2011
Debt Capacity Report

West Virginia State Treasurer's Office
John D. Perdue, Treasurer

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Introduction

The Treasurer must submit an annual Debt Capacity Report to the Governor and the Legislature. According to West Virginia Code §12-6B-4, the report should consider:

> The amount of net tax supported debt that, during the next fiscal year and annually for the following ten fiscal years, which will be outstanding, and has been authorized but not yet issued.
>
> Projected debt service requirements during the next fiscal year and annually for the following ten fiscal years based upon existing outstanding debt, previously authorized but unissued debt, and projected bond authorizations.
>
> Any information available from the budget section of the Department of Revenue in connection with anticipated capital expenditures projected for the next five fiscal years.
>
> The criteria that recognized bond rating agencies use to judge the quality of state bonds.
>
> Any other factor that the Division finds as relevant to the ability of the state to meet its projected debt service requirements for the next fiscal year, the ability of the state to meet its projected debt service requirement for the next five fiscal years, and any other factor affecting the marketability of the state's bonds.
>
> The effect of authorizations of new tax-supported debt on each of the above considerations.

One of the major tools that this report utilizes in making this annual examination is the use of various ratios. These ratios act as benchmarks to show the state's current debt in relation to revenues, personal income and debt per capita. Although these ratios are more closely examined in the report, the following shows the recommended "caps" and the state's current position:

- Net Tax Supported Debt Service as a percentage of the General Revenue Fund
  - Recommended Cap: 6.00%
  - June 30, 2010 level: 5.52%
  - Currently projected highest level: Fiscal Year 2011 (6.08%)
- Net Tax Supported Debt Service as a percentage of Revenues
  - Recommended Cap: 5.00%
  - June 30, 2010 level: 4.32%
  - Currently projected highest level: Fiscal Year 2011 (4.76%)

- Net Tax Supported Debt as a percentage of Personal Income
  - Recommended Cap: 3.10%
  - June 30, 2010 level: 2.99%
  - Currently projected highest level: Fiscal Year 2011 (3.14%)

- Net Tax Supported Debt per capita
  - Recommended Cap: $1,100
  - June 30, 2010 level: $970
  - Currently projected highest level: Fiscal Year 2011 ($1,044)

One major flaw of these recommendations is that they do not take into account any additional issuance of net tax supported debt over the next 10 fiscal years. However, it is positive that the state is below the recommended levels and the peak of each ratio is only six months away at the end of Fiscal Year 2011. The fact that the ratios begin to decline during Fiscal Year 2012 enables possible issuance of net tax supported debt in the near future without concern for exceeding the recommended cap.

The issuance of net tax supported debt is not always a “bad” thing because it allows much needed economic and infrastructure projects to be completed in today’s dollars while spreading the burden of paying for these projects over different generations. However, the state must remain fiscally conservative to insure that we do not burden future generations with too much debt.

West Virginia is in a unique position. The state ended Fiscal Year 2010 with a slight budget surplus while other states faced huge deficits. West Virginia is also on track to end Fiscal Year 2011 with a surplus as revenues are currently 8.2 percent ahead of budget forecasts *(Charleston Daily Mail, W.Va. enters December $121M ahead on tax revenues, December 2, 2010)*.

Many states are experiencing growth as the second half of Fiscal Year 2011 begins. According to Scott Pattison, executive director of the National Association of State Budget Officers, most states are headed in the right direction. “The big question is, how significant is the loss of the recovery act funds?” *(The Bond Buyer, States, Localities Pin Hopes on Rebound, Patrick Temple-West, December 28, 2010)*. These recovery funds came from the American Recovery and Reinvestment Act of 2009 (ARRA) which will be exhausted in 2011 which may leave many state and local governments scrambling to “plug holes” in their Fiscal Year 2012 budgets. According to The Bond Buyer, “Many sources said this is the number-one concern facing state and local governments for the coming year.” *(The Bond Buyer, States, Localities Pin Hopes on Rebound, Patrick Temple-West, December 28, 2010).*

As ARRA funds “dry up” and states decide how to deal with the reduction of federal stimulus dollars, a popular ARRA municipal bond program also expired at the end of 2010. The Build America Bond (BAB) program was a provision of the ARRA which allowed municipalities to issue taxable bonds. The unique provision of BABs is the fact that the federal government pays 35% of the interest that is due on the bonds. BABs have also allowed state and local governments to access investors who normally would not buy traditional tax-exempt bonds. This new type of bond issuance has eased the supply of tax-exempt bonds which has buoyed prices.

Since its inception, there have been more than $180 billion of BABs issued. The West Virginia Higher Education Policy Commission was the only state agency which was able to take advantage of the BAB program as it issued more than $50 million in BABs on December 23, 2010. The City of Morgantown, West Virginia was able to take advantage of the program by issuing more than $37.9 million of BABs for certain water/sewer projects.

It is uncertain what effect the expiration of the BAB program will have on the municipal bond market during 2011; however, some say that it will not be positive. According to California Treasurer Bill Lockyer, the expiration of the BAB program, ". . . may push up tax-exempt yields by as much as a full percentage point, which he said could cost taxpayers nationwide as much as $30 billion in higher borrowing costs." *(Bloomberg, Build America bonds Program's End Poised to Batter Municipal-Debt Market, William Selway and Brendan A. McGrail, December 10, 2010).*

The municipal bond market has been an important tool for West Virginia in providing funds for infrastructure and economic development. The impact of the expiration of the BAB program has yet to be seen; however, West Virginia will continue to access the municipal bond market in a fiscally responsible manner which is the ultimate goal of this report. This report is designed to be a tool for the Legislature in making important financial decisions concerning the State's long-term debt position and to assist in prioritizing capital spending decisions. The Treasurer's Office would like to thank the various state agencies that provided information in the preparation of this report, such as the Department of Revenue and the Division of Finance of the Department of Administration.

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Debt Capacity

The legislative purpose of this report is stated clearly in West Virginia Code §12-6B-1, which is as follows:

> Determine the amount of net tax supported debt outstanding;
>
> Calculate key ratios that are commonly used to examine debt; and
>
> Make recommendations which will attempt to keep the state within an average to low range of nationally recognized debt limits.

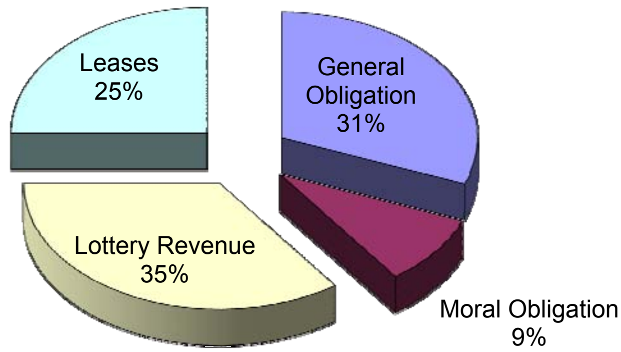
<u>Determine the amount of net tax supported debt outstanding</u>
The calculation of net tax supported debt includes General Obligation Bonds, Revenue Bonds of the School Building Authority which rely on an appropriation from the General Revenue Fund for debt service, Lottery Revenue Bonds, Excess Lottery Revenue Bonds and lease obligations of various state agencies.

The net tax supported debt of the state at June 30, 2010 is outlined in the following table:

Table 1
West Virginia Net Tax Supported Debt Outstanding
June 30, 2010
(net of escrow & debt service reserve funds)

Type of Debt		Principal Outstanding June 30, 2010	Percentage of debt outstanding
General Obligation Bonds	State Road Bonds	$ 339,515,000	31%
	Infrastructure Bonds	221,415,041	
Moral Obligation Bonds	School Building Authority	164,359,199	9%
Lottery Revenue Bonds	Economic Development Authority	179,600,000	35%
	Higher Education Policy Commission	222,320,000	
	School Building Authority	50,420,000	
	School Building Authority (Excess Lottery)	95,940,000	
	School Building Authority (Excess Lottery - QSCBs)	74,634,275	
	State Building Commission	7,690,000	
Lease Obligations		442,823,000	25%
Net Tax Supported Debt		$ 1,798,716,515	

Chart 1
West Virginia Net Tax Supported Debt Outstanding
by Type of Debt
June 30, 2010



Calculations of the net tax supported debt and debt service of the State of West Virginia for fiscal years 2005 through 2021 are contained in Tables 2 and 3 (pages 8-11). Fiscal years 2005 through 2009 are included to show the historical perspective of the actual debt issued and the debt service requirements for these obligations. The current and next ten fiscal years, 2011 through 2021, are included to show expected debt levels as existing obligations mature.

Subsequent to June 30, 2010 there were several bond issues which impacted the Net Tax Supported Debt of the State. These included the following:

General Obligation Refunding Bonds – On July 22, 2010, the state issued bonds which refunded more than $37 million of Safe Road General Obligation Bonds. The bonds were issued at a True Interest Cost (TIC) of 3.16% which provided a Net Present Value (NPV) savings of more than $4 million.

School Building Authority Excess Lottery Revenue Bonds – On July 8, 2010, the School Building Authority issued $72.2 million of Qualified School Construction Bonds (QSCBs) backed by a pledge of excess lottery revenue funds. QSCBs are unique in that the federal government pays the interest on the bonds in the form of tax credits to the bondholder. The School Building Authority also issued $25 million of "traditional" tax-exempt bonds on July 27, 2010 which are backed by a pledge of excess lottery revenue funds.

Economic Development Authority – On August 17, 2010, the Economic Development Authority issued $155.6 million of Lottery Revenue Bonds backed by a pledge of net profits of the Lottery Fund.

All of the above-mentioned issues, approximately $290 million, are included in the projected debt calculations in Tables 2 and 3 (pages 8-11). However, for purposes of this report, the following bonds/notes have been **excluded** in the current and projected debt calculations included in Tables 2 and 3 (pages 8-11):

Special Obligation Highway Notes ($144 million outstanding as of June 30, 2010)
These notes are excluded from the debt calculation because they are repaid from pledged revenues from the Federal Highway Administration.

Tobacco Revenue Bonds ($876 million outstanding as of June 30, 2010)
These bonds are excluded from the debt calculation because they are paid directly from tobacco settlement funds.

