SPECIAL MEETING OF THE
WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

9th Floor Conference Room*
Boulevard Tower
1018 Kanawha Boulevard East
Charleston, West Virginia

August 23, 2010
1:00 P.M.

AGENDA

I. Call to Order

II. Oath of Office

III. Update on West Virginia Education, Research and Technology Park

IV. Approval of Fiscal Year 2012 Appropriation Request

V. Approval of Financing Plan at Concord University

VI. Possible Executive Session under the Authority of WV Code §6-9A-4 to Discuss Personnel Issues

    a. Approval of Presidential Contracts and Compensation Packages

VII. Additional Board Action and Comment

VIII. Adjournment

**To join the meeting by conference call, dial 1-866-453-5550 and enter the participant code of 5245480#.*

West Virginia Higher Education Policy Commission
Meeting of August 23, 2010

ITEM:	Approval of Fiscal Year 2012 Appropriation Request
INSTITUTIONS:	All
RECOMMENDED RESOLUTION:	*Resolved*, That the West Virginia Higher Education Policy Commission approves the Fiscal Year 2012 appropriation request to be submitted to the West Virginia State Budget Office.
STAFF MEMBER:	Kevin Walthers

BACKGROUND:

As part of its statutory responsibilities, the Commission annually submits an appropriation request to the West Virginia State Budget Office aimed at supporting and enhancing the public policy agenda outlined both in West Virginia Code and the Commission's 2007-2012 Master Plan, *Charting the Future*. For FY 2012, Commission staff has developed a funding request that complies with the Budget Office's instructions by limiting requests for budget improvements to items that are essential and which ultimately enhance college access opportunities for greater numbers of West Virginians.

The table below provides a summary of the Commission's improvement request for FY 2012.

Higher Education Policy Commission FY 2012 Improvement Request		
Financial Aid		$8,000,000
Higher Education Grant	*$6,000,000*	
HEAPS Grant	*$2,000,000*	
Deferred Maintenance		$10,000,000
Commission Projects	*$8,000,000*	
Council Projects	*$2,000,000*	
Commission Funding Formula		$6,000,000
Commission Programs		$675,000
West Virginia Perinatal Partnership	*$250,000*	
Tuition Contract Program	*$425,000*	

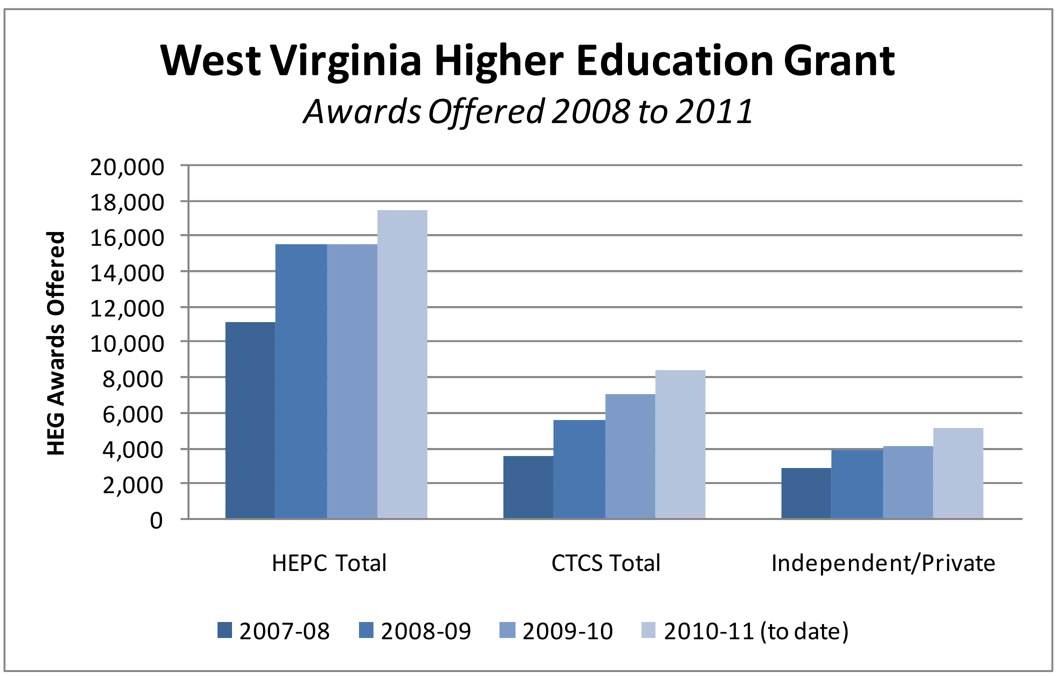
Budget Office projections show that long-term current program level funding continues to outpace estimated revenues; therefore, institutions are encouraged to exercise prudence as they examine their internal revenue and expenditure profiles. A copy of the six-year financial plan for West Virginia is provided in Attachment One.

Funding Priority One: Financial Aid

Staff recommends a FY 2012 improvement request of $8,000,000 for the state's major need-based financial aid programs. The Higher Education Grant Program and the Higher Education Adult Part-Time Student (HEAPS) Grant Program, receive approximately $35,000,000 and $5,000,000, respectively, on an annual basis. With an additional $6,000,000 of funding over two years, the Higher Education Grant Program would reach equity with the PROMISE Scholarship Program. An additional $2,000,000 for HEAPS is requested to accommodate increased demand from part-time adult students to enroll in postsecondary degree programs.

<u>Higher Education Grant Program - $6,000,000</u>

The West Virginia Higher Education Grant Program is designed to ensure that students with demonstrated financial need have access to postsecondary educational opportunities. House Bill 4049 (2006) included legislative intent to increase the Grant Program funding by two percent per year from FY 2006 through 2011. Since that time, demand for the program has grown substantially across all sectors of higher education. The Grant Program has offered financial awards to more than 31,000 students for the 2010-2011 school year. This represents an increase of 74.5 percent over 2007-2008 levels.



