

WEST VIRGINIA STATE TREASURER'S OFFICE



***DEBT
CAPACITY
REPORT
2004***

JOHN D. PERDUE, STATE TREASURER

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Overview

This is the 6th year of reporting on the state's debt capacity as required by West Virginia Code §12-6B. There have been various recommendations that have come from these annual reports such as:

"The debt service burden on the Road Fund should be carefully monitored before and after the issuance of any bonds of the Safe Roads Amendment." (1998 Debt Capacity Report)

"... we recommend keeping maturities on debt issued as short as possible, generally no longer than 20 to 25 years; and we recommend West Virginia maintain its vigilant fiscal and administrative efforts." (1999 Debt Capacity Report)

"... the \$150 million in regional jail and correctional facilities investments should be refunded through the sale of general obligation bonds." (1999 Debt Capacity Report)

"The proposed Pension Obligation Bonds are worthy of consideration, if the structure is constitutional. However, this consideration must be balanced against other factors such as investment performance of the West Virginia Investment Management Board, interest rates the bonds will carry, projected market performance, pressure to increase benefits for retirees causing additional unfunded liabilities, willingness of the Legislature to fund the debt service at that level for more than 30 years in light of many competing demands, meeting any deficiencies in the pension funds caused by market conditions, issuing part of the proposed amount of bonds, and facing such high debt ratios and amounts when considering other needs such as transportation, infrastructure and education." (2000 Debt Capacity Report)

There have been recommendations on other issues such as the Rainy Day Fund and Tobacco Bonds. These recommendations received notice and some were even taken into consideration, at least in part. However, the recommendations which seemed to receive the most attention were those based on a required set of ratios. The ratio recommendations were based on three simple steps which adhered to the intent of West Virginia Code §12-6B-1 et seq. and the Legislative Rule for Reporting of Debt Capacity, 112 CSR (Appendix A), as follows:

Determine the amount of Net Tax Supported Debt outstanding.

Calculate key ratios that are commonly used to examine debt.

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

The directive to base the recommendations on keeping the state in the average to low range made for more than 5 years of reports which recommended no additional debt financing. Table 1 outlines the recommendations made in previous debt capacity reports and the actual levels at which the ratios existed at that time.

Table 1 - Past Ratio Recommendations & Levels

Ratio	1999		2000		2001	
	Recommended Cap	Actual Amount	Recommended Cap	Actual Amount	Recommended Cap	Actual Amount
NTSD service as a % of the General Revenue Fund	5.0%	5.1%	5.0%	5.8%	5.0%	5.5%
NTSD service as a % of Revenues	4.0%	4.1%	4.0%	4.6%	4.0%	4.4%
NTSD as a % of Personal Income	3.0%	3.3%	3.0%	3.4%	3.0%	3.4%
NTSD per capita	\$550	\$697	\$550	\$740	\$650	\$772
NTSD as a % of Assessed Value	2.0%	2.7%	2.0%	2.8%	2.0%	2.8%

Ratio	2002	
	Recommended Cap	Actual Amount
NTSD service as a % of the General Revenue Fund	5.0%	5.5%
NTSD service as a % of Revenues	4.0%	4.2%
NTSD as a % of Personal Income	3.0%	3.5%
NTSD per capita	\$700	\$817
NTSD as a % of Assessed Value	2.0%	3.0%

NTSD stands for Net Tax Supported Debt

As you can see from Table 1, there was no possible way to recommend additional debt based on the requirements of the report and the state's debt ratios. So, what should be done to make this annual review more effective and helpful as a financial management tool? What other aspects of state debt need careful scrutiny and consideration?

It's not likely that West Virginia will be issuing General Obligation (GO) Bonds any time soon because of the required process of a Constitutional Amendment. The state has recently turned to Revenue Bonds issued through the Economic Development Authority which are backed by lease agreements with the Secretary of Administration. There is also the question of utilizing proceeds from video lottery to serve as the revenue stream for a bond issue to fund projects authorized by the Economic Development Grant Committee. The state is also considering the feasibility and constitutionality of issuing approximately \$4 billion in GO Pension Obligation Bonds (POBs). All of these debt financings combined have the capability of making this capacity analysis a moot point since the state would be at the highest level of nationally recognized debt ratios (see Table 2).

**Table 2
Current and Projected Debt Ratios (with \$4.2 billion of debt issued)**

Ratio	Currently Recommended Cap	Current Level 6/30/2003	Projected Level With Issuance of \$4.2 billion
NTSD as a % of Personal Income	2.7%	3.4%	13.1%
NTSD per capita	\$775	\$812	\$3,143
NTSD as a % of Assessed Value	2.0%	2.8%	10.7%

NTSD stands for Net Tax Supported Debt

Although ratios are an important factor in determining the feasibility of a new bond issue for the state, there are other factors which should be considered, such as the economic impact. Will the influx of new money have a real impact on the state's economy? What are the long-term effects on the state? Is there an alternate plan if the economic impact is not realized? Is the state utilizing its capacity to issue debt in a prudent manner?

Recommendation

It is the recommendation of this report that careful consideration should be given in the issuance of any “new money” tax-supported debt since the state is in the mid-to-high levels of nationally recognized debt ratios.

Determine the amount of net tax supported debt outstanding

In keeping with the requirements of the report, the first step is to determine the amount of net tax supported debt outstanding.

The net tax supported debt of the state at June, 30, 2003 is outlined below in Table 3.

Table 3 - Net Tax Supported Debt, June 30, 2003

Type of Debt		Principal Outstanding June 30, 2003 (rounded to nearest thousand)	Percentage of debt outstanding
General Obligation Bonds	State Road Bonds	\$ 517,500,000	54%
	Better School Building Bonds	2,000,000	
	Infrastructure Bonds	281,679,000	
Moral Obligation Bonds	School Building Authority (net)	267,470,000	18%
Lottery Revenue Bonds	School Building Authority	32,970,000	6%
	State Building Commission	62,545,000	
Lease Obligations *		325,692,000	22%
(Deductions for debt service reserve accounts)	School Building Authority	(23,021,000)	
	State Building Commission	(3,348,000)	
Net Tax Supported Debt		\$ 1,463,487,000	

* - This figure does include leases of various colleges and universities which is typically excluded from the State's CAFR.

Calculations of the Net Tax Supported Debt and debt service of the State of West Virginia for fiscal years 1998 through 2015 are contained in Tables 4 and 5 (pages 8-11). Fiscal years 1998 through 2003 are included to show the historical perspective of the last six periods of actual debt issued and the debt service requirements for these obligations. The current and next ten fiscal years, 2004 through 2015, are included to show expected debt levels as various obligations are issued and mature.