Several agencies had revenue bonds outstanding at June 30, 20010 such as the West Virginia Infrastructure & Jobs Development Council, the West Virginia Higher Education Policy Commission, various state colleges and universities, and the West Virginia Regional Jail and Correctional Facilities Authority. These bonds are self-supporting from revenues of the projects they financed; therefore, they are also **excluded** from the calculation of net tax supported debt.

Although certain bonds of the West Virginia Water Development Authority, the West Virginia Solid Waste Management Authority, the West Virginia Solid Waste Landfill Closure Assistance Program, and the West Virginia Housing Development Fund are considered moral obligations of the state, they are currently self-supporting and are **excluded** from the calculation of net tax supported debt.

As of the publication of this report, there was one bond issue pending for which the final numbers were not yet available. These Excess Lottery Revenue bonds (approximately $76 million) are to be issued by the West Virginia Higher Education Policy Commission for various capital improvements including the Dow Research Park in South Charleston, West Virginia.

Revenue information included in Tables 2 & 3 was compiled and provided by the West Virginia Department of Revenue and is included in Appendix B. The projected values of personal income were provided by Global Insight ("WV Annual Long-Term Forecast, December 2010") while the population estimates were taken from U.S. Census Bureau, Census 2010, April 1, 2010.

Table 2. NET TAX SUPPORTED DEBT OUTSTANDING FOR FISCAL YEARS 2005 - 2021

	6/30/2005 FY05	6/30/2006 FY06	6/30/2007 FY07	6/30/2008 FY08	6/30/2009 FY09	6/30/2010 FY10
General Obligation						
Better Highways of 1973	1,480,000	-	-	-	-	-
Safe Roads of 1996	466,435,000	447,995,000	429,845,000	401,190,000	371,105,000	339,515,000
#Infrastructure of 1994	273,013,910	265,521,492	253,919,156	243,176,320	232,339,607	221,415,041
Total General Obligation	740,928,910	713,516,492	683,764,156	644,366,320	603,444,607	560,930,041
Moral Obligations						
Economic Development Authority - Lottery	236,005,000	228,840,000	221,565,000	214,125,000	206,480,000	198,590,000
Higher Education Policy Commission - Excess Lottery	161,550,000	158,870,000	155,335,000	151,720,000	147,925,000	222,320,000
##School Building Authority	241,920,000	231,475,000	220,410,000	214,125,000	201,045,000	187,380,000
##School Building Authority - Lottery	130,015,000	118,020,000	105,565,000	92,520,000	78,875,000	64,600,000
School Building Authority - Excess Lottery	-	-	-	-	99,310,000	95,940,000
School Building Authority - Excess Lottery (QSCBs)	-	-	-	-	-	78,200,000
State Building Commission - Lottery	48,830,000	41,455,000	33,675,000	25,465,000	16,805,000	7,690,000
Total Moral Obligations	818,320,000	778,660,000	736,550,000	697,955,000	750,440,000	854,720,000
Leases						
###Leases	378,233,000	377,419,000	382,615,000	387,493,000	364,657,000	442,823,000
Total Leases	378,233,000	377,419,000	382,615,000	387,493,000	364,657,000	442,823,000
Deductions for debt service reserve accounts						
Economic Development Authority - Lottery	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)
School Building Authority	(23,020,801)	(23,020,801)	(23,021,000)	(23,021,000)	(23,770,263)	(23,020,801)
School Building Authority - Lottery	(14,155,000)	(14,155,000)	(14,180,000)	(14,180,000)	(14,180,000)	(14,180,000)
School Building Authority - Excess Lottery (QSCBs) - debt service sinking fund	-	-	-	-	-	(3,565,725)
State Building Commission - Lottery	(3,428,041)	(2,620,000)	(2,600,000)	(2,600,000)	(2,400,000)	-
Net Tax Supported Debt Outstanding	1,877,888,068	1,810,809,691	1,744,138,156	1,671,023,320	1,659,201,344	1,798,716,515
Assessed value (in thousands)	58,091,753	63,510,844	70,726,558	74,791,919	78,065,268	79,555,133
Net tax supported debt as a percentage of assessed value	3.23%	2.85%	2.47%	2.23%	2.13%	2.26%
Income (in thousands)	48,138,500	51,861,500	54,044,750	57,192,750	58,355,250	60,107,192
Net tax supported debt as a percentage of personal income	3.90%	3.49%	3.23%	2.92%	2.84%	2.99%
Population	1,803,920	1,807,237	1,811,198	1,814,873	1,819,777	1,852,994
Net tax supported debt per capita	1041.00	1001.98	962.97	920.74	911.76	970.71

Income and Assessed value information and projections provided by the West Virginia Department of Revenue

Population information provided by the U.S. Census Bureau

- Cash basis and net of escrowed bonds
- Reported as paid from the School Building Authority to the Trustee
- Compiled by the Division of Debt Management. Does not match the State's CAFR due to differences in materiality levels and agencies (colleges/universities/etc) included in the calculation.

6/30/2011 FY11	6/30/2012 FY12	6/30/2013 FY13	6/30/2014 FY14	6/30/2015 FY15	6/30/2016 FY16	6/30/2017 FY17	6/30/2018 FY18	6/30/2019 FY19	6/30/2020 FY20	6/30/2021 FY21
-	-	-	-	-	-	-	-	-	-	-
305,460,000	270,595,000	245,365,000	220,525,000	194,435,000	167,040,000	151,740,000	135,675,000	118,905,000	101,365,000	83,015,000
210,353,971	199,092,386	187,699,730	176,065,493	164,128,538	151,834,132	139,225,959	126,170,144	112,617,634	99,652,884	86,361,968
515,813,971	469,687,386	433,064,730	396,590,493	358,563,538	318,874,132	290,965,959	261,845,144	231,522,634	201,017,884	169,376,968
344,120,000	332,940,000	321,320,000	309,200,000	296,530,000	283,295,000	269,355,000	254,750,000	239,370,000	223,200,000	206,210,000
216,880,000	211,330,000	205,530,000	199,470,000	193,135,000	186,510,000	180,740,000	174,685,000	168,325,000	161,645,000	154,650,000
173,090,000	158,160,000	142,535,000	126,190,000	109,075,000	91,040,000	72,105,000	52,220,000	31,370,000	9,465,000	1,910,000
49,655,000	33,925,000	17,360,000	-	-	-	-	-	-	-	-
116,590,000	112,420,000	108,060,000	103,520,000	98,780,000	93,830,000	88,655,000	83,245,000	77,605,000	71,690,000	65,475,000
150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000
-	-	-	-	-	-	-	-	-	-	-
1,050,815,000	999,255,000	945,285,000	888,860,000	848,000,000	805,155,000	761,335,000	715,380,000	667,150,000	616,480,000	578,725,000
440,000,000	435,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000
440,000,000	435,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000
(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)
(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)
(14,180,000)	(14,180,000)	(14,180,000)	-	-	-	-	-	-	-	-
(12,488,006)	(21,682,952)	(30,877,898)	(40,072,844)	(49,267,790)	(58,462,736)	(67,657,682)	(76,852,628)	(86,047,574)	(95,242,520)	(104,437,466)
-	-	-	-	-	-	-	-	-	-	-
1,937,950,164	1,826,068,633	1,721,281,031	1,633,366,848	1,545,284,947	1,453,555,595	1,372,632,476	1,288,361,715	1,200,614,259	1,110,244,563	1,031,653,701
83,811,600	88,295,800	93,020,000	97,996,900	103,240,100	108,763,800	114,583,100	120,713,700	127,172,400	133,976,600	141,144,900
2.31%	2.07%	1.85%	1.67%	1.50%	1.34%	1.20%	1.07%	0.94%	0.83%	0.73%
61,698,032	63,259,552	65,690,797	69,099,092	72,488,127	76,179,657	79,617,849	83,177,210	86,970,990	91,026,471	94,836,858
3.14%	2.89%	2.62%	2.36%	2.13%	1.91%	1.72%	1.55%	1.38%	1.22%	1.09%
1,855,994	1,858,994	1,861,994	1,864,994	1,869,994	1,874,994	1,890,000	1,900,000	1,908,000	1,910,000	1,910,000
1044.16	982.29	924.43	875.80	826.36	775.23	726.26	678.09	629.25	581.28	540.13

Table 3. NET TAX SUPPORTED DEBT SERVICE FOR FISCAL YEARS 2005 - 2021

	6/30/2005 FY05	6/30/2006 FY06	6/30/2007 FY07	6/30/2008 FY08	6/30/2009 FY09	6/30/2010 FY10
General Obligation Debt Service						
Better Highways of 1973	3,909,038	1,566,950	-	-	-	-
Safe Roads of 1996	41,464,246	41,439,146	40,380,186	49,993,481	49,995,529	49,995,200
Infrastructure of 1994	15,920,030	19,664,363	23,247,935	23,033,314	23,031,736	23,021,864
Total General Obligation Debt Service	61,293,314	62,670,459	63,628,121	73,026,795	73,027,265	73,017,064
Moral Obligation Debt Service						
Economic Development Authority - Lottery	24,898,615	18,932,303	18,904,231	18,886,178	18,865,029	18,845,344
Higher Education Policy Commission - Excess Lottery	10,473,556	10,464,795	11,185,795	11,191,560	11,190,810	11,189,550
School Building Authority	21,561,365	23,345,747	23,345,982	11,874,675	23,345,075	23,308,825
School Building Authority - Lottery	17,997,018	17,997,468	17,999,618	17,995,443	17,999,768	17,996,623
School Building Authority - Excess Lottery	-	-	-	-	7,088,341	8,208,431
School Building Authority - Excess Lottery (QSCBs)	-	-	-	-	-	3,565,725
State Building Commission - Lottery	9,822,613	9,794,175	9,782,413	9,772,688	9,769,588	9,757,994
Total Moral Obligation Debt Service	84,753,167	80,534,488	81,218,038	69,720,544	88,258,611	92,872,491
Lease Debt Service						
Leases	36,758,000	39,716,000	39,780,000	43,286,000	50,826,000	41,409,000
Total Lease debt service	36,758,000	39,716,000	39,780,000	43,286,000	50,826,000	41,409,000
Net Tax Supported Debt Service	182,804,481	182,920,947	184,626,159	186,033,339	212,111,875	207,298,555
General revenue fund (expressed in thousands)	3,504,830	3,661,402	3,752,722	3,928,288	3,901,552	3,758,372
Debt service as a percentage of general revenue fund	5.22%	5.00%	4.92%	4.74%	5.44%	5.52%
Revenue (expressed in thousands and as defined in the rule)	4,410,579	4,753,147	4,902,709	5,115,439	4,980,808	4,796,521
Debt as a percentage of revenue (as defined in the rule)	4.14%	3.85%	3.77%	3.64%	4.26%	4.32%

Revenue information provided by the West Virginia Department of Revenue (see Appendix B).