With limited funding and an increase in qualified applicants, the average award has declined from $3,300 to $2,100 for the 2010-2011 award year. Failure to provide funding for the state's increased demand for need-based aid will result in further dilution of the award, either in the amount of students served or in the amount of individual awards.

The PROMISE Scholarship Program has increased steadily over the last decade from $5,500,000 in FY 2002 to $47,500,000 in FY 2012. Commission staff is requesting that funding for the Higher Education Grant Program mirror that of the PROMISE scholarship. This funding request creates a two-step process with an improvement request of $6,000,000 for FY 2012 and intentions of an additional $6,000,000 of funding requested for FY 2013. The improvement for FY 2012 would take the Higher Education Grant Program from $35,019,864 to $41,019,864, which represents an increase of 17 percent. The two-step process would enable the award amounts to be resorted to prior levels. Assuming stability in the accepted award pool, this request would increase the average award to $2,450 in the first year and $2,800 in the second year.

<u>HEAPS Grant Program - $2,000,000</u>

The Higher Education Adult Part-Time Student (HEAPS) Grant Program provides access to students enrolled on a part-time basis in two-year and four-year colleges and universities, as well as public vocational-technical schools. An additional workforce development component of HEAPS currently assists students in workforce oriented programs. Because adult and part-time students frequently make educational decisions on non-traditional timeframes, the HEAPS Grant Program is largely decentralized in terms of student award decisions.

This request is for an additional $2,000,000 (to a total funded amount of $7,004,270) represents an increase of approximately 33 percent. The Program has been funded at approximately $5,000,000 since FY 2006. However, the Program received one-time supplemental funding of $1,000,000 in FY 2008 in addition to its regular funding. With the current economic situation, these funds will be used to support growing demand for the program for displaced workers and will assist in bringing more adults into the higher education system consistent with Senate Bill 595 (Vision 2020) and the Commission’s Master Plan.

Funding Priority Two: Institutional Capital Budgets

During the 2008 Regular Legislative Session, the Legislature established the Higher Education Capital Projects and Facilities Needs Committee to examine the process through which capital projects are prioritized and funded across the state’s postsecondary system. This Committee examined issues ranging from the need to develop a strategic plan to address systemic deferred maintenance issues to the desire of the Legislature for the Commission to play a more active and centralized role in project identification, selection, and management.

At the request of legislative leadership, Commission staff is working to build upon the recommendations outlined in the final report of the Higher Education Capital Projects and Facilities Needs Committee and will make a renewed effort during the Legislative session to introduce legislation to enact many of the provisions contained therein.

For the FY 2012 budget cycle, staff proposes a one-time appropriation of $10,000,000 to address deferred maintenance and code compliance issues in education and general (E&G) facilities.

Deferred Maintenance Projects - $10,000,000 (One-Time Request)

Building upon the investment made by the Legislature during the 2008 session, staff seeks the Commission's approval to update the list of high priority capital projects developed last year which address E&G deferred maintenance and code compliance issues for this one-time state appropriation. This appropriation would be used to fund selected projects up to $10,000,000 at both two-year and four-year institutions. If this request is successful, the funding distribution between the two systems would be in the range of 80 percent for Commission institutions and 20 percent for Council institutions. Consistent with prior practice, institutions would be required to match the state investment on a dollar per dollar basis with institutional or private funds.

Priority Three – Funding Formula

During the July 23, 2010 meeting, the Commission approved the conceptual framework for a new funding formula that aligns with *Charting the Future,* the Commission's 2007-2012 master plan for West Virginia higher education. The funding formula creates a policy venue through which finance policy is coherently integrated with the goals and objectives of *Charting the Future*. The funding model specifically addresses: 1) economic growth through increased graduate production; 2) access for non-traditional students; 3) cost and affordability through funding for inflation and learning; and 4) accountability through retention and course completion.

The proposed funding model seeks to balance the need to preserve access for all students while rewarding institutions for improvements in the key policy areas identified above. The fundamental tool for ensuring balance is to rely on numerical growth in programs rather than rates of success. The formula uses a rolling five-year average for graduates and adult enrollment. Funds are recommended for each institution that exceeds its rolling average.

The Commission's Efficiencies Task Force is considering a final draft for the funding formula. This request focuses on the key elements that institutions have direct control over and does not include a request for inflation or peer equity (two elements of the current formula).

Performance Funding: $6,000,000 (One-Time Request)

This request for $6,000,000 will provide additional funding to institutions that successfully improve these items:

1. Graduate production
2. Adult learners
3. Completion
4. Access
5. Retention

A recommendation for allocation of performance funds is currently under consideration by the Commission's Efficiencies Task Force. A key component of this discussion is development of a distribution plan for a partially funded formula. Once this is finalized, the Efficiencies Task Force will make a recommendation for the Commission to consider and forward to the Governor and Legislature.

Priority Four - Other Requests

West Virginia Perinatal Partnership - $250,000

The West Virginia Perinatal Partnership was initiated in 2006 through a grant from the Claude Worthington Benedum Foundation. The purpose of the program is to study, design, and recommend policy initiatives to address the State's poor medical and health outcomes for mothers and their newborns. The Partnership began with 30 organizations, institutions, state agencies, schools of medicine, and business groups interested in partnering to make improvements. As of 2010, the partners now number over 100.

There is no other place within West Virginia where professionals involved in perinatal policy development and health care delivery come together to study the data, debate cause and solution, and make recommendations regarding state policy to improve the health outcomes. Perinatal outcome studies and economic impact studies related to the costs of medical procedures have been conducted. Resulting policy recommendations have been reported to the medical schools, appropriate state agencies, state legislative committees, to the public and made available on the website.

