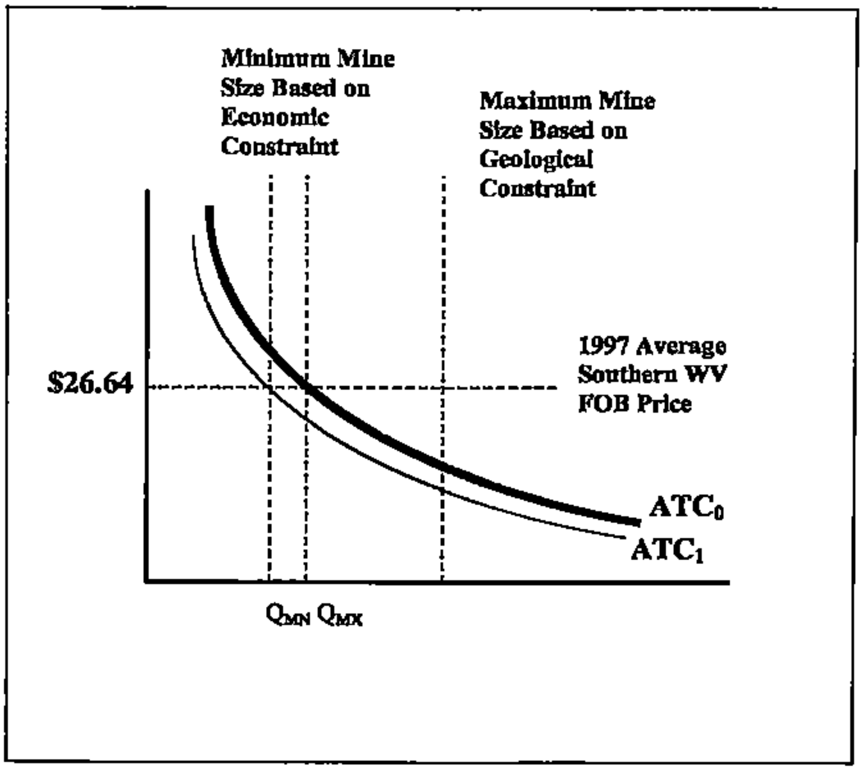


Figure 3.2 can also be used to illustrate the "scope" economies that exist between underground and surface operations. Economies of scope exist when a product can be made more cheaply when it is produced, in combination with one or more other products. For example, many have argued that electricity can be produced more cheaply when generating activities are combined with electricity distribution.[25] In the case of coal, underground and surface mining operations may exist independently of one another – even at separate locations, yet the delivered cost of each output can be made lower by the production of the other. This outcome is the result of scale economies in the blending and transportation of coal. Output quantities from both underground and surface mines are routinely combined in blending operations and the blended coal is routinely shipped as a single product. Both unit blending and transport costs are lowered

[25] Kaserman, David L.; Mayo, John W. "The Measurement of Vertical Economies and the Efficient Structure of the Electric Utility Industry." Journal of Industrial Economics; v39 n5 September 1991, pp. 483-502.

by additional quantities – quantities that are only made possible by combining the output from distinct surface and underground operation.[26] Within Figure 3.2, ATC_0 may be viewed as the Average Total Cost curve for an underground surface operation in the absence of a companion facility of the other sort. ATC_1, then, reflects the operation's Average Total Cost when the companion production facility is in operation. The implications of these scope economies are fully discussed in Appendix C. However, the results of the current analysis suggest that study region counties that have a relatively balanced mix of mining methods enjoy strong scope economies. The critical implication of this finding is that the loss of mines of either type may actually *increase* the costs of producing coal by the alternative method.

3.2.4 Additional Environmental Restrictions And Production Costs

The introduction to this chapter notes that most of the foreseeable changes that may affect regional coal production are demand-side in nature. The one major exception is the implementation of judicial decisions that may substantially reduce the size of certain surface mining operations. Figure 3.3 continues the same graphical construct in order to demonstrate the potential impacts of these additional restrictions on study region mining costs.

The judicial ruling in question – known as the "Haden decision" – is likely to have two impacts on the costs of *some* coal producers.[27] First, by limiting the locations in which valleys may be filled with the overburden from mountaintop mining, the Haden decision is likely to reduce the size of many surface operations or eliminate some entirely. The impact of this restriction on producer costs is depicted by a movement along ATC_0, in association with a reduction in quantity from Q_{MX} to Q_H.

