2013
Debt Capacity Report

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

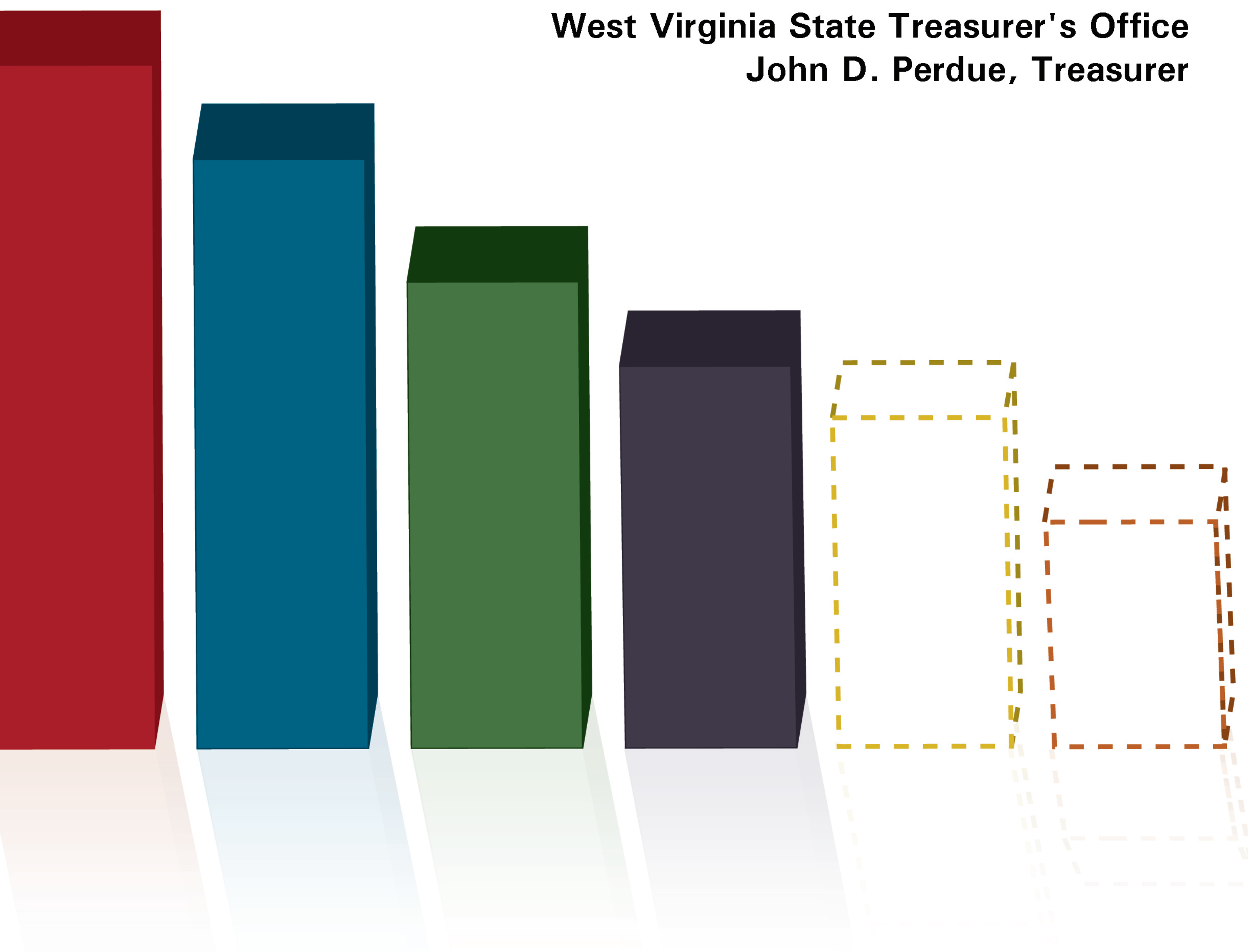


Table of Contents

Tables contained in the report

This page intentionally left 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 $1.84 billion in outstanding net tax supported debt as of June 30, 2012.