The Central Advisory Council of the Partnership found that the important work of monitoring maternal and newborn outcomes is not being done in a partnership manner anywhere else in the State. Therefore, this request of $250,000 is so the Division of Health Sciences can assume responsibility for managing the functions of the West Virginia Perinatal Partnership. Funds to assist in program management currently come from the Claude Worthington Benedum Foundation and other foundation sources, but funding will expire in June 2011.

Tuition Contract Program - $425,000

The Tuition Contract Program provides tuition offsets for West Virginia students in veterinary medicine, optometry, and podiatry programs. This program allows West Virginians to pursue careers in these fields without the state incurring the substantial expense of developing programs. Over the last several years, the Tuition Contract Program has been incurring costs greater than the annual state appropriation and using carryover funds to subsidize these costs.

The additional funds will not expand the program – the projection is based on the current number of students in the various programs. Increased costs arise from a combination of an increase in the Southern Regional Education Board contract fees and a change in the list of participating institutions for the veterinary program.

Below is a table which shows the funding and costs of the Tuition Contract Program for FY 2010 through FY 2012. Assuming current appropriations of $1,020,852 and current enrollment patterns, the program will have used the FY 2011 projected reserve balance of $40,091 and still be short $372,475 for FY 2012. This improvement request of $425,000 should allow for a small balance at the end of FY 2012.

Tuition Contract Program				
	FY 2010	FY 2011	FY 2012	Change FY 2011 to FY 2012
Program Funding				
Current Appropriations	$1,020,834	$1,020,834	$1,020,834	--
Carryover from Previous Year	$328,423	$258,657	$40,091	($218,566)
Total Funding Available	**$1,349,257**	**$1,279,491**	**$1,060,925**	**($218,566)**
Program Costs				
Veterinary	$895,400	$1,016,400	$1,175,000	$158,600
Optometry	$166,800	$194,600	$228,800	$34,200
Podiatry	$18,400	$18,400	$19,600	$1,200
Administrative	$10,000	$10,000	$10,000	--
Total Program Costs	**$1,090,600**	**$1,239,400**	**$1,433,400**	**$194,000**
Balance/Deficit	**$258,657**	**$40,091**	**($372,475)**	**($412,566)**

The Budget Office's *Appropriation Request Instructions* issued for FY 2012 require state agencies to submit appropriation requests at the same funding level for all appropriated accounts at the FY 2011 level (less any one-time appropriations and surplus appropriations). The current level appropriation for higher education will include the FY 2011 appropriation plus funding from the American Recovery and Reinvestment Act of 2009 (federal stimulus funds) that will be allocated to the institutions.

The Budget Office has stated that the long-term current program level funding continues to outpace estimated revenues; therefore, improvement packages will not be approved absent extraordinary circumstances. There may be a small amount of latitude for one-time improvement requests. The six-year financial plan for West Virginia projects a gap of $244 million for FY 2011.

Staff believes that the appropriation request recommended in this document complies with the Budget Office’s instructions. Accordingly, staff recommendations focuses exclusively on budgetary improvements that are essential in meeting the mission of the Commission. The areas of strategic investment for FY 2012 are as follows:

Higher Education Policy Commission FY 2012 Improvement Request		
	Ongoing	**One-Time**
Financial Aid		
Higher Education Grant	$6,000,000	
HEAPS Grant	$2,000,000	
Deferred Maintenance		
Commission Projects		$8,000,000
Council Projects		$2,000,000
Commission Funding Formula		$6,000,000
Commission Programs		
West Virginia Perinatal Partnership	$250,000	
Tuition Contract Program	$425,000	
Total Request for FY 2012	**$8,675,000**	**$16,000,000**

Six Year Financial Plan

Four years ago, Governor Manchin initiated the comprehensive, easy-to-follow, "Six Year Financial Plan." This is a planning tool for analyzing future budgets, and any budget gaps shown must be balanced. This year's "Six Year Financial Plan" includes information on anticipated revenues and expenditures through FY 2015. As part of the plan, the basic revenue assumptions and the major expenditure drivers and planning processes are included, along with other smaller, yet consistent, items that continue to drive up expenditures over time. The goal of the "Six Year Financial Plan" is to provide the West Virginia Legislature and citizens a clear understanding of not only the FY 2011 budget, but also, the larger, long-term implications of the decisions made today on the future fiscal outlook. The "Six Year Financial Plan" does not reflect Special or Federal funds, although the funding and planning processes of these types of funds are definitely a major driver of total state revenue and spending. This plan is developed with extensive review of the major financial impacts of Special and Federal cash flows and reflects their impact. Using this plan, it is easy to see where the projected expenditures begin to outpace projected revenues (beginning in FY 2012), and it becomes obvious that the surplus revenues from previous fiscal years should not be expended for items that would add new obligations to the "base budget," but rather should be used for "onetime" needs or held for use to assist in offsetting anticipated future shortfalls.

Revenue

As shown in the "General Revenue Fund—Statement of Revenues by Source" (see the "Financial Statements" chapter), revenue collections are declining in the short term due to the impact of the "Great Recession." In fact, actual year-to-date FY 2010 General Revenue Fund collections thru November 30, 2009, are 7.4% lower than collections for the same period in the prior year. This decline follows a 0.7% decrease in FY 2009 collections from a peak of more than $3.9 billion collected in FY 2008. During the early stages of the Great Recession, West Virginia fared better than its neighboring states due to a strong energy sector with above normal energy prices. However, the Great Recession took its toll on West Virginia employment beginning in late 2008 and throughout 2009 with a cumulative loss of more than 24,000 payroll jobs. The Great Recession also began taking its toll on the energy sector during the second half of FY 2009 as energy prices fell sharply, several mines closed, and workers lost their jobs. The mining sector was the last sector to enter the recession and will likely be one of the last sectors to emerge from recession. More mine closures and job losses are likely in 2010 in response to lower demand for coal-fired electricity, growing coal stockpiles at power plants, and more stringent environmental oversight of the mining permit process. Income tax collections decline in response to lower employment, lower business profits, and lower capital gain realizations. Revenues collected in the Excess Lottery Fund also decrease due to both the impact of the recession and additional competition from neighboring states. These economic conditions result in a pattern of below normal revenue growth or even revenue decline between FY 2008 and FY 2012 due to the impact of a lengthy recession and a trend of declining energy prices, lower coal production, declining corporate income tax revenues, slow growing personal income and sales tax revenues, and the continuing emergence of video gaming competition from surrounding states.