There are several issues which are being contemplated which would affect the Net Tax Supported Debt of the state, the Lottery/Economic Development Bonds and Pension Obligation Bonds. These two issues were recently discussed in the *"Fiscal Year 2003 Annual Debt Position Report."* As noted in the report, neither issue has been finalized and both face various legal hurdles; therefore, these issues have not been included in Tables 4 or 5 because of the uncertainty of their size and timing. Also, as shown in Table 2 (page 4) the impact of these combined issues would be so dramatic that the state would experience debt levels in the high range and beyond.

Revenue information included in Tables 4 & 5 was compiled and provided by the Department of Administration and is included in Appendix 2.

Bonds of the Water Development Authority, Solid Waste Management Authority, Solid Waste Landfill Closure Assistance Program, and the Housing Development Fund are excluded from the determination of Net Tax Supported Debt. While certain bonds of these issuers are considered moral obligations of the state, they are currently self-supporting and accordingly are excluded in the calculation.

Net Tax Supported Debt (by type)

June 30, 2003

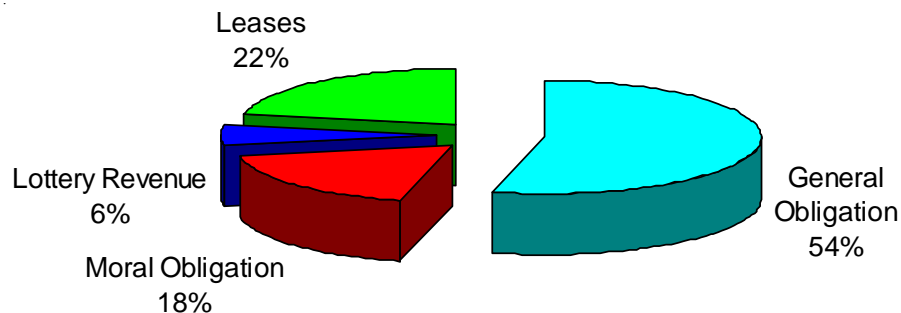


Table 4. NET TAX SUPPORTED DEBT OUTSTANDING FOR FISCAL YEARS 1998 - 2015

	6/30/1998 FY98	6/30/1999 FY99	6/30/2000 FY00	6/30/2001 FY01	6/30/2002 FY02	6/30/2003 FY03	6/30/2004 FY04
General Obligation							
Better Roads of 1964	800,000	-	-	-	-	-	-
Roads Development of 1968	800,000	-	-	-	-	-	-
Better Highways of 1973	87,180,000	66,880,000	46,695,000	30,620,000	18,660,000	10,815,000	5,090,000
Safe Roads of 1996	-	212,980,000	314,995,000	420,405,000	520,880,000	506,685,000	489,340,000
Better Schools of 1972	26,000,000	18,000,000	12,000,000	8,000,000	4,000,000	2,000,000	-
Infrastructure of 1994	206,670,000	296,138,910	292,853,910	289,433,910	285,663,910	281,678,910	277,448,910
Total General Obligation	321,450,000	593,998,910	666,543,910	748,458,910	829,203,910	801,178,910	771,878,910
Moral Obligations							
School Building Authority	293,785,000	293,075,000	286,650,000	279,820,000	274,645,000	267,470,000	259,010,000
School Building Authority - Lottery	100,820,000	88,735,000	75,925,000	62,445,000	48,155,000	32,970,000	16,940,000
State Building Commission - Lottery	91,375,000	86,185,000	80,735,000	74,985,000	68,915,000	62,545,000	55,855,000
Interagency Loan - Morris Street	3,101,735	1,288,770	-	-	-	-	-
Interagency Investment - \$150 Million Regional Jail	-	150,000,000	147,903,421	143,505,126	-	-	-
Total Moral Obligations	489,081,735	619,283,770	591,213,421	560,755,126	391,715,000	362,985,000	331,805,000
Leases							
Leases	71,073,000	71,881,000	106,422,000	107,692,000	277,219,000	325,345,749	360,345,749
Total Leases	71,073,000	71,881,000	106,422,000	107,692,000	277,219,000	325,345,749	360,345,749
Deductions for debt service reserve accounts							
School Building Authority	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)
State Building Commission	(2,500,001)	(2,792,807)	(2,948,375)	(3,185,612)	(3,268,041)	(3,268,041)	(3,268,041)
Net Tax Supported Debt Outstanding	856,083,933	1,259,350,072	1,338,210,155	1,390,699,623	1,471,849,068	1,463,220,817	1,437,740,817
Assessed value (in thousands)	46,109,285	46,957,023	47,830,000	49,414,000	49,413,867	51,433,353	53,338,895
Net tax supported debt as a percentage of assessed value	1.86%	2.68%	2.80%	2.81%	2.98%	2.84%	2.70%
Income (in thousands)	36,679,000	37,884,000	39,437,616	41,173,821	42,574,654	43,492,000	44,144,380
Net tax supported debt as a percentage of personal income	2.33%	3.32%	3.39%	3.38%	3.46%	3.36%	3.26%
Population	1,812,000	1,807,000	1,808,000	1,801,000	1,802,000	1,802,000	1,802,000
Net tax supported debt per capita	472.45	696.93	740.16	772.18	816.79	812.00	797.86

6/30/2005 FY05	6/30/2006 FY06	6/30/2007 FY07	6/30/2008 FY08	6/30/2009 FY09	6/30/2010 FY10	6/30/2011 FY11	6/30/2012 FY12	6/30/2013 FY13	6/30/2014 FY14	6/30/2015 FY15
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
1,480,000	-	-	-	-	-	-	-	-	-	-
468,735,000	444,845,000	418,380,000	390,585,000	361,385,000	330,685,000	298,410,000	264,430,000	240,080,000	216,035,000	190,660,000
-	-	-	-	-	-	-	-	-	-	-
273,013,910	265,521,492	254,889,156	244,176,320	233,369,607	222,475,041	211,443,971	200,217,386	188,859,731	177,260,493	165,353,538
743,228,910	710,366,492	673,269,156	634,761,320	594,754,607	553,160,041	509,853,971	464,647,386	428,939,731	393,295,493	356,013,538
250,160,000	241,920,000	231,475,000	220,410,000	208,670,000	196,265,000	183,250,000	169,590,000	155,260,000	140,200,000	124,375,000
-	-	-	-	-	-	-	-	-	-	-
48,830,000	41,455,000	33,675,000	25,465,000	16,805,000	7,690,000	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
298,990,000	283,375,000	265,150,000	245,875,000	225,475,000	203,955,000	183,250,000	169,590,000	155,260,000	140,200,000	124,375,000
365,345,749	370,345,749	350,219,000	350,219,000	350,219,000	350,219,000	350,219,000	350,219,000	350,219,000	350,219,000	350,219,000
365,345,749	370,345,749	350,219,000	350,219,000	350,219,000	350,219,000	350,219,000	350,219,000	350,219,000	350,219,000	350,219,000
(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)
(3,268,041)	(3,268,041)	(3,268,041)	(3,268,041)	(3,268,041)	(3,268,041)	-	-	-	-	-
1,381,275,817	1,337,798,399	1,262,349,314	1,204,566,477	1,144,159,765	1,081,045,199	1,020,302,170	961,435,585	911,397,930	860,693,692	807,586,737
54,939,062	56,587,234	58,284,851	60,033,396	61,834,398	63,689,430	65,600,113	65,600,113	65,600,113	65,600,113	65,600,113
2.51%	2.36%	2.17%	2.01%	1.85%	1.70%	1.56%	1.47%	1.39%	1.31%	1.23%
44,806,546	45,478,644	46,160,824	46,853,236	47,556,034	48,269,375	48,993,416	49,728,317	50,474,242	51,231,355	51,999,826
3.08%	2.94%	2.73%	2.57%	2.41%	2.24%	2.08%	1.93%	1.81%	1.68%	1.55%
1,802,000	1,802,000	1,802,000	1,802,000	1,802,000	1,802,000	1,802,000	1,802,000	1,802,000	1,802,000	1,802,000
766.52	742.40	700.53	668.46	634.94	599.91	566.21	533.54	505.77	477.63	448.16

