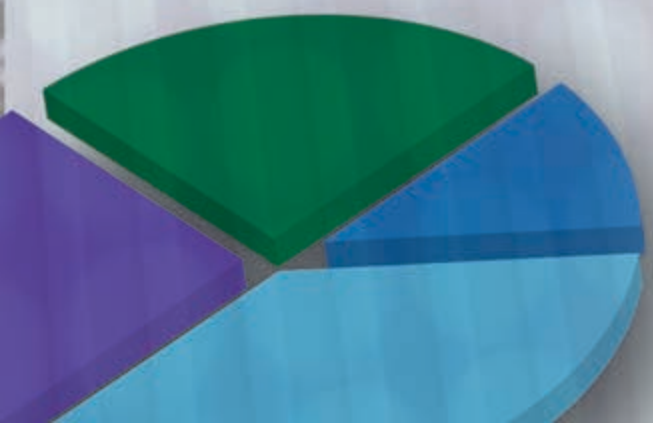


2012 Debt Capacity Report



3,808.88	2,884.98	3,89
4,585.14	3,930.22	
8,119.38	623.09	
2,894.54	3,478.31	
8,121.84	459.93	
5,810.18	989.09	5,108.03
3,985.47	8,392.71	9,920.8
4,818.78	9,930.77	5,091.
4,885.18	3,091.99	5,000
571.01	946.18	8,39
8,410.81	3,110.91	3,8
3,184.08	3,630.90	1
6,904.51	7,890.83	
4,340.44	8,557.97	
5,189.84	9,738.95	
1,811.11	7,093.09	
7,410.18	879.93	
1,571.47	3,989.08	
	9,279.03	



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

Table of Contents

Executive Summary	1
Debt Capacity	
Purpose 1 – Determine the amount of net tax supported debt outstanding	8
Purpose 2 – Calculate key ratios that are commonly used to examine debt.....	19
Purpose 3 – Make recommendations which will attempt to keep the state within an average to low range of nationally recognized debt limits.....	21
Summary	28

Tables contained in the report

1 – West Virginia Net Tax Supported Debt Outstanding as of June 30, 2011.....	2
2 – Recommended Ratio Caps as of June 30, 2011	3
3 – Statistics from Moody’s study, “Combining Debt and Pension Liabilities of U.S. States Enhances Comparability” (January 2011).....	6
4 – Various Revenue Bonds Outstanding, June 30, 2011	10
5 – Net Tax Supported Debt Outstanding for Fiscal Years 2006-2022.....	12-13
6 – Net Tax Supported Debt Service for Fiscal Years 2006-2022	14-15
7 – Debt Service Burden, State Road Fund.....	16
8 – Debt Service Burden, Lottery Fund.....	17
9 – Escrow/Sinking Funds/Debt Service Reserve Accounts as of June 30, 2011	18
10 – Various Statistics from Moody’s Publication, “2011 State Debt Medians”	21
11 – Debt as a Percentage of Personal Income (similarly rated states) as Presented in 2011 State Debt Medians Report by Moody’s Investors Service	25
12 – Debt Per Capita (similarly rated states) as Presented in 2011 State Debt Medians Report by Moody’s Investors Service	27

This page is intentionally blank

EXECUTIVE SUMMARY

The purpose of this report is to comply with the provision of West Virginia Code §12-6B-4 which requires the Treasurer to annually submit a report that will examine:

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.

Net tax supported debt outstanding - For purposes of this report and the examination of the state's debt capacity, the Treasurer's office includes the following debt obligations in the calculation of net tax supported debt:

General Obligation (GO) bonds;

Lottery Revenue bonds;

Bonds with debt service that is subject to an annual appropriation from the state's General Revenue Fund; and

Lease obligations.

Table one (page two) shows the breakdown of the state's \$1.99 billion in outstanding net tax supported debt as of June 30, 2011.

**Table 1 - West Virginia Net Tax Supported Debt Outstanding
as of June 30, 2011**

Type of Debt	Principal Outstanding June 30, 2011
GENERAL OBLIGATION BONDS	
Safe Road Bonds	\$ 305,460,000
Infrastructure Improvement Bonds	221,163,970
Total General Obligation Bonds	\$ 526,623,970
REVENUE BONDS	
School Building Authority Capital Improvement Bonds	173,090,000
Economic Development Authority, Lottery Revenue Bonds	153,705,000
Economic Development Authority, Excess Lottery Revenue Bonds	190,415,000
Higher Education Policy Commission, Excess Lottery Revenue Bonds	243,480,000
Higher Education Policy Commission, Excess Lottery Revenue Bonds (BABs)	50,265,000
School Building Authority, Lottery Revenue Bonds	49,655,000
School Building Authority, Excess Lottery Revenue Bonds	116,590,000
School Building Authority, Excess Lottery Revenue Bonds (QSCBs)	150,480,000
Total Revenue Bonds	1,127,680,000
TOTAL LEASE OBLIGATIONS	417,257,010
GROSS TAX SUPPORTED DEBT	2,071,560,980
DEDUCTIONS FOR ESCROW/SINKING FUND/RESERVE FUNDS	
Economic Development Authority, Lottery Revenue Bonds	(18,990,000)
Infrastructure Improvement Bonds, General Obligation Bonds	(10,810,000)
School Building Authority Capital Improvement Revenue Bonds	(23,020,801)
School Building Authority Lottery Revenue Bonds	(14,180,000)
School Building Authority, Excess Lottery Revenue Bonds (QSCBs)	(12,488,006)
Total Deductions	(79,488,807)
NET TAX SUPPORTED DEBT	\$ 1,992,072,173

The debt service (principal and interest payments) on this \$1.99 billion in net tax supported debt represented 5.85% of the state's General Revenue Fund and 4.61% of all revenues (including the state road fund, lottery funds and certain dedicated severance taxes – see Appendix B for more information on the revenues included in this calculation). Both of these benchmarks are below the recommended caps. All of the recommended caps for various debt ratios are as follows:

Table 2 - Recommended Ratio Caps as of June 30, 2011

Ratio	Recommended Cap	June 30, 2011 Level	Projected Highest Level (FY12-22)
Net Tax Supported Debt Service as a percentage of the General Revenue Fund	6.00%	5.85%	5.83% (June 30, 2012)
Net Tax Supported Debt Service as a percentage of Revenues	5.00%	4.61%	4.63% (June 30, 2012)
Net Tax Supported Debt as a percentage of Personal Income	3.10%	3.24%	2.98% (June 30, 2012)
Net Tax Supported Debt Per Capita	\$1,100	\$1,073	\$1,016 (June 30, 2012)
Net Tax Supported Debt as a Percentage of Assessed Valuation	2.0%	2.51%	2.28% (June 30, 2012)

Another important factor when determining debt capacity and the health of the state's debt is amortization – or how rapid is the state's debt maturing? With all things remaining constant, the state will see a 5.34% decrease in its net tax supported debt outstanding within the next year. It is estimated that there will be a 23.59% decrease within five years (2011-2016) and an additional 26.84% in the following five years (2016-2021). This is, of course, assuming that no new additional debt is issued.

As mentioned in the January 2011 Debt Capacity Report, West Virginia is in a unique position in having general revenue surpluses when many states are facing deficits. The state ended Fiscal Year 2011 with another budget surplus, more than \$300 million. This put the state's Rainy Day Fund at its highest level in state history. As of December 31, 2011, Rainy Day Fund A had \$505 million and Rainy Day Fund B had \$314 million for a total of \$819 million, which represents 20.08% of the general revenue fund fiscal year 2012 appropriations.

As indicated in table two (page three), the state is below most of the recommended caps in relation to its debt capacity. However, there are other factors which should be examined and considered which include future economic indicators and other long-term obligations.

Future Economic Indicators

According to “Fall 2011 Fiscal Survey of States,” a report released by the National Governors Association (in conjunction with the National Association of State Budget Officers), states are facing a squeeze from every side. Dan Crippen, executive director of the National Governors Association told reporters, “There’s a squeeze from virtually every side that states are facing.” The squeeze comes from “. . . slow economic growth, the need for increased spending on Medicaid and other programs, the loss of federal funds and requests for help from cash-strapped local governments.” (*The Bond Buyer, “States Feel the Big Squeeze, Two Groups Say in Report”, Lynn Hume, November 30, 2011*). According to the report, Medicaid is one of the biggest challenges facing states in the upcoming fiscal years.