Economic conditions resulted in a small revenue deficit (when compared to the estimated revenues) of less than $1.2 million at the end of FY 2009. Following revenue increases in excess of ten percent in FY 2005 and FY 2006, General Revenue Fund collections rose by a more modest 2.5% in FY 2007 and 4.7% in FY 2008. Following a decline of 0.7% in FY 2009, collections are anticipated to decrease by six percent in FY 2010 before rebounding slowly from the Great Recession with growth of two percent in FY 2011 and 3.9% in FY 2012. By FY 2012, total collections should come close to equaling the previous revenue peak of more than $3.9 billion set in FY 2008. General Revenue Fund growth for the FY 2012 to FY 2015 period averages roughly 3.6% in comparison with the long-term average growth rate of 4.1%.

Expenditures

Due to the effects of the current national economy on West Virginia's General Revenue collections and investment losses in the state's retirement systems (which will require increased funding in FY 2011) state agencies were asked to submit their FY 2011 General Revenue appropriation requests at 95% (Public Education at 96%) of their FY 2010 budgeted levels. These relatively small reductions will help agencies ease into the FY 2011 budgets. The FY 2011

General Revenue budget will be funded below FY 2007 levels. Federal stabilization funds and enhanced FMAP rates will backfill the reductions to education (public and higher) and Medicaid programs, which will allow these programs to continue to operate at current levels. West Virginia is positioned very well to handle the upcoming budget challenges with cash surpluses on hand, much of its federal stabilization funding still unobligated, and a relatively large Rainy Day Fund.

Beginning with FY 2012, projected expenditures continue to outpace projected revenues. The main cost drivers in the "Six Year Financial Plan" include providing health care through the Medicaid and Public Employees Insurance Agency programs and increasing costs of maintaining adequate correctional facilities for juveniles and adults. It is the ongoing goal of the Manchin administration to work to contain the growth of these key budget drivers in order to be able to fund other priorities in education, tax modernization, and economic development.

West Virginia is one of a handful of states that did not make reductions to FY 2008 or FY 2009 budgets. However, a midyear budget reduction has been implemented for FY 2010 due to the slowing of revenue collections. West Virginia remains on track to implement a balanced budget for FY 2011 and, while continuing to use our conservative budgeting approach, all future budget gaps will be addressed and balanced. Policymakers are dedicating most of the surpluses associated with higher energy prices and strong gaming revenues toward necessary onetime improvements and future anticipated budgetary shortfalls. Careful budgetary planning and responsible government initiatives will continue to serve West Virginia well in these unique economic times.

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

Revenue Assumptions in the "Six Year Financial Plan"

General Revenue

The General Revenue collection amounts are projected to increase approximately two percent for FY 2011, 3.9% for FY 2012, and by an average of 3.6% per year for FY 2013 through FY 2015.

General Revenue adjustment

It is anticipated that General Revenue collections will not meet the official estimate for FY 2010. Estimated shortfall is $120.8 million.

General Revenue - Surplus from previous FYs

General Revenue funds available for appropriation during FY 2009 include surpluses from previous fiscal years and a transfer from the Rainy Day Fund, which funded flood recovery efforts. $5.33 million of these funds remain unobligated and are included in the "Estimated Balance" line of FY 2009. The FY 2010 amount shown is the total anticipated surplus appropriations to be made during FY 2010.

Lottery

The regular Lottery funds are dedicated by statute for use for senior citizens, education, and tourism. Since General Revenue funds are used for the same programs, Lottery funds are included here as part of the total available, and program funding may be shifted between the two revenue sources. Lottery revenues are projected to remain flat through FY 2015.

Lottery - Surplus from previous FYs

Lottery Revenue surplus at the end of FY 2008 was $1.9 million and was available for appropriation in FY 2009. The total $1.9 million was appropriated during FY 2009, leaving no unobligated regular Lottery funds.

Six Year Financial Plan
FY 2009 through FY 2014
General and Lottery Revenues
(Estimated in Thousands)