The second potential impact of the Haden decision on production costs owes to the additional uncertainty this decision introduces. Economic decisions regarding continued production hinge on the short-run and long-run profitability of this production. To the extent that

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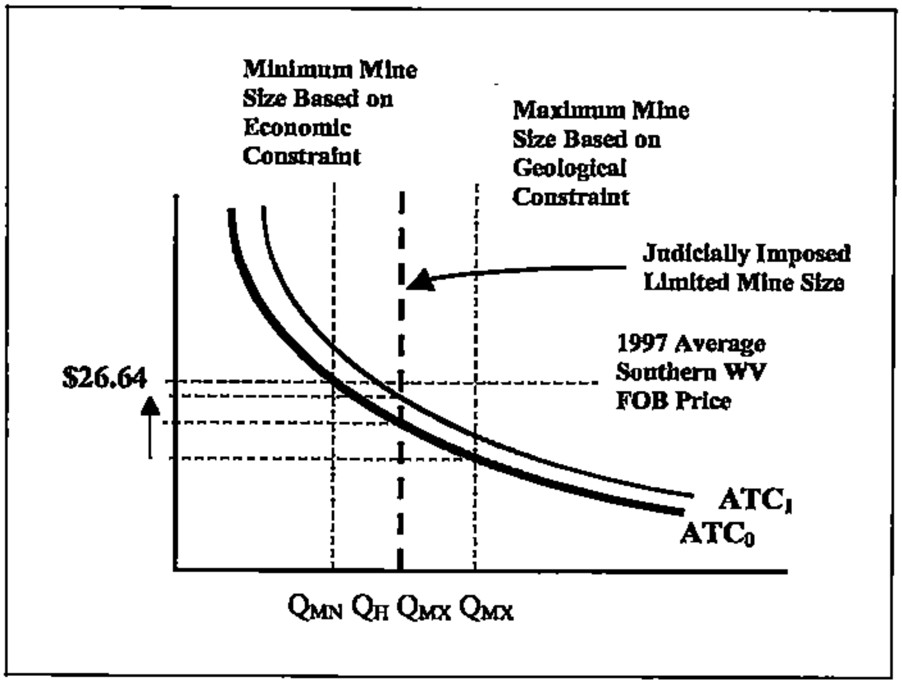
[26] Study region coal producers have acknowledged the relationship between quantity and average blending costs, but have been unwilling to quantify this relationship.. The relationship between shipment quantity and transportation rates is, however, well documented. See for Example, Mark L. Burton, "Railroad Deregulation, Carrier Behavior and Shipper Response: A Disaggregated Analysis," *Journal of Regulatory Economics*, Vol. 5, No. 4, December, 1993, pp. 417-34.

[27] Patricia Bragg, et al, Plaintiffs, vs. Colonel Dana Robertson, et al, Defendants. Civil Action 2:98-0636, U.S. District Court for Southern West Virginia, Charleston Division.

the Haden decision clouds assessments of this profitability, it may reduce investment, limiting future production capacity and causing future costs to rise. Within Figure 3.3, the additional uncertainty is reflected by a movement from ATC_0 to ATC_1.

Figure 3.3



3.3 Coal Pricing and Future Producer Profitability

The preceding two sections outline the ways in which ongoing changes are likely to affect the demand for and supply of study region coal. Chapter 4 quantifies these impacts in order to predict the overall economic impact on study region counties. Still, even in advance of these forecasts, it is possible to evaluate the qualitative effects of the foreseeable changes in West Virginia coal output quantities. Absent the Haden decision, the reduced demand for study region coal should result in a continued decline in mine-mouth prices and a measurable decline in output quantities. If the Haden decision is upheld, production costs at some mines will increase. These cost increases will further exacerbate the problems of regional producers by making it unprofitable to mine coal that is only marginally profitable under current conditions. Ultimately some producers may not survive this process. Whether firms are publicly owned or held privately, the long-run response to sustained negative firm profits is the same – market exit.

There is already evidence that the uncertain future facing regional coal producers is affecting economic outcomes and the fiscal health of regional coal producers. After reaching an all-time high of over 180 million tons in 1997, West Virginia coal production has declined over the past two years. Industry estimates suggest that 1999 totals may be as low as 162 million tons, a reduction of roughly 10 percent. While a two year output decline certainly does not constitute evidence of a long-run trend, it is consistent with the expected impacts of changing demand conditions.

It is also likely that effects of changing demands have been slowed somewhat by the existence of long-term contracts between producers and utilities made popular by uncertain supplies and rising fuel prices during the 1970's. Now, however, most West Virginia coal is sold via short-term contracts, so that the market for the study region's output is, in many ways, similar to a spot market, with only a smaller subset sold through long-term, fixed-price contracts.[28] The recent decline in spot market or short-term coal prices has made long-term contracts less attractive to customers, so that long-term contract volumes continue to fall.[29] Anecdotal evidence, as well as discussions with industry representatives, suggests that the last of the long-term contracts will have expired by 2003. This transition to short-term market pricing has interjected additional uncertainty into the transaction process and amplified the competitive pressure facing regional producers.

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[28] The long-run, fixed price contracts were popular with consumers during the 1970's and early 1980's, as nominal prices soared, concurrent with oil shortages.