Although states may be facing a squeeze in the upcoming fiscal year, Fitch Ratings has changed its outlook on states from negative to stable. The report, “2012 Outlook: U.S. States,” released by Fitch in December 2011 also mentioned the growing concern with Medicaid. “Funding Medicaid is expected to be the biggest challenge in the next few years, Fitch said. Medicaid is states’ second largest expenditure.” (*The Bond Buyer, “Outlook for States Now Stable, Fitch Says,” Robert Slavin, December 15, 2011*).

According to R. Andrew Bauer, Ph.D., a regional economist with the Federal Reserve Bank of Richmond, 2012 will be a transition year for the national economy. He has indicated that he is expecting moderate consumer spending, solid manufacturing activity supported by business investment, and stabilization in the real estate sector (only a moderate increase in construction). He indicated that the national economic recovery would continue to be restrained and highlighted certain items such as the European debt crisis, government deficits/debt concerns and certain regulatory changes in the health sector, the financial sector and environmental regulatory changes.

Other Long-Term Obligations

The \$1.99 billion in net tax supported debt outstanding does not include other obligations which rating agencies and other financial industry professionals regard as a direct drag on the state’s economic future. For example, in conjunction with the state’s most recent GO refunding, Moody’s, Standard & Poor’s and Fitch each noted that the state has made great strides but continued to warn of the negative implications of the state’s retirement systems, in particular the Teachers’ Retirement System. Following are some of the comments from each of the rating reports:

“Credit Weaknesses: Below-average per capita income levels; Significant unfunded pension liabilities, especially in the Teachers’ Retirement System; Above-average

concentration in the coal industry.” (Moody’s Investors Service Global Credit Research, “Moody’s Assigns Aa1 Rating to \$20 Million State of West Virginia Infrastructure General Obligation Refunding Bonds, 2011 Series A,” September 6, 2011).

“West Virginia’s pension funding levels, which had been amongst the worst of the states, remain weak but are improving.” (Fitch Ratings, “Fitch Assigns ‘AA+’ Rating to \$19MM West Virginia GOs; Outlook Stable,” September 7, 2011).

“In our view, partially offsetting rating factors include West Virginia’s long-term liabilities associated with the Teachers’ Retirement Pension System that, while being addressed, is significantly underfunded; and a growing OPEB liability.” (Standard & Poor’s Global Credit Portal, Ratings Direct, “West Virginia’s 2011A GO Refunding Bonds Rated ‘AA’; Other Debt Ratings Affirmed,” September 1, 2011).

Moody’s Investors Service produced a special comment on the importance of pension liabilities and the effect on a state’s long-term debt picture in, “Combining Debt and Pension Liabilities of U.S. States Enhances Comparability.” This special comment report indicates that the combination of debt and pension liabilities improves transparency to investors by providing supplemental information to traditional credit analysis, aligning state credit analysis more with the corporate and other markets and improving comparability between and among states and corporate, sovereign and sub-sovereign issuers.

Once Moody’s combined a state’s pension liability with its long-term debt liability, it ranked the states based on various factors such as combined debt as a percentage of the state’s personal income, a percentage of GDP, a percentage of revenue and combined debt per capita. According to Moody’s rankings, West Virginia was in the top 10 highest categories in three of the four examined ratios. The table on page six shows West Virginia’s ranking as reported by Moody’s.

Table 3 - Statistics from Moody's study, "Combining Debt and Pension Liabilities of U.S. States Enhances Comparability" (January 2011)

**West Virginia Combined Pension and Long-Term Debt Liabilities (as ranked by Moody's):
\$8.93 billion**

- Net Tax Supported Debt: \$1.96 billion
- Unfunded Pension Liability: \$6.97 billion

Combined Pension and Long-Term Debt as a Percentage of Personal Income

- #1 - Hawaii 27.7%
- #7 - West Virginia 20.9%
- #50 - Nebraska 0.1%

Combined Pension and Long-Term Debt as a Percentage of GDP

- #1 - Hawaii 16.2%
- #4 - West Virginia 14.5%
- #50 - Nebraska 0.1%

Combined Pension and Long-Term Debt as a Percentage of Revenue

- #1 - Oregon 316.8%
- #22 - West Virginia 149.3%
- #50 - Nebraska 2.3%

Combined Pension and Long-Term Debt Per Capita

- #1 - Connecticut \$9,366
- #10 - West Virginia \$4,910
- #50 - Nebraska \$43

The study from Moody's clearly shows how the state's pension liability is an important factor in the credit rating process and therefore important in attracting and maintaining investment in West Virginia's economy.

Another looming long-term liability which has been mentioned in many rating reports and financial publications includes "Other Post-Employment Benefits," commonly referred to as OPEBs. In a 2006 article from Rick Mattoon, Senior Economist and Economic Advisor for the Federal Reserve Bank of Chicago, OPEB is referred to as, "The 800 Pound Gorilla in the Room." It is the cost of providing post-employment benefits to retirees such as health insurance

coverage. Normally, these post-employment benefits were paid on a “pay as you go” basis and the annual cost was not clearly presented in financial statements; therefore, the size of the future liability to continue providing these post-employment benefits was never clearly known or disclosed. In June 2004, the Government Accounting Standards Board (GASB) released Statement 45 (GASB 45) which established accounting and reporting standards for OPEBs. The State of West Virginia implemented GASB 45 in fiscal year 2008. In conjunction with the implementation of GASB 43 & 45, the state established the Retiree Health Benefit Trust Fund (RHBT) which is an irrevocable trust to account and report for the OPEBs.

According to financial statements of the RHBT fund, the state’s OPEB liability was \$8.3 billion as of June 30, 2011. According to reports released in December 2011, the finance board for the Public Employees Insurance Agency approved a plan to deal with the 800 pound gorilla on December 13, 2011. This new plan caps the subsidy that retirees receive for their health insurance.

Conclusion

The most important indicators of debt capacity include ratios which take into account the state’s revenues and how much of those revenues are dedicated to make payments on the state’s net tax supported debt. On each of the revenue ratios, the state is below the recommended cap (as indicated on page three). The next five years will see a dramatic decrease in the state’s GO debt with more than a 38.4% decrease (\$515 million on June 30, 2011 to \$317 million on June 30, 2016). The capacity to issue high-quality GO debt is there; however, West Virginia should proceed with caution. As mentioned, there are other factors at play and any possibility of a double-dip recession could derail the nation and the state’s fragile economic recovery.

West Virginia should also pay careful attention to its credit strengths which include a, “trend of fiscal conservatism exhibited by ongoing healthy GAAP balances. . .,” (*Moody’s Investors Service Global Credit Research, “Moody’s Assigns Aa1 Rating to \$20 Million State of West Virginia Infrastructure General Obligation Refunding Bonds, 2011 Series A,” September 6, 2011*), “. . . positive fiscal and management practices . . .” (*Fitch Ratings, “Fitch Assigns ‘AA+’ Rating to \$19MM West Virginia GOs; Outlook Stable,” September 7, 2011*), and “. . . solid financial management, which has historically taken responsive actions to meet revenue shortfalls and budget conservatively. . .” (*Standard & Poor’s Global Credit Portal, Ratings Direct, “West Virginia’s 2011A GO Refunding Bonds Rated ‘AA’; Other Debt Ratings Affirmed,” September 1, 2011*). Attention should also be paid to the state’s severely underfunded Teachers’ Retirement System and the impact that it has on the state’s long-term credit rating and outlook.

Debt Capacity

The legislative purpose of this report is to perform the following tasks:

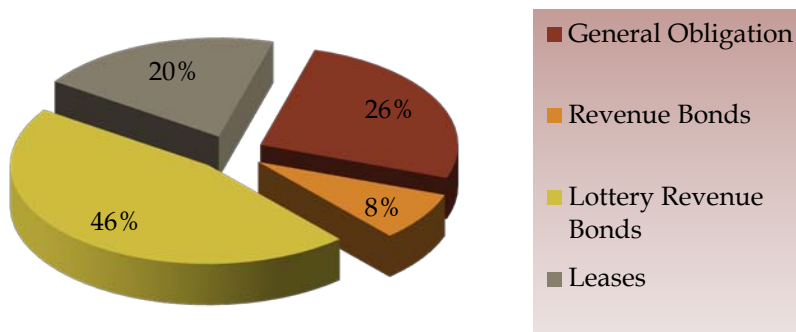
1. determine the amount of net tax supported debt outstanding;
2. calculate key ratios that are commonly used to examine debt; and
3. make recommendations which will attempt to keep the state within an average to low range of national recognized debt limits.