6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021
FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
-	-	-	-	-	-	-	-	-	-	-
47,798,658	49,779,756	38,402,531	36,756,900	36,764,900	36,765,400	23,300,650	23,300,650	23,202,400	23,198,750	23,199,200
23,020,648	23,016,094	23,016,936	23,026,510	23,034,603	23,027,014	23,014,284	23,027,206	23,019,122	23,020,691	23,011,538
70,819,306	72,795,850	61,419,467	59,783,410	59,799,503	59,792,414	46,314,934	46,327,856	46,221,522	46,219,441	46,210,738
26,827,745	28,807,257	28,794,037	28,777,403	28,759,623	28,709,757	28,700,986	28,680,076	28,667,068	28,650,466	28,630,687
16,503,266	16,168,288	16,167,388	16,164,788	16,161,200	16,144,338	14,956,088	14,950,588	14,950,713	14,959,813	14,948,288
23,313,425	23,298,475	23,308,645	23,308,582	23,312,770	23,423,270	23,421,520	23,424,770	23,420,520	23,433,020	7,987,770
17,997,510	17,999,416	17,996,910	17,995,460	-	-	-	-	-	-	-
10,072,817	9,799,781	9,797,631	9,797,581	9,798,831	9,796,831	9,801,731	9,801,656	9,798,269	9,801,019	9,801,244
8,922,281	9,194,946	9,194,946	9,194,946	9,194,946	9,194,946	9,194,946	9,194,946	9,194,946	9,194,946	9,194,946
7,891,863	-	-	-	-	-	-	-	-	-	-
111,528,907	105,268,163	105,259,557	105,238,760	87,227,370	87,269,142	86,075,271	86,052,036	86,031,516	86,039,264	70,562,935
45,000,000	47,000,000	47,000,000	47,000,000	45,000,000	45,000,000	45,000,000	43,000,000	43,000,000	43,000,000	40,000,000
45,000,000	47,000,000	47,000,000	47,000,000	45,000,000	45,000,000	45,000,000	43,000,000	43,000,000	43,000,000	40,000,000
227,348,212	225,064,013	213,679,024	212,022,170	192,026,873	192,061,556	177,390,205	175,379,892	175,253,038	175,258,705	156,773,673
3,741,680	4,034,521	4,226,101	4,342,651	4,483,151	4,628,551	4,767,000	4,910,000	5,057,000	5,209,000	5,365,000
6.08%	5.58%	5.06%	4.88%	4.28%	4.15%	3.72%	3.57%	3.47%	3.36%	2.92%
4,772,638	5,026,504	5,197,344	5,344,479	5,478,068	5,628,157	5,773,151	5,923,151	6,077,151	6,236,151	6,399,151
4.76%	4.48%	4.11%	3.97%	3.51%	3.41%	3.07%	2.96%	2.88%	2.81%	2.45%

Net Tax Supported Debt Components

General Obligation Bonds

The General Obligation (GO) debt outstanding at June 30, 2010 was $560.9 million. GO Bonds pledge the full faith and credit of the state and are authorized only by a constitutional amendment approved by 2/3rds of both houses of the Legislature and a majority vote of the public. GO Bonds constitute 31% of the state's net tax supported debt.

<u>Safe Road Amendment of 1996</u>

This amendment authorized bonds to be issued in an amount not to exceed $550 million. As of June 30, 2010, the entire authorized amount had been issued and the net principal outstanding was $339.5 million. The bonds will be completely retired on June 1, 2025.

Table 4 shows the debt service burden on the Road Fund from 2005 through Fiscal Year 2010 and also projects the future debt service burden through Fiscal Year 2021. According to these projections, the debt service burden will peak at eight percent during Fiscal Year 2012 but will sharply decrease to six percent during Fiscal Year 2013 and be well below four percent by Fiscal Year 2017.

Table 4
Historical/Projected Debt Service Burden
State Road Fund

Fiscal Year	Debt Service	Road Fund Revenue	Debt Service as % of Road Fund
2005	45,373,284	578,050,000	7.85%
2006	43,006,096	580,904,000	7.40%
2007	40,380,186	611,085,000	6.61%
2008	49,993,481	661,961,000	7.55%
2009	49,995,529	626,434,000	7.98%
2010	49,995,200	628,157,000	7.96%
2011	47,798,658	626,186,000	7.63%
2012	49,779,756	622,482,000	8.00%
2013	38,402,531	640,773,000	5.99%
2014	36,756,900	670,882,000	5.48%
2015	36,764,900	663,490,000	5.54%
2016	36,765,400	668,179,000	5.50%
2017	23,300,650	674,724,000	3.45%
2018	23,300,650	681,724,000	3.42%
2019	23,202,400	688,724,000	3.37%
2020	23,198,750	695,724,000	3.33%
2021	23,199,200	702,724,000	3.30%

Infrastructure Improvement Amendment of 1994

This amendment authorized bonds in an amount not to exceed $300 million for water supply and sewage treatment systems and economic development sites. The bonds are secured by a dedication of the first $24 million in severance tax collections. The principal outstanding at June 30, 2010 was $221.4 million. All of the General Obligation Infrastructure bonds issued will be retired on November 1, 2026.

The Infrastructure Council also has revenue bonding authority. Revenue issues of this kind do not carry the same rating of a General Obligation issue since the state's taxing power is not pledged toward repayment of the bonds. The proceeds of these bonds were used to provide financial assistance to local governmental entities to finance all or part of the cost of constructing water, wastewater and/or economic development projects. As these bonds are self-supporting, they are not included in the calculation of net tax supported debt.

Authorized but Unissued General Obligation Bonds

It is a common practice among those examining the state's credit to look at debt that is authorized but has not been issued.

Vietnam Veterans Bonus Amendment of 1973, Veterans Bonus Amendment of 1992 and the Veterans Bonus Amendment of 2004

These amendments authorized the sale of bonds of not more than $40 million, $4 million and $8 million, respectively, for the purpose of paying a bonus to the veterans serving in foreign conflicts. General Revenue Funds were used to pay all of these bonuses and no bonds were issued.

Qualified Veterans Housing Bonds Amendment (1984)

This amendment authorized the sale of bonds to provide financing for owner-occupied residences for persons determined by the Legislature to be qualified veterans. The amount of the bonds that may be issued is limited to bonds in which the annual principal and interest do not exceed a total of $35 million in any fiscal year.

Moral Obligation Bonds

Various revenue bonds issued by State of West Virginia entities have a moral commitment of the State attached to them. Moral obligation bonds of the state constitute approximately 44% of the total net tax supported debt. Based on the definitions in the West Virginia Code and the Rules for the Reporting of Debt Capacity (see Appendix A), the debt issues include the School Building Authority Capital Improvement Revenue Bonds secured by appropriations of General Revenue funds and the Lottery Revenue Bonds issued by the Economic Development Authority, the Higher Education Policy Commission, the School Building Authority and the State Building Commission.

School Building Authority Capital Improvement Revenue Bonds

The School Building Authority Capital Improvement Revenue Bonds net principal outstanding at June 30, 2010 was $164.3 million. No "new money" bonds may be issued by the Authority utilizing General Revenue appropriations for repayment.

Lottery Revenue Bonds

Debt service on the state's Lottery Revenue Bonds comes from two separate sources, the Lottery Fund and the Excess Lottery Fund. The difference between the two funds is as follows:

Lottery Fund – The Lottery Fund is comprised of revenues from two distinct sources. The first source is the state's "traditional" lottery games such as scratch-off tickets, Pick 3, Pick 4, Cash 25, etc. The second source is the net revenue from racetrack video lottery which is capped at a benchmark that was established for each racetrack in 2002. Bonds backed by the Lottery Fund include one issue of the School Building Authority which holds a first lien on the net proceeds of the fund, and one issue of the State Building Commission which has a second in priority lien on the fund. These two bond issues had a combined (net) principal outstanding of $58 million as of June 30, 2010. The bonds issued by the State Building Commission matured on July 1, 2010; however, this bonding authority was utilized by the Economic Development Authority to issue more than $155.6 million in bonds during August 2010.

Excess Lottery Fund – The Excess Lottery Fund is also comprised of revenues from two distinct sources. The first source is net revenue from racetrack video lottery which exceeds the established benchmark. The second source is the net revenue from limited video lottery which is the video lottery machines located in bars and taverns throughout the state. At June 30, 2010, bonds backed by the Excess Lottery Fund included one issue of the Economic Development Authority, two issues of the Higher Education Policy Commission and three issues of the School Building Authority. The total principal outstanding on these issues totaled $392.8 million at June 30, 2010. The bonds issued by the Economic

Development Authority are secured by a second priority pledge from the Excess Lottery Revenue Fund and, under certain circumstances, from a portion of the moneys on deposit in the Lottery Fund.

Subsequent to June 30, 2010, the West Virginia School Building Authority issued bonds which rely on the state's Excess Lottery Fund for debt service. As of the publication of this report, the Higher Education Policy Commission was in the process of issuing bonds also backed by certain funds of the state's Excess Lottery Fund.

Leases

As of June 30, 2010, there was $442.8 million of leases outstanding. Approximately $102.1 million of new leases were entered into during Fiscal Year 2010. The largest issue was a $25.5 million dollar lease for a residence hall project at Glenville State College. The total amount of leases outstanding in this report ($442.8 million) will differ from the figure reported in the state's Comprehensive Annual Financial Report (CAFR). This is due to several factors including materiality levels and the fact that this report includes state colleges and universities when reporting the amount of leases outstanding.