[29] This is also the suggestion that long-term contracts are becoming less popular with electricity generators as they prepare for electric utility restructuring, "Challenges of Electric Power Industry Restructuring for Fuel Suppliers. Energy Information Administration".

Chapter 4 - Forecast Model & History

4.1 The Forecast Model & Simulations

Energy demand and the supply of fossil fuels are among the most heavily forecasted economic outcomes. These forecasts are typically of three types: consumer and industrial demand for electricity, geologic assessments of remaining reserves, and price forecasts of extracted fossil fuels. The forecasting efforts of the *Department of Energy's Energy Information Administration* provide detailed long-term assessments of the latter two, while a number of regional forecasting centers, as well as the *U.S. Geological Survey*, project the United States' extractable fossil fuel reserves. Similar international agencies and foreign governments also undertake these types of forecasts. These forecasts are critical to both individual firms, and state and federal planners in developing their own inventories and revenue assessments. An additional level of forecasting is available from academic sources, especially journals dedicated to energy research and forecasting method. However, these models often seek to illustrate a specific issue or methods and are therefore not typically of immediate value to a forecaster interested in a generalized prediction model from which simulations can be constructed.

Forecasting techniques involve the use of a purely statistical method (the time series approach), a structural model that evaluates causation, or a combination of these techniques. The model we have used here is the final type, a structural-time series model. We have selected this forecasting tool for a variety of reasons. The most important of these is the need to simulate policy changes and trends in other variables (e.g. electricity demand) on the quantity of coal produced in West Virginia. This purpose recommends a structural model that also captures historical information and relationships.

Use of a structural time series model for a short-run forecast and simulation is quite common. Indeed, it is the preferred method for this type of industry specific forecast.[30] However, this model differs from most existing coal models because it projects regional coal production from a supply and demand model. We were unable to identify any similar regional production forecast and simulation model within the economics literature. This study is unique in that

[30]For a more detailed explanation, see Appendix B. For a non-technical discussion of this technique, see Kennedy [1994]. For a technical treatment, see Granger [1989].

respect and offers an important tool for economic and fiscal planning in West Virginia. The model employed in this study incorporates the major supply and demand issues identified in Chapter 3 in order to evaluate the total effect of each on production of coal in the State. The data and variables selected for this estimation are derived primarily from data collected from the *Energy Information Administration* and the *U.S. Department of the Census*.[31] The full model is outlined in a technical form in Appendix B. This appendix describes the mathematical derivation of the model, the data, and the assumptions that were employed in its construction. In general, the model evaluates the quantity of southern West Virginia coal produced as a function of quality, end use demand, price, imports and exports of coal, the price of capital equipment, the price of labor, a technology trend and the county level industry structure (the number and share of surface and underground mines). See Table 4.1.

Table 4.1
Model Variables

Variable	Supply	Demand	Statistical Significance at the 5% level
Btu content	✓	✓	✓
Electricity Demand		✓	✓
Price per Btu unit	✓	✓	✓
Total Imports		✓	✓
Total Exports		✓	✓
Technology Variable	✓		✓
Interest Rate on Capital	✓		✓
Wages Paid to Miners	✓		✓
Underground Share	✓		✓ (for some counties)
Total Surface Mines	✓		✓ (for some counties)
Time Trend (autoregression)	✓	✓	✓ (for some counties)

As intended, this model proved to be especially effective in short run forecasting. In order to test this, we conducted an in-sample evaluation. This was accomplished by calibrating or estimating the model on data from 1980 through 1998, the latest data available at the time (March 2000). The 1999 levels of coal production were then forecast. Upon the release of the

[31]EIA data from *Monthly Energy Update*, various issues, Census Data from the *Regional Economic Information System*, 1997.

official 1999 coal production figures by the *Office of Miner Heath, Safety and Training* in April 2000, the forecast and actual values were compared.[32] The model performed well, under-predicting the 1999 regional totals by only 1.06 percent. This suggests that the model is useful in forecasting short-run regional coal production. Due to the limited data length and the general study motivation, we have not attempted to perform long-run forecast evaluations [33]

The satisfactory performance of this model permits the construction of a baseline forecast and two simulations. The baseline forecast illustrates the expected change in output without considering currently pending regulatory changes (primarily the Haden Decision). The two simulations involve evaluating the impacts of a phase-in of the surface mining restrictions contained within the Haden Decision and the simulation of an immediate curtailment of valley fill (effectively ending surface mining). In this context, the baseline forecast should be viewed as the production ceiling, while the restrictive Haden Decision simulation represents the production floor. There were an unlimited choice of potential simulation scenarios available. These were selected to simply provide a reasonable upper and lower bound on production levels to assist in local planning. The actual impact of the Haden Decision, especially in the technical restrictions on valley fill, are well outside the scope of this study. The predictions of each of these three scenarios are employed in a local impact analysis in each of the counties. The impact on the region, and the results of each forecast and simulation, will be outlined in Chapter 5.