Table 1 - West Virginia Net Tax Supported Debt Outstanding as of June 30, 2012

Type of Debt		Principal Outstanding June 30, 2012
GENERAL OBLIGATION BONDS		
Safe Road Bonds	$ 270,595,000	
Infrastructure Improvement Bonds	208,892,385	
Total General Obligation Bonds		$ 479,487,385
REVENUE BONDS		
School Building Authority Capital Improvement Bonds	158,160,000	
Economic Development Authority, Lottery Revenue Bonds	151,020,000	
Economic Development Authority, Excess Lottery Revenue Bonds	181,920,000	
Higher Education Policy Commission, Excess Lottery Revenue Bonds	368,755,000	
Higher Education Policy Commission, Excess Lottery Revenue Bonds (BABs)	50,265,000	
School Building Authority, Lottery Revenue Bonds	59,500,000	
School Building Authority, Excess Lottery Revenue Bonds	112,420,000	
School Building Authority, Excess Lottery Revenue Bonds (QSCBs)	150,480,000	
Total Revenue Bonds		1,232,520,000
TOTAL LEASE OBLIGATIONS		346,986,152
GROSS TAX SUPPORTED DEBT		2,058,993,537
DEDUCTIONS FOR ESCROW/SINKING FUND/RESERVE FUNDS		
Economic Development Authority, Lottery Revenue Bonds	(23,501,000)	
Higher Education Policy Commission, Excess Lottery Revenue Bonds	(124,585,000)	
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)	(21,682,951)	
Total Deductions		(217,779,752)
NET TAX SUPPORTED DEBT		$ 1,841,213,785

The debt service (principal and interest payments) on this $1.84 billion in net tax supported debt represented 5.63% of the state's General Revenue Fund and 4.45% 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, 2012

Ratio	Recommended Cap	June 30, 2012 Level	Projected Highest Level (FY13-23)
Net Tax Supported Debt Service as a percentage of the General Revenue Fund	6.00%	5.63%	5.34% (June 30, 2013)
Net Tax Supported Debt Service as a percentage of Revenues	5.00%	4.45%	4.30% (June 30, 2013)
Net Tax Supported Debt as a percentage of Personal Income	3.10%	2.89%	2.67% (June 30, 2013)
Net Tax Supported Debt Per Capita	$1,100	$990	$931 (June 30, 2013)
Net Tax Supported Debt as a Percentage of Assessed Valuation	2.0%	2.25%	2.02% (June 30, 2013)

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 5.70% decrease in its net tax supported debt outstanding within the next year. It is estimated that there will be a 22.55% decrease within five years (2013-2017) and an additional 28.57% in the following five years (2018-2022). This is, of course, assuming that no new additional debt is issued.

As indicated in table two (above), 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.

Each year, the Bureau of Business & Economic Research and the West Virginia University College of Business and Economics release a report on the global, national and state economies. The comprehensive publication, this year entitled the *2013 West Virginia Economic Outlook,* is accompanied by an annual conference. At the November 2012 conference, Dr. Paul J. Speaker gave a presentation on West Virginia's economic outlook. Several observations given by Dr. Speaker included:

Population:	The median age of West Virginia's population in 2011 was 41.5. This is 4 years greater than the national average.
Income:	The median household income for 2011 was $39,740; however, there is an inequality of that number throughout the state.
National Economy:	West Virginia is tied to the national economy and we must pay attention to it.

These observations relate directly to the state's debt capacity. For example, West Virginia is estimated to have one of the oldest populations in the country. In just 12 years, it is estimated that more than 22% of West Virginia's population will be 65 or older. This has indirect implications as an aging population may stress the state's Medicare needs. There are also more direct implications on the state's debt since most bonds issued have an amortization of 15 or more years. With one of the country's oldest populations, it is important that the debt load which is handed to the next generation is not unbearable.

The state's measurement of personal income is also another important factor when considering the state's debt capacity. According to figures released by the US Bureau of Economic Analysis, West Virginia ranked 47th in per capita personal income ($33,513) in 2011. Examining a state's personal income measurement is important in debt capacity analysis for several reasons. For example, what ability do the citizens of a state have to repay debt in light of a possible revenue deficiency? How much disposable income is available to the citizens of a state so that the tax base doesn't deteriorate?

