West Virginia State Treasurer's Office

John D. Perdue, Treasurer

Debt Capacity Report

2010

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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.

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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Rainy Days

On December 1, 2008, the National Bureau of Economic Research declared that the United States of America had been in a recession since December 2007. This news was not a big shock at the time because most financial markets were at a virtual halt in December 2008. Some economists are labeling this period, "The Great Recession."

Although there are preliminary indications that the national economy is crawling out of recession, individual states are facing difficult times. According to the "State Revenue Report" released by the Nelson A. Rockefeller Institute of Government in January 2010, state economies may lag as much as two years behind any national recovery.

> *"While the recession may be over for the national economy, it is far from over for the finances of state governments, and many states are still uncertain as to when to expect a return to positive revenue growth. Such improved news may begin in the early part of calendar year 2010. However, even if tax collections in the coming year move up from 2009 levels, the depth of the decline over the past two years will almost certainly leave state revenues significantly lower than those of any of the past several years. As calendar year 2010 begins, states may have reached the end of the beginning of a multi-year fiscal crisis. The best to be hoped for in 2010 may be the beginning of the end." ("State Revenue Report – Recession or No Recession, State Tax Revenues Remain Negative," January 2010, Lucy Dadayan and Donald J. Boyd, The Nelson A. Rockefeller Institute of Government)*

The report goes on to state that the first three quarters of calendar year 2009 saw the worst decline in state tax collections since 1963 (even when adjusted for inflation). The Center on Budget and Policy Priorities agrees that states face a daunting task over the next two or (quite possibly) three fiscal years. The report states that "The Great Recession" has caused the steepest decline in state tax receipts on record. The report also notes that this is not a short-term problem.

> *"…initial indications are that states will face shortfalls as big as or bigger than they faced this year in the upcoming 2011 fiscal year. States will continue to struggle to find revenue needed to support critical public services for a number of years." ("Recession Continues to Batter State Budgets; State Responses Could Slow Recovery," December 18, 2009, Elizabeth McNichol and Nicholas Johnson, Center on Budget and Policy Priorities)*

The report goes on to say:

> *"… it is reasonable to expect that for 2011, shortfalls are likely to hit $180 billion. Once employment is growing again, state budget problems will diminish but it is likely that states will face shortfalls of at least $120 billion in fiscal 2012. This means that after taking into account the federal Recovery Act dollars that are likely to remain available for fiscal year 2011 (approximately $40 billion), states will still have to close shortfalls of some $260 billion for fiscal years 2011 and 2012 combined." ("Recession Continues to Batter State Budgets; State Responses Could Slow Recovery," December 18, 2009, Elizabeth McNichol and Nicholas Johnson, Center on Budget and Policy Priorities)*

A Federal "Umbrella" for Rainy Days

One way that the federal government has tried to shield the states from the fallout of The Great Recession has been the American Recovery and Reinvestment Act (ARRA) which was enacted by Congress in February 2009. West Virginia is slated to receive approximately $1.8 billion in ARRA funds. The goals of the "recovery dollars" are to:

Preserve and create jobs to promote economic recovery;
Provide investments in technological advances in science and health;
Invest in transportation, environmental protection, and other long-term infrastructure improvements; and
Stabilize state and local government budgets.

According to "The Fiscal Survey of States," a semi-annual report released in December 2009 by the National Governor's Association (NGA) and the National Association of State Budget Officers (NASBO), the funds from the ARRA are helping states as they face budget shortfalls but it isn't enough.

> *"By providing nearly $135 billion in flexible emergency funding through the American Recovery and Reinvestment Act of 2009, the federal government has helped states avoid draconian cuts to state services….Even with this assistance, states were still forced to cut programs while raising taxes and fees." ("The Fiscal Survey of States," December 2009, National Governor's Association & National Association of State Budget Officers).*

There have been several programs which grew out of the ARRA that have affected the way that states borrow money through the municipal bond market. Perhaps one of the most successful was a new type of municipal bond known as the Build America Bond (BAB). According to the United States Treasury Department, BABs are designed to provide a federal subsidy for a larger portion of the borrowing costs of state and local governments than traditional tax-exempt bonds.

BABs are taxable bonds issued by state and local governments in which the United States Treasury will make a direct payment to the issuer in an amount equal to 35 percent of the interest payments on the bonds. For example, The New York Metropolitan Transportation Authority issued $363.9 million of BABs on January 6, 2010 at an interest rate of 6.6% (maturity in 2039, callable at any time at par). Since the bonds are subsidized by the federal government, the United States Treasury will make a payment directly to the Metropolitan Transportation Authority of 2.31 percent (35% of 6.6%); therefore, the net cost to the Transportation Authority (of borrowing $363.9 million) is approximately 4.3 percent.

The BABs were designed to be more attractive to a broader group of investors and it seems to have worked. According to Dan Seymour of “The Bond Buyer,” BABs have “….transformed municipal finance.” Since the BAB program was launched in March 2009, approximately $64 billion of the bonds have been sold. There are several reasons why BABs have been so popular. The Federal Reserve has lowered short-term interest rates so low that yields on bank deposits and money market funds are practically zero. A large number of investors such as foreign investors, pension funds and investors in lower tax brackets had no desire for the typical tax-exempt municipal bond; enter the BAB. Not only is it a (relatively) high yielding bond but it is also a municipal bond which historically has been safer than corporate bonds. To date, the State of West Virginia has not issued any BABs.

However, the State of West Virginia was the first state (the first issuer was San Diego, California) to utilize a bond program which developed out of the ARRA, the Qualified School Construction Bond (QSCB) program. QSCBs are different from “traditional” municipal bonds in several ways. For example, the bonds essentially provide an interest free “loan” to the issuer because any interest that is due on the bonds is paid by the Federal government in the form of tax credits. Another difference is that the interest rate (known as the “tax-credit rate”) is set by the United States Treasury on a daily basis. Perhaps the most obvious difference from a “traditional” municipal bond is that QSCBs are issued on a taxable basis. West Virginia’s 2009 QSCB allocation was $78.2 million which the School Building Authority issued in July and December 2009. The principal ($78.2 million) will be repaid through a pledge of revenues from the State’s Excess Lottery Fund.

A State “Umbrella” for Rainy Days

Most of the headlines concerning state finances can be very gloomy since every state in the country is struggling with ways to “plug holes” in their budgets. According to the Center on Budget and Policy Priorities, the State of West Virginia is facing a mid-year 2010 budget gap of $100 million and a projected gap in fiscal year 2011 of at least another $100 million. However, there are some glimmers of hope. According to the projections in this report, if no new debt is issued then the debt service burden on the revenues of the state will only jump above the recommended cap for two fiscal years. Also, these projected debt service burdens are not inordinately high. They are, in fact, quite manageable and very much in line with other states in the country.

Also, the West Virginia Legislature and other leaders of the state decided to save for these “lean” times during years when the state was running a surplus. This foresight has enabled the state to sock away more than $542 million in the “rainy day” funds. With continued fiscal prudence, the State of West Virginia can maintain manageable levels of debt and take advantage of low debt ratios in the near future.