4.2 The Baseline Forecast

The baseline forecast involved a shift in the real Btu quality price of West Virginia coal consistent with the previous three year history, and a change in regional exports consistent with the previous three years. All other variables remained unchanged, making the baseline forecast the expected output levels absent regulatory changes or market fluctuations that are not part of recent history. Changes in the *economies of scope* of production from our production function (Appendix C), were added to this forecast model. This resulted in minimal adjustments to the

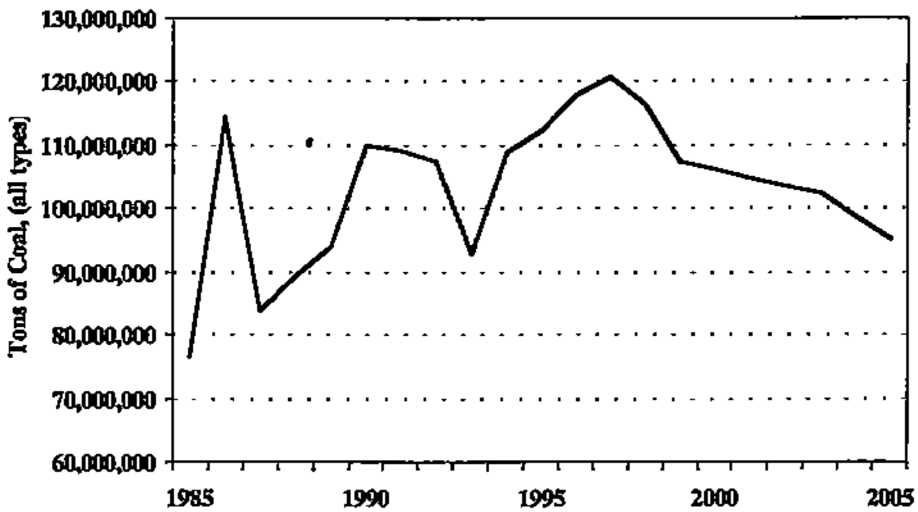
[32]The OMHST data is available on their world wide web site, www.msha.gov. These data were obtained directly from the OMHST, as extracted from their CADE19xx.exe data files. A reliable secondary source is the *West Virginia Coal Association*.

[33]There appears to have been a structural break (a coin tegration break) in the early 1980's production trend that presents serious theoretical challenges to forecasting models that incorpo rate observations prior to that period.

baseline forecast, since the mild change in the total output did not affect the counties' production economies of scope.

The baseline coal forecast for 2000 predicts a regional output decline of just over 7.1 percent, or just under 7.3 million short tons of coal. The direct dollar value of this decline, in coal only, is roughly $170 million. This baseline estimate is very consistent with the 1999 annual production decline of roughly 7.9 percent[34]. See Figure 4.2. The implication of these results is that, even ignoring potential additional restrictions on surface mining, the market forces described in Chapter 3 continue to erode regional coal production.

Figure 4.2
Total Regional Coal Production (Baseline Forecast)

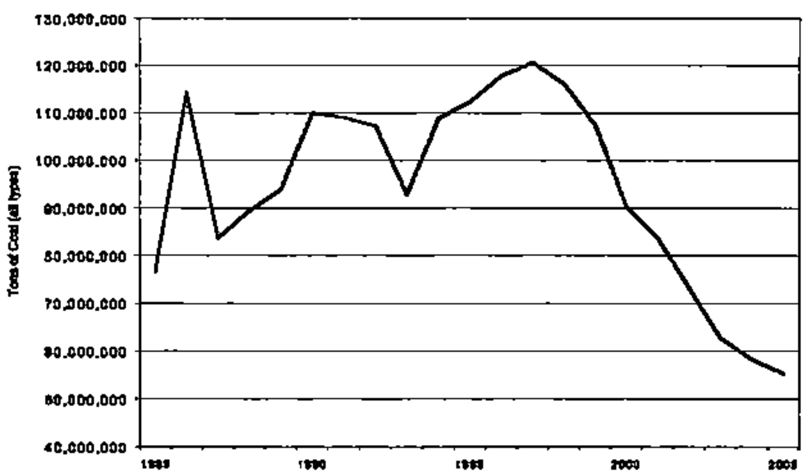


4.3 Phase In of The Haden Decision

An interpretation of the Haden Decision that restricts permitting of *new* valley fill generated our first alternative simulation. Under this scenario, mines that are currently operating, and have engaged in valley fill under permits may continue to produce. However, new mine permits that include valley fill allowances will not be issued. In practice, this virtually precludes further surface mining. There is no indication that, given the current economic climate, surface mining, on a significant scale, can continue without valley fill.