Deductions for Debt Service Reserve Accounts

A debt service reserve fund can be set up initially out of bond proceeds, built up over time or funded through a credit facility, such as a surety bond. Reserve funds are tapped only if funds are insufficient to meet the debt service payments and when retiring the debt. These reserve funds are typically set at an amount equal to six months to one year's debt service. The various reserve funds are outlined in the following table, along with the revenue source, the principal outstanding at June 30, 2010, and the remaining authorization.

Table 5
Net Tax Supported Debt – Various Statistics
at June 30, 2010

Type of Obligation	Issue	Payable From	Net Principal Outstanding as of 6/30/10 (thousands)	Reserve Accounts as of 6/30/10 (thousands)	Remaining Authorization as of 6/30/10 (thousands)
General Obligation Bonds	Safe Roads of 1996	Road Fund	$339,515	NA	$0
	Infrastructure Improvement of 1994	Coal Severance Tax/General Revenue	$221,415	NA	$0
Moral Obligation Bonds	School Building Authority	General Revenue Fund	$164,359	$23,021	$0
	Economic Development Authority	Excess Lottery Fund	$179,600	$18,990	$0
	Higher Education Policy Commission	Excess Lottery Fund	$222,320	NA	per Legislation
	School Building Authority	Excess Lottery Fund	$95,940	NA	per Legislation
	School Building Authority (QSCBs)	Excess Lottery Fund	$74,634	$3,566	Federal allocation
	School Building Authority	Lottery Fund	$50,420	$14,180	per Legislation
	State Building Commission	Lottery Fund	$7,690	NA	$0
Leases	Various	Various	$442,823	NA	NA

Calculate key ratios that are commonly used to examine debt
Key ratios establish benchmarks that the municipal bond industry and others use to provide a measurement of a state's outstanding debt and the servicing (principal and interest payments) of that debt. Ratios are useful tools since they provide quantifiable measurements which are used when analyzing a state's fiscal position. Ratios can also provide insight into economic trends and a state's reliance on debt financing. The debt ratios used in this report include:

Net Tax Supported Debt Service as a Percentage of the General Revenue Fund;

Net Tax Supported Debt Service as a Percentage of Revenues;

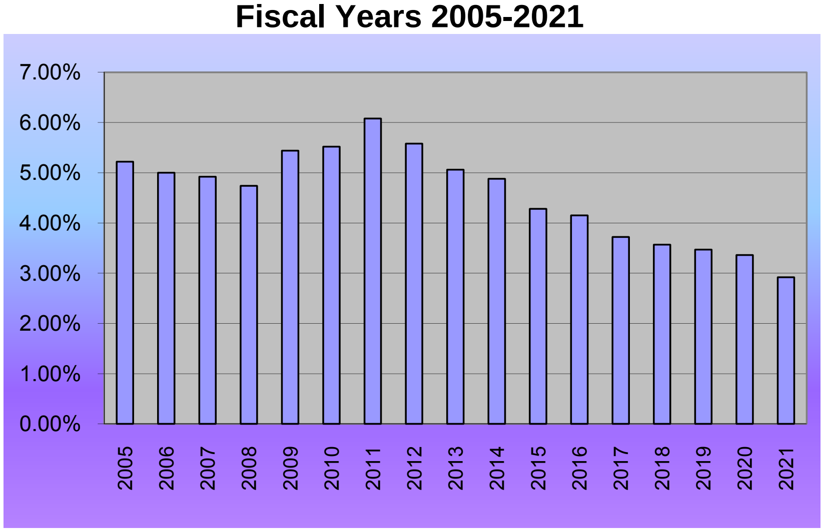
Net Tax Supported Debt as a Percentage of Personal Income;

Net Tax Supported Debt Per Capita; and

Net Tax Supported Debt as a Percentage of Assessed Value.

Net Tax Supported Debt Service as a Percentage of the General Revenue Fund
This ratio is not required to be examined; however, it is a traditional measurement which provides important information on the debt service burden of the state's General Revenue Fund. At June 30, 2010, the State's General Revenue Fund had a 5.52% potential debt service burden (see Table 3, pages 10-11). Projections for the General Revenue Fund of the state were provided by the West Virginia Department of Revenue and are provided in Appendix B.

Chart 2
Net Tax Supported Debt Service as a Percentage of the General Revenue Fund
Fiscal Years 2005-2021



Net Tax Supported Debt Service as a Percentage of Revenues
The definition of revenue includes:

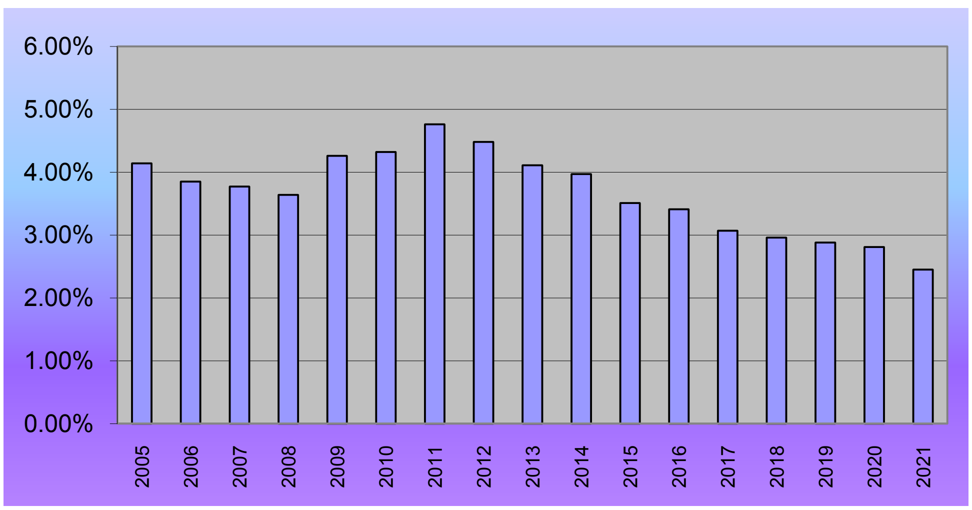
1. Total funds deposited in the general revenue fund;

2. The entire related revenue stream for any net tax supported debt which is funded from a source other than the state's General Revenue Fund; plus

3. An amount equal to any deductions from the gross General Revenue Fund for debt service of tax supported debt before the revenue is added to the General Fund.

At June 30, 2010, the state had a net tax supported debt service burden, as a percentage of revenues of 4.32% (see Table 3, pages 10-11).

Chart 3
Net Tax Supported Debt Service as a Percentage of Revenues
Fiscal Years 2005-2021



Net Tax Supported Debt as a Percentage of Personal Income
The ratio of debt outstanding as a percentage of personal income is not a determining factor on its own; however, this ratio is required by statute to be examined for the purposes of this report. This ratio is a good indicator of the potential resources to repay debt. Since there is a taxing pledge placed on all General Obligation Bonds, this ratio indicates the ability of the citizens to pay such taxes in the event of a revenue shortfall.

Table 6 lists West Virginia and those states that share a Moody's rating of Aa2 as of May 2010. Subsequent to Moody's release of the "2010 State Debt Medians Report," the state of West Virginia received an upgrade to Aa1 which is one "notch" below the best possible rating of Aaa (triple-A). However, for the purposes of this report, West Virginia is compared to other Aa2 states since that was the rating at the release of the report.

According to Moody's, West Virginia had a net tax supported debt, as a percentage of personal income, of 3.5% as of May 2010. According to our calculation, West Virginia had a net tax supported debt, as a percentage of personal income, of 3% as of June 30, 2010. This does not match the figure calculated by Moody's Investor Services due to the timing of the report and the information that was available at the time of publication.

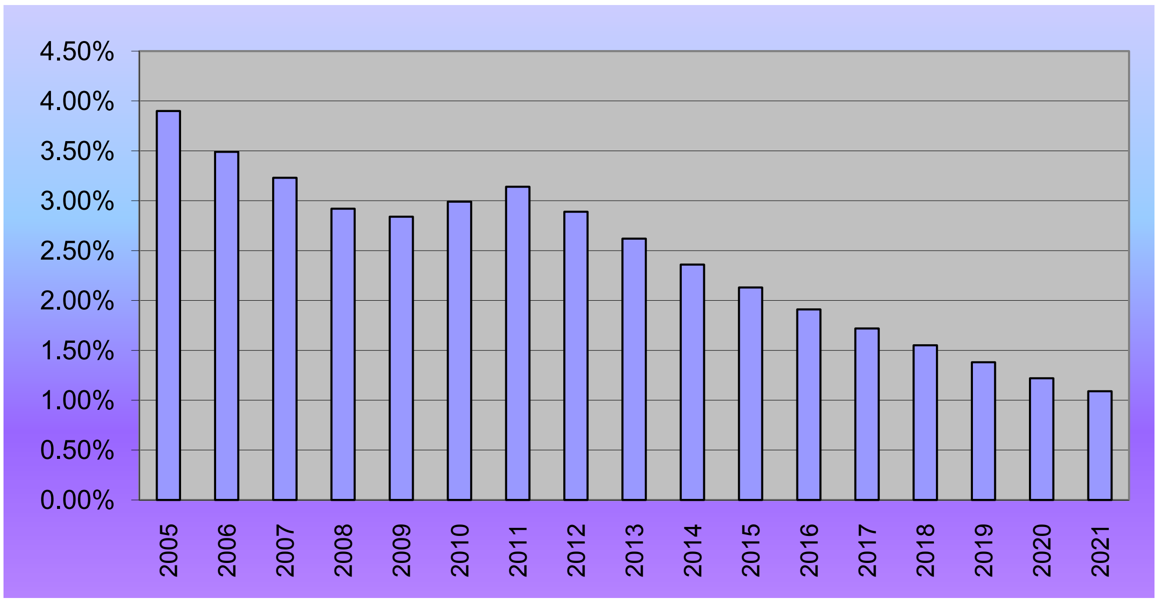
Table 6
Net Tax Supported Debt (NTSD) as a Percentage of Personal Income
Similarly Rated States

State	Moody's Rating	NTSD as a % of Personal Income
Oklahoma	Aa2	1.6%
Michigan	Aa2	2.1%
Maine	Aa2	2.2%
Arizona	Aa2	2.6%
West Virginia	Aa2	3.5%
Louisiana	Aa2	3.6%
Wisconsin	Aa2	4.6%
Mississippi	Aa2	5.0%
Rhode Island	Aa2	5.2%
New York	Aa2	6.5%
New Jersey	Aa2	7.2%
Connecticut	Aa2	8.7%

Source: Moody's Investors Services, "2010 State Debt Medians Report," May 2010

The following chart examines the net tax supported debt as a percentage of personal income for fiscal years 2005 through 2021 based on the data contained in Table 2, pages 8-9:

Chart 4
Net Tax Supported Debt as a Percentage of Personal Income
Fiscal Years 2005-2021



Net Tax Supported Debt per Capita

According to the United State's Census Bureau, the State of West Virginia experienced yet another year of population growth. According to Census 2010, West Virginia has seen an increase of 2.5% from 2000 to 2010. The 2010 Census showed that there were 1,852,994 people residing in West Virginia on April 1, 2010. This is an increase of more than 33,000 people in comparison to July 1, 2009 estimates.