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.

Determine the amount of net tax supported debt outstanding

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.

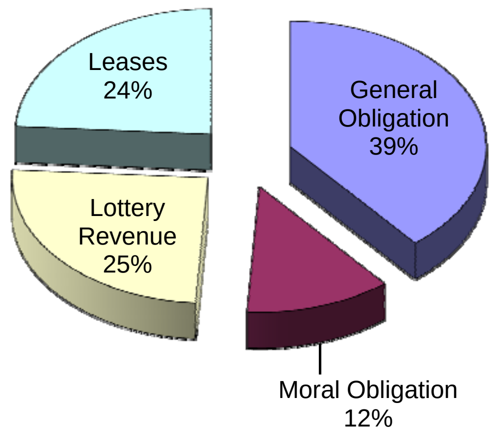
The net tax supported debt of the state at June 30, 2009 is outlined in the following table:

Table 1
West Virginia Net Tax Supported Debt Outstanding
June 30, 2009
(net of escrow & debt service reserve funds)

Type of Debt		Principal Outstanding June 30, 2009	Percentage of debt outstanding
General Obligation Bonds	State Road Bonds	$ 371,105,000	39%
	Infrastructure Bonds	232,339,606	
Moral Obligation Bonds	School Building Authority	190,354,737	12%
Lottery Revenue Bonds	Economic Development Authority (Excess Lottery)	187,490,000	25%
	School Building Authority	71,470,000	
	School Building Authority (Excess Lottery)	102,145,000	
	State Building Commission	14,405,000	
Lease Obligations *		364,657,415	24%
Net Tax Supported Debt		$ 1,533,966,758	

* - Taken from the June 30, 2009 Debt Position Report.

Chart 1
West Virginia Net Tax Supported Debt Outstanding
by Type of Debt
June 30, 2009



Calculations of the net tax supported debt and debt service of the State of West Virginia for fiscal years 2004 through 2020 are contained in Tables 2 and 3 (pages 8-11). Fiscal years 2004 through 2008 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, 2010 through 2020, are included to show expected debt levels as existing obligations mature.

Subsequent to June 30, 2009, the West Virginia School Building Authority and the West Virginia Higher Education Policy Commission issued bonds which rely on the state's Excess Lottery Fund for debt service. These issues, approximately $156.4 million, have been included in the projected debt calculations in Tables 2 and 3 (pages 10-13). 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 10-13):

Special Obligation Highway Notes ($165 million outstanding as of June 30, 2009)
These notes are repaid from pledged revenues from the Federal Highway Administration.

Tobacco Revenue Bonds ($878.9 million outstanding as of June 30, 2009)
These bonds are paid directly from tobacco settlement funds.

Several agencies had revenue bonds outstanding at June 30, 2009 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, the West Virginia State Treasurer's Office has received no notification concerning debt to be issued which would directly impact the net tax supported debt of the state.

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 HIS Global Insight while the population estimates were taken from the December 2009 Annual Estimate of the U.S. Census Bureau, Population Division.

Table 2. NET TAX SUPPORTED DEBT OUTSTANDING FOR FISCAL YEARS 2004 - 2020

	6/30/2004 FY04	6/30/2005 FY05	6/30/2006 FY06	6/30/2007 FY07	6/30/2008 FY08	6/30/2009 FY09
General Obligation						
Better Highways of 1973	5,090,000	1,480,000	-	-	-	-
Safe Roads of 1996	489,340,000	466,435,000	447,995,000	429,845,000	401,190,000	371,105,000
Infrastructure of 1994	277,448,910	273,013,910	265,521,492	253,919,156	243,176,320	232,339,607
Total General Obligation	771,878,910	740,928,910	713,516,492	683,764,156	644,366,320	603,444,607
Moral Obligations						
Economic Development Authority - Lottery	249,895,000	236,005,000	228,840,000	221,565,000	214,125,000	206,480,000
Higher Education Policy Commission - Excess Lottery	-	-	-	-	-	-
School Building Authority	259,010,000	250,160,000	241,920,000	231,475,000	215,675,000	214,125,000
School Building Authority - Lottery	16,940,000	135,805,000	124,015,000	111,700,000	99,040,000	85,650,000
School Building Authority - Excess Lottery	-	-	-	-	-	102,145,000
School Building Authority - Excess Lottery (QSCBs)	-	-	-	-	-	-
State Building Commission - Lottery	55,855,000	48,830,000	41,455,000	33,675,000	25,465,000	16,805,000
Total Moral Obligations	581,700,000	670,800,000	636,230,000	598,415,000	554,305,000	625,205,000
Leases						
Leases	319,533,000	378,233,000	377,419,000	382,615,000	387,493,000	364,657,000
Total Leases	319,533,000	378,233,000	377,419,000	382,615,000	387,493,000	364,657,000
Deductions for debt service reserve accounts						
Economic Development Authority - Lottery	(18,990,559)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)
School Building Authority	(23,020,801)	(23,020,801)	(23,020,801)	(23,021,000)	(23,021,000)	(23,770,263)
School Building Authority - Lottery	-	(14,155,000)	(14,155,000)	(14,180,000)	(14,180,000)	(14,180,000)
School Building Authority - Excess Lottery (QSCBs)	-	-	-	-	-	-
State Building Commission - Lottery	(3,428,041)	(3,428,041)	(2,620,000)	(2,600,000)	(2,600,000)	(2,400,000)
Net Tax Supported Debt Outstanding	1,627,672,509	1,730,368,068	1,668,379,691	1,606,003,156	1,527,373,320	1,533,966,344
Assessed value (in thousands)	54,530,114	58,091,753	63,510,844	70,726,558	74,791,919	78,065,268
Net tax supported debt as a percentage of assessed value	2.98%	2.98%	2.63%	2.27%	2.04%	1.96%
Income (in thousands)	46,497,446	48,138,995	51,893,647	54,555,485	57,410,905	58,600,000
Net tax supported debt as a percentage of personal income	3.50%	3.59%	3.21%	2.94%	2.66%	2.62%
Population	1,803,302	1,803,920	1,807,237	1,811,198	1,814,873	1,819,777
Net tax supported debt per capita	902.61	959.23	923.17	886.71	841.59	842.94