Table 5. NET TAX SUPPORTED DEBT SERVICE FOR FISCAL YEARS 1998 - 2015

	6/30/1998 FY98	6/30/1999 FY99	6/30/2000 FY00	6/30/2001 FY01	6/30/2002 FY02	6/30/2003 FY03	6/30/2004 FY04
General Obligation Debt Service							
Better Roads of 1964	1,692,000	832,000	-	-	-	-	-
Roads Development of 1968	6,236,000	832,000	-	-	-	-	-
Better Highways of 1973	26,163,761	24,964,261	23,771,661	18,585,856	13,651,806	8,932,506	6,360,225
Safe Roads of 1996	-	16,798,904	23,727,793	26,274,902	36,341,486	41,063,435	43,638,245
Better Schools of 1972	9,814,000	9,409,000	7,004,000	4,679,000	4,454,000	2,244,000	2,122,000
Infrastructure of 1994	8,522,141	14,398,741	16,070,961	15,974,951	16,076,399	16,022,923	15,991,970
Total General Obligation Debt Service	52,427,903	67,234,906	70,574,416	65,514,710	70,523,691	68,262,864	68,112,440
Moral Obligation Debt Service							
School Building Authority	17,208,620	15,627,158	22,667,120	22,667,670	20,573,905	23,345,905	22,644,690
School Building Authority - Lottery	17,604,469	17,636,594	17,662,781	17,592,119	17,551,156	17,572,516	17,539,594
State Building Commission - Lottery	12,400,488	9,865,488	9,845,863	9,837,863	9,847,988	9,836,988	9,830,488
Interagency Loan - Morris Street	2,000,000	2,000,000	1,366,483	-	-	-	-
Interagency Investment - \$150 Million Regional Jail	-	4,363,340	13,823,972	13,745,875	10,313,520	-	-
Total Moral Obligations	49,213,576	49,492,579	65,366,218	63,843,526	58,286,569	50,755,408	50,014,771
Lease Debt Service							
Leases	14,100,000	15,900,000	16,000,000	21,000,000	25,000,000	33,000,000	37,000,000
Total Lease debt service	14,100,000	15,900,000	16,000,000	21,000,000	25,000,000	33,000,000	37,000,000
Net Tax Supported Debt Service	115,741,479	132,627,485	151,940,634	150,358,236	153,810,260	152,018,272	155,127,211
General revenue fund (expressed in thousands)	2,503,343	2,617,868	2,638,496	2,718,379	2,824,117	2,916,961	3,013,300
Debt service as a percentage of general revenue fund	4.62%	5.07%	5.76%	5.53%	5.45%	5.21%	5.15%
Revenue (expressed in thousands and as defined in the rule)	3,089,754	3,205,327	3,303,321	3,409,711	3,705,456	3,905,166	4,006,663
Debt as a percentage of revenue (as defined in the rule)	3.75%	4.14%	4.60%	4.41%	4.15%	3.89%	3.87%

Revenue information provided by the Department of Administration (see Appendix 7).

Lease information was provided by the Department of Administration (see Appendix 7).

6/30/2005 FY05	6/30/2006 FY06	6/30/2007 FY07	6/30/2008 FY08	6/30/2009 FY09	6/30/2010 FY10	6/30/2011 FY11	6/30/2012 FY12	6/30/2013 FY13	6/30/2014 FY14	6/30/2015 FY15
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
3,909,038	1,566,950	-	-	-	-	-	-	-	-	-
46,086,985	48,430,648	49,996,888	49,995,733	49,998,580	49,996,764	49,996,264	49,997,983	38,619,853	36,978,446	36,983,726
-	-	-	-	-	-	-	-	-	-	-
15,920,030	19,664,363	23,498,180	23,504,403	23,504,025	23,494,878	23,494,536	23,486,533	23,488,664	23,498,244	23,508,972
65,916,053	69,661,960	73,495,068	73,500,135	73,502,605	73,491,641	73,490,800	73,484,515	62,108,516	60,476,690	60,492,698
22,642,530	21,561,365	23,345,747	23,345,982	23,361,520	23,349,660	23,312,780	23,316,320	23,303,285	23,311,361	23,309,855
17,469,375	-	-	-	-	-	-	-	-	-	-
9,822,613	9,794,175	9,782,413	9,772,688	9,769,588	9,757,994	7,891,863	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
49,934,518	31,355,540	33,128,160	33,118,670	33,131,108	33,107,654	31,204,643	23,316,320	23,303,285	23,311,361	23,309,855
39,000,000	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000
39,000,000	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000	41,000,000
154,850,570	142,017,500	147,623,227	147,618,805	147,633,713	147,599,295	145,695,443	137,800,835	126,411,801	124,788,051	124,802,553
3,002,190	3,100,490	3,178,002	3,257,452	3,338,889	3,422,361	3,507,920	3,595,618	3,685,508	3,777,646	3,872,087
5.16%	4.58%	4.65%	4.53%	4.42%	4.31%	4.15%	3.83%	3.43%	3.30%	3.22%
3,960,648	4,054,104	4,126,891	4,151,525	4,223,162	4,297,134	4,373,474	4,452,291	4,533,481	4,617,219	4,703,460
3.91%	3.50%	3.58%	3.56%	3.50%	3.43%	3.33%	3.10%	2.79%	2.70%	2.65%

General Obligation Bonds

The General Obligation (GO) debt of the state has not experienced any changes since the last report. The GO debt outstanding at June 30, 2003 was \$801.1 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 54% of the State's Net Tax Supported Debt.