1. Determine the amount of net tax supported debt outstanding

The calculation of net tax supported debt is shown in table one, page two. This \$1.99 billion figure includes General Obligation (GO) bonds, Revenue bonds of the School Building Authority that are subject to an annual appropriation from the General Revenue Fund, Lottery Revenue Bonds and Lease obligations of state agencies which also includes state colleges and universities.

The highest quality bonds that can be issued are GO bonds because they pledge the full faith and credit of the state and are authorized only by a constitutional amendment. Currently, GO bonds only constitute approximately 26% of the state's net tax supported debt outstanding (see chart below). The State of West Virginia has not had a "new money" GO bond issue in more than 10 years when it issued the final \$110 million authorized by the Safe Roads Amendment of 1996.

West Virginia Net Tax Supported Debt by Type as of June 30, 2011



However, the proliferation of bonds backed by the West Virginia Lottery has grown almost 600% in that same time frame. Lottery Revenue bonds outstanding at June 30, 2001 totaled \$137.4 million compared to \$954.5 million at June 30, 2011.

Calculations of the net tax supported debt and debt service of the State of West Virginia for

fiscal years 2006 through 2022 are contained in tables five and six (pages 12 – 15). Fiscal years 2006 through 2010 are included to show the historical perspective of the actual debt issued and the debt service requirements for those obligations. The current and next ten fiscal years, 2012 through 2022, are included to show expected debt levels as existing obligations mature.

Subsequent to June 30, 2010 there were several bond issues which impacted the net tax supported debt of the state. These included the following:

Infrastructure General Obligation Refunding Bonds - On September 28, 2011, the state issued General Obligation refunding bonds in the amount of \$18,615,000 at a true interest cost (TIC) of 1.61%. The bonds provided the state with a net present value savings of more than \$2.6 million which was a 13.6% savings of the refunded bonds. The debt service of the Infrastructure Improvement Amendment which is shown on table six (pages 14 - 15) does not show the debt service that was paid to effectuate the current refunding since this would skew the debt service numbers in all of the ratio analyses. The projection for the debt service from fiscal year 2012 through 2022 includes the refunding bonds issued in September 2011.

Regional Jail & Correctional Facilities Authority Revenue Refunding Bonds (issued through the Economic Development Authority) - On July 13, 2011, the West Virginia Economic Development Authority issued \$90.79 million of bonds to refund certain bonds which were issued in 2002 for the acquisition, construction and equipping of various correctional facilities and to repay a 1998 loan made to the state from the West Virginia Public Employees Retirement System (PERS). The refunding bonds were purchased through negotiation by Bank of America Merrill Lynch, Crews & Associates, Inc., and Raymond James & Associates. For purposes of calculating net tax supported debt, the bonds are actually classified as lease obligations since the bonds are secured by a lease agreement between the Secretary of Administration and the Economic Development Authority. The refunding bonds were issued at a TIC of 3.2873%.

Economic Development Authority Lease Revenue Refunding Bonds, Series 2011A&B (Capitol Parking Garage, State Office Building) - On November 30, 2011, the West Virginia Economic Development Authority issued \$12.02 million of bonds to refund the following bonds:

Bonds issued in 1999 to finance the construction of a parking garage at the state capitol; and

Bonds issued in 2001 to finance the acquisition, construction and equipping of a state government building which provided space to the West Virginia Department of Health & Human Resources, the Bureau of Employment Programs, the Division of Rehabilitation Services, the Department of Tax and Revenue and the Board of Architects located in the city of Huntington.

The original bonds carried a TIC of 5.59% and 5.08% respectively. The refunding bonds were issued at a TIC of 3.06% and 3.24% respectively.

There are also several agencies that had revenue bonds outstanding at June 30, 2011 (see table four). These revenue bonds are excluded from the calculation of net tax supported debt because they are self-supporting from revenues of the projects they financed. The notes issued by the Commissioner of Highways are excluded since they are secured through pledged revenues of the Federal Highways Administration and the bonds issued by the Tobacco Settlement Financing Authority are excluded because the debt service is paid directly from tobacco settlement funds.

Although certain bonds of the West Virginia Water Development Authority and the West Virginia Housing Development Fund are considered moral obligations of the state, they are currently self-supporting and are also excluded from the calculation of net tax supported debt.

Revenue information included in tables five and six was compiled and provided by the West Virginia Department of Revenue and is included in Appendix B. The projected values of personal income were provided by Global Insight ("WV Annual Long-Term Forecast, December 2011) while the population estimates were taken from the U.S. Census Bureau.

Table 4
Various Revenue Bonds Outstanding
June 30, 2011

Entity	Principal Outstanding
Economic Development Authority	\$1.5 billion
Fairmont State University	\$61.2 million
Glenville State College	\$5.1 million
Higher Education Policy Commission	\$107.9 million
Highways, Commissioner of	\$122.8 million
Hospital Finance Authority	\$1.5 billion
Housing Development Fund	\$698.3 million
Infrastructure & Jobs Development Council	\$118.1 million
Marshall University	\$37.1 million
Parkway Authority	\$69.8 million
Public Energy Authority	\$73.5 million
*Regional Jail & Correctional Facilities Authority	\$72.3 million
Shepherd University	\$47.1 million
Tobacco Settlement Financing Authority	\$880.7 million
Water Development Authority	\$233.9 million
West Liberty University	\$11.4 million
West Virginia State University	\$6.2 million
West Virginia University	\$197.5 million

*does not include lease-backed bonds issued by the Economic Development Authority. The lease-backed bonds are included in net tax supported debt as lease obligations.

This page intentionally blank

Table 5. NET TAX SUPPORTED DEBT OUTSTANDING FOR FISCAL YEARS 2006 - 2022

	6/30/2006 FY06	6/30/2007 FY07	6/30/2008 FY08	6/30/2009 FY09	6/30/2010 FY10	6/30/2011 FY11
General Obligation						
Better Highways of 1973	-	-	-	-	-	-
Safe Roads of 1996	447,995,000	429,845,000	401,190,000	371,105,000	339,515,000	305,460,000
#Infrastructure of 1994	265,521,492	253,919,156	243,176,320	232,339,607	221,415,041	210,353,971
Total General Obligation	713,516,492	683,764,156	644,366,320	603,444,607	560,930,041	515,813,971
Moral Obligations						
Economic Development Authority - Excess Lottery	228,840,000	221,565,000	214,125,000	206,480,000	198,590,000	190,415,000
Economic Development Authority - Lottery	-	-	-	-	-	153,705,000
Higher Education Policy Commission - Excess Lottery	158,870,000	155,335,000	151,720,000	147,925,000	222,320,000	243,480,000
Higher Education Policy Commission - Excess Lottery (BABs)	-	-	-	-	-	50,265,000
##School Building Authority - Appropriation	231,475,000	220,410,000	214,125,000	201,045,000	187,380,000	173,090,000
##School Building Authority - Lottery	118,020,000	105,565,000	92,520,000	78,875,000	64,600,000	49,655,000
School Building Authority - Excess Lottery	-	-	-	99,310,000	95,940,000	116,590,000
School Building Authority - Excess Lottery (QSCBs)	-	-	-	-	78,200,000	150,480,000
State Building Commission - Lottery	41,455,000	33,675,000	25,465,000	16,805,000	7,690,000	-
Total Moral Obligations	778,660,000	736,550,000	697,955,000	750,440,000	854,720,000	1,127,680,000
Leases						
###Leases	377,419,000	382,615,000	387,493,000	364,657,000	442,823,000	417,257,010
Total Leases	377,419,000	382,615,000	387,493,000	364,657,000	442,823,000	417,257,010
Deductions for debt service reserve accounts						
Economic Development Authority - Lottery	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)
School Building Authority	(23,020,801)	(23,021,000)	(23,021,000)	(23,770,263)	(23,020,801)	(23,020,801)
School Building Authority - Lottery	(14,155,000)	(14,180,000)	(14,180,000)	(14,180,000)	(14,180,000)	(14,180,000)
School Building Authority - Excess Lottery (QSCBs) - debt service sinking fund	-	-	-	-	(3,565,725)	(12,488,006)
State Building Commission - Lottery	(2,620,000)	(2,600,000)	(2,600,000)	(2,400,000)	-	-
Net Tax Supported Debt Outstanding	1,810,809,691	1,744,138,156	1,671,023,320	1,659,201,344	1,798,716,515	1,992,072,174
Assessed value (in thousands)	63,510,844	70,726,558	74,791,919	78,065,268	79,555,133	79,498,172
Net tax supported debt as a percentage of assessed value	2.85%	2.47%	2.23%	2.13%	2.26%	2.51%
Income (in thousands)	51,861,500	54,099,750	57,619,750	57,419,500	59,324,750	61,578,700
Net tax supported debt as a percentage of personal income	3.49%	3.22%	2.90%	2.89%	3.03%	3.24%
Population	1,807,237	1,811,198	1,814,873	1,819,777	1,852,994	1,855,994
Net tax supported debt per capita	1001.98	962.97	920.74	911.76	970.71	1073.32

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

Population information provided by the U.S. Census Bureau

- Cash basis and net of escrowed bonds

- Reported as paid from the School Building Authority to the Trustee

- Compiled by the Division of Debt Management. Does not match the State's CAFR due to differences in materiality levels and agencies (colleges/universities/etc) included in the calculation.