6/30/2010 FY10	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
-	-	-	-	-	-	-	-	-	-	-
339,515,000	306,350,000	271,485,000	246,255,000	221,415,000	195,325,000	167,930,000	152,630,000	136,565,000	119,695,000	102,020,000
221,415,041	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
560,930,041	516,703,971	470,577,386	433,954,730	397,480,493	359,453,538	319,764,132	291,855,959	262,735,144	232,312,634	201,672,884
198,590,000	190,415,000	181,920,000	173,070,000	163,830,000	154,170,000	144,065,000	133,415,000	122,195,000	110,370,000	97,910,000
78,295,000	76,870,000	75,510,000	74,110,000	72,670,000	71,185,000	69,650,000	68,035,000	66,340,000	64,560,000	62,690,000
201,045,000	187,380,000	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
71,715,000	57,130,000	41,790,000	25,615,000	8,670,000	-	-	-	-	-	-
99,310,000	95,940,000	92,470,000	88,845,000	85,040,000	81,070,000	76,910,000	72,555,000	67,995,000	63,220,000	58,230,000
78,200,000	78,200,000	78,200,000	78,200,000	78,200,000	78,200,000	78,200,000	78,200,000	78,200,000	78,200,000	78,200,000
7,690,000	-	-	-	-	-	-	-	-	-	-
734,845,000	685,935,000	642,980,000	598,000,000	550,945,000	510,815,000	477,900,000	443,245,000	406,835,000	368,570,000	328,400,000
375,000,000	380,000,000	390,000,000	375,000,000	370,000,000	365,000,000	360,000,000	365,000,000	370,000,000	370,000,000	370,000,000
375,000,000	380,000,000	390,000,000	375,000,000	370,000,000	365,000,000	360,000,000	365,000,000	370,000,000	370,000,000	370,000,000
(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)
(23,770,263)	(23,770,263)	(23,770,263)	(23,770,263)	(23,770,263)	(23,770,263)	(23,770,263)	(23,770,263)	(23,770,263)	(23,770,263)	(23,770,263)
(14,180,000)	(14,180,000)	(14,180,000)	(14,180,000)	-	-	-	-	-	-	-
(3,365,725)	(8,292,867)	(13,220,009)	(18,147,151)	(23,074,293)	(28,001,435)	(32,928,577)	(37,855,719)	(42,782,861)	(47,710,003)	(52,637,145)
(2,400,000)	-	-	-	-	-	-	-	-	-	-
1,611,434,778	1,525,698,708	1,446,617,123	1,350,014,467	1,275,665,230	1,192,508,275	1,114,903,869	1,057,340,696	996,809,881	928,122,371	857,312,621
82,100,000	86,400,000	90,900,000	95,600,000	100,600,000	105,800,000	111,300,000	117,100,000	123,200,000	129,600,000	136,300,000
1.96%	1.77%	1.59%	1.41%	1.27%	1.13%	1.00%	0.90%	0.81%	0.72%	0.63%
59,800,000	61,500,000	64,000,000	66,700,000	69,600,000	72,600,000	75,700,000	78,900,000	82,400,000	86,200,000	90,000,000
2.69%	2.48%	2.26%	2.02%	1.83%	1.64%	1.47%	1.34%	1.21%	1.08%	0.95%
1,821,000	1,824,000	1,827,000	1,830,000	1,833,000	1,838,000	1,843,000	1,846,000	1,849,000	1,852,000	1,856,000
884.92	836.46	791.80	737.71	695.94	648.81	604.94	572.77	539.11	501.15	461.91

Table 3. NET TAX SUPPORTED DEBT SERVICE FOR FISCAL YEARS 2004 - 2020

	6/30/2004 FY04	6/30/2005 FY05	6/30/2006 FY06	6/30/2007 FY07	6/30/2008 FY08	6/30/2009 FY09
General Obligation Debt Service						
Better Highways of 1973	6,360,225	3,909,038	1,566,950	-	-	-
Safe Roads of 1996	43,638,245	46,086,985	48,430,648	49,996,888	49,995,733	49,998,580
Better Schools of 1972	2,122,000	-	-	-	-	-
Infrastructure of 1994	15,991,970	15,920,030	19,664,363	23,247,935	23,033,314	23,031,736
Total General Obligation Debt Service	68,112,440	65,916,053	69,661,960	73,244,823	73,029,047	73,030,316
Moral Obligation Debt Service						
Economic Development Authority - Lottery	-	24,898,615	18,932,303	18,904,231	18,886,178	18,865,029
Higher Education Policy Commission - Excess Lottery	-	-	-	-	-	-
School Building Authority	22,644,690	22,642,530	21,561,365	23,345,747	23,345,982	11,874,675
School Building Authority - Lottery	17,539,594	26,499,359	18,028,268	18,107,543	17,910,093	18,046,918
School Building Authority - Excess Lottery	-	-	-	-	-	1,791,600
School Building Authority - Excess Lottery (QSCBs)	-	-	-	-	-	-
State Building Commission - Lottery	9,830,488	9,822,613	9,794,175	9,782,413	9,772,688	9,769,588
Total Moral Obligation Debt Service	50,014,771	83,863,117	68,316,111	70,139,933	69,914,940	60,347,809
Lease Debt Service						
Leases	35,547,000	36,758,000	39,716,000	39,780,000	43,286,000	50,826,000
Total Lease debt service	35,547,000	36,758,000	39,716,000	39,780,000	43,286,000	50,826,000
Net Tax Supported Debt Service	153,674,211	186,537,169	177,694,071	183,164,755	186,229,987	184,204,125
General revenue fund (expressed in thousands)	3,082,941	3,504,830	3,661,402	3,752,722	3,928,288	3,901,552
Debt service as a percentage of general revenue fund	4.98%	5.32%	4.85%	4.88%	4.74%	4.72%
Revenue (expressed in thousands and as defined in the rule)	4,063,027	4,467,142	4,798,446	4,949,057	5,116,766	4,991,308
Debt as a percentage of revenue (as defined in the rule)	3.78%	4.18%	3.70%	3.70%	3.64%	3.69%

Revenue information provided by the West Virginia Budget Office (see Appendix).

6/30/2010	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
FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
-	-	-	-	-	-	-	-	-	-	-
49,996,764	49,996,264	49,997,983	38,619,853	36,978,446	36,983,727	36,983,064	23,516,375	23,516,375	23,518,125	23,512,550
-	-	-	-	-	-	-	-	-	-	-
23,021,864	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
73,018,628	73,016,912	73,014,077	61,636,789	60,004,956	60,018,330	60,010,078	46,530,659	46,543,581	46,537,247	46,533,241
18,845,344	18,829,686	18,811,894	18,794,224	18,778,390	18,764,110	18,714,645	18,702,373	18,685,164	18,671,405	18,654,353
5,315,716	4,977,788	4,976,388	4,973,788	4,971,200	4,956,838	4,958,088	4,955,338	4,953,463	4,961,563	4,950,538
23,345,075	23,308,825	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
17,976,820	17,980,610	18,006,148	18,031,504	17,983,673	8,873,674	-	-	-	-	-
7,715,956	8,157,881	8,131,256	8,119,556	8,124,456	8,111,306	8,108,881	8,104,006	8,099,568	8,099,087	8,082,169
3,365,725	4,927,142	4,927,142	4,927,142	4,927,142	4,927,142	4,927,142	4,927,142	4,927,142	4,927,142	4,927,142
9,757,994	7,891,863	-	-	-	-	-	-	-	-	-
86,322,629	86,073,794	78,166,252	78,144,688	78,093,506	68,941,652	60,021,525	60,112,129	60,086,857	60,083,967	60,034,722
45,000,000	45,000,000	42,000,000	42,000,000	38,000,000	38,000,000	38,000,000	38,000,000	38,000,000	34,000,000	34,000,000
45,000,000	45,000,000	42,000,000	42,000,000	38,000,000	38,000,000	38,000,000	38,000,000	38,000,000	34,000,000	34,000,000
204,341,257	204,090,706	193,180,329	181,781,477	176,098,462	166,959,982	158,031,603	144,642,788	144,630,438	140,621,214	140,567,963
3,788,000	3,741,680	3,887,555	3,991,760	4,210,815	4,324,610	4,476,000	4,632,600	4,794,800	4,962,600	5,136,300
5.39%	5.45%	4.97%	4.55%	4.18%	3.86%	3.53%	3.12%	3.02%	2.83%	2.74%
4,833,575	4,784,940	4,936,285	5,033,108	5,279,622	5,383,558	5,538,555	5,698,155	5,863,355	6,034,155	6,210,855
4.23%	4.27%	3.91%	3.61%	3.34%	3.10%	2.85%	2.54%	2.47%	2.33%	2.26%