As a result, when currently permitted seams are mined to exhaustion and cease operations, surface mining will migrate from the region. This migration should occur at roughly the rate at which firms mine coal seams to the point where they cannot recover their production costs. This would be approximately the average life of a seam of coal under production. This study has not identified existing research establishing the average seam life in southern West Virginia. In order to provide a conservative estimate of this impact, we selected an average seam life of seven years, and assumed that all currently producing seams were newly permitted.[35] We then phased-in the impact of valley fill restrictions over a seven year period. This simulation should closely mirror the impact of mine closings resulting from the currently pending litigation already observed (e.g. the Daltex Mine). This scenario also includes the impact of the *economies of scope* issues on underground mining, whereby decreased surface mining imposes a higher cost on underground mining through its related production technologies (primarily in transport and processing), and hence will impact the level of production. The simulation results generated from the model project an output decline of roughly 16 million tons, with a value of $386 million, see Figure 4.3.

Figure 4.3
Total Regional Coal Production (Haden Decision Phase-In)



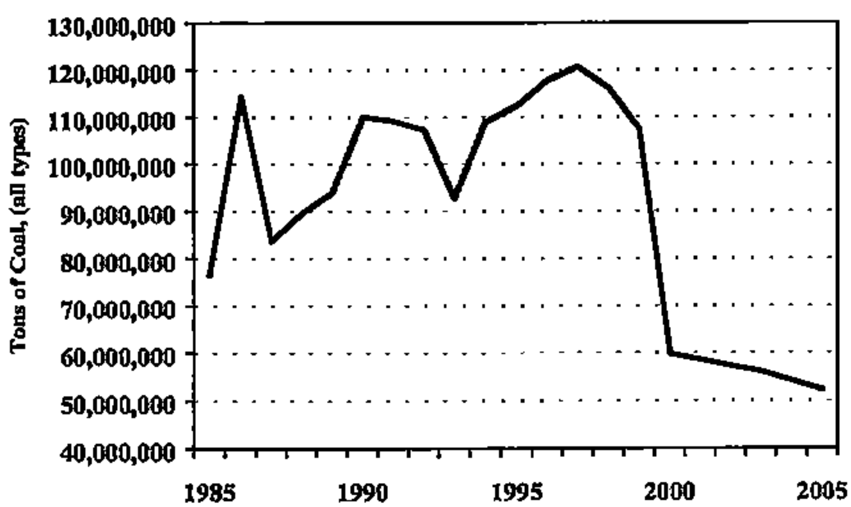
[34] Indeed, our county level baseline forecasts were very consistent with the *Beckley-Bluefield Region Outlook: 1999 – 2004* released in May, 2000 by WVU's Bureau of Business and Economic Research. In particular, the high growth in Raleigh, and sluggish growth in McDowell they predict coincided closely with this study's results.
[35] The selection of seven years was made following several unscientific discussions regarding the average life of a seam of coal. We feel the seven year period overestimates the lifespan of a coal seam, especially since we assumed all were originally permitted in 2000.

4.4 The Restrictive Haden Decision – A More Severe Case

The application of the Haden Decision's interpretation of the *Clean Water Act* is currently under appeal and will likely continue in litigation and/or arbitration for some time to come. The final resolution of mining and permitting practices is unforeseeable. However, to provide a lower bound to production, an extremely restrictive interpretation of the Haden Decision was employed in which all surface mining is forced to immediately cease. Remarkably, this is not the most potentially restrictive interpretation of this decision that could have been used. Here, we only simulate declines in surface mining production. It must be noted, however, that underground mines (and a variety of other types of construction in the region) also deposit spoil into valleys. Therefore, this scenario, though providing the lower bound to regional coal production in this study, is not as restrictive as it might have been.

Forecast estimates based on the restrictive Haden scenario suggest that an immediate cessation of surface mining would result in production declines of 47.5 million tons, with a first-year value of $1.093 billion. See Figure 4.4. This decline reflects not only lost surface production, but also some modest amount of lost underground production due to an inability to capture available economies of scope.

Figure 4.4
Total Regional Coal Production (Restrictive Haden Decision)



4.5 Short Run Price Effects of Reduced Study Region Production

The study region currently supplies roughly 10 percent of the nation's steam coal. If the Haden Decision is upheld, we estimate that as much as 50 percent of that production could be lost in a relatively short time period.[36] Mining industry advocates have suggested that this sudden reduction in coal supplies could lead to significantly higher fuel and electricity prices. Under such a scenario, currently unprofitable underground and (surviving) surface operations could become financially viable for a short period of time, so that study estimates of reduced regional output would be, to some degree, overstated. We do not, however, find this argument compelling and have not treated it with the current analysis. We have exercised this judgement for a number of reasons.