Although West Virginia's personal income has historically ranked low, the forecast provided by the *2013 West Virginia Economic Outlook* calls for the per capita personal income to, ". . . continue growing at an average annual rate of 2.2% from 2012 to 2017. Inflation-adjusted disposable income is expected to rise 2.3% annually over the same period. This should give a boost to the state's consumer spending." (ERIC BOWEN, ET AL., 2013 WEST VIRGINIA ECONOMIC OUTLOOK, *WEST VIRGINIA OUTLOOK*, 17, JOSE V. SARTARELLI, PH. D., ET AL, 2012)

As of the publication of this report, the United States Congress has addressed various tax rates & structures that were set to automatically go into effect on January 1, 2013. This automatic "trigger" known as sequester is a component of the Budget Control Act of 2011 in which automatic across-the-board federal spending cuts take place to compensate for any increases in federal debt. Currently, the federal spending cuts have been put on hold until March 2013. It is currently unclear how the spending cuts will impact the states, but there will most likely be a decline in federal funds flowing to the states. According to "Fall 2012 Fiscal Survey of States," a report released by the National Governors Association (in conjunction with the National Association of State Budget Officers), " . . . even if a sequester is avoided, the likely policies required to address the national's long-term fiscal debt problems may also reduce the level of federal funds for states."

Not only could those policies reduce federal funds to states, they may also impact the most effective financing tools available to states, counties and cities across the nation – municipal bonds. It is no secret that the tax exempt status of municipal bonds has been a topic of discussion between Congress and the President of the United States during the entire process of avoiding the sequester. As of the publication of this report, it is unclear if there will be any changes for municipal bonds, such as a 28% cap on the benefit from deductions and exclusions, or if the tax exempt status would be removed altogether. In a letter to President Barack Obama and Speaker John Boehner, more than 20 national organizations urged the President and Speaker to avoid making any changes to the tax exempt status of municipal bonds. According to the letter, ". . . the approximately $40 billion annual cost from the municipal bond interest exclusion leverages $400 billion in new infrastructure projects annually. Making abrupt, fundamental changes to the current tax treatment of municipal bonds as part of year-end considerations would have far-reaching adverse and unintended consequences affecting jobs and infrastructure." (LETTER FROM THE NATIONAL GOVERNORS ASSOCIATION, ET AL. TO PRESIDENT OBAMA AND SPEAKER BOEHNER, DECEMBER 20, 2012).

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 decrease in the state's GO debt of more than 38% ($469 million on June 30, 2012 to $290 million on June 30, 2017). The capacity to issue high-quality GO debt is there; however, as mentioned in last year's report - West Virginia should proceed with caution. There are other factors at play and any possibility of another recession could derail the nation and the state's fragile economic recovery.

As stated in last year's report, continued attention should be paid to the state's underfunded Teachers' Retirement System and the impact that it has on the state's long-term credit rating and outlook.

Debt Capacity

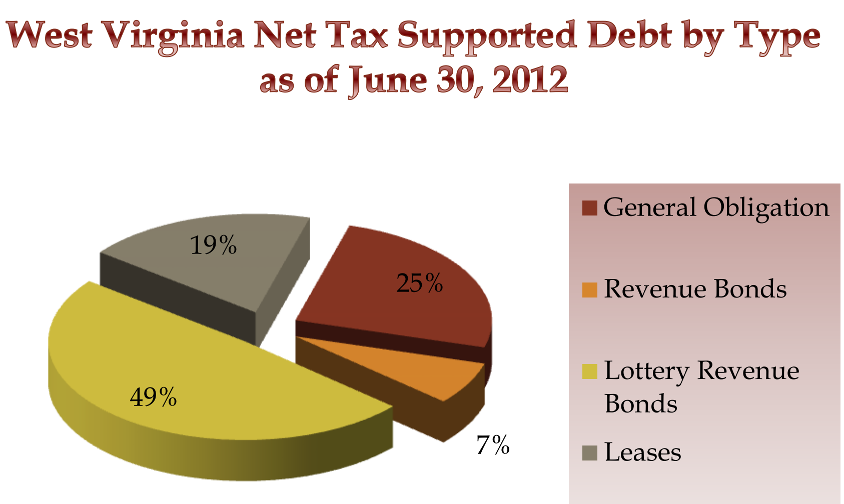
The legislative purpose of this report is to perform the following tasks:

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 $1.84 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 25% 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.