6/30/2012 FY12	6/30/2013 FY13	6/30/2014 FY14	6/30/2015 FY15	6/30/2016 FY16	6/30/2017 FY17	6/30/2018 FY18	6/30/2019 FY19	6/30/2020 FY20	6/30/2021 FY21	6/30/2022 FY22
-	-	-	-	-	-	-	-	-	-	-
270,595,000	245,365,000	220,525,000	194,435,000	167,040,000	151,740,000	135,675,000	118,905,000	101,365,000	83,015,000	63,810,000
<u>198,082,386</u>	<u>186,474,731</u>	<u>174,735,493</u>	<u>162,783,538</u>	<u>150,539,132</u>	<u>138,025,959</u>	<u>125,115,144</u>	<u>111,737,634</u>	<u>98,962,884</u>	<u>85,881,968</u>	<u>72,513,844</u>
468,677,386	431,839,731	395,260,493	357,218,538	317,579,132	289,765,959	260,790,144	230,642,634	200,327,884	168,896,968	136,323,844
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	84,780,000	70,940,000
151,020,000	148,250,000	145,370,000	142,360,000	139,230,000	135,940,000	132,555,000	129,000,000	125,290,000	121,430,000	117,375,000
236,590,000	229,420,000	221,955,000	214,165,000	206,030,000	198,680,000	190,970,000	182,875,000	174,395,000	165,525,000	156,215,000
50,265,000	50,265,000	50,265,000	50,265,000	50,265,000	50,265,000	50,265,000	50,265,000	50,265,000	50,265,000	50,265,000
158,160,000	142,535,000	126,190,000	109,075,000	91,040,000	72,105,000	52,220,000	31,370,000	9,465,000	1,910,000	-
33,925,000	17,360,000	-	-	-	-	-	-	-	-	-
112,420,000	108,060,000	103,520,000	98,780,000	93,830,000	88,655,000	83,245,000	77,605,000	71,690,000	65,475,000	58,950,000
150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000
-	-	-	-	-	-	-	-	-	-	-
<u>1,074,780,000</u>	<u>1,019,440,000</u>	<u>961,610,000</u>	<u>919,295,000</u>	<u>874,940,000</u>	<u>829,540,000</u>	<u>781,930,000</u>	<u>731,965,000</u>	<u>679,495,000</u>	<u>639,865,000</u>	<u>604,225,000</u>
420,000,000	423,000,000	426,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000	430,000,000
<u>420,000,000</u>	<u>423,000,000</u>	<u>426,000,000</u>	<u>430,000,000</u>	<u>430,000,000</u>	<u>430,000,000</u>	<u>430,000,000</u>	<u>430,000,000</u>	<u>430,000,000</u>	<u>430,000,000</u>	<u>430,000,000</u>
(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)
(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(9,465,000)	(1,910,000)	-
(14,180,000)	(14,180,000)	-	-	-	-	-	-	-	-	-
(21,682,952)	(30,877,898)	(40,072,844)	(49,267,790)	(58,462,736)	(67,657,682)	(76,852,628)	(86,047,574)	(95,242,520)	(104,437,466)	(113,632,412)
-	-	-	-	-	-	-	-	-	-	-
<u>1,885,583,633</u>	<u>1,787,211,032</u>	<u>1,700,786,848</u>	<u>1,615,234,947</u>	<u>1,522,045,595</u>	<u>1,439,637,476</u>	<u>1,353,856,715</u>	<u>1,264,549,259</u>	<u>1,186,125,364</u>	<u>1,113,424,502</u>	<u>1,037,926,432</u>
82,606,600	85,836,500	89,192,700	92,680,100	96,303,900	100,069,400	103,982,100	108,047,800	112,272,500	116,662,400	121,223,900
2.28%	2.08%	1.91%	1.74%	1.58%	1.44%	1.30%	1.17%	1.06%	0.95%	0.86%
63,341,740	65,170,020	68,228,820	71,481,580	74,843,480	77,804,290	80,922,850	84,111,570	87,449,460	90,476,420	93,739,750
2.98%	2.74%	2.49%	2.26%	2.03%	1.85%	1.67%	1.50%	1.36%	1.23%	1.11%
1,855,994	1,855,994	1,855,994	1,855,994	1,855,994	1,875,000	1,875,000	1,885,000	1,885,000	1,900,000	1,900,000
1015.94	962.94	916.38	870.28	820.07	767.81	722.06	670.85	629.24	586.01	546.28

Table 6. NET TAX SUPPORTED DEBT SERVICE FOR FISCAL YEARS 2006 - 2022

	6/30/2006 FY06	6/30/2007 FY07	6/30/2008 FY08	6/30/2009 FY09	6/30/2010 FY10	6/30/2011 FY11
General Obligation Debt Service						
Better Highways of 1973	1,566,950	-	-	-	-	-
Safe Roads of 1996	41,439,146	40,380,186	49,993,481	49,995,529	49,995,200	47,798,658
#Infrastructure of 1994	19,664,363	23,247,935	23,033,314	23,031,736	23,021,864	23,020,648
Total General Obligation Debt Service	62,670,459	63,628,121	73,026,795	73,027,265	73,017,064	70,819,306
Moral Obligation Debt Service						
Economic Development Authority - Lottery	18,932,303	18,904,231	18,886,178	18,865,029	18,845,344	18,829,686
Economic Development Authority - Excess Lottery	-	-	-	-	-	7,998,060
Higher Education Policy Commission - Excess Lottery	10,464,795	11,185,795	11,191,560	11,190,810	11,189,550	16,821,958
Higher Education Policy Commission - Excess Lottery (BABs)	-	-	-	-	-	1,040,889
School Building Authority - Appropriation	23,345,747	23,345,982	11,874,675	23,345,075	23,308,825	23,313,425
School Building Authority - Lottery	17,997,468	17,999,618	17,995,443	17,999,768	17,996,623	17,997,510
School Building Authority - Excess Lottery	-	-	-	7,088,341	8,208,431	10,072,817
School Building Authority - Excess Lottery (QSCBs)	-	-	-	-	3,565,725	8,922,281
State Building Commission - Lottery	9,794,175	9,782,413	9,772,688	9,769,588	9,757,994	7,891,863
Total Moral Obligation Debt Service	80,534,488	81,218,038	69,720,544	88,258,611	92,872,491	112,888,488
Lease Debt Service						
Leases	39,716,000	39,780,000	43,286,000	50,826,000	41,409,000	53,867,501
Total Lease debt service	39,716,000	39,780,000	43,286,000	50,826,000	41,409,000	53,867,501
Net Tax Supported Debt Service						
	182,920,947	184,626,159	186,033,339	212,111,875	207,298,555	237,575,295
General revenue fund (expressed in thousands)	3,661,402	3,752,722	3,928,288	3,901,552	3,758,372	4,063,786
Debt service as a percentage of general revenue fund	5.00%	4.92%	4.74%	5.44%	5.52%	5.85%
Revenue (expressed in thousands and as defined in the rule)	4,753,147	4,902,709	5,115,439	4,980,808	4,796,521	5,148,666
Debt as a percentage of revenue (as defined in the rule)	3.85%	3.77%	3.64%	4.26%	4.32%	4.61%

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

- FY2012 debt service on the Infrastructure GO bonds was actually \$42,411,660; however, \$19,681,543 was paid from proceeds of a refunding issue due to a current refunding. The actual debt service burden for these bonds is reflected in the table (\$22,730,117)