Road Bond Amendments

Better Highways Amendment of 1973

Authorized bonds to be issued in an amount not to exceed \$500 million for specific projects. The principal outstanding at June 30, 2003 was \$10.8 million. The bonds will be completely retired on February 1, 2006.

**Table 6
Historical/Projected Debt Service Burden
State Road Fund**

Fiscal Year	Debt Service	Road Fund Revenue	Debt Service as % of Road Fund
1998	34,091,761	475,388,000	7.17%
1999	43,427,165	478,665,000	9.07%
2000	47,499,454	482,648,000	9.84%
2001	44,860,758	510,215,000	8.79%
2002	49,993,292	563,515,000	8.87%
2003	49,995,941	536,015,000	9.33%
2004	49,998,470	551,463,000	9.07%
2005	49,996,023	576,558,000	8.67%
2006	49,997,598	582,414,000	8.58%
2007	49,996,888	588,189,000	8.50%
2008	49,995,733	543,473,000	9.20%
2009	49,998,581	543,473,000	9.20%
2010	49,996,764	543,473,000	9.20%
2011	49,996,264	543,473,000	9.20%
2012	49,997,983	543,473,000	9.20%
2013	38,619,853	543,473,000	7.11%
2014	36,978,446	543,473,000	6.80%

For current and projected revenue information, see Appendix 2.

Safe Road Amendment of 1996

This most recent amendment authorized bonds to be issued in an amount not to exceed \$550 million. As of June 30, 2003, the entire authorized amount had been issued and the principal outstanding was \$506.6 million. The bonds will be completely retired on June 1, 2025.

Table 6 (page 12) shows the debt service burden on the road fund from 1999 through fiscal year 2003 and also projects the future debt service burden on the fund. According to these projections, the debt service burden peaked at 9.33% during fiscal year 2003.

School Building Amendment

Better School Building Amendment of 1972

Authorized bonds to be issued in an amount not to exceed \$200 million for distribution to the county boards of education for buildings and facilities. The principal outstanding at June 30, 2003 was \$2 million. The bonds will be completely retired during this current fiscal year.

Infrastructure Improvement Amendment of 1994

Authorized bonds in an amount not to exceed \$300 million for water supply and sewage treatment systems and economic development sites. Secured by a dedication of the first \$24 million in severance tax collections, all of the issues were sold in the form of taxable and nontaxable bonds. The principal outstanding at June 30, 2003 was \$281.7 million. The 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. As of June 30, 2003, Revenue Bonds in the amount of \$45 million have been issued. 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. The Council anticipates another Revenue Bond issue during this current fiscal year.

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 and the Veterans Bonus Amendment of 1992

Authorized the sale of bonds of not more than \$40 million and \$4 million, respectively, for the purpose of paying a bonus to the veterans serving in foreign conflicts. General Revenue Funds were used to pay the bonuses, thereby eliminating the need to sell the bonds.

Pension Liability Redemption

Authorized the sale of bonds of not more than the lesser of 2 amounts which, at the time of this report, would be \$3.9 billion. The authorizing language to issue these Pension Obligation Bonds (POBs) was passed by the West Virginia Legislature in the 2000 Regular Session. As of June 30, 2003, the bonds have not been issued.

After June 30, 2003, the Treasurer and Auditor filed a case challenging the constitutionality of the bonds. The heart of the matter is the fact that the bonds will be issued as General Obligation Bonds of the State of West Virginia; however, they will not have been approved through the typical GO Bond process which requires a constitutional amendment approved by a majority vote of the citizens of West Virginia. The proponents of the bonds argue that it would merely be a refinancing of an existing debt which does not require a constitutional amendment. As of the publication of this report, the case filed by the Treasurer and Auditor has not been heard.

Moral Obligations

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 24% 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 1), 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 School Building Authority and State Building Commission.

School Building Authority Capital Improvement Revenue Bonds

The School Building Authority Capital Improvement Revenue Bonds net principal outstanding at June 30, 2003 was \$267.4 million. In fiscal year 2003, the School Building Authority took advantage of the low interest rate environment to refund certain bonds that were issued in 1992. All of the remaining 1992 Series B bonds (\$31,325,000) were refunded on July 15, 2002.

No “new money” bonds may be issued by the Authority utilizing General Revenue appropriations for repayment.

Lottery Revenue Bonds

The State’s Lottery Revenue Bonds outstanding as of June 30, 2003 total \$95.5 million. This total includes one issue of the School Building Authority and one issue of the State Building Commission.

The initial issue for school construction and renovations issued by the School Building Authority is secured by a first lien on the net proceeds of the Lottery Fund. The State Building Commission later marketed its Lottery Revenue Bonds for the purpose of providing public financial support for constructing, equipping, improving and maintaining capital improvement projects promoting education, arts, sciences and tourism in the state and are secured by a second in priority lien on the net proceeds of the Lottery Fund. Both issues established a debt service reserve fund that is outlined in Table 7 (page 17).

A debt service reserve fund can be set up initially out of bond proceeds or can be built up over time. Reserve funds are tapped only if funds are insufficient to meet the debt service payments. These reserve funds are typically set at an amount equal to six months to one year’s debt service. Issuers may also use a surety bond

or other substitute. The reserve fund for the State Building Commission Lottery Revenue Bonds was established with a \$2.5 million cash deposit and a surety bond which is equal to 10% of the par amount of the bonds.

The Economic Development Authority was given the authority to issue approximately \$210 million in Lottery Revenue Bonds (as shown in Table 7, page 17), on behalf of the Economic Development Grant Committee. The projects to be funded have been certified by the Committee; however, the bonds have faced several legal hurdles. On Wednesday, September 11, 2003, the West Virginia Supreme Court of Appeals agreed to hear nearly all aspects pertaining to the Committee on October 10, 2003. There are several issues being challenged such as the merit of each project as a true economic development investment. Perhaps the most important decision is the one which will determine the future of the Excess Lottery Fund and its ability to serve as a revenue stream for bonds and other pay-as-you-go projects, such as the state's Promise scholarship program.

Leases

When the first Debt Capacity Report was issued in 1998, the calculation of leases outstanding was approximately \$71.1 million. As of June 30, 2003, the calculation of leases outstanding for fiscal year 2003 was \$325.6 million. This is an increase of more than \$250 million (or approximately 357%) in 5 years.

Most of the new leases are actually bond issues of the West Virginia Economic Development Authority which are secured by a lease between the Authority and the Secretary of Administration. These lease-backed bonds have been issued for various projects such as the purchase or construction of state offices and for various regional jail and correctional facilities throughout the state. As of the publication of this report, the Treasurer's Office has received no notification of new leases or lease-backed bonds.