This particular ratio of debt per capita shows the debt service burden on the total population of the state. According to our estimates, the state's debt per capita will peak at $1,044 by the end of fiscal year 2011. The national average debt per capita has risen from approximately $300 in 1988 to $1,297 in 2010.

The chart on page 21 examines the net tax supported debt per capita for fiscal years 2005 through 2021 based on the data contained in Table 2, pages 8-9.

Chart 5
Net Tax Supported Debt per Capita
Fiscal Years 2005-2021

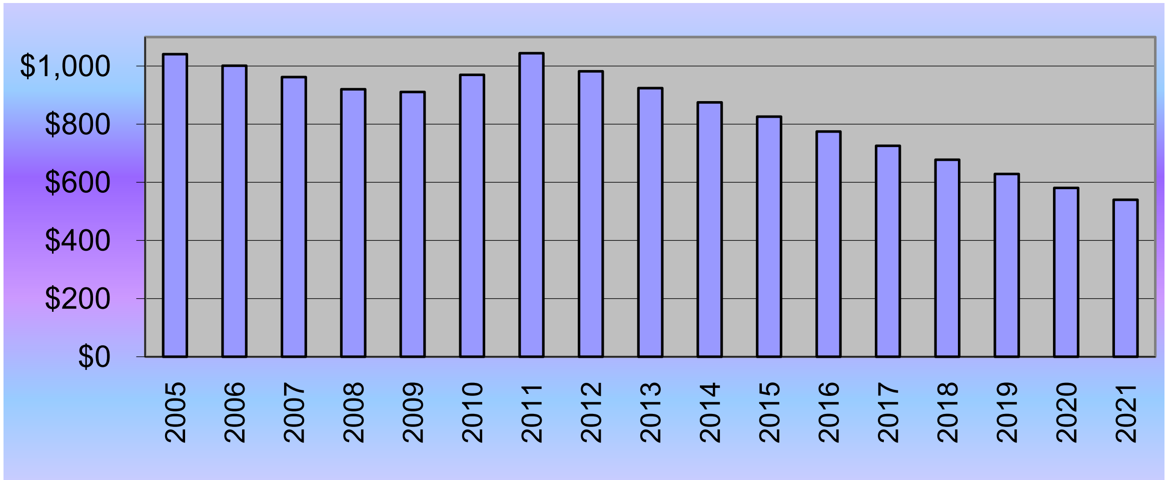


Table 7 lists West Virginia and those states that share a similar rating of Aa2 from Moody's as of May 2010.

Table 7
Net Tax Supported Debt per Capita
Similarly Rated States

State	Moody's Rating	NTSD per capita
Oklahoma	Aa2	$570
Arizona	Aa2	$736
Michigan	Aa2	$748
Maine	Aa2	$760
West Virginia	Aa2	$1,079
Louisiana	Aa2	$1,271
Mississippi	Aa2	$1,478
Wisconsin	Aa2	$1,720
Rhode Island	Aa2	$2,127
New York	Aa2	$3,135
New Jersey	Aa2	$3,669
Connecticut	Aa2	$4,859

Source: Moody's Investors Services, "2010 State Debt Medians Report," May 2010

According to our calculations, West Virginia had a net tax supported debt per capita of $971 as of June 30, 2010 (see Table 2, pages 8-9 for the specific calculation). This figure does not match with the calculation presented in the Moody's "State Debt Medians Report" due to the timing of the report and the information that was available at the time of publication.

Net Tax Supported Debt as a Percentage of the Assessed Value of Taxable Property

It is difficult to find guidance on this ratio since it is not typically used or discussed; however, it is a ratio analysis required by West Virginia law. As of June 30, 2010, the net tax supported debt as a percentage of assessed value is 2.26%.

Make recommendations which will attempt to keep the state within an average to low range of nationally recognized debt limits

The final step in this analysis is making recommendations based on keeping the state within a certain range of debt ratios. Most ratios are easily accessible; therefore, making comparisons to other states and making recommendations of keeping the state in the average to low range is quite easy. There are also certain industry practices that have been recognized as prudent fiscal management. For example, many states have constitutional or statutory caps on how much of their General Fund can be obligated toward debt repayment.

The following table was derived from Moody's *"2010 State Debt Medians Report."* It shows the average (or "mean"), the high and the low for two of the ratios examined in this report. This comparison is made to West Virginia ratios in order to carry out the legislative intent of this report, which is to make recommendations with the aim of keeping the state in the "average to low range of nationally recognized debt limits." The average debt per capita of the 50 states for 2010 was $1,297. The average debt as a percentage of personal income was 3.2%.

Table 8 – Moody's "2010 State Debt Medians Report"
May 2010

Ratio	Average	High	Low	West Virginia Ranking[#]
NTSD per capita	$1,297	$4,859 Connecticut	$15 Nebraska	$1,079 #22
NTSD as a % of Personal Income	3.2%	9.9% Hawaii	0.0% Nebraska	3.5% #17
Total NTSD	NA	$87.3 billion California	$27 million Nebraska	$1.9 billion #38

As reported by Moody's in May 2010. These figures do not necessarily agree with the amounts stated in this report by the West Virginia State Treasurer's Office, generally due to timing and the inclusion of certain obligations. For our specific calculations, see Tables 2 and 3, pages 8 through 11.

The following tables outline the recommendations made in previous debt capacity reports and the current recommendations.

Table 9
Debt Capacity Report - Past Ratio Recommendations & Levels

Ratio	*2006*		*2007*		*2008*		*2009*	
	Recommended	Actual	Recommended	Actual	Recommended	Actual	Recommended	Actual
NTSD service as a % of the General Revenue Fund	5.00%	5.00%	5.00%	4.92%	5.50%	4.74%	5.00%	5.44%
NTSD service as a % of Revenues	4.00%	3.85%	4.00%	3.77%	4.00%	3.64%	4.00%	4.26%
NTSD as a % of Personal Income	3.00%	3.49%	3.00%	3.23%	3.00%	2.92%	3.00%	2.84%
NTSD per capita	$1,000	$1,001	$1,000	$963	$1,000	$921	$1,000	$912
NTSD as a % of Assessed Value	2.00%	2.85%	2.00%	2.47%	2.00%	2.23%	2.00%	2.13%

Table 10
Debt Capacity Report, Current Ratio Recommendations & Levels

Ratio	*June 30, 2010*	
	Recommended	Actual
NTSD service as a % of the General Revenue Fund	6.00%	5.52%
NTSD service as a % of Revenues	5.00%	4.32%
NTSD as a % of Personal Income	3.10%	2.99%
NTSD per capita	$1,100	$971
NTSD as a % of Assessed Value	2.00%	2.26%

NTSD stands for Net Tax Supported Debt

Net Tax Supported Debt Service as a Percentage of the General Revenue Fund

Perhaps the most important ratio measurement is the debt service burden on the General Revenue Fund. This ratio shows the potential strain on the General Revenue Fund if, for some reason, all other funds are insufficient to pay debt service. Table 11 (below) was developed through research of several publications such as "Developing Formal Debt Policies" a publication from GFOA, "Benchmark GO Ratios" from Standard & Poor's Credit Week, and various debt management reports from around the country.

Table 11 – Burden Levels of Net Tax Supported Debt Service as a Percentage of the General Revenue Fund

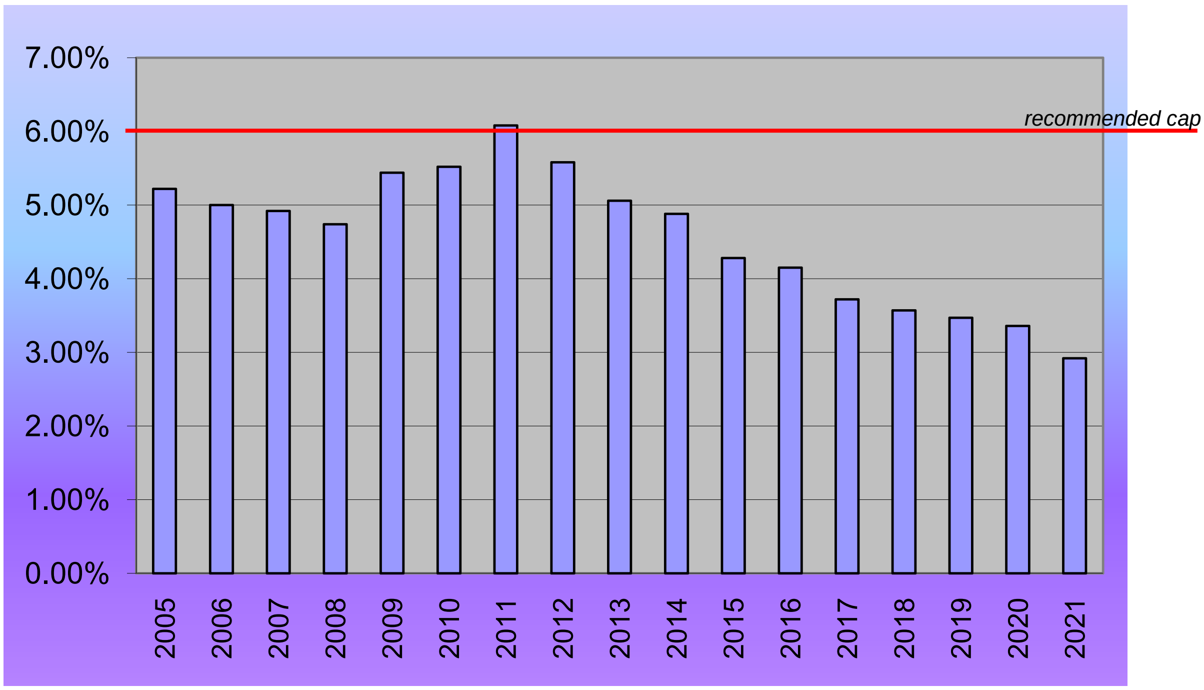
0 to 5%	6 to 7%	8 to 10%
LOW	MEDIUM	HIGH