6/30/2012 FY12	6/30/2013 FY13	6/30/2014 FY14	6/30/2015 FY15	6/30/2016 FY16	6/30/2017 FY17	6/30/2018 FY18	6/30/2019 FY19	6/30/2020 FY20	6/30/2021 FY21	6/30/2022 FY22
-	-	-	-	-	-	-	-	-	-	-
49,779,756	38,402,531	36,756,900	36,764,900	36,765,400	23,300,650	23,300,650	23,202,400	23,198,750	23,199,200	23,206,850
22,730,117	22,755,699	22,769,275	22,773,238	22,769,684	22,757,322	22,765,453	22,759,028	22,761,963	22,750,713	22,767,869
72,509,873	61,158,230	59,526,175	59,538,138	59,535,084	46,057,972	46,066,103	45,961,428	45,960,713	45,949,913	45,974,719
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	18,632,974	18,566,102
9,995,363	9,999,813	9,999,013	9,995,513	9,995,113	9,998,613	9,994,913	9,995,663	9,996,113	9,997,713	9,999,713
18,678,994	18,679,418	18,674,280	18,673,906	18,654,862	17,470,323	17,463,351	17,460,275	17,469,313	17,460,788	17,462,563
3,823,673	3,823,673	3,823,673	3,823,673	3,823,673	3,823,673	3,823,673	3,823,673	3,823,673	3,823,673	3,823,673
23,298,475	23,308,645	23,308,582	23,312,770	23,423,270	23,421,520	23,424,770	23,420,520	23,433,020	7,987,770	1,990,220
17,999,416	17,996,910	17,995,460	-	-	-	-	-	-	-	-
9,799,781	9,797,631	9,797,581	9,798,831	9,796,831	9,801,731	9,801,656	9,798,269	9,801,019	9,801,244	9,797,119
9,194,946	9,194,946	9,194,946	9,194,946	9,194,946	9,194,946	9,194,946	9,194,946	9,194,946	9,194,946	9,194,946
-	-	-	-	-	-	-	-	-	-	-
111,602,542	111,595,260	111,571,925	93,563,749	93,603,339	92,413,179	92,388,472	92,364,751	92,372,437	76,899,108	70,834,336
50,000,000	47,000,000	50,000,000	51,000,000	50,000,000	48,000,000	45,000,000	43,000,000	41,000,000	40,000,000	40,000,000
50,000,000	47,000,000	50,000,000	51,000,000	50,000,000	48,000,000	45,000,000	43,000,000	41,000,000	40,000,000	40,000,000
234,112,415	219,753,490	221,098,100	204,101,886	203,138,424	186,471,150	183,454,575	181,326,179	179,333,149	162,849,020	156,809,054
4,015,621	4,149,751	4,219,276	4,383,261	4,531,291	4,656,920	4,797,000	4,941,000	5,089,000	5,242,000	5,561,000
5.83%	5.30%	5.24%	4.66%	4.48%	4.00%	3.82%	3.67%	3.52%	3.11%	2.82%
5,061,366	5,185,307	5,278,391	5,442,712	5,591,607	5,720,743	5,863,466	6,010,166	6,160,866	6,316,566	6,640,966
4.63%	4.24%	4.19%	3.75%	3.63%	3.26%	3.13%	3.02%	2.91%	2.58%	2.36%

General Obligation Bonds

Safe Roads Amendment of 1996

Principal outstanding: \$305,460,000
No remaining authorization for “new money” debt

Infrastructure Improvement Amendment of 1994

Principal outstanding: \$210,353,971
No remaining authorization for “new money” debt

Authorized but unissued

Vietnam Veterans Bonus Amendment of 1973, Veterans Bonus Amendment of 1992 and 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 of 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 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.

Components of net tax supported debt as of June 30, 2011 General obligation bonds

Safe Road Amendment of 1996 – This amendment authorized bonds to be issued in an amount not to exceed \$550 million. All of the “new money” and refunding bonds will be completely retired by June 1, 2025.

The Safe Road bonds are paid from the state’s road fund. The following table shows that the debt service burden on the road fund which peaks at eight percent during fiscal year 2012 and takes a dramatic dive to less than 3.5% within the next five years.

Table 7 – Debt Service Burden, State Road Fund

Fiscal Year	Debt Service	Road Fund Revenue	Debt Service as % of Road Fund
2006	43,006,096	580,904,000	7.40%
2007	40,380,186	611,085,000	6.61%
2008	49,993,481	661,961,000	7.55%
2009	49,995,529	626,434,000	7.98%
2010	49,995,200	628,157,000	7.96%
2011	47,798,658	663,309,000	7.21%
2012	49,779,756	622,482,000	8.00%
2013	38,402,531	678,556,000	5.66%
2014	36,756,900	714,459,000	5.14%
2015	36,764,900	710,358,000	5.18%
2016	36,765,400	711,050,000	5.17%
2017	23,300,650	714,557,000	3.26%
2018	23,300,650	717,200,000	3.25%
2019	23,202,400	719,900,000	3.22%
2020	23,198,750	722,600,000	3.21%
2021	23,199,200	725,300,000	3.20%
2022	23,206,850	728,000,000	3.19%

Infrastructure Improvement Amendment of 1994 – This amendment authorized bonds to be issued in an amount not to exceed \$300 million for water supply and sewage treatment systems and economic development sites. The bonds are secured by the first \$24million in severance tax collections. All of the bonds issued will be retired by November 1, 2026.

**Components of net tax supported debt
as of June 30, 2011
Revenue bonds**

Bonds subject to an annual appropriation from the General Revenue Fund (School Building Authority) – There are currently two outstanding issues which utilize this funding source for repayment; each issue is a refunding. All of these bonds will mature by July 1, 2022.

Lottery Revenue Bonds – Revenue bonds backed by certain funds of the West Virginia Lottery have been issued for various reasons, such as economic development grants and “brick & mortar” projects at various primary and secondary schools as well as projects at various colleges and universities. Lottery Revenue bonds account for almost half of the state’s net tax supported debt outstanding. The following table shows the debt service burden that Lottery Revenue bonds place on lottery funds (Lottery fund numbers provided by the Department of Revenue and are net of transfers to the state’s General Revenue Fund).

Table 8 – Debt Service Burden, Lottery Fund

Fiscal Year	Debt Service	Lottery Fund Revenue	Debt Service as % of Lottery Fund
2006	57,188,741	486,841,000	11.75%
2007	57,872,056	514,902,000	11.24%
2008	57,845,869	501,190,000	11.54%
2009	64,913,536	428,822,000	15.14%
2010	69,563,666	385,992,000	18.02%
2011	89,575,063	397,571,000	22.53%
2012	88,304,067	399,263,000	22.12%
2013	88,286,615	333,000,000	26.51%
2014	88,263,343	320,656,000	27.53%
2015	70,250,979	325,093,000	21.61%
2016	70,180,069	325,093,000	21.59%
2017	68,991,659	325,093,000	21.22%
2018	68,963,702	325,093,000	21.21%
2019	68,944,231	325,093,000	21.21%
2020	68,939,417	325,093,000	21.21%
2021	68,911,338	325,093,000	21.20%
2022	68,844,116	325,093,000	21.18%

Revenue Bonds

Bonds subject to an annual appropriation from the General Revenue Fund (School Building Authority)

*Principal outstanding: \$173,090,000
No remaining authorization for “new money” debt*

Lottery Revenue Bonds – Economic Development Authority

*Principal outstanding: \$344,120,000
Remaining authorization is dependent upon legislation and available revenues*

Lottery Revenue Bonds – Higher Education Policy Commission

*Principal outstanding: \$293,745,000
Remaining authorization is dependent upon legislation and available revenues*

Lottery Revenue Bonds – School Building Authority

*Principal outstanding: \$316,725,000
Remaining authorization is dependent upon legislation and available revenues*

Lease Obligations

Various Lease Obligations

Principal outstanding: \$417,257,010

Remaining authorization is dependent upon legislation and available revenues

Top 10 Agencies with Leases

Outstanding (dollar value outstanding) as of June 30, 2011

1. Secretary of Administration: \$185.7 million
2. State Building Commission: \$46.3 million
3. WVU: \$39.9 million
4. Department of Health & Human Resources: \$28.0 million
5. Glenville State College: \$26.1 million
6. Department of Environmental Protection: \$23.8 million
7. IS&C: \$15.3 million
8. WVU-Tech: \$11.1 million
9. Travel Management: \$10.1 million
10. Veterans Affairs: \$8.8 million

Components of net tax supported debt as of June 30, 2011

Lease obligations

Approximately \$9.2 million of new leases were entered into during fiscal year 2011. This is down more than 90% from fiscal year 2010 which had a volume of more than \$102 million. The largest issue was a \$5 million lease for state vehicles through the Travel Management Office.

The total amount of leases outstanding in this report (\$417.3 million) will differ from the figure reported in the state's Comprehensive Annual Financial Report (CAFR). This is due to several factors, including materiality levels and the fact that this report includes state colleges and universities.