Table 7 - Net Tax Supported Debt Obligations - Various Information

Type of Obligation	Issue	Payable From	Principal Outstanding as of 6/30/03 (thousands)	Reserve Accounts as of 6/30/03 (thousands)	Remaining Authorization as of 6/30/03 (thousands)
General Obligation Bonds	Better Highways of 1973	Road Fund	\$10,815	NA	\$0
	Safe Roads of 1996	Road Fund	\$506,685	NA	\$0
	Better School Buildings of 1972	General Revenue	\$2,000	NA	\$0
	Infrastructure Improvement of 1994	Coal Severance Tax/General Revenue	\$281,679	NA	\$0
	Pension Liability Redemption	General Revenue	\$0	\$0	\$3,900,000
Moral Obligation Bonds	School Building Authority	General Revenue Fund	\$267,470 (net)	\$23,021	\$0
	School Building Authority	Lottery Fund	\$32,970	\$0	\$0
	State Building Commission	Lottery Fund	\$62,545	\$3,348	\$0
	Economic Development Authority	Excess Lottery	\$0	\$0	\$210,000 (approx).
Leases	Various	Various	\$325,692	Various	NA

Calculate key ratios that are commonly used to examine debt

The next step in the process of this report is to calculate key ratios. These ratios give 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. One such entity in the municipal bond industry is Moody's Investor Service. They produce an annual publication which examines these key ratios and shows trends in state-level debt issuance and management. It provides Moody's with an analytical tool to use when rating various debt instruments.

The *2003 Annual Debt Position Report* devoted an entire section to the explanation of ratings and the variables which may be used in the rating process. Ratios are not the only determining factor in a rating. Other factors, such as a review of the issuer's debt policies, the purpose of the debt, the issuer's revenue base and its vulnerability to certain economic conditions, intergovernmental relationships, the issuer's economic structure and diversity, all factor into the credit analysis of a state. The State of West Virginia's current General Obligation bond rating from Fitch, Moody's and S&P is as follows: AA-/Aa3/AA-, respectively. The table below was derived from Moody's *2003 State Debt Medians*, and indicates that the average debt per capita for 2003 is \$838 and the average debt as a percentage of personal income is currently 2.7%.

**Table 8 - Moody's 2003 State Debt Medians
July 2003**

Ratio	Average	High	Low	West Virginia Ranking
NTSD per capita	\$838	\$3,440 Connecticut	\$38 Nebraska	\$950 #15
NTSD as a % of Personal Income	2.7%	10.4% Hawaii	0.1% Nebraska	4.0% #11
Total NTSD	NA	\$40.1 billion New York	\$60.8 million Alaska	\$1.7 billion #29

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

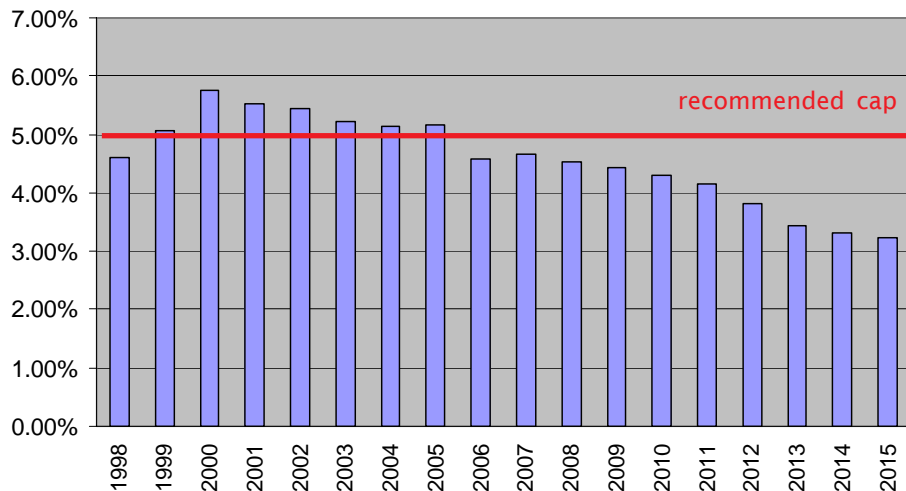
Net Tax Supported Debt as a Percentage of Assessed Value.

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, 2003, the State's General Revenue Fund had a 5.21% potential debt service burden (see Table 5, pages 10 and 11).

This ratio peaked on June 30, 2000 and is expected to decline to 4.58% by fiscal year 2006. This projection includes an anticipated increase of \$4 million on debt service for leases in Fiscal Year 2004 and \$2 million in Fiscal Years 2005 & 2006. Projections for the General Revenue Fund of the state were provided by the Department of Administration and are provided in Appendix 2.

**NTSD Service as a % of the General Revenue Fund
Fiscal Years 1998 - 2015**



Net Tax Supported Debt Service as a Percentage of Revenues

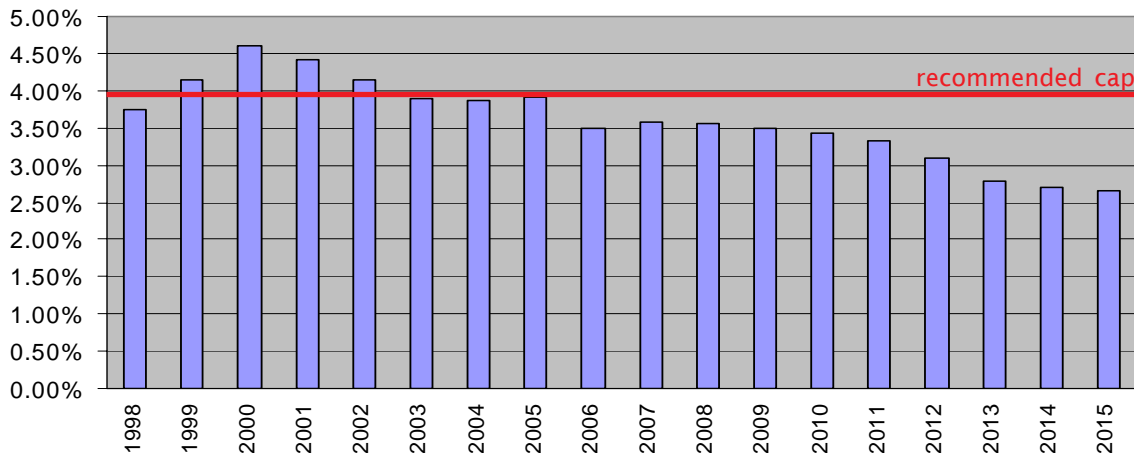
The definition of revenue includes:

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.