In past reports, the recommended cap of this particular ratio has been 5%; however, it has been raised this year to 6.0%. There are several reasons that we believe this ratio can be raised. Current estimates from the West Virginia Department of Tax and Revenue indicate that although West Virginia may see negative growth in its General Revenue Fund from 2010 to 2011, a dramatic increase of more than 7% is expected from 2011 to 2012. After the projected growth from 2011 to 2012, the General Revenue Fund is expected to grow at a more moderate level of approximately 3% over the next ten years.

Another reason that this ratio has been raised is due to the overwhelming success of several bonding programs which were created by the American Recovery and Reinvestment Act of 2009 (ARRA). This Act allowed the West Virginia School Building Authority to issue more than $150 million in Qualified School Construction Bonds (QSCBs) which are, essentially, zero interest "loans" since the interest on the bonds is paid by the federal government in the form of tax credits to the bondholders. The State is also taking advantage of the Act by issuing more than $50 million of Build America Bonds (BABs) in which the federal government subsidizes 35% of the interest payments on the bonds. Issuing these bonds during a period of rebuilding is an investment in the state's future. Financing these projects now will bring growth to West Virginia and will insure that the burden of debt service is equally distributed among current and future generations.

As detailed in Table 10, page 24, the state had a 5.52% debt burden as a percentage of the General Revenue Fund at June 30, 2010. This is currently below the recommended cap of 6.0% as demonstrated in the following chart:

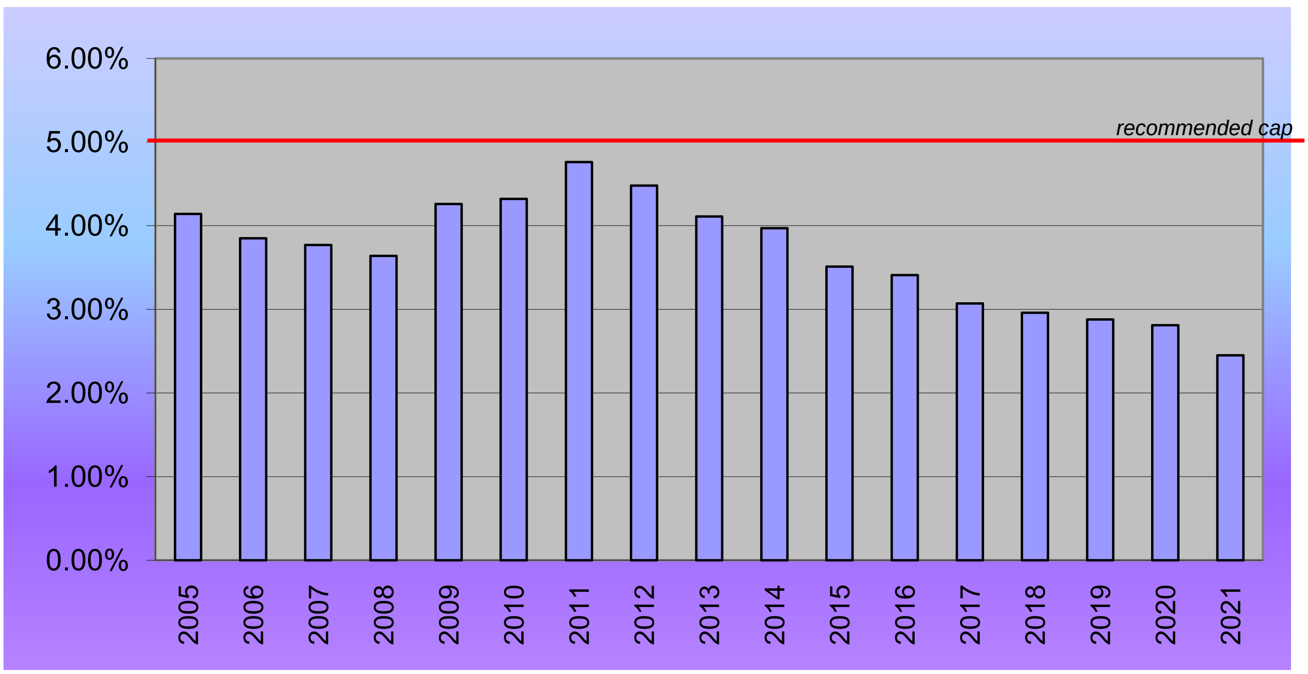
Chart 6
Recommended Cap of Net Tax Supported Debt Service as a Percentage of the General Revenue Fund
Fiscal Years 2005-2021



<u>Net Tax Supported Debt Service as a Percentage of Revenues</u>
The recommended cap on this particular ratio has historically been recommended at 4%; however, just as the ratio of debt service as a percentage of the General Revenue Fund has increased, the recommendation for this ratio has also increased one percent for the same reasons as stated on page 25. However, this increase comes with a word of caution. The amount of debt being issued with a pledge of Lottery or Excess Lottery revenues has increased greatly over the last five years. Caution should be exercised to insure that the Lottery funds are not over leveraged. At June 30, 2010, the state had a net tax supported debt service burden as a percentage of revenues of 4.32%.

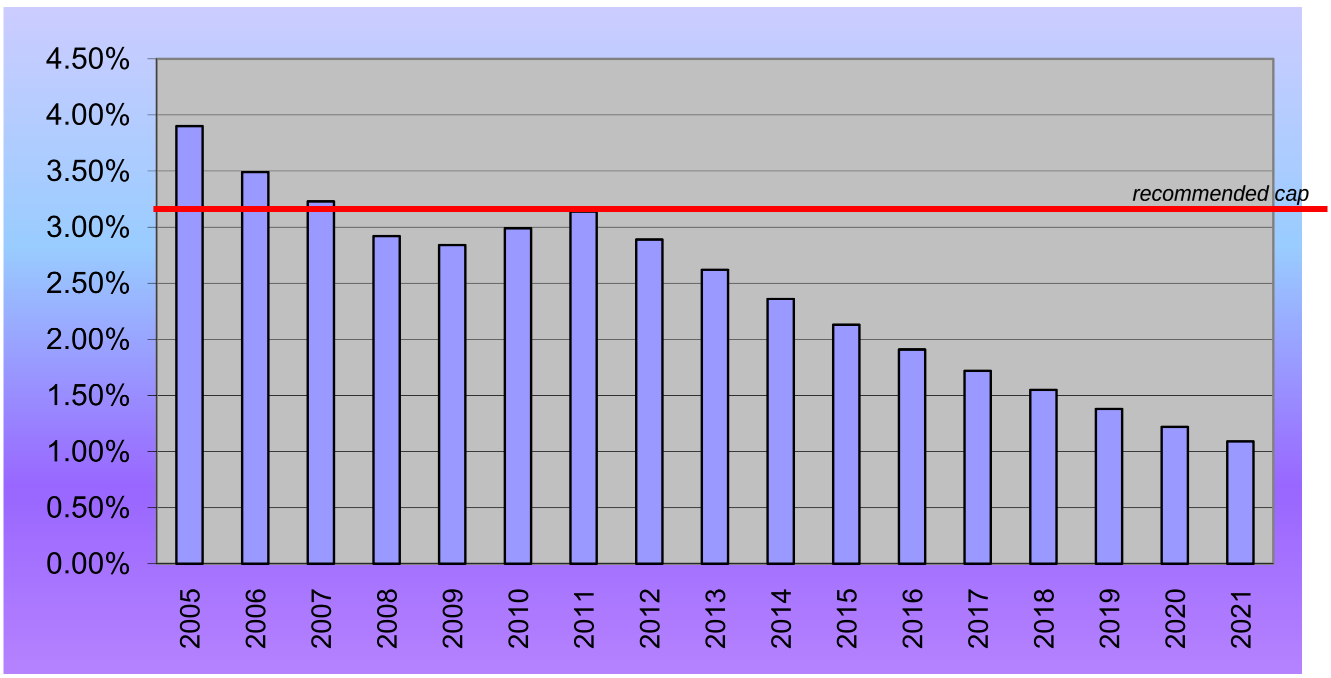
The following chart examines the net tax supported debt service requirements as a percentage of revenues for fiscal years 2005 through 2021, in relation to our recommended cap of 5%, and based on the data contained in Table 3, pages 10-11:

Chart 7
Recommended Cap of Net Tax Supported Debt Service
as a Percentage of Revenues
Fiscal Years 2005-2021