The largest portion of the state's net tax supported debt consists of bonds which are backed by various pledges of revenue generated from the West Virginia Lottery. Unfortunately, revenues from the West Virginia Lottery peaked in 2007. This is due, in large part, to interstate lottery gaming competition from Maryland and Ohio. Lottery revenue is not decreasing as fast as first predicted but the negative growth continues into fiscal year 2013 with revenue down almost three percent in the first four months of the fiscal year.

Table 3
Various Revenue Bonds Outstanding
June 30, 2012

Entity	Principal Outstanding
Economic Development Authority	$1.6 billion
Fairmont State University	$57.0 million
Glenville State College	$34.5 million
Higher Education Policy Commission	$96.1 million
Highways, Commissioner of	$100.3 million
Hospital Finance Authority	$1.5 billion
Housing Development Fund	$579.1 million
Infrastructure & Jobs Development Council	$115.7 million
Marshall University	$88.1 million
Parkway Authority	$69.9 million
*Regional Jail & Correctional Facilities Authority	$67.3 million
Shepherd University	$45.9 million
Tobacco Settlement Financing Authority	$872.1 million
Water Development Authority	$227.0 million
West Liberty University	$20.9 million
West Virginia State University	$5.8 million
West Virginia University	$443.1 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.

Calculations of the net tax supported debt and debt service of the State of West Virginia for fiscal years 2007 through 2023 are contained in tables four and five (pages 8 – 11). Fiscal years 2007 through 2012 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, 2013 through 2023, are included to show expected debt levels as existing obligations mature.

There are also several agencies that had revenue bonds outstanding at June 30, 2012 (see table three). 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 four and five 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," November 2012) while the population estimates were taken from the U.S. Census Bureau.

Table 4. NET TAX SUPPORTED DEBT OUTSTANDING FOR FISCAL YEARS 2007 - 2023

	6/30/2007 FY07	6/30/2008 FY08	6/30/2009 FY09	6/30/2010 FY10	6/30/2011 FY11	6/30/2012 FY12
General Obligation						
Safe Roads of 1996	429,845,000	401,190,000	371,105,000	339,515,000	305,460,000	270,595,000
#Infrastructure of 1994	253,919,156	243,176,320	232,339,607	221,415,041	210,353,971	198,082,386
Total General Obligation	683,764,156	644,366,320	603,444,607	560,930,041	515,813,971	468,677,386
Revenue Bonds						
Economic Development Authority - Excess Lottery	221,565,000	214,125,000	206,480,000	198,590,000	190,415,000	181,920,000
Economic Development Authority - Lottery	-	-	-	-	153,705,000	151,020,000
Higher Education Policy Commission - Excess Lottery	155,335,000	151,720,000	147,925,000	222,320,000	243,480,000	244,170,000
Higher Education Policy Commission - Excess Lottery (BABs)	-	-	-	-	50,265,000	50,265,000
##School Building Authority - Appropriation	220,410,000	214,125,000	201,045,000	187,380,000	173,090,000	158,160,000
##School Building Authority - Lottery	105,565,000	92,520,000	78,875,000	64,600,000	49,655,000	59,500,000
School Building Authority - Excess Lottery	-	-	99,310,000	95,940,000	116,590,000	112,420,000
School Building Authority - Excess Lottery (QSCBs)	-	-	-	78,200,000	150,480,000	150,480,000
State Building Commission - Lottery	33,675,000	25,465,000	16,805,000	7,690,000	-	-
Total Moral Obligations	736,550,000	697,955,000	750,440,000	854,720,000	1,127,680,000	1,107,935,000
Leases						
###Leases	382,615,000	387,493,000	364,657,000	442,823,000	417,257,010	346,986,152
Total Leases	382,615,000	387,493,000	364,657,000	442,823,000	417,257,010	346,986,152
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)	(23,501,000)
School Building Authority	(23,021,000)	(23,021,000)	(23,770,263)	(23,020,801)	(23,020,801)	(23,020,801)
School Building Authority - Lottery	(14,180,000)	(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)	(21,682,952)
State Building Commission - Lottery	(2,600,000)	(2,600,000)	(2,400,000)	-	-	-
Net Tax Supported Debt Outstanding	1,744,138,156	1,671,023,320	1,659,201,344	1,798,716,515	1,992,072,174	1,841,213,785
Assessed value (in thousands)	70,726,558	74,791,919	78,065,268	79,555,133	79,498,082	81,895,714
Net tax supported debt as a percentage of assessed value	2.47%	2.23%	2.13%	2.26%	2.51%	2.25%
Income (in thousands)	54,099,750	57,576,000	57,221,750	58,979,750	61,975,500	63,621,160
#### Net tax supported debt as a percentage of personal income	3.22%	2.90%	2.90%	3.05%	3.21%	2.89%
Population	1,811,198	1,814,873	1,819,777	1,852,994	1,855,364	1,859,864
Net tax supported debt per capita	962.97	920.74	911.76	970.71	1073.68	989.97