The recommended cap on this particular ratio is currently at 4%. At June 30, 2003, the state had a net tax supported debt service burden, as a percentage of revenues of 3.89%. The rapid decline of this ratio is generally attributable to the growth of the Lottery Revenue Fund and the rapid retirement of the Better Highways of 1973 General Obligation Bonds and Lottery Bonds for the School Building Authority.

The following chart examines the net tax supported debt service requirements as a percentage of Revenues for fiscal years 1998 through 2015, in relation to our recommended cap of 4%, and based on the data contained in Table 5 (pages 10 and 11):

**Net Tax Supported Debt Service as a % of Revenues
Fiscal Years 1998-2015**



Net Tax Supported Debt as a Percentage of Personal Income

The income figures in this year's report are the most current revised numbers from the Federal Bureau of Economic Analysis and are available on the internet at <http://www.bea.doc.gov/>.

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 9 attempts to compare those states that share a Moody's ranking of Aa3 as of December 31, 2002. West Virginia, according to Moody's, had a net tax supported debt, as a percentage of personal income, of 4.0%. In comparison with this one ratio, West Virginia ranks 5th highest out of the 10 similarly rated states.

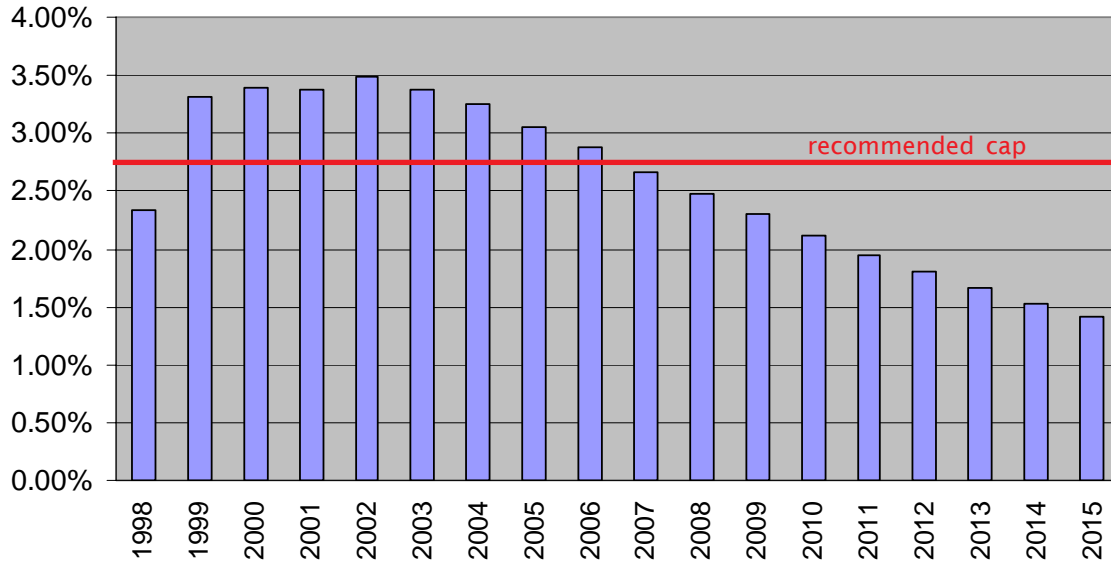
Table 9 -Net Tax Supported Debt Service as a % of Personal Income - Similarly Rated States

State	Moody's Rating	NTSD as a % of Personal Income
Oklahoma	Aa3	1.2%
Montana	Aa3	1.3%
Oregon	Aa3	1.6%
Alabama	Aa3	2.1%
Illinois	Aa3	3.1%
Wisconsin	Aa3	3.2%
West Virginia	Aa3	4.0%
Rhode Island	Aa3	4.8%
Mississippi	Aa3	5.4%
Connecticut	Aa3	8.1%
Hawaii	Aa3	10.4%

Source: Moody's Investors Service, 2003 State Debt Medians, July 2003 (data as of December 31, 2002).

The following chart examines the net tax supported debt outstanding as a percentage of personal income for fiscal years 1998 through 2015, in relation to our recommended cap of 2.7%, and based on the data contained in Table 4 (pages 8 and 9):

**Net Tax Supported Debt as a % of Personal Income
Fiscal Years 1998-2015**



The recommended cap on this ratio has changed from previous reports because the ratio’s national average has declined to 2.7%. West Virginia may never reach this medium range due to its ranking of number 39 in total personal income (TPI). During the period of 1991 - 2001, the average annual growth rate of TPI for West Virginia was 4.2% while the nation averaged 5.5% during that same time.

West Virginia had a net tax supported debt, as a percentage of personal income, of 3.36% as of June 30, 2003 (see Table 4, pages 8 and 9 for the specific calculation). This figure does not match with the calculation presented in the Moody’s “State Debt Medians” report. The difference is due to the timing of the report and the information that was available at the time of publication.

Net Tax Supported Debt per Capita

The State of West Virginia's population has been declining since 1995. According to figures from the Federal Bureau of Economic Analysis, West Virginia lost .27% of its population from 1998 to 1999, a total of approximately 5,000 people.

This particular ratio of debt per capita shows the debt service burden on the total population of the state. West Virginia's debt per capita ratio peaked at \$817 in fiscal year 2002. The national average debt per capita has risen from \$662 in 1997 to \$838 in 2003.

Table 10 attempts to compare West Virginia with states that share a similar rating of Aa3 from Moody's as of December 31, 2002. In comparison with this one ratio, West Virginia ranks 7th out of 10 similarly rated states. According to our calculations, West Virginia had a net tax supported debt per capita of \$812 as of June 30, 2003 (see Table 4, pages 8 and 9 for the specific calculation). This figure does not match with the calculation presented in the Moody's "State Debt Medians" report. The difference is due to the timing of the report and the information that was available at the time of publication.