First, the movement from long-term contract to spot markets for coal means that utilities are already accustomed to searching for low-priced coal. Indeed, by the time the Haden Decision is implemented, we strongly suspect that most users of West Virginia coal will have developed contingencies that allow them to move easily to a reasonably competitive alternative market source.[37] This supposition is further strengthened by the fact that air quality standards are already forcing some utilities to begin the shift away from West Virginia coal. Secondly, to the extent that lost *economies of scope* affect underground mining costs, currently marginal underground operations may become far less feasible, even at mine-mouth prices that are made somewhat higher by lost surface production. Finally, given the intensity of competition in fuel and electricity markets, as well as the vast array of alternative fuel sources, it is likely that any variation in coal prices attributable to lost surface production in West Virginia will be very transitory in nature, so that the economic impacts detailed in Chapter 5 might be momentarily delayed, but in no way forestalled.

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[36] In 1999, the study region produced roughly 120,000,000 tons of the 942,000,000 tons demanded for the generation of electricity. The end use statistics are not disaggregated sufficiently to note final destination of the study region coal. Nationwide, roughly 90 percent of domestic coal is used for power generation. Though the study area production of coking coal is higher proportionately than the national average, the difference does not substantially effect this estimate. Data obtained from EIA, *Freme and Hong, U.S. Coal Supply and Demand: 1999 Review*. Proportions calculated by CBER.

[37] There is evidence that the railroad industry is already contemplating how the Haden Decision will affect the demand for coal transport (see *Traffic World*, November 15, 1999, pg. 19).

4.6 Summary

This chapter presents the non-technical outline of our forecasting and simulation model. The technical model and estimation techniques are provided in Appendix B. The technical exposition of the production function model appears in Appendix C. The baseline forecast and simulations used to drive the economic impact analysis that follows also appear in this chapter. The strong forecast model performance suggests it is an appropriate tool for developing short run predictions, yielding results that provide a solid basis for regional impact analyses.

The inclusion of *economies of scope* within the analysis and the role these economies play in producing accurate forecast results is particularly important. To some, these outcomes may seem counter-intuitive. However, the estimation results clearly demonstrate that any supposition that underground mining will fill the void of curtailed surface mining is incorrect. Quite to the contrary, the empirical analysis suggests that reduced surface volumes will increase the cost of coal mined underground within most study region counties.

Chapter 5 - Total Regional Impact

5.1 The Impact Analysis

The impact of the baseline forecast, the Haden Decision phase-in, and restrictive Haden Decision simulation were performed using the econometric models outlined in Chapter 4, and Appendixes B and C. The reduction in coal production under each scenario was used to generate estimates of industry income declines and these foregone incomes were, in turn, used to predict study region economic impacts. The local impact analysis performed using the IMPLAN simulation software, produced by MIG, Inc. This commercial software employs *Regional Impact Multipliers II* (RIMS II), collected by the *U.S. Bureau of Labor Statistics*. These multipliers quantify the regional flow of goods and services associated with each of the industries and all households in the region. For example, the RIMS II multipliers capture the local goods and services such as engineering services, transport, and fuel used by the coal producers. Similarly, the multipliers capture the coal industry employees' consumer goods purchases. Thus, the displacement of production and the incumbent loss of employee income is included within all calculations, and its impact on the regional economy is tallied by the IMPLAN software. This is the most commonly used and widely accepted method of analyzing local economic impacts. In this study, we present our estimate of the baseline forecast and the two study area simulations. Appendix A outlines the individual county-level impacts. Given that inter-county variations in impacts are sizable, the reader is encouraged to carefully consider these findings.

5.2 The Baseline Forecast

As outlined in Chapter 4, the total regional output decline in the baseline forecast for 2000 resulted in a regional output decline of just over 7.1 percent, or just under 7.3 million short tons of coal. The direct dollar value of this decline, in coal only, will be roughly $170 million in 2000. This baseline estimate is very consistent with the 1999 annual production decline of roughly 7.9 percent. The economic impact of this baseline forecast for year 2000, representing a roughly seven percent *reduction* in output, is illustrated in Table 5.2.

The analysis does not account for the full range of fiscal impacts that might be expected under this scenario. As noted, the loss of commercial activity is likely to spawn changes in both the demand for public services and the tax revenues collected. The (uncertain) rate of demand and revenue changes will affect the fiscal balance of the State and its individual counties. The loss of public employees resulting from a lower demand for school, public safety and administrative services will, in some part, balance the loss of tax revenues. The speed at which this occurs complicates a one year analysis, but does not forestall the final impact. We do anticipate a loss of commercial activity reducing public sector employment by 341 jobs. The direct loss of Severance Taxes to the State is estimated at roughly $8,367,000 under this scenario. Of this amount, we estimate that $6.28 million is the direct county share.