Net Tax Supported Debt Components

General Obligation Bonds

The General Obligation (GO) debt outstanding at June 30, 2009 was $603.4 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 39% 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, 2009, the entire authorized amount had been issued and the net principal outstanding was $371.1 million. The bonds will be completely retired on June 1, 2025.

Table 4 shows the debt service burden on the Road Fund from 2004 through Fiscal Year 2009 and also projects the future debt service burden through Fiscal Year 2020. According to these projections, the debt service burden is below eight percent but is still at a high level (7.92%).

Table 4
Historical/Projected Debt Service Burden
State Road Fund

Fiscal Year	Debt Service	Road Fund Revenue	Debt Service as % of Road Fund
2004	49,998,470	570,742,000	8.76%
2005	49,996,023	578,050,000	8.65%
2006	49,997,598	580,904,000	8.61%
2007	49,996,888	611,085,000	8.18%
2008	49,995,733	661,961,000	7.55%
2009	49,998,580	626,434,000	7.98%
2010	49,996,764	631,648,000	7.92%
2011	49,996,264	626,186,000	7.98%
2012	49,997,983	610,828,000	8.19%
2013	38,619,853	630,446,000	6.13%
2014	36,978,446	656,252,000	5.63%
2015	36,983,727	646,393,000	5.72%
2016	36,983,064	650,000,000	5.69%
2017	23,516,375	653,000,000	3.60%
2018	23,516,375	656,000,000	3.58%
2019	23,518,125	659,000,000	3.57%
2020	23,512,550	662,000,000	3.55%

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, 2009 was $232.3 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 33% 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 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, 2009 was $192.6 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 principal outstanding of $100 million as of June 30, 2009.

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, 2009, bonds backed by the Excess Lottery Fund include one issue of the Economic Development Authority and one issue of the School Building Authority. The total principal outstanding on these two issues totaled $289.6 million at June 30, 2009. 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, 2009, the West Virginia School Building Authority and the West Virginia Higher Education Policy Commission issued bonds which rely on the state's Excess Lottery Fund for debt service. The two issues of the School Building Authority were issued as Qualified School Construction Bonds (QSCBs) which were discussed on page five of this report.

Leases

As of June 30, 2009, there was $364.6 million of leases outstanding. Approximately $14.4 million of new leases were entered into during Fiscal Year 2009. The largest issue was a $9.7 million dollar lease for Microsoft software purchased by the Office of Technology. The total amount of leases outstanding in this report ($364.6 million) will differ slightly 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, can be built up over time or can be 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, 2009, and the remaining authorization.

Table 5
Net Tax Supported Debt – Various Statistics
at June 30, 2009

Type of Obligation	Issue	Payable From	Principal Outstanding as of 6/30/09 (thousands)	Reserve Accounts as of 6/30/09 (thousands)	Remaining Authorization as of 6/30/09 (thousands)
General Obligation Bonds	Safe Roads of 1996	Road Fund	$371,105	NA	$0
	Infrastructure Improvement of 1994	Coal Severance Tax/General Revenue	$232,340	NA	$0
Moral Obligation Bonds	School Building Authority	General Revenue Fund	$214,125	$23,770	$0
	Economic Development Authority	Excess Lottery Fund	$206,480	$18,990	$0
	School Building Authority	Excess Lottery Fund	$102,145	NA	per Legislation
	School Building Authority	Lottery Fund	$85,650	$14,180	per Legislation
	State Building Commission	Lottery Fund	$16,805	$2,400	$0
Leases	Various	Various	$364,657	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;

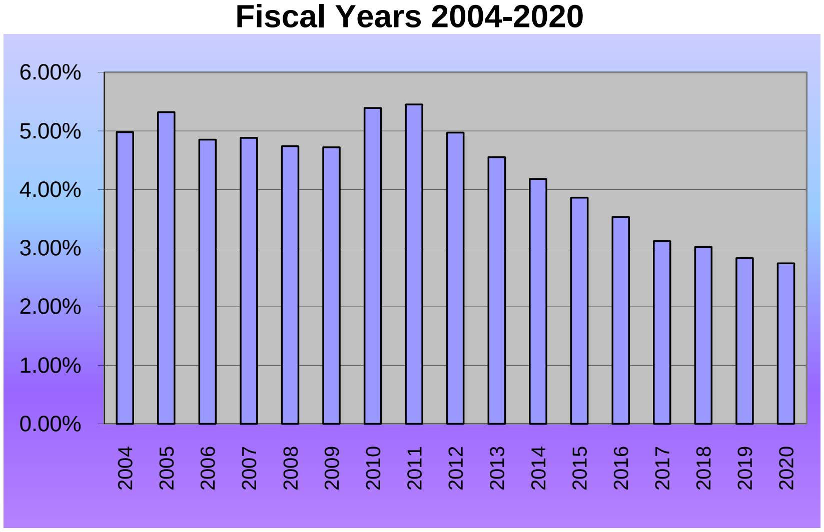
Net Tax Supported Debt Per Capita; and

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, 2009, the State's General Revenue Fund had a 4.72% potential debt service burden (see Table 3, pages 12-13). 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 2004-2020