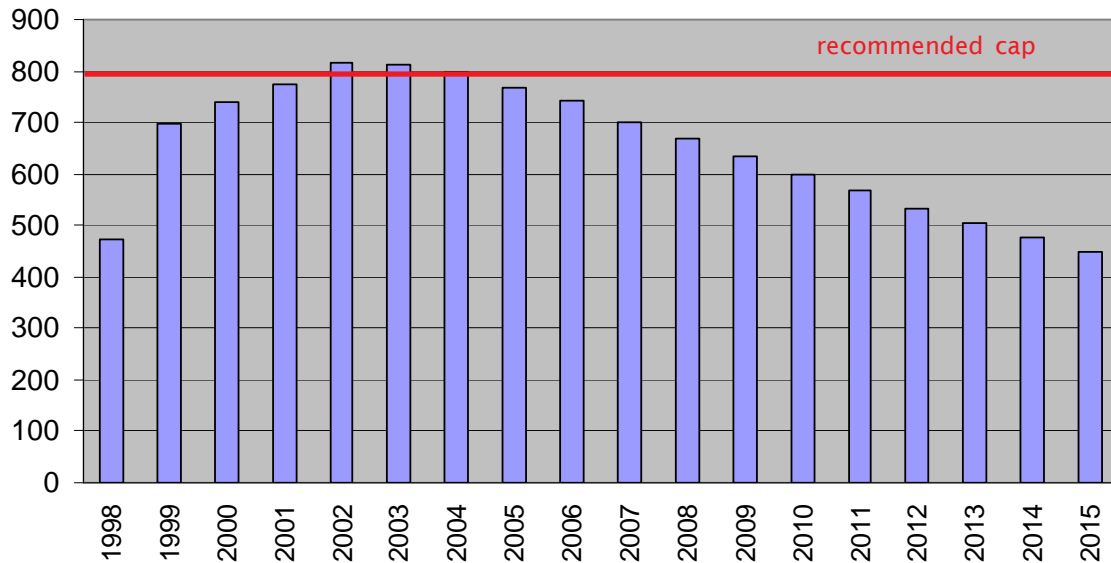
**Table 10 - Net Tax Supported Debt per Capita
Similarly Rated States**

State	Moody's Rating	NTSD per capita
Oklahoma	Aa3	\$302
Montana	Aa3	\$329
Oregon	Aa3	\$454
Alabama	Aa3	\$540
West Virginia	Aa3	\$950
Wisconsin	Aa3	\$958
Illinois	Aa3	\$1,040
Mississippi	Aa3	\$1,207
Rhode Island	Aa3	\$1,508
Hawaii	Aa3	\$3,111
Connecticut	Aa3	\$3,440

Source: Moody's Investors Service, 2003 State Debt Medians, July 2003 (data as of December 31, 2002)

The following chart examines the net tax supported debt per capita for fiscal years 1998 through 2015, in relation to our recommended cap of \$800, and based on the data contained in Table 4 (pages 8 and 9):

**Net Tax Supported Debt Per Capita
Fiscal Years 1998-2015**



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, 2003, the net tax supported debt as a percentage of assessed value is 2.84%.

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 state's have constitutional or statutory caps on how much of their General Fund can be obligated toward debt repayment.

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 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 - NTSD as a % of the General Revenue Fund

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

As you can see from Table 12 (page 26), West Virginia is below the recommended cap for the ratio of debt service as a percentage of revenue. This is a very important measure since it shows the revenues available to pay debt service. Although we are below the cap for this particular ratio and are also very close to the mid-to-low level of net tax supported debt per capita, we recommend careful scrutiny when incurring new debt. The state must make sure that the resources are available for the projects it desires to undertake.

Table 12
Current Recommendations vs. Current Levels
(as of June 30, 2003)

Ratio	Currently Recommended Cap	Current Level 6/30/2003
NTSD Service as a % of the General Revenue Fund	5.0%	5.2%
NTSD Service as a % of Revenues	4.0%	3.9%
NTSD as a % of Personal Income	2.7%	3.4%
NTSD Per Capita	\$800	\$812
NTSD as a % of Assessed Value	2.0%	2.8%

Table 13 shows how the state's capacity to pay debt service would change if the measurement of debt service as a percentage of the General Revenue Fund were set at 5.5%, 6% and 6.5%. Nothing above 6.5% was examined because it would exceed the medium to low requirements of the report.

Table 13
West Virginia's Debt Service Capacity
at various percentage caps

Fiscal Year	Projected General Revenue Fund	Projected Net Tax Supported Debt Service	Projected Debt Service as a % of General Revenue	Additional Debt Service Capacity at 5.50%	Additional Debt Service Capacity at 6.00%	Additional Debt Service Capacity at 6.50%
2004	3,013,300,000	155,127,211	5.15%	10,500,000	25,750,000	40,750,000
2005	3,002,190,000	154,850,570	5.16%	10,250,000	25,250,000	40,250,000
2006	3,100,490,000	142,017,500	4.58%	28,500,000	44,000,000	59,500,000
2007	3,178,002,000	147,623,227	4.65%	27,250,000	43,000,000	59,000,000
2008	3,257,452,000	147,618,805	4.53%	31,500,000	47,750,000	64,000,000
2009	3,338,889,000	147,633,713	4.42%	36,000,000	52,750,000	69,500,000
2010	3,422,361,000	147,599,295	4.31%	40,750,000	57,750,000	74,750,000
2011	3,507,920,000	145,695,443	4.15%	47,250,000	64,750,000	82,250,000
2012	3,595,618,000	137,800,835	3.83%	60,000,000	78,000,000	96,000,000
2013	3,685,508,000	126,411,801	3.43%	76,250,000	94,750,000	113,000,000
2014	3,777,646,000	124,788,051	3.30%	83,000,000	102,000,000	120,750,000
2015	3,872,087,000	124,802,553	3.22%	88,000,000	107,500,000	126,750,000

Tax Increment Financing

There have been several issues discussed in this report which are on the horizon for debt issuance in West Virginia such as the proliferation of Lottery Revenue Bonds and the use of Pension Obligation Bonds. There is one other financing tool on the horizon which was approved by the citizens of West Virginia in the 2002 general election. In November 2002, a majority of voters (57%) said, "Yes" to Amendment 1 which was designated as the "County and Municipal Option - Economic Development Amendment." The purpose of the amendment is summarized as follows:

To amend the State Constitution to permit the Legislature by general law to authorize county commissions and municipalities to use a new economic development tool to help create jobs. This tool will permit county commissions and municipalities to assist in financing economic development or redevelopment projects by redirecting specific new property tax revenues from an approved project, or project area or district. These redirected revenues will be used to pay-off revenue bonds or other obligations issued to finance some or all of the cost of the project...

This economic development amendment allows for a certain type of financing tool, commonly referred to as a Tax-Increment Financing (TIF). TIF originated in California in 1945 with the Community Redevelopment Act; however, it did not gain popularity until the late 1970s. It is a financing tool that is available in almost every state of the nation.

So, how does TIF work in West Virginia? The West Virginia Development Office and the West Virginia Department of Tax and Revenue have developed a handbook which outlines the West Virginia TIF program. The handbook outlines the various steps that are required to utilize TIF, and explains that this financing tool is available for development or redevelopment project areas.

The first step is to determine the need and the feasibility for the development or redevelopment, after all, the goal of this financing tool is to help a local area develop and grow. Development and growth in West Virginia is not an easy task due to several factors such as the rural nature of the state. However, with careful planning and review, we believe this could be a viable financing option for local governments.