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.
- Personal income figures for Fiscal Years 2009, 2010 and 2011 have been revised.

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	6/30/2023 FY23
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	43,725,000
186,474,731	174,735,493	162,783,538	150,539,132	138,025,959	125,115,144	111,737,634	98,962,884	85,881,968	72,513,844	58,764,103
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	102,489,103
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	56,260,000
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	113,120,000
235,375,000	227,675,000	219,640,000	211,255,000	203,650,000	195,675,000	187,310,000	178,550,000	169,390,000	159,780,000	149,720,000
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
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	-	-
42,935,000	25,575,000	24,075,000	22,515,000	20,890,000	19,200,000	17,435,000	15,595,000	13,660,000	11,630,000	9,500,000
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	52,090,000
150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000	150,480,000
-	-	-	-	-	-	-	-	-	-	-
1,050,970,000	992,905,000	948,845,000	902,680,000	855,400,000	805,835,000	753,835,000	699,245,000	657,390,000	619,420,000	581,435,000
345,000,000	360,000,000	375,000,000	385,000,000	395,000,000	400,000,000	400,000,000	400,000,000	400,000,000	400,000,000	400,000,000
345,000,000	360,000,000	375,000,000	385,000,000	395,000,000	400,000,000	400,000,000	400,000,000	400,000,000	400,000,000	400,000,000
(23,501,000)	(23,501,000)	(23,501,000)	(23,501,000)	(23,501,000)	(23,501,000)	(23,501,000)	(23,501,000)	(23,501,000)	(23,501,000)	(23,501,000)
(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)	-	-	-	-	-	-	-	-	-	-
(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)	(122,827,358)
-	-	-	-	-	-	-	-	-	-	-
1,736,230,032	1,661,570,848	1,585,273,947	1,500,274,595	1,425,986,476	1,343,250,715	1,251,908,259	1,171,364,364	1,096,438,502	1,018,610,432	937,595,745
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	125,963,800
2.02%	1.86%	1.71%	1.56%	1.42%	1.29%	1.16%	1.04%	0.94%	0.84%	0.74%
65,130,550	68,029,420	70,956,280	74,170,590	77,011,990	80,055,090	83,309,380	86,713,040	90,016,800	93,629,520	97,399,640
2.67%	2.44%	2.23%	2.02%	1.85%	1.68%	1.50%	1.35%	1.22%	1.09%	0.96%
1,864,264	1,868,664	1,873,064	1,877,564	1,882,066	1,887,000	1,891,000	1,894,000	1,897,000	1,900,000	1,900,000
931.32	889.18	846.35	799.05	757.67	711.84	662.04	618.46	577.99	536.11	493.47