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

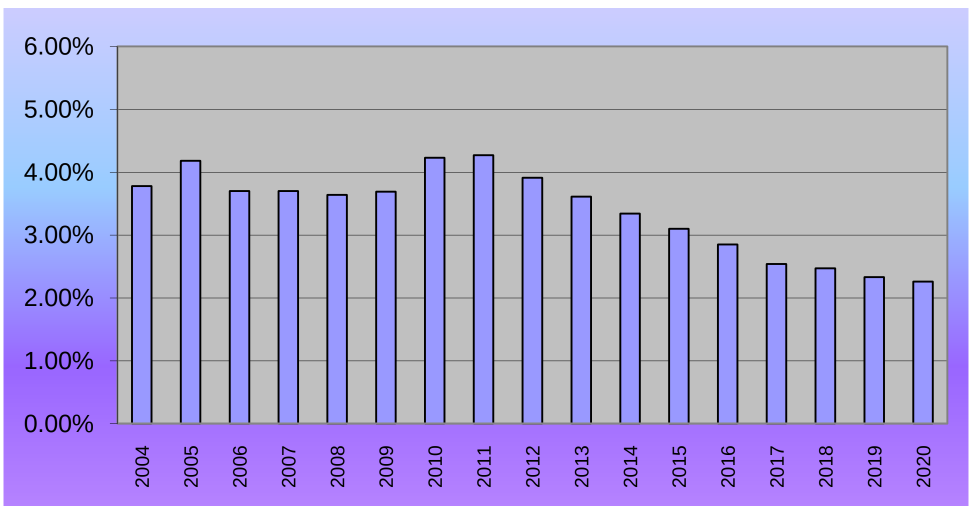
1. Total funds deposited in the general revenue fund;

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, 2009, the state had a net tax supported debt service burden, as a percentage of revenues of 3.69% (see Table 3, pages 12-13).

Chart 3
Net Tax Supported Debt Service as a Percentage of Revenues
Fiscal Years 2004-2020



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 Aa3 as of July 2009. West Virginia, according to Moody's, had a net tax supported debt, as a percentage of personal income, of 3.6% as of July 2009. According to our calculation, West Virginia had a net tax supported debt, as a percentage of personal income, of 2.6% as of June 30, 2009. 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.

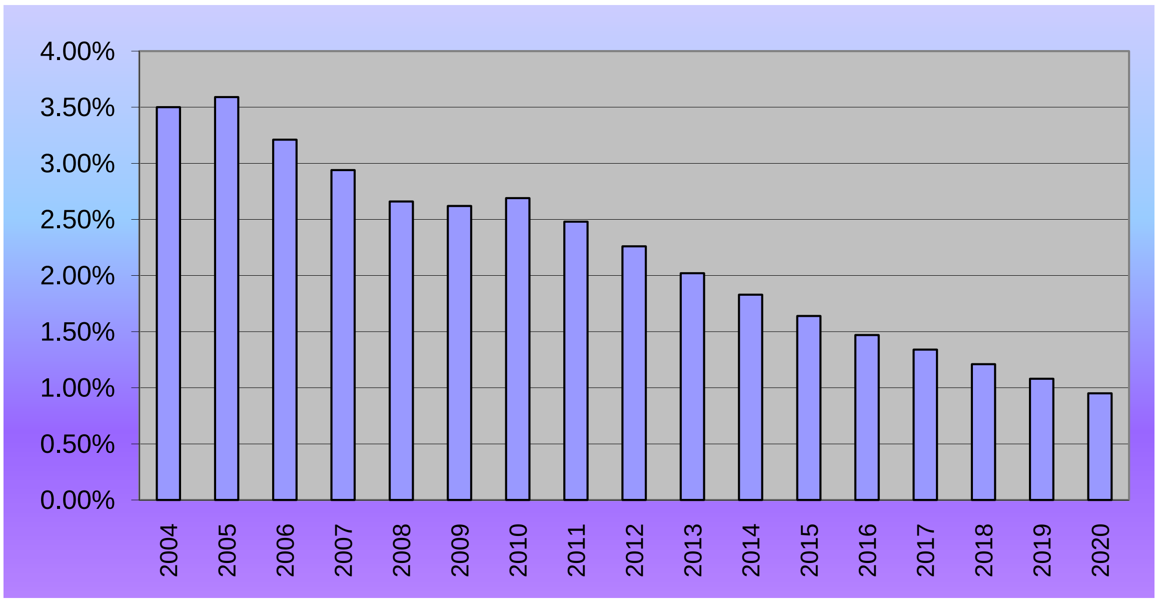
Table 6
Net Tax Supported Debt as a Percentage of Personal Income
Similarly Rated States

State	Moody's Rating	NTSD as a % of Personal Income
Oklahoma	Aa3	1.5%
Maine	Aa3	2.2%
Michigan	Aa3	2.2%
Arizona	Aa3	2.5%
West Virginia	Aa3	3.6%
Wisconsin	Aa3	4.0%
Rhode Island	Aa3	4.5%
Mississippi	Aa3	5.2%
New York	Aa3	6.3%
Connecticut	Aa3	7.3%
New Jersey	Aa3	8.2%

Source: "Moody's Investors Services, 2009 State Debt Medians," July 2009

The following chart examines the net tax supported debt as a percentage of personal income for fiscal years 2004 through 2020 based on the data contained in Table 2, pages 10-11:

Chart 4
Net Tax Supported Debt as a Percentage of Personal Income
Fiscal Years 2004-2020



Net Tax Supported Debt per Capita

According to the United State's Census Bureau, the State of West Virginia experienced another year of population growth. The most recent report estimates that there were 1,819,777 people residing in West Virginia on July 1, 2009. This is an increase of more than 4,900 people in comparison to July 1, 2008.

This particular ratio of debt per capita shows the debt service burden on the total population of the state. The state's debt per capita peaked at $959 in fiscal year 2005. The national average debt per capita has risen from approximately $300 in 1988 to $1,195 in 2009. The national median debt per capita actually declined 2.6% between 2008 and 2009 due (in large part) to the disruption in bond market conditions. This median measurement is likely to grow since the municipal bond market saw its second heaviest year of issuance in 2009.

The following chart examines the net tax supported debt per capita for fiscal years 2004 through 2020 based on the data contained in Table 2, pages 10-11:

Chart 5
Net Tax Supported Debt per Capita
Fiscal Years 2004-2020

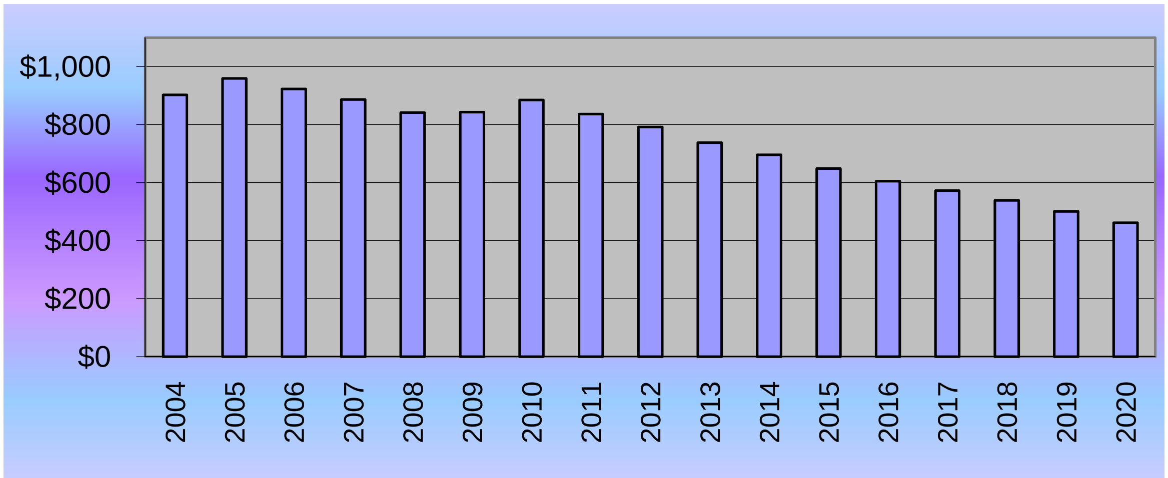


Table 7 lists West Virginia and those states that share a similar rating of Aa3 from Moody's as of July 2009.