Components of net tax supported debt as of June 30, 2011

Debt Service Reserve & Other Funds

Table 9 (below) shows debt service reserve, escrow and sinking funds which are available to pay debt service on various issues which are part of the state's net tax supported debt.

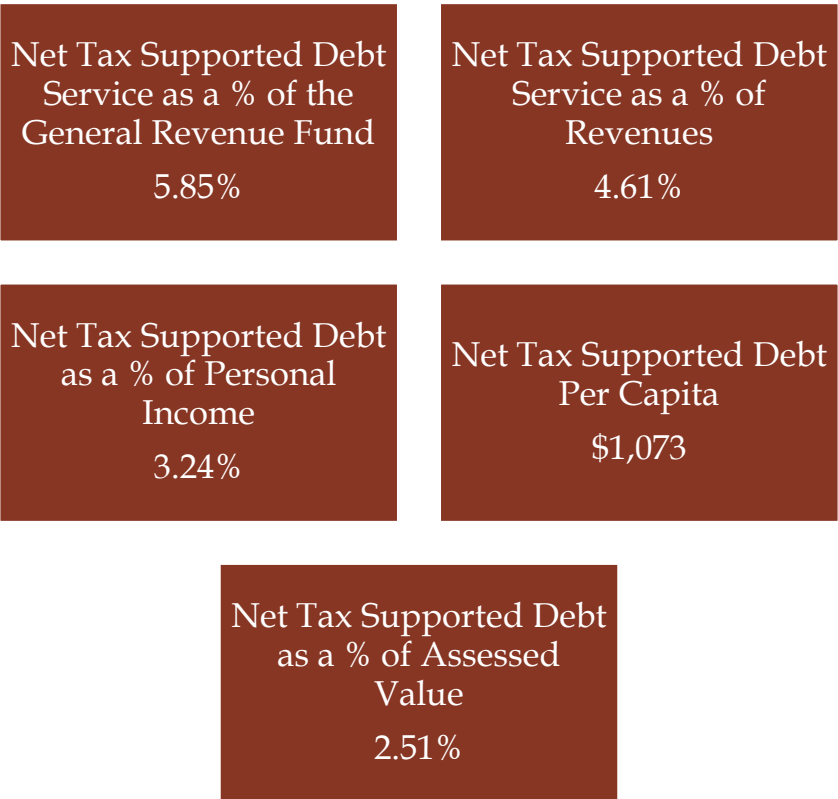
**Table 9 - Escrow/Sinking Funds/
Debt Service Reserve Accounts
as of June 30, 2011**

Issue	Type of Account	Value at June 30, 2011
Economic Development Authority Lottery Revenue	Reserve	\$18,990,000
GO Infrastructure Bonds	Escrow	\$10,810,000
School Building Authority Appropriation Bonds	Reserve	\$23,020,801
School Building Authority Lottery Revenue Bonds	Reserve	\$14,180,000
School Building Authority Lottery Revenue (QSCBs)	Sinking Fund	\$12,488,006

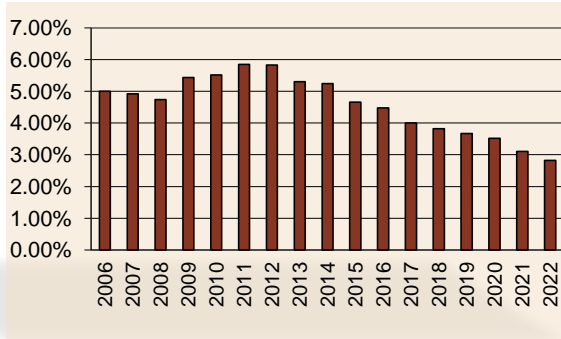
2. Calculate key ratios that are commonly used to examine debt

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.

According to calculations based on net tax supported debt, revenue projections, personal income projections and population estimates the ratios as of June 30, 2011 are as follows:

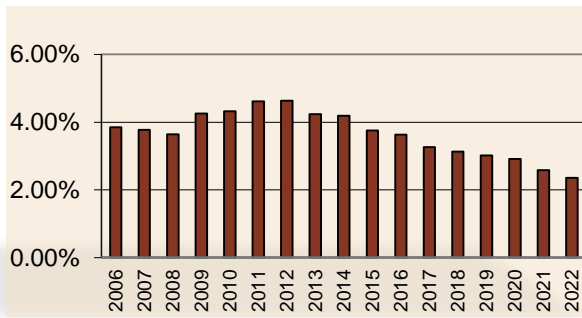


Historically, most of these ratios are at a peak and are expected to decline in the coming years. This is, of course, dependent on future issuance of debt. The future projections do not indicate the issuance of any additional GO or Revenue bond debt and only a small increase in lease obligations. The following charts show the historical and future projections of these ratios.



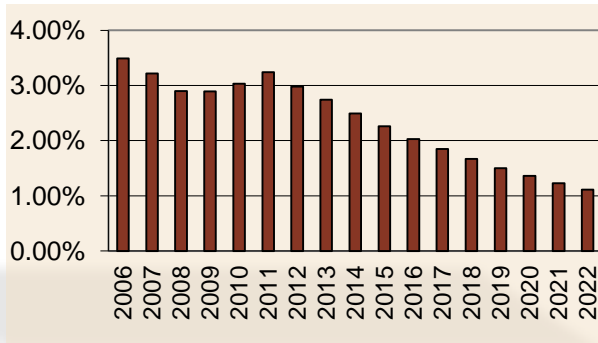
Net Tax Supported Debt Service as a Percentage of the General Revenue Fund

Current Percentage: 5.85%



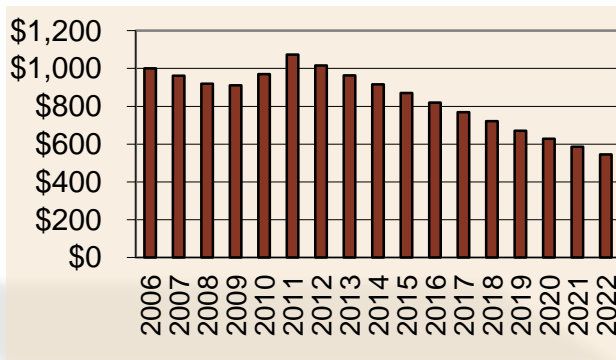
Net Tax Supported Debt Service as a Percentage of Revenues

Current Percentage: 4.61%



Net Tax Supported Debt as a Percentage of Personal Income

Current Percentage: 3.24%



Net Tax Supported Debt Per Capita

Current Level: \$1,073

3. 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 relatively 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.

Each year, Moody’s Investors Service produces a report in which they rank states according to various debt ratios. The “2011 State Debt Medians Report,” 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 national recognized debt limits.” The average debt per capita of the 50 states for 2011 was \$1,408. The average debt as a percentage of personal income was 3.5%

Table 10 – Various Statistics from Moody’s Publication, “2011 State Debt Medians”

Ratio	Average	Highest	Lowest	West Virginia Ranking*
NTSD per capita	\$1,408	\$5,236 Connecticut	\$13 Nebraska	\$1,221 #21
NTSD as a % of Personal Income	3.5%	10.1% Hawaii	0.0% Nebraska	3.8% #17
Total NTSD		\$94.7 billion California	\$23.2 million Nebraska	\$2.2 billion #37

** As reported by Moody’s in June 2011. 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 5 and 6, pages 12 through 15.*

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

Recommended Caps:

At June 30, 2011 the net tax supported debt service as a percentage of the General Revenue Fund was 5.85% which is below the recommended cap of 6.00%. This report recommends a cap on this particular ratio each year. The following are the recommended caps in past reports and actual levels at the time the report was issued:

2006

Recommended cap: 5.00%

Actual Ratio: 5.00%

2007

Recommended cap: 5.00%

Actual Ratio: 4.92%

2008

Recommended cap: 5.50%

Actual Ratio: 4.74%

2009

Recommended cap: 5.50%

Actual Ratio: 5.44%

2010

Recommended cap: 6.00%

Actual Ratio: 5.52%

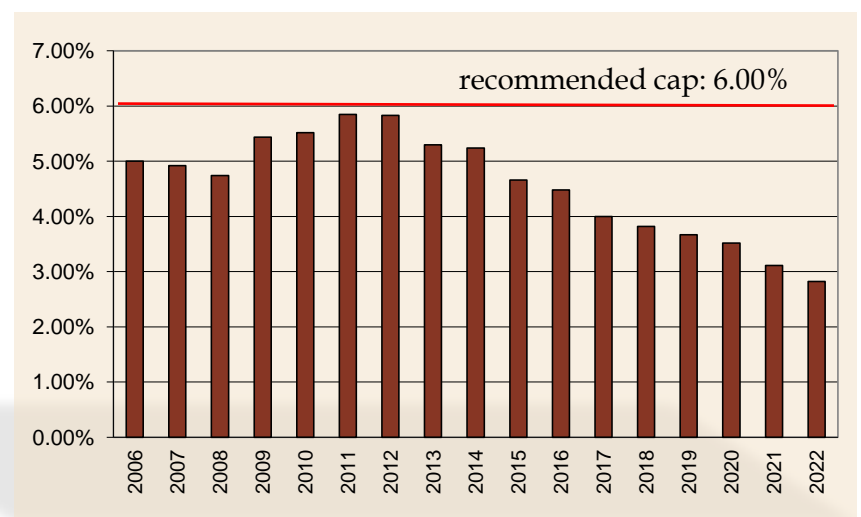
Net Tax Supported Debt Service as a Percentage of the General Revenue Fund

This is perhaps the most important ratio measurement since it shows the potential strain on the General Revenue Fund if, for some reason, all other funds are insufficient to pay debt service.