Development Project Areas (or districts)	Redevelopment Project Areas (or districts)
<p>A development project area (or district) is one that has not previously been developed or may be underdeveloped. According to the TIF handbook, the county commission or municipality should find that this development is in the public interest because it will:</p> <p>Discourage commerce, industry or manufacturing from moving to another state;</p> <p>Result in increased employment; or</p> <p>Result in preservation or enhancement of the tax base.</p>	<p>A redevelopment project area (or district) is one that can be classified as either a blighted or a conservation area. The definition of blighted and conservation areas can be found in West Virginia Code §7-11B-3.</p>

Of course, there are concerns. A policy report from the West Virginia Public Finance Program of The West Virginia Bureau of Business and Economic Research indicates that there is no absolute answer on the effects of TIF programs. The report states that,

“... we found that there is no absolute consensus on the effects of TIF programs on the development of local areas. Earlier studies suggested that TIF is used more by growing cities than stagnating or declining cities. This has important implications for the prospect of TIF usage in West Virginia since the state population remained roughly stable in the past decade, even experiencing period of population loss. However, this positive association between prior growth in population and the use of TIF was not confirmed by later studies. It was argued in these later studies that cities with lower per capita incomes are more likely to use TIF. Nevertheless, low or negative population growth rates in West Virginia may pose a serious threat to the actual use of TIF in the state.”

The report goes on to note that another possible weakness in the TIF legislation is that all excess property levies and other levies are excluded from the TIF. In Fiscal Year 2002, these excluded levies comprised approximately 40% of the total property tax levies.

Once a development or redevelopment project is certified to be a viable project, the county assessor establishes a “base-line” value of the area or district. The area is then reassessed each year; therefore, the difference between the current amount of regular property taxes and the established “base-line” value is the tax-increment.

This growth in property value is the most important piece of TIF because it is these funds that pay for the projects and possible debt service associated with the projects. The increment is deposited in an increment fund for use on the projects that are approved for the area.

There are 2 basic ways that these funds can be used for the development of the area, which are as follows:

Pay-as-you-go; or TIF bonds (or notes).

Pay-as-you-go

Just as it sounds, the money that is in the increment fund is used to pay for projects. In most cases, an outside developer or investor would most likely be involved with the county or municipality. It is sometimes difficult to fund major projects on a “pay-go” basis because the needed capital is not always currently available; therefore, this financing method tends to be for smaller projects.

TIF bonds or notes

Bonds or notes provide money up front to pay for the cost of the project. The debt service (principal and interest payments) on the bonds or notes is then paid from the increment fund, as described above. According to the amendment ratified by the citizens of West Virginia, the term of the bonds can not exceed 30 years. The West Virginia Development Office has clearly outlined the process of TIF in their handbook, “Property Tax Increment Financing in West Virginia, A Guide for Counties and Class I and II Municipalities.” This tool can be very effective and has the potential to aide local governments in their economic development efforts.

West Virginia is one of the most underdeveloped states in the nation; however, viable and successful projects can come from Tax Increment Financing. Of course, the most important parts of this process are the analysis and approval of the projects. We urge each county or municipality that considers issuing TIF bonds to give careful consideration to the feasibility of each project.

Summary of Recommendations

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

1. Based on the mid-to-low range of nationally recognized debt limits, we recommend the following caps:

Net Tax Supported Debt Service as a percentage
of the General Revenue Fund: 5.0%

Net Tax Supported Debt Service as a percentage
of Revenues: 4.0%

Net Tax Supported Debt as a percentage
of Personal Income: 2.7%

Net Tax Supported Debt
Per Capita: \$800

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

2. As demonstrated in Table 12, page 26, the State of West Virginia is below one recommended ratio and near another. We recommend that any additional debt issued this year be carefully scrutinized and be used in a prudent manner to keep West Virginia at or near the recommended levels of debt. Table 13, page 26 has been provided to show the additional debt service capacity if the focus of this report were changed to make recommendations based on a medium or moderate level of debt ratios.
3. It was also recommended that careful consideration be given in the issuance of any "new money" tax-supported debt since the state is in the mid-to-high levels of nationally recognized debt ratios.
4. The final recommendation came on the topic of Tax Increment Financing (TIF) which urged each county or municipality that considers issuing TIF bonds to give careful consideration to the feasibility of each project.

Appendix A

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

Appendix 1
West Virginia State Code §12-6B
&
Legislative Rule, Title 112 Series 9

**ARTICLE 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 first day of October 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.

TITLE 112
LEGISLATIVE RULE
STATE TREASURER'S OFFICE

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 its 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 therefor 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.

Appendix B

Revenue Figures

Revenue & Revenue Projections
(thousands)

<u>Year</u>	<u>General Revenue</u>	<u>Road Fund</u>	<u>Lottery</u>	<u>Severance</u>	<u>Total</u>
1995	2,308,674	480,250	55,318	See Note	2,844,242
1996	2,333,679	478,855	60,538	See Note	2,873,072
1997	2,424,773	475,388	72,000	16,000	2,988,161
1998	2,503,343	478,665	91,746	16,000	3,089,754
1999	2,617,868	482,648	80,811	24,000	3,205,327
2000	2,638,496	510,215	130,610	24,000	3,303,321
2001	2,718,379	535,346	131,986	24,000	3,409,711
2002	2,824,117	563,515	293,824	24,000	3,705,456
2003	2,916,961	536,015	428,190	24,000	3,905,166
2004	3,013,300	551,463	417,900	24,000	4,006,663
2005	3,002,190	576,558	357,900	24,000	3,960,648
2006	3,100,490	582,414	347,200	24,000	4,054,104
2007	3,178,002	588,189	336,700	24,000	4,126,891
2008	3,257,452	543,473	326,600	24,000	4,151,525
2009	3,338,889	543,473	316,800	24,000	4,223,162
2010	3,422,361	543,473	307,300	24,000	4,297,134
2011	3,507,920	543,473	298,081	24,000	4,373,474
2012	3,595,618	543,473	289,200	24,000	4,452,291
2013	3,685,508	543,473	280,500	24,000	4,533,481
2014	3,777,646	543,473	272,100	24,000	4,617,219
2015	3,872,087	543,473	263,900	24,000	4,703,460

Note:

General Revenue Fund revenue for 2004 reflects the official revenue estimate provided by the Department of Tax and Revenue, less one-time federal funds. A 2.5% annual increase is assumed for 2007 through 2015, while growth is forecast to be -0.37 in FY2005 and 3.27% in FY2006.

Road Fund revenue estimates through 2008 are based on Division of Highways data. No increase is assumed beyond 2008. The large differential between FY2007 and FY2008 for the Road Fund is due to the expiration of a \$0.05 gas tax which the Legislature has historically renewed.

Severance revenues are not used for fiscal years 1994 through 1996 because there was no debt service to which these funds were dedicated during that time.

Lottery revenue estimates were provided by the Lottery.

This information was prepared by the Department of Administration.