	Actual 2009	Budgeted 2010	Recommended 2011	Projected 2012	Projected 2013	Projected 2014	Projected 2015
Estimated Revenue							
General Revenue	$3,901,552	$3,788,000	$3,741,680	$3,887,555	$3,991,760	$4,210,815	$4,324,610
General Revenue adjustment	0	(120,800)	0	0	0	0	0
General Revenue - Surplus from previous FYs	47,158	6,170	0	0	0	0	0
Lottery	170,068	166,012	167,007	167,816	167,816	167,816	167,816
Lottery - Surplus from previous FYs	1,929	0	0	0	0	0	0
Excess Lottery	257,998	184,218	182,965	207,183	180,183	180,183	180,183
Excess Lottery - Surplus from previous FYs	34,434	16,375	68,492	0	0	0	0
Total Available	4,413,139	4,039,975	4,160,144	4,262,554	4,339,759	4,558,814	4,672,609
Estimated Expenditures							
Base Budget		$4,197,891	$4,185,253	$4,294,309	$4,449,497	$4,760,215	$4,985,618
Expenditure Growth: *							
Legislature & Court of Claims		(1,041)	1,228	755	769	784	799
Supreme Court		2,146	0	2,244	2,286	2,328	2,371
Judges Retirement - Unfunded Liabilities		0	0	0	0	0	0
Higher Ed - PROMISE /Hi Ed Grant / Other		6,557	8,463	2,000	0	0	0
PERS - Increase in Employer Contribution %		1,581	19,960	0	0	0	0
Public Employees Insurance Agency Premiums		15,654	16,146	48,507	53,842	59,765	66,339
Teachers' Retirement Savings Realized		2,862	21,212	3,000	3,000	3,000	3,000
Teachers' Retirement System		41,673	89,428	0	0	0	0
State Aid to Schools		(3,668)	1,948	(1,436)	148	(7,982)	5,000
Public Education - Other Statutory Changes/Enhancements		1,797	(9,263)	1,264	1,274	1,735	2,000
Other Postemployment Benefits (OPEB) **		(30,730)	0	0	0	0	0
Medicaid ***		(45,167)	(28,514)	0	177,375	98,085	38,310
DHHR Health		3,013	(1,712)	2,000	2,000	2,000	2,000
DHHR Other Changes		(8,532)	(2,657)	1,000	1,000	1,000	1,000
Correctional Facilities Operations		3,704	(5,512)	8,509	8,557	9,000	9,000
State Police Longevity & Career Progression		413	486	450	477	458	411
Public Safety Retirement Plan A - Unfunded Liabilities		8,605	13,729	0	0	0	0
State Police Retirement B - Increase Employer Contribution		471	1,060	0	0	0	0
Program Enhancements/Unanticipated Expenditures		7,322	5,460	29,525	5,000	5,000	5,000
Salary Enhancements (Pub Ed included above for FY09) ****		3,357	250	57,370	54,990	50,230	50,230
Other Base Changes (net)		(22,656)	(22,656)				
Total Ongoing Base Budget	4,197,891	4,185,253	4,294,309	4,449,497	4,760,215	4,985,618	5,171,078
One Time Expenditures	138,735	25,261		5,000	5,000	5,000	5,000
One Time Reductions		(51,764)	(134,165)				
Midyear One Time Reductions (-3.4%)		(119,531)					
Transfer to Rainy Day Fund (1/2 Gen. Rev. surplus)	17,639						
Expirations	(17,715)						
Estimated Balance (Gaps)	**$76,589**	**$756**	**$0**	**($191,943)**	**($425,456)**	**($431,804)**	**($503,469)**

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

* FY 2009 - FY 2015 Expenditure Growth is the additional amount required annually to fund existing programs.

** Includes no funding of OPEB Unfunded Liability.

*** Includes Federal Stimulus enhancement in Medicaid FMAP of 6.2% (three quarters FY 2009, all FY 2010, two quarters FY 2011).

**** Includes base building pay raises (estimated CPI growth) of 2.4% FY 2012, 2.3% FY 2013, 2.1% FY 2014 and 2.1% FY 2015.

Excess Lottery

The Excess Lottery Fund will continue to be a major source of funding, although increased lottery sales competition from other states could affect collections in the out-years. Revenues are projected to remain relatively flat through FY 2015.

Excess Lottery - Surplus from previous FYs

The Excess Lottery Fund surplus at the end of FY 2009 was $156.1 million of which $16.375 million is anticipated to be appropriated during the 2010 Regular Legislative Session for onetime items and $68.492 million is used to balance the FY 2011 budget. $71.26 million of these funds remain unobligated and is included in the "Estimated Balance" line of FY 2009.

Expenditure Assumptions in the "Six Year Financial Plan"

Base Budget

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

Expenditure Growth

The various items that comprise Expenditure Growth are the "budget drivers" that have the greatest impact on increases to expenditures, or they may be items of a less significant amount but continue to increase over time. The amounts listed under Expenditure Growth are the additional amounts necessary on an annual basis to maintain or enhance the services to the required level. These amounts are added to the Base Budget from the prior year to determine that particular fiscal year's Total Ongoing Base Budget. For FY 2011, several items have been recommended to be increased while many others are recommended for decrease.

The following is a brief explanation of the FY 2011 expenditure growth and program enhancements as detailed in the "Six Year Financial Plan."

Legislature and Court of Claims. The Legislature requested five percent less than their FY 2010 appropriation, and $2.5 million more has been requested by the Court of Claims for FY 2011 compared to the FY 2010 budget level. The Legislature's future budgets are estimated to increase by less than two percent.

Supreme Court. The Constitution requires that the Governor fund the Supreme Court as requested. The Supreme Court requested no increase in appropriations for FY 2011. Based upon past history, future expenditure growth should continue to be in line with an annual growth rate of approximately 1.85%.

Judges Retirement - Unfunded Liabilities. There is no additional recommended funding for FY 2011, and although investment losses occurred in FY 2009, the funded ratio of the Judges Retirement System is still over 80%.

Higher Ed - PROMISE /Hi Ed Grant / Other. The Higher Education Grant Fund (W.Va. Code §18C-5-3) calls for a two percent statutory increase of $686,664. This two percent statutory requirement is no longer required after FY 2011. The PROMISE Scholarship requires a statutorily increase (pursuant to W.Va. Code §18C-7-7) of $3 million in FY 2011 and a decrease of $500,000 in FY 2012. Funding of $2.5 million each for Marshall and Fairmont State universities (two years of base building) is also included in FY 2011 for costs associated with the decoupling of the community and technical schools from these universities. An additional $1.25 million is also included in FY 2012 for each of these universities, which will be the final round of funding associated with the decoupling of the community and technical schools from these universities. Federal Stabilization funds of approximately $28 will be used in FY 2011 to offset any budget reductions that cause Higher Education institutions to fall below the funding levels of FY 2009.

PERS - Increase in Employer Contribution %. Due to additional losses in investments during FY 2009, the employer contribution in FY 2011 will require an estimated increase in the employer match from 11% to over 17% of salary costs, costing the General and Lottery funds $19.96 million. The FY 2012–15 estimates assume investments return to the annual 7.5% gains required in the long-term funding plan.