Table 5. NET TAX SUPPORTED DEBT SERVICE FOR FISCAL YEARS 2007 - 2023

	6/30/2007 FY07	6/30/2008 FY08	6/30/2009 FY09	6/30/2010 FY10	6/30/2011 FY11	6/30/2012 FY12
General Obligation Debt Service						
Safe Roads of 1996	40,380,186	49,993,481	49,995,529	49,995,200	47,798,658	49,779,756
Infrastructure of 1994	23,247,935	23,033,314	23,031,736	23,021,864	23,020,648	22,730,117
Total General Obligation Debt Service	63,628,121	73,026,795	73,027,265	73,017,064	70,819,306	72,509,873
Revenue Bond Debt Service						
Economic Development Authority - Excess Lottery	18,904,231	18,886,178	18,865,029	18,845,344	18,829,686	18,811,894
Economic Development Authority - Lottery	-	-	-	-	7,998,060	9,995,363
Higher Education Policy Commission - Excess Lottery	11,185,795	11,191,560	11,190,810	11,189,550	16,821,958	18,678,994
Higher Education Policy Commission - Excess Lottery (BABs)	-	-	-	-	1,040,889	3,823,673
School Building Authority - Appropriation	23,345,982	11,874,675	23,345,075	23,308,825	23,313,425	23,298,475
School Building Authority - Lottery	17,999,618	17,995,443	17,999,768	17,996,623	17,997,510	17,999,416
School Building Authority - Excess Lottery	-	-	7,088,341	8,208,431	10,072,817	9,799,781
School Building Authority - Excess Lottery (QSCBs)	-	-	-	3,565,725	8,922,281	9,194,946
State Building Commission - Lottery	9,782,413	9,772,688	9,769,588	9,757,994	7,891,863	-
Total Moral Obligation Debt Service	81,218,038	69,720,544	88,258,611	92,872,491	112,888,488	111,602,542
Lease Debt Service						
#Leases	39,780,000	43,286,000	50,826,000	41,409,000	53,867,501	47,049,081
Total Lease debt service	39,780,000	43,286,000	50,826,000	41,409,000	53,867,501	47,049,081
Net Tax Supported Debt Service	184,626,159	186,033,339	212,111,875	207,298,555	237,575,295	231,161,496
General revenue fund (expressed in thousands)	3,752,722	3,928,288	3,901,552	3,758,372	4,063,786	4,103,305
Debt service as a percentage of general revenue fund	4.92%	4.74%	5.44%	5.52%	5.85%	5.63%
Revenue (expressed in thousands and as defined in the rule)	4,902,709	5,115,439	4,980,808	4,796,521	5,148,666	5,192,170
Debt as a percentage of revenue (as defined in the rule)	3.77%	3.64%	4.26%	4.32%	4.61%	4.45%

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

- Lease debt service for FY2012 was actually $80,061,229; however, $33,012,148 reflects refinancing of various lease obligations. The actual debt service burden is reflected in the table.

6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023
FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
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	23,199,600
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	22,753,446
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	45,953,046
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	18,540,520
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	9,996,963
19,238,324	19,012,939	18,784,515	18,652,970	17,466,531	17,462,509	17,457,183	17,465,771	17,456,396	17,461,508	17,452,152
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
23,308,645	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	-
19,165,511	19,071,410	2,575,950	2,575,950	2,578,550	2,578,550	2,579,050	2,575,800	2,578,800	2,577,050	2,575,550
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	9,798,494
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
-	-	-	-	-	-	-	-	-	-	-
113,322,767	112,986,534	96,250,307	96,177,398	94,987,937	94,966,180	94,940,709	94,944,694	79,473,515	73,410,331	71,382,298
47,000,000	50,000,000	53,000,000	54,000,000	54,000,000	54,000,000	51,000,000	50,000,000	49,000,000	48,000,000	47,000,000
47,000,000	50,000,000	53,000,000	54,000,000	54,000,000	54,000,000	51,000,000	50,000,000	49,000,000	48,000,000	47,000,000
221,480,997	222,512,709	208,788,445	209,712,482	195,045,909	195,032,283	191,902,137	190,905,407	174,423,428	167,385,050	164,335,344
4,149,751	4,167,751	4,304,301	4,408,271	4,621,200	4,754,250	4,920,650	5,092,900	5,271,100	5,455,600	5,646,600
5.34%	5.34%	4.85%	4.76%	4.22%	4.10%	3.90%	3.75%	3.31%	3.07%	2.91%
5,154,811	5,206,914	5,337,363	5,442,026	5,658,462	5,794,155	5,963,255	6,138,205	6,319,105	6,506,305	6,700,005
4.30%	4.27%	3.91%	3.85%	3.45%	3.37%	3.22%	3.11%	2.76%	2.57%	2.45%

General Obligation Bonds

Safe Roads Amendment of 1996
Principal outstanding: $270,595,000
No remaining authorization for "new money" debt

Infrastructure Improvement Amendment of 1994
Principal outstanding (cash basis): $198,082,386
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, 2012 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 the debt service burden on the road fund which peaked during fiscal year 2009. The debt service burden is expected to fall to 3.25% within the next 5 years.