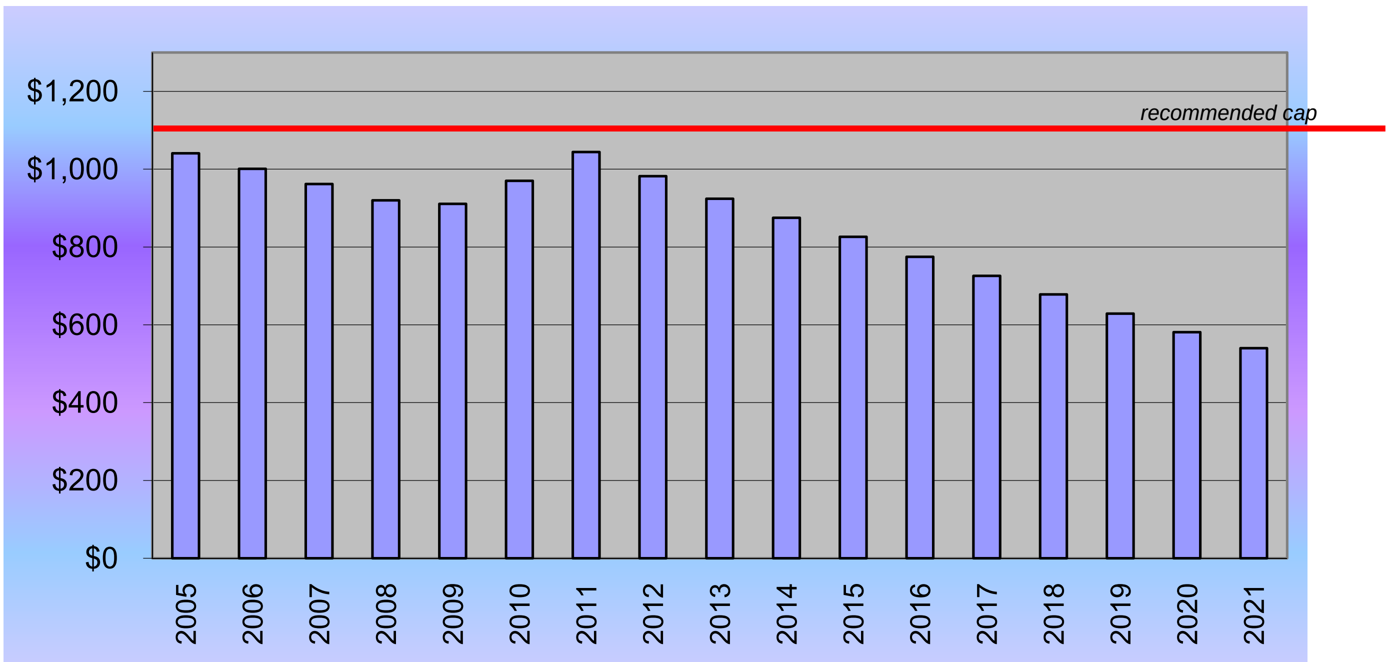
Net Tax Supported Debt as a Percentage of Personal Income
The recommended cap for this particular ratio is 3.1% because the national average net tax-supported debt as a percentage of personal income is 3.2% and this report calls for recommendations on the average-to-low range of the ratio. The following chart examines the net tax supported debt outstanding as a percentage of personal income for fiscal years 2005 through 2021 in relation to our recommended cap of 3.1% and based on data contained in Table 2, pages 8-9:

Chart 8
Recommended Cap of Net Tax Supported Debt
as a Percentage of Personal Income
Fiscal Years 2005-2021



Net Tax Supported Debt Per Capita
The national average of this particular ratio has grown over the past decade from approximately $727 in 2000 to $1,297 in 2010. Based upon the current national average, the recommendation for this particular cap is $1,100. The following chart examines the net tax supported debt per capita for fiscal years 2005 through 2021 in relation to our recommended cap of $1,100 and based on data contained in Table 2, pages 8-9:

Chart 9
Recommended Cap of Net Tax Supported Debt per Capita
Fiscal Years 2005-2021



Net Tax Supported Debt as a Percentage of the Assessed Value of Taxable Property
As of June 30, 2010, the net tax supported debt as a percentage of assessed value is 2.26%. The recommended cap for this recommendation is 2.0% and has no basis on any particular research since none has been located at the time of this publication.

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Summary of Recommendations

Last year's Debt Capacity Report stated, "If we continue to monitor our debt position and keep our debt to revenue ratios within a manageable level then the state should be in an excellent position to take advantage of a national economic recovery." West Virginia's fiscal prudence has paid off which has been evidenced in an upgrade to the state's bond rating. Moody's Investor Services issued a report on the state's fiscal condition in July 2010 which upgraded the state from Aa2 to Aa1 which is only one "notch" below the highest possible rating of Aaa (triple-A). According to the report, the upgrade was given because of the state's ". . . ongoing trend to fiscal conservatism and favorable General Fund financial performance." The report stated that the outlook for West Virginia was stable but warned that the rating could be adversely affected if the state did not continue with its conservative fiscal policy.

This report is a tool to aide decision makers when it comes to fiscal policy. The tables and charts contained in this report are all designed to make it easier to understand one facet of West Virginia's financial course. For example, it is interesting to note that it is projected that West Virginia will be below all of the recommended ratio caps of this report by Fiscal Year 2012 which begins in only six months. It is also interesting to note that West Virginia is predicted to have a very light debt load by Fiscal Year 2014 which will likely see a Debt Service to General Revenue ratio of 4.88%. All of this points to the fact that West Virginia is quickly approaching the time where additional debt issuance will be favorable since the state is in such a good economic position.

Although this sounds like wonderful news, the state's favorable debt position must be taken with a grain of salt. The state has the potential to make the right investment decisions in capital improvements, infrastructure and economic development but it must do so with continued fiscal prudence. For example, when looking for a funding source for new infrastructure or economic development perhaps it is time to let the people vote on a General Obligation bond of the state instead of further leveraging the state's Lottery funds.

This Debt Capacity report is required to make recommendations based on certain criteria which have been discussed throughout the report. Therefore, to comply with the requirements of the report the following recommendations are made:

Net Tax Supported Debt Service as a percentage
of the General Revenue Fund: 6.0%

Net Tax Supported Debt Service as a percentage
of Revenues: 5.0%

Net Tax Supported Debt as a percentage
of Personal Income: 3.1%

Net Tax Supported Debt
Per Capita: $1,100

Net Tax Supported Debt as a percentage
of Assessed Value: 2.0%

Appendix A

West Virginia State Code §12-6B
&
Legislative Rule, Title 112 Series 9

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West Virginia State Code §12-6B
DEBT CAPACITY ADVISORY DIVISION.

§12-6B-1. Purpose.
The purpose of this article is to provide a mechanism by which necessary information may be provided to the governor and the Legislature so that they may prudently manage the state's financial resources by attempting to keep the state within an average to low range of nationally recognized debt limits. The ratio measurements which may be taken into consideration in attempting to meet these limits include, but are not limited to, outstanding net tax supported debt per capita, net tax supported debt as a percentage of personal income, net tax supported debt as a percentage of assessed valuation, and any other criteria that recognized bond rating agencies use to judge the quality of issues of state bonds.

§12-6B-2. Debt capacity advisory division created.
There is hereby created within the offices of the state treasurer a debt capacity advisory division.

§12-6B-3. Definitions.
For the purpose of this article:

(a) "Debt" means bonds, notes, certificates of participation, certificate transactions, capital leases and all other forms of securities and indebtedness.

(b) "Debt impact statement" means a signed statement from the treasurer which shall include such information and be in such form, as determined by the division, for the Legislature or the governor to make an informed decision concerning the issuance of debt by the state or its spending units.

(c) "Division" means the debt capacity advisory division established in this article.

(d) "Net tax supported debt as a percentage of assessed valuation" means the net tax supported debt, as determined by the division, divided by the most recently available estimated assessed valuation of all taxable property in the state by the West Virginia department of tax and revenue.

(e) "Net tax supported debt as a percentage of personal income" means the net tax supported debt, as determined by the division, divided by the most recently available personal income figures for the state by the West Virginia bureau of employment programs.

(f) "Net tax supported debt per capita" means the state's net tax supported debt, as determined by the division, divided by the most recently available population estimate for the state by the United States department of commerce.

(g) “Spending unit” means any of the state’s agencies, boards, commissions, committees, authorities, or other of its entities with the power to issue debt and secure such debt, but not including local political subdivisions of the state.

(h) “Tax supported debt” means: (1) All obligations of the state or any spending unit to which the state’s full faith and credit is pledged to pay directly or by guarantee (provided that any such guaranteed obligations shall be included only to the extent any such obligations are in default); and (2) all obligations of the state or any agency or authority thereof extending beyond one year with respect to the lease, occupancy or acquisition of property which are incurred in connection with debt financing transactions, including, but not limited to, certificates of participation, and which are payable from taxes, fees, permits, licenses and fines imposed or approved by the Legislature.

Tax supported obligations do not include: (1) Any obligations of the West Virginia housing development fund, the economic development authority, the hospital finance authority, the West Virginia parkway authority, the West Virginia public energy authority, the West Virginia solid waste management board, and the West Virginia water development authority; (2) revenue anticipation notes or bonds of the state; or (3) any obligations to the extent that the debt service with respect thereto is reasonably expected to be offset, as determined by the division, by lease payments, user fees, federal grants or other payments from some source other than the general fund. Such payments shall be used expressly for the purpose of paying debt service.

(i) “Treasurer” means the treasurer of the state of West Virginia.

§12-6B-4. Powers and duties.
The division shall perform the following functions and duties:

(a) Promulgate rules pursuant to article three, chapter twenty-nine-a of this code, for the management and conduct of its affairs;

(b) Annually review the size and condition of the state’s tax-supported debt and submit to the governor and to the Legislature, on or before the fifteenth day of January of each year, an estimate of the maximum amount of new tax-supported debt that prudently may be authorized for the next fiscal year, together with a report explaining the basis for the estimate. The estimate shall be advisory and in no way restrict the governor or the Legislature. In preparing its annual review and estimate, the division shall, at a minimum, consider:

(1) The amount of net tax supported debt that, during the next fiscal year and annually for the following ten fiscal years: (A) Will be outstanding; and (B) has been authorized but not yet issued;

(2) Projected debt service requirements during the next fiscal year and annually for the following ten fiscal years based upon: (A) Existing outstanding debt; (B) previously authorized but unissued debt; and (C) projected bond authorizations;

(3) Any information available from the budget section of the department of administration in connection with anticipated capital expenditures projected for the next five fiscal years;

(4) The criteria that recognized bond rating agencies use to judge the quality of state bonds;

(5) Any other factor that the division finds as relevant to: (A) The ability of the state to meet its projected debt service requirements for the next fiscal year; (B) the ability of the state to meet its projected debt service requirement for the next five fiscal years; and (C) any other factor affecting the marketability of such bond; and

(6) The effect of authorizations of new tax-supported debt on each of the considerations of this subsection.