Table 5.2
Baseline Impact

Industry	Employment	Wages	Output
Agriculture	7	$68,180	$124,930
Mining	810	39,902,000	214,544,000
Construction	51	1,766,000	3,821,000
Manufacturing	16	443,700	1,827,000
TCPU	69	2,686,000	9,401,000
Trade	369	6,225,000	14,233,000
FIRE	52	981,400	8,307,000
Services	262	5,951,000	12,066,000
Other	10	78,620	78,630
Total	-1,646	-$58,101,900	-$264,402,560

Note: columns may not sum due to independent rounding. **TCPU is Transportation, Communications and Public Utilities. FIRE is Finance, Insurance and Real Estate.**

5.3 The Haden Decision Phase-In

The first alternative simulation estimates the effect of new seam permit stoppage. Based on the methodology outlined in Chapter 4, we estimate this prohibition would result in output reductions of roughly 14 percent annually. The simulation results this model generates project an output decline of roughly 16 million tons, with a first-year value of $386 million. The economic impact of this phased-in simulation for year 2000 is depicted in Table 5.3. The projections only account for first year reductions in coal output. Given no abatement in the production effects of restricted permits, this scenario predicts continuing declines in coal outputs and escalating economic impacts in each subsequent year.

Table 5.3
Haden Decision Phase-In Impact

Industry	Employment	Wages	Output
Agriculture	16	$155,000	$294,000
Mining	1,564	78,907,000	493,459,000
Construction	129	4,431,000	10,274,000
Manufacturing	41	1,456,000	7,115,000
TCPU	167	7,019,000	24,091,000
Trade	812	13,830,000	31,915,000
FIRE	140	2,964,000	21,863,000
Services	676	16,240,000	31,146,000
Other	30	226,000	226,000
Total	-3,575	-$125,228,000	-$620,383,000

Note: columns may not sum due to independent rounding. **TCPU is Transportation, Communications and Public Utilities. FIRE is Finance, Insurance and Real Estate.**

Under this scenario, we forecast the first-year loss of an additional 922 public sector jobs and a decline in State Severance Tax revenues of roughly $19.24 million, of which $14.43 million is the direct county share.

5.4 The Restrictive Haden Decision

The third simulation generated within this analysis is based on a scenario where all surface mining is immediately eliminated by Judge Haden's interpretation of the *Clean Water Act*. In this scenario, the loss of surface mining is compounded by a decline in underground mining in selected counties. Here, we estimate the restrictive Haden Decision will result in a coal production decline of 47.5 million tons, with a value of $1.093 billion. The economic impact of this phase-in simulation for year 2000 is outlined in Table 5.4. These figures reflect a dramatic, rapid loss in employment, wages, and output across the region.

Table 5.4
Restrictive Haden Decision Impact

Industry	Employment	Wages	Output
Agriculture	43	$182,021	$781,000
Mining	5,091	202,482,163	1,407,626,000
Construction	376	7,152,149	28,283,000
Manufacturing	115	1,606,054	19,796,000
TCPU	467	13,105,143	68,155,000
Trade	2,174	25,707,644	85,320,000
FIRE	388	4,257,164	60,982,000
Services	1,889	26,059,724	86,911,702
Other	89	429,026	7,539,000
Total	-10,632	-$280,981,088	-$1,765,393,702

Note: columns may not sum due to independent rounding. **TCPU is Transportation, Communications and Public Utilities. FIRE is Finance, Insurance and Real Estate.**

The third scenario offers the most dramatic commercial impact. Here, we anticipate the loss of an additional 2,612 public sector employees. Likewise, the expected State Severance Tax collections are forecasted to decline by roughly $54.89 million, of which $41.17 million comprise the counties' direct share.

Chapter 6 - Concluding Remarks

The preceding analysis yields a number of very important conclusions for West Virginia policy-makers. First, even if the Haden decision is not upheld, the near-term economic future of the State's southern coal producing region is unsure. Changes in both domestic and international markets for fuel owing to electric utility restructuring, stricter clean air standards, and increased international competition will almost certainly continue to place downward pressures on the price of West Virginia coal. These pressures are likely to result in lower output quantities and may ultimately lead some producers to exit the region. If the baseline forecast presented in Chapter 4 is correct, planners may encounter a 7 percent reduction in coal-related employment within the study region over the coming year. This reduction will, in turn, lead to a $58 million reduction in regional incomes and a $264 million reduction in overall regional economic activity. Outcomes in subsequent years are similar.

If the Haden decision is upheld, regional production will be further reduced. The actual magnitude and intertemporal course of these reductions is very difficult to predict. The foregoing analysis considers two scenarios that are both within the realm of reason. In the first of these scenarios, surface mining is gradually reduced, as currently permitted mines are retired and no new surface permits are granted. Even under this restricted scenario, the economic effects on the counties that comprise the study region are likely to be devastating. Total regional employment is predicted to decline by 4.3 percent, while overall regional economic activity is predicted to decline by $620 million within the first year. The economic impacts observed under the extreme scenario, in which the Haden decision leads to the immediate curtailment of surface mining, are even more extreme. A sudden cessation in surface mining is predicted to cost the study region more than 10,500 jobs, $281 million in incomes, and $1.8 billion in total economic activity.