Public Employees Insurance Agency Premiums. To maintain current level insurance coverages in PEIA, an additional employer premium increase of about 9% in the FY 2011 budget would have been required, costing the General and Lottery funds over $44 million. The Governor's FY 2011 recommendation funds an additional employer premium increase of four percent and a $3.5 million employer subsidy payment to help offset any reductions in employee benefits. Significant double digit percentage increases are projected over the course of the next four fiscal years if current levels of benefits continue to be offered to employees and retirees, requiring multimillion dollar increases in the General and Lottery funds' share of premiums. Over $48 million of additional funding will be needed for FY 2012, while FY 2013 through FY 2015 will require additional funding of over $50 million each year. Thus, PEIA's outlook for the future continues to be a major concern and represents another of the major financial challenges facing West Virginia. PEIA cannot assume the economic conditions of the state will continue to permit increased premium revenues for the agency, nor can PEIA assume trend results will continue to be lower than anticipated.

Teachers' Retirement Savings Realized. The W.Va. Code §18-7A-39 requires any savings realized from the reduction in employer contributions for current retirement benefits—being the difference between the required employer contributions that would have been required into the Teachers' Defined Contribution System and the required employer contribution for normal cost into the State Teachers' Retirement System—shall be deposited into the Employee Pension and Health Care Benefits Fund. This estimated calculation requires funding in FY 2011 of an additional $21.212 million, bringing the total funding for FY 2011 to $27.9 million.

Teachers' Retirement System. The State has made significant strides toward the long-term funding of the State's retirement systems. Of the additional surplus revenues available during FY 2005–2009, an additional $719 million was used to help pay down the unfunded liability in the Teachers' Retirement System, drastically reducing the unfunded liabilities of that system. During the 2007 Legislative Regular Session, legislation was approved that authorized the sale of Tobacco Settlement Bonds. The bonds were sold in June 2007 and netted over $807 million in proceeds for the State's Teachers' Retirement System. These bond proceeds, along with additional extra retirement contributions made over the last five fiscal years, result in total additional deposits of $1.5 billion being deposited into the pension system.

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

Due to unrealized investment losses occurring in FY 2008 and FY 2009, the current amortization schedule for the Teachers' Retirement System will require estimated additional funding in FY 2011 of $89.428 million above the FY 2010 level to maintain the current amortization plan through the year 2034. If earnings are more than 7.5% per year, the funding level can be lowered, if earning are less than 7.5%, the funding level must be raised. FY 2012–15 assumes future investment earnings of 7.5%. The increases in funding required for FY 2011 would have been much larger without the recent excess contributions made by the Legislature and the Governor to pay down unfunded pension debt by using the recent surplus monies and the securitization of Tobacco Master Settlement Agreement proceeds.

State Aid to Schools. The Basic State Aid to Schools Formula for public education (excluding PEIA and retirement costs shown in other lines) requires an increase of $1.948 million for FY 2011. The Governor's FY 2011 budget reduces the required Step 1 funding level in the school aid formula by $87.071 million and uses remaining available Federal Stabilization funds to back fill this reduction. Budget projections for the outgoing years are based on cost estimates relating to school aid formula changes with the passage of HB 4588 in the 2008 Regular Legislative Session.

Federal Stabilization funds usage summary (estimated):

Total Available Federal Stabilization Funds		$217,970,970
Public Education	FY 2010	(80,588,188)
Public Education	FY 2011	(87,071,400)
Higher Education	FY 2010	(22,117,432)
Higher Education	FY 2011	(28,193,950)
Remaining Federal Stabilization Funds		$0

Public Education - Other Statutory Changes/Enhancements. The Department of Education and Schools for the Deaf and the Blind's employees are statutorily paid at the same county pay scales as professional educators and service personnel. Employees' salaries increase with additional years of service. Adjustments in increased enrollment, national certification, high acuity special needs, and other statutory requirements are also accounted for here.

Other Postemployment Benefits (OPEB). Exacerbating the financial problem with PEIA are changes by the Government Accounting Standards Board requiring greater disclosure (GASB 43 and 45) of the costs of providing health benefits to both current and retired employees—other postemployment benefits (OPEB). During the 2006 Regular Legislative Session, the West Virginia Retiree Health Benefits Trust Fund was established to account for OPEB and comply with GASB 43 and 45. Currently, there is no permanent funding mechanism for OPEB. The unfunded liability for OPEB at June 30, 2009, was estimated to be $6.7 billion. The major cost driver in West Virginia's OPEB is the subsidization of retirees' health care premiums. It is estimated that agencies subsidize over 70% of the retirees' premiums, and retirees contribute less than 30% in actual premium costs. The PEIA Finance Board has taken the first steps in addressing this part of the OPEB problem by requiring any employees hired after July 1, 2010, to pay the full cost of premiums when they retire. This change will not have a substantial impact on the unfunded liability in the short term but will virtually eliminate the unfunded liability in the long run. However, other major fundamental changes still need to occur in the offering of benefits related to retiree health care. Current level offerings are not sustainable in the long run unless major, new funding sources are found.

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

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

Several other factors will influence the increase in the Medicaid program, including medical inflation, the economy, and how health care will be addressed at the federal level. If the Medicaid Provider Tax, trust fund, and lottery sources of the State match remain relatively constant, the General Revenue Fund will have to supply the additional funds to cover future increases in cost.

Due to a host of factors, including responsible management and the current Federal Stimulus that includes an FMAP increased enhancement of about 6.2%, the State is projecting for the next two fiscal years that it will not need any increases to the Medicaid program from the General Revenue Fund. In FY 2013, however, the increase of new funding is projected to exceed $177 million with an additional increase of over $98 million in FY 2014 and over $38 million in FY 2015.

DHHR Health. The Governor recommends a reduction of $1.7 million in the FY 2011 budget for DHHR health-related items. These minor reductions in funding should not cause changes to program services. Alternative funding sources and prior year reappropriations will be used to replace General Revenue funding.

DHHR Other Changes. It is recommended that other DHHR budget changes of net ($2.657) million be made in the FY 2011 budget. These reductions in funding should not cause changes to program services. Alternative funding sources and prior year reappropriations will be used to replace General Revenue funding.