In last year's report, the cap was raised to 6.00% due to several factors, such as:

- The projected growth of the state's General Revenue Fund;
- Increased bonding opportunities through the American Recovery and Reinvestment Act of 2009; and
- Economic opportunity.

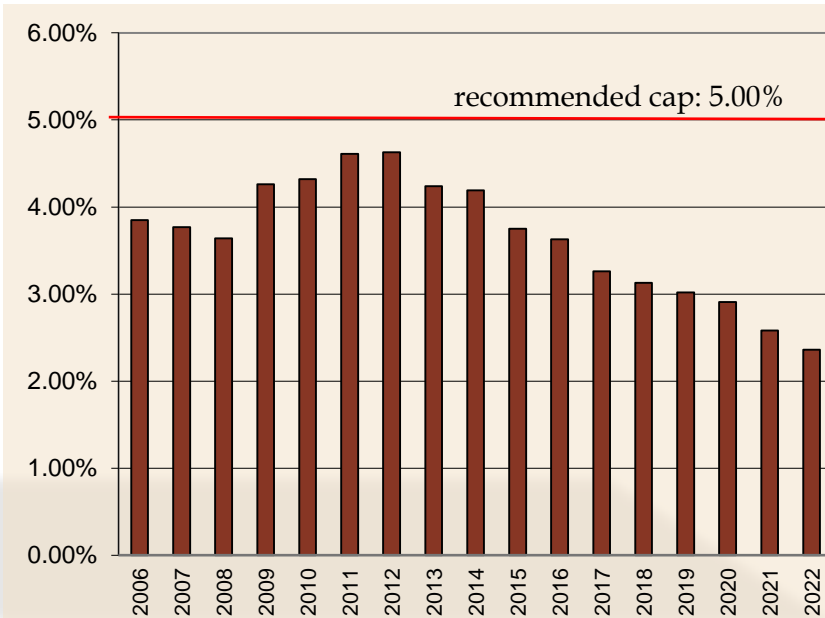
Again this year, the recommended cap of this particular ratio is 6.00%. According to revenue estimates, the state's General Revenue Fund is expected to see a yearly growth of more than 3% (with 2013 to 2014 being the exception with a modest growth of 1.6%). Keeping the potential debt service burden on the state's General Revenue Fund below 6.00% is prudent fiscal management. It is a mild burden that the state can support while investing in the state's infrastructure and economic development.



Net Tax Supported Debt Service as a Percentage of Revenues

The definition of revenues includes not only the General Revenue Fund but also the state’s Road Fund, Lottery Fund and the dedicated stream of \$24 million of the state’s coal severance tax collections. The current and projected revenues are contained in tables five and six, pages 12 through 15, and also in Appendix B.

The recommended level for this year’s report remains at last year’s level, which is 5.00%. Again, this cap comes with a warning since the debt service on lottery and excess lottery revenue bonds has risen more than 56% in the past five years (\$57.2 million debt service burden in 2006 and \$89.5 million debt service burden in 2011). The bright spot is the fact that the amortization of the bonds supported by lottery funds has a relatively fast amortization with more than 33% maturing within the next 10 years and more than 61% maturing in the next 15 years.



Net Tax Supported Debt Service as a Percentage of Revenues

Recommended Caps:

At June 30, 2011 the net tax supported debt service as a percentage of Revenues was 4.61% which is below the recommended cap of 5.00%. This report recommends a cap on this particular ratio each year. The following are the recommended caps in past reports and actual levels at the time the report was issued:

2006

Recommended cap: 4.00%

Actual Ratio: 3.85%

2007

Recommended cap: 4.00%

Actual Ratio: 3.77%

2008

Recommended cap: 4.00%

Actual Ratio: 3.64%

2009

Recommended cap: 4.00%

Actual Ratio: 4.26%

2010

Recommended cap: 5.00%

Actual Ratio: 4.32%

Net Tax Supported Debt as a Percentage of Personal Income

Recommended Caps:

At June 30, 2011 the net tax supported debt as a percentage of Personal Income was 3.24% which is above the recommended cap of 3.10%. This report recommends a cap on this particular ratio each year. The following are the recommended caps in past reports and actual levels at the time the report was issued:

2006

*Recommended cap: 3.00%
Actual Ratio: 3.49%*

2007

*Recommended cap: 3.00%
Actual Ratio: 3.22%*

2008

*Recommended cap: 3.00%
Actual Ratio: 2.90%*

2009

*Recommended cap: 3.00%
Actual Ratio: 2.89%*

2010

*Recommended cap: 3.10%
Actual Ratio: 3.03%*

Net Tax Supported Debt as a Percentage of Personal Income

This has been a ratio that has historically plagued West Virginia because the measurement of personal income has been well below the national average. According to information obtained from the West Virginia Economic Outlook Conference in November 2011, West Virginia's per capita personal income is approximately 20% lower than the national average (West Virginia approximately \$28,800, United States approximately \$36,000). According to a projection given at the conference, this gap is likely to remain at 20% over the next several years with a slight decrease in the gap possibly seen in 2016.

According to Moody's "2011 State Debt Medians Report," the average of this particular ratio is 3.5% with the median being 2.8%. Comparing states that have a similar Moody's rating to West Virginia (Aa1), shows that West Virginia is the fourth highest within the average range of this particular ratio (see page 25).

Historically, this report has recommended a cap of 3.00% for this particular ratio; however, last year it was raised slightly to 3.1% due to the fact that the national average increased to 3.2%. Although the national average has increased again (to 3.5%) it is not recommended that the cap be raised this year. Until West Virginia is able to see an increase in its personal income and begin to close the gap with the national average, careful attention should be paid to this important economic indicator.

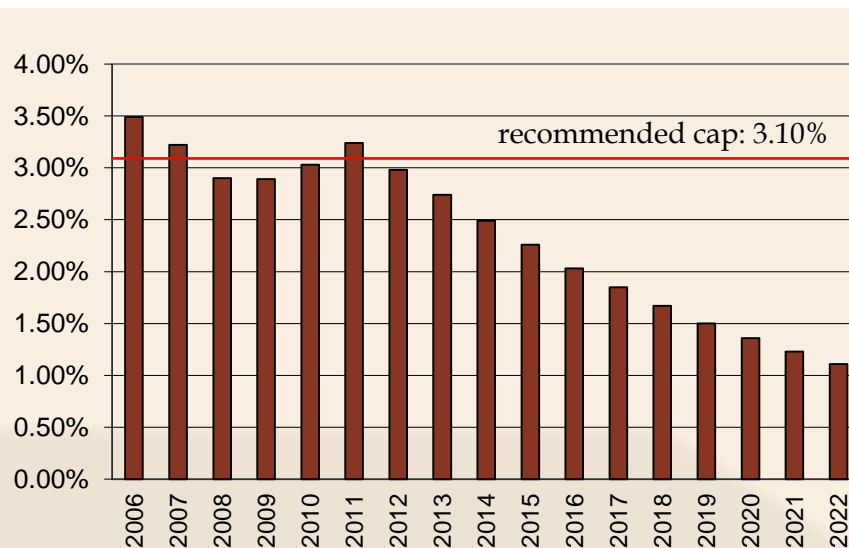
The recommended cap for this ratio remains at 3.1%. According to calculations from table five, page 12, West Virginia was above the recommended cap at June 30, 2011 (3.24%). This ratio is expected to decline below the recommended cap by the end of fiscal year 2012 (2.98%).