Clearly, even the economic disruptions predicted under the baseline scenario are likely to demand policy responses on the part of both the State and local governments. In the very near term, reduced production, combined with falling prices, will diminish State Severance Tax collections. Indeed, current estimates suggest that severance tax collections are already falling at a rate that may approach 13 percent for the current fiscal year.[38] Likewise, the predicted reduction in coal production will likely lead to a reduction in a number of other State funding sources including, but not limited to, corporate net income tax collections, business franchise tax collections, personal income tax collections, and revenues from the collection of State sales taxes. To the extent that additional restrictions on surface mining methods further reduce regional coal production, the near-term strains on State revenue sources will be even more pronounced. Moreover, if the short-run trends predicted under the three scenarios considered here continue over even a few years, property values within the study region are likely to be negatively affected, so that local governments' ability to generate funds through property taxes will also be constrained.

Just as State policy-makers are likely to face declines in coal-related revenues, the short-run demand for State services is likely to increase. Almost certainly, a sustained decline in coal production will lead to the out-migration of study region residents, but this exodus is likely to occur with a lag as regional residents attempt to weather declining economic conditions before exiting the region. Thus, State and local governments may expect increased claims for unemployment benefits, Medicaid benefits, and other forms of public assistance. The magnitude of the short-run increase in the demand for governmental services will directly reflect the degree to which coal-related economic activity is reduced. Even if reduced coal production does ultimately reduce the demand for government-provided services by reducing local populations, reacting to these reduced demands may present a number of challenges to policy-makers. Absent the current population base, it may be necessary to further consolidate the provision of educational, social, law enforcement, and medical services. Such consolidations are rarely accomplished with ease.

The reader is urged to recall the short-run nature of the current analysis. The very near-term vantage adopted here largely obscures two points that are routine issues within more comprehensive discussions of the link between coal production and the economic viability of the study region. First, many may argue that the rather dire economic predictions proffered here fail to consider the potential replacement of coal-related economic activity with alternative

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[38] Because the State's severance tax is levied against gross receipts, the effect of reduced production on collected revenues is compounded by the impact of falling regional coal prices. The 13 percent figure is based on information obtained through the West Virginia Department of Tax and Revenue.

commerce. This is, in fact, true. Countless State and regional employees and policy-makers quietly and tirelessly endeavor to bring new non-coal economic activity to the study region and, at least in some study region counties, these efforts are yielding some successes. The growth of tourism in Fayette and Raleigh Counties described in Chapter 2, is a poignant example. Still, the task of bringing a vibrant, broad-based economy to a region that faces so many challenges cannot be accomplished with great speed. Thus, while current development efforts may eventually yield tangible and laudable results, it is our judgement that these efforts will provide little shelter for the region's current residents.

The second argument that is routinely encountered during discussions of the coal industry suggests that the more stringent regulation of surface mining activities will only hasten what is likely to be the same long-run outcome. It is argued that the increased competition in fuel markets documented here, when combined with the steady reduction in economically mineable reserves, points to a "West Virginia without coal" under any circumstance. We have neither the desire, nor the ability, to refute such claims. There are, however, two associated points that deserve equal treatment.

First, dramatic swings in the prosperity of coal producers and coal producing communities are more the exception than the rule. One need only contrast the almost manic coal production of the 1970's with the industries slump during the 1980's to understand this point. Thus, to pin predictions of significant long-run reductions in coal production on currently observable economic circumstances is, at best, perilous. Easily conceivable events, such as prolonged disruptions in international petroleum or coal production or the development of more efficient coal gassification processes, could, once again, renew the importance of West Virginia's coal reserves within domestic and international fuel markets.

Perhaps more importantly, even if all roads do lead to permanent and diminished role of coal production within the West Virginia economy, some roads are likely to be much bumpier than others. Given that our principal concern is the short-run economic consequences of various policies on the coal producing counties in the study region, we must conclude that a more gradual transition away from a coal-centered economy would be far less disruptive than a rapidly accelerated cessation in production.

In conclusion, the evidence developed within the current study implies that the coal producing region of West Virginia is likely to face significant challenges over the coming few years – challenges that will severely tax the energy and tenacity of the region's inhabitants, as well as the wisdom and resourcefulness of its leaders. However, there is nothing within these results that indicates helplessness. To the contrary, the variations in the predicted outcomes across populations, commercial sectors, and policy alternatives suggests that there are good choices to be made and bad choices to be avoided. This realization, in turn, obligates each of us to continue to investigate, discuss, and search for the most productive policy course.