Correctional Facilities Operations. Inmate medical costs at the correctional facilities rise each year. Additional inmates, increased aged inmate population, increased chronic medical illnesses, and the rising cost of medical care in general places pressure on medical expense funding. The FY 2011 budget maintains the Inmate Medical Expenses and the Payments to Federal, County, and/or Regional Jails at the FY 2010 funding levels. Improvements of over $2 million are recommended in FY 2011 for additional and new employees in work release centers, work camps, and parole services to address some of the issues in the report to the Governor from "The Governor's Commission on Prison Overcrowding."

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

Public Safety Retirement Plan A - Unfunded Liabilities. Due to unrealized investment losses occurring in FY 2009, the current amortization schedule for the Public Safety Retirement Plan A will require additional funding in FY 2011 of $13.729 million above the FY 2010 level to maintain the current amortization plan. Fiscal Year 2012–15 assumes investment earnings of 7.5% in the future.

State Police Retirement B - Increase Employer Contribution. Due to losses in investments during FY 2009, the employer contribution for the State Police Retirement Plan B will require the employers' match to increase from 15% to 19.5% of employees salaries, costing the General Fund over $1 million in additional funding. FY 2012–15 assumes investment earnings of 7.5% in the future.

Program Enhancements/Unanticipated Expenditures. These include unanticipated expenditures not already included in other lines of the "Six Year Financial Plan." For FY 2011, additional funding is included for the operation of the newly constructed Jones Building Treatment Center, three additional new youth day reporting centers, and other small unanticipated increases.

Salary Enhancements. FY 2011 includes $250,000 for the pay equity initiative. We have assumed pay raises in the out years based on the growth of inflation (CPI). FY 2012 allows for a 2.4% base building pay raise, FY 2013 shows costs of a 2.3% raise, FY 2014 the cost of a 2.1% raise, and FY 2015 the cost of a 2.1% raise.

Other Base Changes (net). Due to anticipated decreases in General Revenues for FY 2011, agencies were asked to submit their FY 2011 budget requests at 95% (96% for Public Education) of their FY 2010 base budget appropriations. This line in the Six Year Financial Plan shows the net total of all other base changes not already included in other sections of the plan.

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

Onetime Reductions. Onetime reductions in TRAFFIC of $15 million, $3.9 million in the Governor's Contingency Fund, $87 million in Public Education (back filled with Federal Stabilization funds) and $28 million in Higher Education (back filled with Federal Stabilization funds). All these onetime reductions are included in the beginning base budget for FY 2012 and beyond because they are backed out of only the FY 2011 base funding.

Midyear One Time Reductions (-3.4%). Onetime FY 2010 midyear budget reductions. All FY 2010 midyear reductions are considered onetime and are included in the beginning base budget for FY 2011 and beyond.

Transfer to Rainy Day Fund (1/2 Gen. Rev. surplus). A statute requires that half of any General Revenue surplus be transferred to the Rainy Day Fund. At the end of FY 2008, the General Revenue Fund had a surplus of $35.278 million; that amounted to a $17.638 million transfer to the Rainy Day Fund during FY 2009.

Expirations. Expirations at the end of FY 2009 totaled $17.715 million. These are funds that were not used by agencies and were not reappropriated to FY 2010.

Estimated Balance (Gaps). The Estimated Balance is strictly the excess or deficit (gap) of revenues vs expenditures on an annual basis. The balance is not carried forward to the following fiscal year. One half of any excess balance of General Revenue is put into the Rainy Day Fund for savings to be used to offset the projected shortfall in the future, used for paying unfunded retirement/benefit liabilities, or used for other onetime expenditures. The other half of any excess balance, plus any surpluses from Lottery funds, becomes available for appropriation in the subsequent fiscal year. As is clearly seen in the "Six Year Financial Plan" beginning in FY 2012, substantial budget gaps must, and will, be addressed and balanced.

Six Year Plan Summary

The "Six Year Financial Plan" includes the best estimate of revenues and expenditures based on currently known facts and are the best assumptions we can make on a future basis. The further into the future we project revenues and expenditures, the greater the chance of deviation from the projections. For example, the end of the next budget year, FY 2011, is still 18 months into the future from the date the projections were completed. The General Revenue Fund estimate is over $3.7 billion for FY 2011. Just a one percent deviation from the estimate will result in a $37 million difference in revenues. Depending on this deviation being either higher or lower, the range of actual difference in revenue could be $74 plus million ($37 million under estimate to $37 million over estimate).

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

Not included in the projected expenditures is any additional funding for inflationary expenses to cover the rising cost of energy consumption for State-owned buildings and vehicles, OPEB funding, nor funding for any major new program.

Budget Summary

FY 2009

The end of FY 2009 again saw surpluses for the General Revenue and Lottery funds—the General Revenue Fund ended the year with a surplus of over $22 million. One half, or $11 million, was transferred to the Rainy Day Fund. The Rainy Day Fund balances total over $542 million at December 31, 2009.

Surpluses from FY 2009 activity in the Excess Lottery Fund totaled more than $57 million. The revenue surpluses are recommended (during the 2010 Regular Legislative Session) to be used to fund major, onetime supplemental appropriations for the West Virginia Public Defender Services and the Division of Corrections. These surpluses are also recommended to be used to fill the remaining budget gap in FY 2011 and to help to make up some of the FY 2012 funding shortfall.

Beginning in FY 2009 and continuing into FY 2010, the national economy changed, and West Virginia, along with every other state, experienced unrealized losses in their long-term investment portfolios. While other states had to make midyear revisions to their revenue estimates and budget cuts to their FY 2008 and FY 2009 budgets, West Virginia remained among a handful of states that did not have to implement budget reductions for these fiscal years.