**Table 11 - Debt as a Percentage of Personal Income
(similarly rated states)
as Presented in 2011 State Debt Medians Report by
Moody's Investors Service**

State	Debt as a % of Personal Income*
North Dakota	0.8%
Montana	1.1%
Arkansas	1.1%
Colorado	1.3%
Idaho	1.6%
New Hampshire	1.9%
Alabama	2.6%
Pennsylvania	2.7%
Minnesota	2.8%
Ohio	2.8%
Florida	3.0%
Kansas	3.2%
West Virginia	3.8%
Oregon	5.6%
Washington	6.2%
Massachusetts	9.5%

** As reported by Moody's in June 2011. 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 5 and 6, pages 12 through 15.*

**West Virginia Debt as a percentage of personal income
Fiscal Years 2006-2011, 2012-2022(projected)**



Net Tax Supported Debt Per Capita

Recommended Caps:

At June 30, 2011 the net tax supported debt per capita was \$1,073 which is below the recommended cap of \$1,100. This report recommends a cap on this particular ratio each year. The following are the recommended caps in past reports and actual levels at the time the report was issued:

2006

Recommended cap: \$1,000

Actual Ratio: \$1,002

2007

Recommended cap: \$1,000

Actual Ratio: \$963

2008

Recommended cap: \$1,000

Actual Ratio: \$921

2009

Recommended cap: \$1,000

Actual Ratio: \$912

2010

Recommended cap: \$1,100

Actual Ratio: \$971

Net Tax Supported Debt Per Capita

The national average for this particular ratio has risen from \$820 in 2001 to \$1,408 in 2011. That is almost 72% in 10 years. West Virginia's net tax supported debt per capita has risen almost 42% in that same time frame, \$756 in 2001 and \$1,073 in 2011 (as calculated by the West Virginia State Treasurer's Office).

Although West Virginia's debt per capita has only risen less than half of the national average over the last 10 years, the population has only risen 2.7% during that same decade. West Virginia's population in 2001 was estimated at 1,807,000 and in 2011 at 1,855,994. According to the, "West Virginia Economic Outlook 2012," produced by the WVU Bureau of Business and Economic Research, West Virginia is likely to experience "... rough population stability. ..." during the next five years. The report cited the fact that West Virginia has no boost from natural increase and that there will probably be modest net migration to the state.

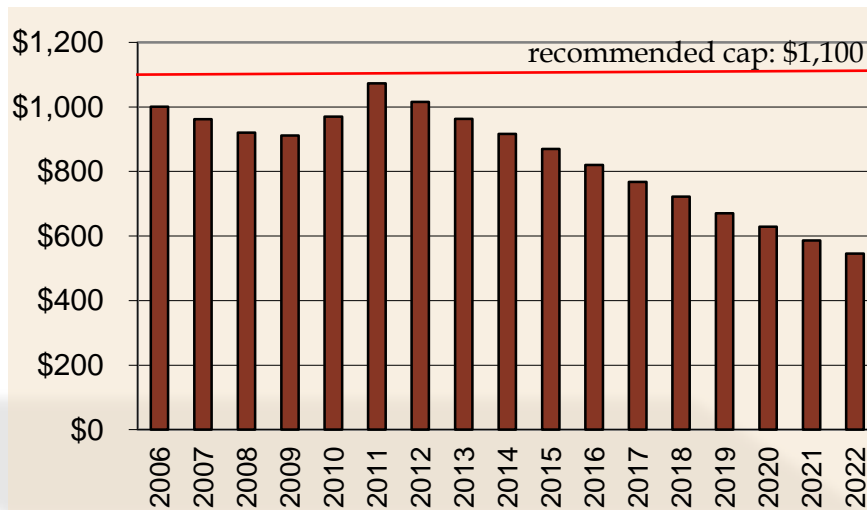
Due to the fact that the state's population is not expected to experience much growth within the next five years, the recommended cap of net tax supported debt per capita remains at \$1,100 as of June 30, 2011. According to Moody's, the net tax supported debt per capita for West Virginia was \$1,221 which was the fifth highest ratio among other states with a Moody's rating of Aa1 (See page 27).

**Table 12 - Debt Per Capita
(similarly rated states)
as Presented in 2011 State Debt Medians Report by
Moody's Investors Service**

State	Debt Per Capita*
North Dakota	\$315
Arkansas	\$361
Montana	\$371
Idaho	\$519
Colorado	\$524
New Hampshire	\$812
Alabama	\$856
Ohio	\$1,007
Pennsylvania	\$1,075
Florida	\$1,150
Minnesota	\$1,159
West Virginia	\$1,221
Kansas	\$1,239
Oregon	\$2,006
Washington	\$2,626
Massachusetts	\$4,711

** As reported by Moody's in June 2011. 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 5 and 6, pages 12 through 15.*

**West Virginia Debt Per Capita
Fiscal Years 2006-2011, 2012-2022(projected)**



Other Debt Ratios

Net Tax Supported Debt as a Percentage of the Assessed Value of Taxable Property - Historically, the Debt Capacity Report has suggested a cap of 2.00% for this particular ratio. This recommendation has not been based on any particular research but rather on the relationship to the other current debt ratios of the state. At June 30, 2011, the ratio was 2.51%.

Net Tax Supported Debt as a percentage of Gross State Domestic Product - This is a ratio which Moody's began publishing in their "State Debt Medians Report" in 2010. According to Moody's, "This ratio is useful when comparing U.S. State credits to sovereign and non-U.S. subsovereign credits. . ." (2011 State Debt Medians Report, Moody's Investors Service, June 3, 2011). West Virginia had a net tax supported debt as a percentage of gross state domestic product of 3.58%. The state with the highest ratio was Massachusetts at 8.62% while Nebraska was the lowest with 0.03%. The State Treasurer's Office will continue to monitor this ratio and will make recommendations once more data has been compiled and analyzed.

Summary

The three major rating agencies, Moody's, Standard & Poor's and Fitch have all recognized the fiscal prudence of West Virginia's leaders. They even point to the conservative fiscal management as a credit strength of the state.

The country and the State of West Virginia are on the verge of a fragile economic recovery; therefore, fiscal prudence must be maintained. According to the "West Virginia Economic Outlook 2012," the state's economy is forecast to grow at a moderate pace within the next five years. The report cautions that a national recession will matter in West Virginia because, ". . . state economic growth depends on the growth of our trading partners, whether they are located across the nation or around the world."

While the state is below most of the recommended caps in this report, it is important to maintain fiscal prudence. As mentioned in last year's report, "The state has the potential to make the right investment decisions in capital improvements, infrastructure and economic development, but it must do so with continued fiscal prudence."

Summary of Recommended Caps

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

6.00%

Net Tax Supported Debt
Service as a % of
Revenues

5.00%

Net Tax Supported Debt
as a % of Personal
Income

3.10%

Net Tax Supported Debt
Per Capita

\$1,100

Net Tax Supported Debt
as a % of Assessed
Value

2.00%

This page is intentionally blank

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 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 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.

This page is intentionally blank

Appendix B

Revenue Information

This page is intentionally blank

Revenue & Revenue Projections
(thousands)

<u>Year</u>	<u>General Revenue</u>	<u>Road Fund</u>	<u>Lottery**</u>	<u>Severance</u>	<u>Total</u>
2006	3,661,402	580,904	486,841	24,000	4,753,147
2007	3,752,722	611,085	514,902	24,000	4,902,709
2008	3,928,288	661,961	501,190	24,000	5,115,439
2009	3,901,552	626,434	428,822	24,000	4,980,808
2010	3,758,372	628,157	385,992	24,000	4,796,521
2011	4,063,786	663,309	397,571	24,000	5,148,666
*2012	4,015,621	622,482	399,263	24,000	5,061,366
*2013	4,149,751	678,556	333,000	24,000	5,185,307
*2014	4,219,276	714,459	320,656	24,000	5,278,391
*2015	4,383,261	710,358	325,093	24,000	5,442,712
*2016	4,531,291	711,050	325,266	24,000	5,591,607
*2017	4,656,920	714,557	325,266	24,000	5,720,743
*2018	4,797,000	717,200	325,266	24,000	5,863,466
*2019	4,941,000	719,900	325,266	24,000	6,010,166
*2020	5,089,000	722,600	325,266	24,000	6,160,866
*2021	5,242,000	725,300	325,266	24,000	6,316,566
*2022	5,399,000	728,000	325,266	24,000	6,476,266
*2023	5,561,000	730,700	325,266	24,000	6,640,966

Note: Revenue information provided by the West Virginia Budget Office

* Estimates

** State revenues net of any transfers to the General Revenue Fund

This page is intentionally blank