Table 7
Net Tax Supported Debt per Capita
Similarly Rated States

State	Moody's Rating	NTSD per capita
Oklahoma	Aa3	$511
Maine	Aa3	$743
Michigan	Aa3	$766
Arizona	Aa3	$807
West Virginia	Aa3	$1,050
Wisconsin	Aa3	$1,429
Mississippi	Aa3	$1,478
Rhode Island	Aa3	$1,812
New York	Aa3	$2,921
New Jersey	Aa3	$3,621
Connecticut	Aa3	$4,490

Source: "Moody's Investors Services, 2009 State Debt Medians," July 2009

According to our calculations, West Virginia had a net tax supported debt per capita of $843 as of June 30, 2009 (see Table 2, pages 10-11 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, 2009, the net tax supported debt as a percentage of assessed value is 1.96%. This is the lowest that this particular ratio has been since Fiscal Year 2000.

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 *"2009 State Debt Medians."* 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 national average debt per capita for 2009 was $1,195 and the average debt as a percentage of personal income was 3.1%.

Table 8 – Moody's "2009 State Debt Medians"
July 2009

Ratio	Average	High	Low	West Virginia Ranking#
NTSD per capita	$1,195	$4,490 Connecticut	$17 Nebraska	$1,050 #20
NTSD as a % of Personal Income	3.1%	9.4% Hawaii	0.0% Nebraska	3.6% #17
Total NTSD	NA	$66.3 billion California	$30 million Nebraska	$1.9 billion #32

As reported by Moody's in July 2009. 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 10 through 13.

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	2005		2006		2007		2008	
	Recommended	Actual	Recommended	Actual	Recommended	Actual	Recommended	Actual
NTSD service as a % of the General Revenue Fund	5.00%	5.32%	5.00%	4.85%	5.50%	4.88%	5.00%	4.74%
NTSD service as a % of Revenues	4.00%	4.18%	4.00%	3.70%	4.00%	3.70%	4.00%	3.64%
NTSD as a % of Personal Income	3.00%	3.59%	3.00%	3.21%	3.00%	2.94%	3.00%	2.66%
NTSD per capita	$950	$959	$1,000	$923	$1,000	$887	$1,000	$842
NTSD as a % of Assessed Value	2.00%	2.98%	2.00%	2.63%	2.00%	2.27%	2.00%	2.04%

Table 10
Debt Capacity Report, Current Ratio Recommendations & Levels

Ratio	June 30, 2009	
	Recommended	Actual
NTSD service as a % of the General Revenue Fund	5.00%	4.72%
NTSD service as a % of Revenues	4.00%	3.69%
NTSD as a % of Personal Income	3.00%	2.62%
NTSD per capita	$1,000	$843
NTSD as a % of Assessed Value	2.00%	1.96%

NTSD stands for Net Tax Supported Debt

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

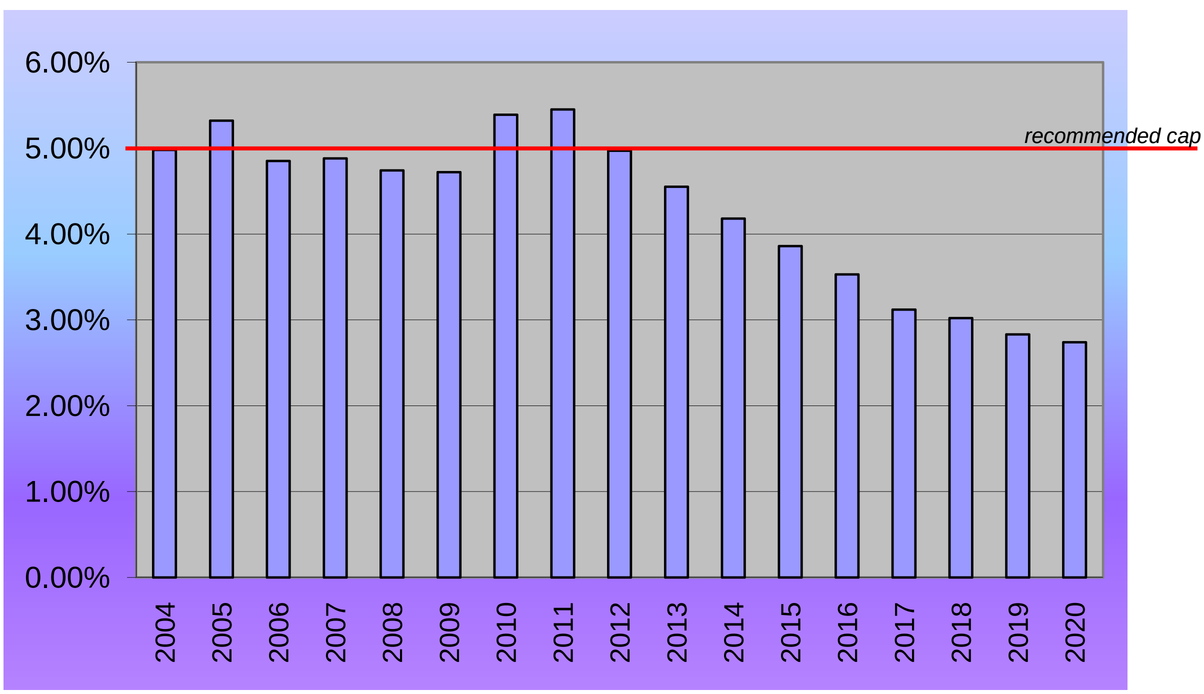
Perhaps the most important ratio measurement is the debt service burden on the General Revenue Fund. This ratio shows the potential strain on the General Revenue Fund if, for some reason, all other funds are insufficient to pay debt service. Table 11 (below) was developed through research of several 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

As detailed in Table 10, page 26, the state had a 4.72% debt burden as a percentage of the General Revenue Fund at June 30, 2009. This is currently below the recommended cap of 5.0% as demonstrated in the following chart:

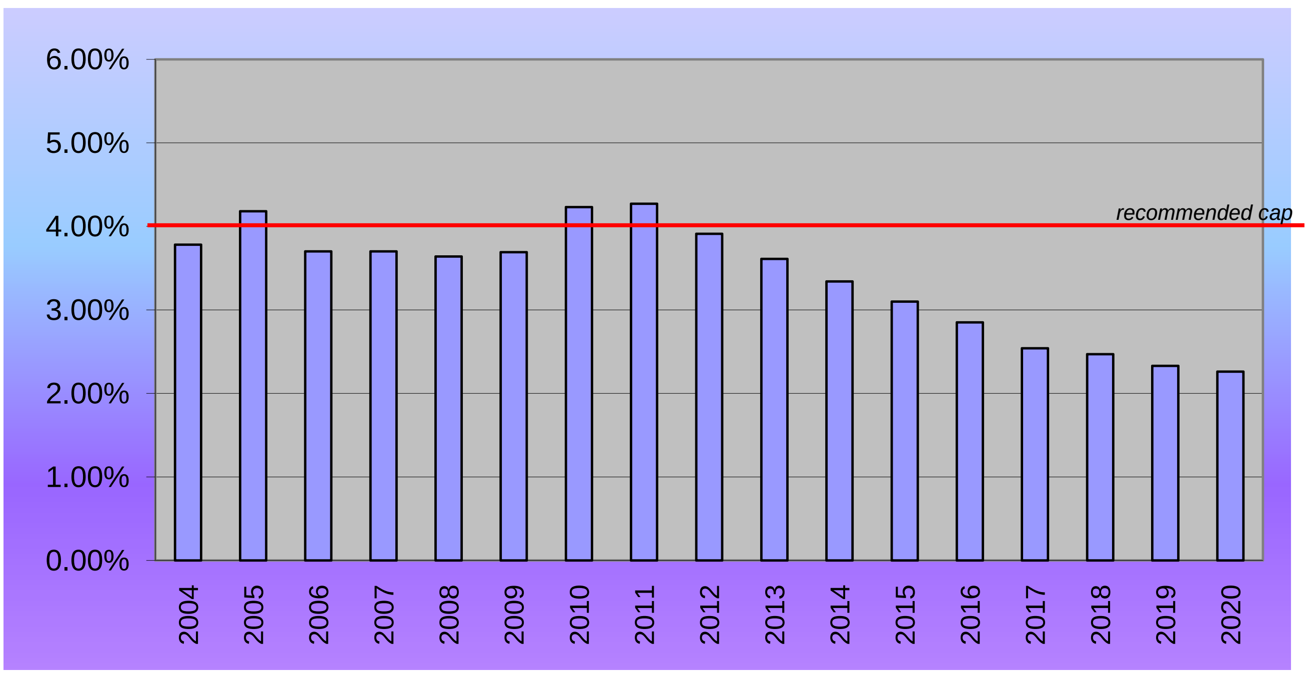
Chart 6
Recommended Cap of Net Tax Supported Debt Service as a Percentage of the General Revenue Fund Fiscal Years 2004-2020



Net Tax Supported Debt Service as a Percentage of Revenues
The recommended cap on this particular ratio is currently at 4%. This ratio is lower because it includes all revenues, e.g. the Road Fund, the Lottery Fund, the Excess Lottery Fund and the dedicated severance tax collections used to pay debt service on the Infrastructure General Obligation Bonds. At June 30, 2009, the state had a net tax supported debt service burden as a percentage of revenues of 3.69%.

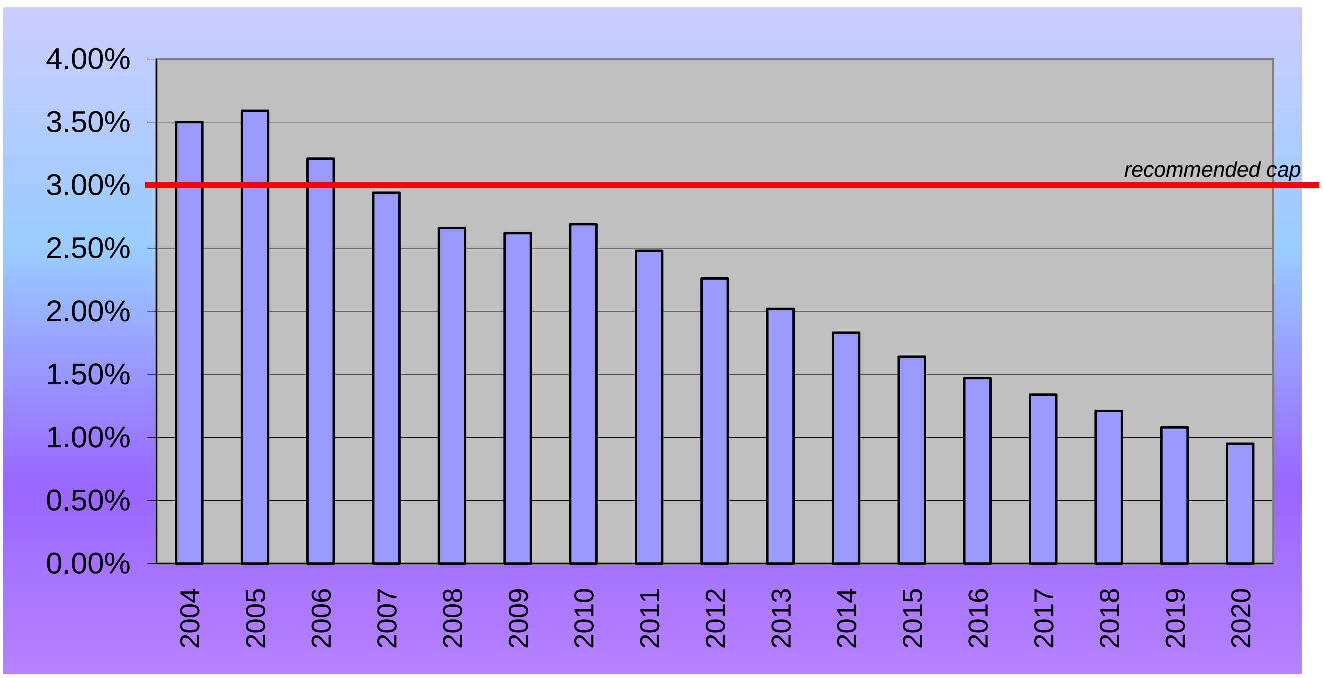
The following chart examines the net tax supported debt service requirements as a percentage of revenues for fiscal years 2004 through 2020, in relation to our recommended cap of 4%, and based on the data contained in Table 3, pages 12-13:

Chart 7
Recommended Cap of Net Tax Supported Debt Service
as a Percentage of Revenues
Fiscal Years 2004-2020



Net Tax Supported Debt as a Percentage of Personal Income
The recommended cap for this particular ratio is 3.0% because the national average net tax-supported debt as a percentage of personal income is 3.1% 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 2004 through 2020 in relation to our recommended cap of 3.0% and based on data contained in Table 2, pages 10-11:

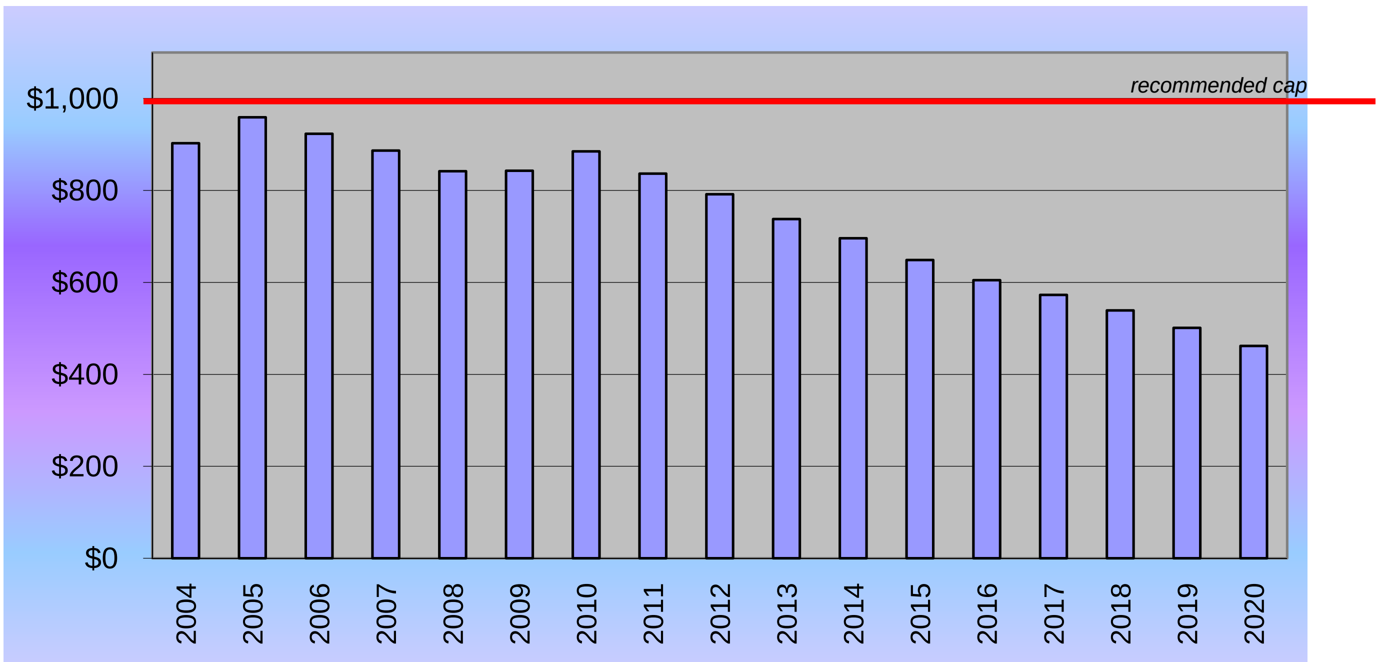
Chart 8
Recommended Cap of Net Tax Supported Debt as a Percentage of Personal Income Fiscal Years 2004-2020



Net Tax Supported Debt Per Capita

The national average of this particular ratio has grown over the past 20 years from approximately $300 in 1988 to $1,195 in 2009. Based upon the current national average, the recommendation for this particular cap remains at $1,000. The following chart examines the net tax supported debt per capita for fiscal years 2004 through 2020 in relation to our recommended cap of $1,000 and based on data contained in Table 2, pages 10-11:

Chart 9
Recommended Cap of Net Tax Supported Debt per Capita
Fiscal Years 2004-2020



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

As of June 30, 2009, the net tax supported debt as a percentage of assessed value is 1.96%. 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

The State of West Virginia has weathered The Great Recession far better than many other states; however, the state is still facing budgetary gaps and a projected downturn in revenues. For example, in last year's Debt Capacity Report, the General Revenue Fund for Fiscal Years 2010 and 2011 were projected to be $3.9 and approximately $4 billion respectively. Those projections have been modified to reflect the downturn in revenues that the state is currently facing with projections being a somewhat stagnant $3.7 billion for both fiscal years. The state's conservative fiscal decisions have proved helpful but the depth of the economic recession has taken its toll on revenues; therefore, the state must continue to make tough decisions when facing declining revenues and increased costs.

The ratios that have been examined in the report may be somewhat misleading because they show that the state is below the recommended cap for each ratio. This is actually the first time in the report's 12 year history that the state has been below all of the recommended caps. Under normal circumstances, this would be excellent news; however, a brief examination of the projected ratios for Fiscal Years 2010 and 2011 show a different picture. With the continuation of lagging revenues, the debt service burden on the General Revenue Fund is projected to jump to 5.39% at the end of Fiscal Year 2010 and 5.45% in Fiscal Year 2011.

Debt is not a bad word. Municipal bonds make it possible for the state to pay for necessary capital improvement projects that will benefit the citizens for years to come; however, an examination of the next two to three years shows that additional tax supported debt will further burden the state's revenues. It is possible that West Virginia could take advantage of some of the bonding initiatives which have been discussed, such as the Build America Bonds, which are partially subsidized by the federal government; however, the decision to issue such bonds must be approached with the same fiscal prudence that the state has exercised over the past several years. 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.

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:

Based on the mid-to-low range of nationally recognized debt limits, we recommend the following caps which are the same recommendations made in last year's report.

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:	3.0%
Net Tax Supported Debt Per Capita:	$1,000
Net Tax Supported Debt as a percentage of Assessed Value:	2.0%

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Appendix A

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

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.

Appendix B

Revenue Information

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Revenue & Revenue Projections (thousands) 2010 - 2020 (projected)					
Year	General Revenue	Road Fund	**Lottery	Severance	Total
2004	3,082,941	570,742	385,344	24,000	4,063,027
2005	3,504,830	578,050	360,262	24,000	4,467,142
2006	3,661,402	580,904	532,140	24,000	4,798,446
2007	3,752,722	611,085	561,250	24,000	4,949,057
2008	3,928,288	661,961	502,517	24,000	5,116,766
2009	3,901,552	626,434	439,322	24,000	4,991,307
*2010	3,788,000	631,648	389,927	24,000	4,833,575
*2011	3,741,680	626,186	393,074	24,000	4,784,940
*2012	3,887,555	610,828	413,902	24,000	4,936,285
*2013	3,991,760	630,446	386,902	24,000	5,033,108
*2014	4,210,815	656,252	388,555	24,000	5,279,622
*2015	4,324,610	646,393	388,555	24,000	5,383,558
*2016	4,476,000	650,000	388,555	24,000	5,538,555
*2017	4,632,600	653,000	388,555	24,000	5,698,155
*2018	4,794,800	656,000	388,555	24,000	5,863,355
*2019	4,962,600	659,000	388,555	24,000	6,034,155
*2020	5,136,300	662,000	388,555	24,000	6,210,855
	* Estimates				
	** Net of Transfers to the General Revenue Fund				

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