FY 2010

General Revenue was originally predicted to decrease by 2.9% below FY 2009 revenue collections. Lottery and Excess Lottery revenues were estimated to decrease by 1.8% below FY 2009 actual collections. Major budget expenditure driver increases for FY 2010 include a 6% increase in the employers' share of PEIA premiums and increased funding for the retirement systems due to the downturn in the national economy and the associated investment losses.

While General Revenue collections continue to slightly outpace estimates during the first six months of FY 2010, economic conditions have caused collections to slow in the major revenue sources of consumer sales and use tax and in the personal income taxes. Total General Revenue collections are now expected to be about $120 million less than originally predicted. This anticipated shortfall in FY 2010 revenues has required the State to implement a 3.4% midyear budget reduction for General Revenue accounts. All the midyear adjustments will be considered onetime reductions and most will be offset with Federal Stimulus funding. Lottery revenues appear to be on track for the current fiscal year.

FY 2011

General revenues are predicted to grow two percent above FY 2010 revenues. Lottery and Excess Lottery revenues are expected to remain flat. Major budget expenditure drivers for FY 2011 are a four percent increase in the employers' share of PEIA premiums and increased funding for the retirement systems due to the downturn in the national economy and the associated investment losses. The retirement funding alone accounts for $145 million of additional base building costs in FY 2011.

Careful budgetary planning, with an eye on future budget requirements, will continue to be a fundamental part of West Virginia's approach to maintaining balanced budgets while providing necessary services to her citizens.

West Virginia Higher Education Policy Commission
Meeting of August 23, 2010

ITEM:	Approval of Financing Plan
INSTITUTION:	Concord University
RECOMMENDED RESOLUTION:	*Resolved,* That the West Virginia Higher Education Policy Commission approves the financing plan of Concord University for renovation of the J. Frank Marsh Library, The University Child Care Center, and Towers Residence Hall.
STAFF MEMBER:	Richard Donovan

BACKGROUND:

Concord University has an opportunity to secure a combination of grant funding and capital financing offered through the United States Department of Agriculture's (USDA) Community Programs for several projects. The USDA's Community Programs is available to public entities such as municipalities, counties, special-purpose districts, non-profit corporations and tribal governments and provides loans, grants and loan guarantees to develop and improve essential community facilities for public use in rural areas and towns with populations of up to 20,000. The projects the program funds may include hospitals, fire protection, safety, energy conservation, as well as many other community-based initiatives. The source of funding is from the American Recovery and Reinvestment Act (ARRA) funds appropriated to the USDA by Congress. It is anticipated that Concord will be able to fund the following projects through this program:

- <u>J. Frank Marsh Library ($500,000)</u>: Federal funding will be used to replace the roof, replace the fire alarm system, and renovate the Library front entrance to permit direct ADA access to the Library main floor and provide multiple ADA access points at other entrances, including an access which is not dependent on using an elevator. Concord will receive a $200,000 grant and fund $300,000 with a twenty-year loan at four percent interest. No interest will be charged during construction.

- <u>The University Child Care Center ($150,000)</u>: The project will involve purchasing and installing kitchen equipment and appliances, including a commercial sink, shelving, cabinetry, plumbing, electrical wiring, and a fire suppression system needed to outfit a kitchen that will meet Mercer County Health Department, State and USDA requirements. Additionally, the project will provide air conditioning and new flooring for the lower level of the Center and will include security hardware and doors. Concord will receive a $100,000 grant and the remaining $50,000 will be provided through a four percent loan for ten years.

- Towers Residence Hall Renovation ($3,000,000): The Towers Complex is poorly insulated, subject to water leaks and is not sufficiently climate controlled. The project will insulate exterior walls, provide new energy efficient windows and new energy efficient heating and air conditioning units in each room. The entire cost of this project will be funded by a thirty-year loan at four percent interest. There will be no interest charged during construction; however, the interest rate is subject to change if the application is submitted beyond the current quarter.

Tables 1 and 2 below show the project funding and debt service requirements. Concord plans to adjust the operating budgets for the J. Frank Marsh Library and Child Care Center to accommodate annual debt service requirements within existing fee collections. Debt service for the Towers Residence Hall renovation will require an increase in the Towers housing fee of approximately eight and one-half percent (see Table 3).

Table 1
Project Funding Requirements

	J. Frank Marsh Library	University Child Care Center	Towers Residence Hall	Total
Total Funding Requirements				
Estimated Project Cost	$ 500,000	$ 150,000	$ 3,000,000	$ 3,650,000
Est. Bond Counsel Fees	8,571	1,429	16,000	26,000
Est. Other Closing Costs	3,000	500	15,000	18,500
Total	511,571	151,929	3,031,000	3,694,500
Grant and Available Funding				
Grant Funding	200,000	100,000	-	300,000
Available Cash	11,571	1,929	31,000	44,500
Total	211,571	101,929	31,000	344,500
Net Amount to be Financed	$ 300,000	$ 50,000	$ 3,000,000	$ 3,350,000

Table 2
Debt Service

	J. Frank Marsh Library	University Child Care Center	Towers Residence Hall	Total
Debt Retirement Costs				
Term (Months)	240	120	360	
Interest Rate	4.00%	4.00%	4.00%	
Est. Annual Debt Service	$ 21,808	$ 6,074	$ 171,870	$ 199,752
Source of Debt Retirement Funding				
Library Fee	98,986			98,986
Child Care Center Fee		50,697		50,697
Housing Revenue Increase			171,882	171,882
Total	$ 98,986	$ 50,697	$ 171,882	$ 321,565

Table 3
Towers Residence Hall

Current Housing Data	
Current Occupancy	575
Annual Room Rate	$3,546
Annual Revenue	$2,038,950
Adjusted Housing Data	
Increased Room Rate	$3,847
Revenue Based on Current Occupancy	$2,212,025
Additional Revenue Based on Current Occupancy	$173,075
Annual Increase	$301
Increase per Semester	$151
Percent Change	8.5%