(c) Conduct ongoing review of the amount and condition of bonds, notes and other security obligations of the state's spending units: (1) Not secured by the full faith and credit of the state or for which the Legislature is not obligated to replenish reserve funds or make necessary debt service payments; (2) for which the state has a contingent or limited liability or for which the Legislature is permitted to replenish reserve funds or make necessary debt service payments if deficiencies occur. When appropriate, the division shall recommend limits on such additional obligations to the governor and to the Legislature. Such recommendation is advisory and shall in no way restrict the governor, the Legislature or the spending unit.

(d) The treasurer may review all proposed offerings of debt, as defined in this article, submitted to the division of debt management, as provided in section six, article six-a of this chapter. The division may also request any additional information which may be needed to issue an advisory opinion to the governor, the speaker of the House of Delegates and the president of the Senate as to the impact of the proposed offering on the state's net tax-supported debt outstanding and any other criteria which the treasurer feels may be relevant to the marketability of said offering and its impact on the state's credit rating. Such advisory opinion shall in no way restrict the governor, the Legislature or the spending unit.

(e) Do all things necessary or convenient to effectuate the intent of this article and to carry out its powers and functions.

Legislative Rule, Title 112 Series 9
RULES FOR THE REPORTING OF DEBT CAPACITY

§112-9-1. General.

1.1. Scope. — This rule implements the provisions of W. Va. Code §12-6B-1 et seq., which provides that the State Treasurer's Division of Debt Capacity is responsible for the gathering and reporting of information concerning the State's ability to meet it's debt obligations, and to incur new debt, and for conducting an ongoing review of the amount and condition of bonds, notes, and other security obligations of the State's spending units.

1.2. Authority. — W. Va. Code §12-6B-4.

1.3. Filing Date. — May 6, 1998

1.4. Effective Date. — May 7, 1998

1.5. General Purpose. — The purpose of this rule is to carry out the legislative intent, as stated in W. Va. Code §12-6B-1, to provide necessary information to the Governor and the Legislature so that they may prudently manage the state's financial resources by attempting to keep the State within an average to low range of nationally recognized debt limits.

§112-9-2. Definitions.

For the purpose of this rule, unless a different meaning is clearly required by the context:

2.1. "Capital Lease" means a lease in which the lessee assumes substantially all the risks and benefits associated with the asset and which meets one or more of the following criteria:

2.1.1. The lease transfers ownership of the leased asset at the end of the lease term;

2.1.2. The lease terms and conditions contain a bargain purchase option which allows the Lessee to buy the leased asset for substantially less than the estimated value of the leased item;

2.1.3. The term of the lease is seventy-five percent (75%) or more of the estimated economic life of the leased asset. The estimated economic life is the estimated useful life of the asset for the purpose for which it was intended, regardless of the term of the lease. For example, if a copier with an estimated economic life of ten (10) years were leased for eight (8) years, it would meet this criterion; or

2.1.4. The present value of the future minimum lease payments at the beginning of the lease equals or exceeds ninety percent (90%) of the fair value of the asset.

2.2. “Debt” means bonds, notes, Certificates of Participation, certificate transactions, Capital Leases, lease purchases, mortgages and all other forms of securities or paper evidencing amounts owed and payable on demand or specified dates, as determined by the Treasurer .

2.3. “Debt Impact Statement” means a signed statement from the Treasurer which contains the information specified in Subsection 3.2 of this Rule and may accompany, at the request of a member of the Legislature, a bill introduced to the West Virginia Legislature which authorizes the issuance of debt.

2.4. “Division” means the division of debt capacity.

2.5. “General Obligation Bonds” means debt in the form of bonds supported by a constitutional obligation of the State to make debt payments if no other source of funds is available. The creation of general obligation debt requires a constitutional amendment approved by two-thirds of both houses of the Legislature and a majority vote by the public.

2.6. “Installment Purchase” means a lease agreement in excess of one year providing for the application of rental payments to the purchase price of equipment or facilities. A spending unit’s obligation under the lease purchase agreement is made expressly subject to appropriations by the Legislature, thus creating a “moral obligation” on the part of the Legislature to appropriate necessary rent when the lease payments are due and payable.

2.7. “Mortgage” means a debt instrument for financing the purchase of real property by which the borrower gives the lender a lien on the property as security for the repayment of the loan.

2.8 “Net tax supported debt” means: (1) general obligation bonds of the state net of any refundings, defeasances, reserve requirements or sinking funds; (2) moral obligations of the state net of any refundings, defeasances, reserve requirements or sinking funds; (3) capital leases, lease purchases, mortgages, installment purchases, certificates of participation and any other debt financing transaction extending beyond one year, net of any refundings, defeasances, reserve requirements or sinking funds, which are payable through an annual appropriation of the Legislature. “Net tax supported debt” includes lottery bonds, but does not include revenue bonds or any other debt that is self-supporting from enterprise revenues: Provided, That the obligation shall not be excluded to the extent the obligations are in default;

2.9. “Other Debt” includes installment purchases as defined in subsection 2.6 of this section; mortgages as defined in subsection 2.7 of this section; and short-term debt as defined in subsection 2.10 of this section.

2.10. “Short-Term Debt” means notes which generally have a term of five years or less, including but not limited to tax anticipation notes, revenue anticipation notes, grant anticipation notes and certificates of participation.

2.11. “Moral Obligation Bond” is a bond secured by a pledge of revenue and a moral commitment of the state of West Virginia to appropriate funds to make up any deficiency of the revenues needed to pay the debt service;

2.12. “Spending unit” means any of the State’s agencies, boards, commissions, committees, authorities, entities or other units of State Government with the power to issue debt and secure debt, with the exclusion of local political subdivisions of the State.

2.13. “State” means the State of West Virginia.

2.14. “Treasurer” means the West Virginia State Treasurer.

2.15. “Revenue bonds” are bonds secured by a specified revenue stream, often with a lien imposed on the revenues. The revenue stream may be a tax or assessment or the revenues of the project financed.

2.16. “Lottery bonds” are bonds secured by lottery revenues;

2.17. “Revenues” means: (1) total funds deposited in the general revenue; plus (2) the entire related revenue stream for any net tax supported debt which is funded from a source other than the state’s general revenue fund; plus (3) an amount equal to any deductions from the gross general revenue for debt service of tax supported debt before the revenue is added to the general revenue fund.

An example of revenue as defined in this subdivision 2.17.2 of this subsection is the State Road Fund revenues. The total revenues of the State Road Fund (exclusive of Federal funds) are used to repay the Road Bonds and are therefore included in revenue.

An example of revenue as defined in subdivision 2.17.3 of this subsection is the amount of severance tax dedicated for repayment of the Infrastructure Bonds. Those dedicated severance taxes are therefore included in revenue.

§112-9-3. Debt capacity and debt impact reporting.

3.1. Annual debt capacity report - The division with the cooperation and support of the Department of Administration, the Department of Tax and Revenue and the Bureau of Employment Programs shall issue an annual report, on or before October 1st of each year. The annual debt capacity report reviews the size and condition of the state’s net tax supported debt and estimates the maximum amount of net tax supported debt which should be authorized based upon ratios and guidelines established by the major bond rating agencies. The ratios and guidelines shall be consistently applied based upon the state's definitions.

3.2. Debt impact statement - The Treasurer shall prepare a debt impact statement, only at the request of any member of the Legislature of West Virginia, which shall at a minimum include the following:

3.2.1. Current net tax supported debt;

3.2.2. Current net tax supported debt as a percentage of personal income;

3.2.3. Current net tax supported debt per capita;

3.2.4. A list of assumptions derived from the House or Senate bill for which the debt impact statement is being prepared;

3.2.5. The recommendation of the Treasurer;

3.2.6. The total debt service as a percentage of revenue;

3.2.7. Current ratios and guidelines as established and/or reported by the major rating agencies; and

3.2.8. A comparison of West Virginia's ratio to other states with similar bond ratings.

3.3. Additional Information - The division may, pursuant to W. Va. Code §12-6B-4(d), require any additional information from any spending unit to carry out the provisions as outlined in W. Va. Code §12-6B-1 et seq.

3.4. Additional Reports and Advisory Opinions - The Treasurer may, as he or she considers necessary, issue advisory letters, notices and/or opinions on new debt issuance, the condition of the State's outstanding debt and any other factor which the Treasurer determines may directly or indirectly effect the State's credit rating.

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Appendix B

Revenue Information

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Revenue & Revenue Projections
(thousands)
2005 - 2021
*(2011 – 2021 are projected)

Year	General Revenue	Road Fund	**Lottery	Severance	Total
2005	3,504,830	578,050	303,699	24,000	4,410,579
2006	3,661,402	580,904	486,841	24,000	4,753,147
2007	3,752,722	611,085	514,902	24,000	4,902,709
2008	3,928,289	661,961	501,190	24,000	5,115,440
2009	3,901,552	626,434	428,822	24,000	4,980,808
2010	3,758,372	628,157	385,992	24,000	4,796,521
*2011	3,741,680	626,186	380,772	24,000	4,772,638
*2012	4,034,521	622,482	345,501	24,000	5,026,504
*2013	4,226,101	640,773	306,470	24,000	5,197,344
*2014	4,342,651	670,882	306,946	24,000	5,344,479
*2015	4,483,151	663,490	307,427	24,000	5,478,068
*2016	4,628,551	668,179	307,427	24,000	5,628,157
*2017	4,767,000	674,724	307,427	24,000	5,773,151
*2018	4,910,000	681,724	307,427	24,000	5,923,151
*2019	5,057,000	688,724	307,427	24,000	6,077,151
*2020	5,209,000	695,724	307,427	24,000	6,236,151
*2021	5,365,000	702,724	307,427	24,000	6,399,151

* Projections
** Net of Transfers to the General Revenue Fund
Lottery fund do not include any Revenue added to General State Revenue fund

Information (and estimates) provided by the West Virginia Department of Revenue

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