Table 6 – Debt Service Burden, State Road Fund

Fiscal Year	Debt Service	Road Fund Revenue	Debt Service as % of Road Fund
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	665,602,000	7.48%
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%
2023	23,199,600	730,700,000	3.17%

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 $24 million 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, 2012
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 7 – Debt Service Burden, Lottery Fund

Fiscal Year	Debt Service	Lottery Fund Revenue	Debt Service as % of Lottery Fund
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	90,014,122	302,504,000	29.76%
2014	89,677,952	300,704,000	29.82%
2015	72,937,537	298,704,000	24.42%
2016	72,754,128	298,705,000	24.36%
2017	71,566,417	298,705,000	23.96%
2018	71,541,410	298,705,000	23.95%
2019	71,520,189	298,705,000	23.94%
2020	71,511,674	298,705,000	23.94%
2021	71,485,745	298,705,000	23.93%
2022	71,420,111	298,705,000	23.91%
2023	71,382,298	298,705,000	23.90%

Revenue Bonds

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

Principal outstanding: $158,160,000

No remaining authorization for "new money" debt

Lottery Revenue Bonds – Economic Development Authority

Principal outstanding (net): $309,439,000

Remaining authorization is dependent upon legislation and available revenues

Lottery Revenue Bonds – Higher Education Policy Commission

Principal outstanding (net): $294,435,000

Remaining authorization is dependent upon legislation and available revenues

Lottery Revenue Bonds – School Building Authority

Principal outstanding (net): $286,537,049

Remaining authorization is dependent upon legislation and available revenues

Lease Obligations

Various Lease Obligations

Principal outstanding: $346,986,152
Remaining authorization is dependent upon legislation and available revenues

Top 10 Agencies with Leases Outstanding (dollar value outstanding) as of June 30, 2012

1. *Secretary of Administration: $170.2 million*
2. *State Building Commission: $43.9 million*
3. *Department of Health & Human Resources: $26.5 million*
4. *Department of Environmental Protection: $22.9 million*
5. *Travel Management: $18.9 million*
6. *WVU: $15.2 million*
7. *IS&C: $10.3 million*
8. *WVU-Tech: $8.8 million*
9. *Veterans Affairs: $8.6 million*
10. *Marshall University: $5.3 million*

Components of net tax supported debt as of June 30, 2012 Lease obligations

Approximately $21 million of new leases were entered into during fiscal year 2012 (excludes refinancings). This is up more than 133% from fiscal year 2011 which had a volume of only $9.1 million. Fiscal year 2012 was also a high volume year for lease refinancings. More than $240 million in leases were refinanced to provide an interest cost savings to the state. The total amount of leases outstanding in this report ($347 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, 2012 Debt Service Reserve & Other Funds

Table 8 (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 8 - Escrow/Sinking Funds/ Debt Service Reserve Accounts as of June 30, 2012

Issue	Type of Account	Value at June 30, 2012
Economic Development Authority Lottery Revenue	Reserve	$23,501,000
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	$21,682,952

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 estimate the ratios as of June 30, 2012 are as follows:

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

5.63%

Net Tax Supported Debt Service as a % of Revenues

4.45%

Net Tax Supported Debt as a % of Personal Income

2.89%

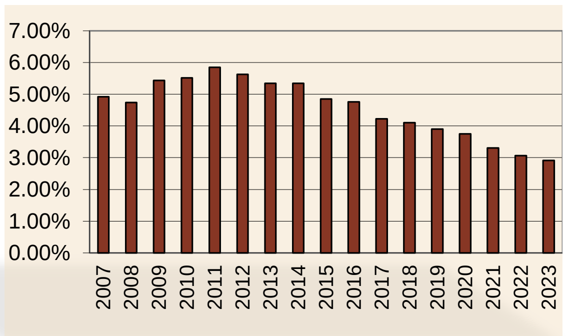
Net Tax Supported Debt Per Capita

$990

Net Tax Supported Debt as a % of Assessed Value

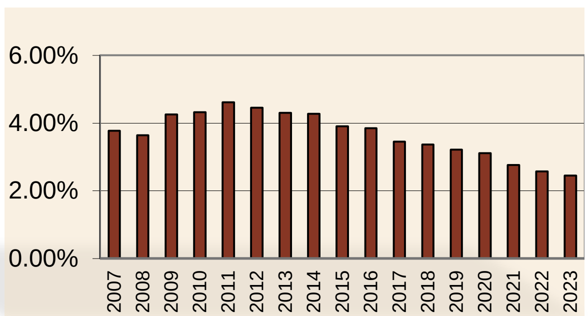
2.25%

Historically, all of these ratios reached their peak at the end of fiscal year 2011 and will decline in the coming years. This is, of course, dependent on future issuance of debt. The future projections do not include the issuance of any additional GO or Revenue bond debt and only modest increases in lease obligations outstanding for fiscal years 2013 to 2018. The following charts show the historical and future projections of these ratios.



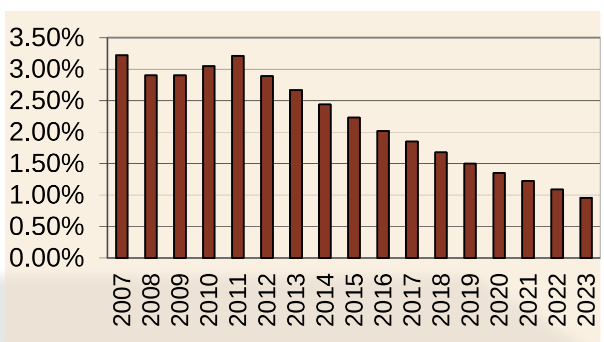
Net Tax Supported Debt Service as a Percentage of the General Revenue Fund

Current Percentage: 5.63%



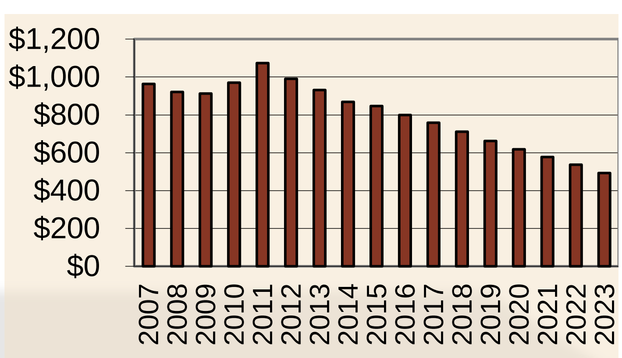
Net Tax Supported Debt Service as a Percentage of Revenues

Current Percentage: 4.45%



Net Tax Supported Debt as a Percentage of Personal Income

Current Percentage: 2.89%



Net Tax Supported Debt Per Capita

Current Level: $990

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. Other states use a combination of ratios with various parameters. The following list was compiled by the Virginia State Treasurer's Office in 2010 and shows how different states utilize debt ratios in managing their outstanding debt:

Triple AAA States

Delaware:

(GO Bonds limited to 20 year term by statute)

Three part statutory debt affordability limit:

- New tax-supported debt authorizations in any one fiscal year cannot exceed 5% of estimated net budgetary general fund revenue for that fiscal year;
- No new tax-supported debt and no transportation authority debt can be issued if the aggregate maximum annual debt service (MADS) on outstanding debt exceeds 15% of estimated budgetary general fund revenues;
- No new state GO debt can be issued if, in any fiscal year, the MADS on GO debt outstanding exceeds the estimated cash balances, including all reserves, for the fiscal year subsequent to the fiscal year in which the debt is issued.

Georgia:

(Annual debt management plan; 5 year horizon. Constitution limits GO debt to 25 years, for practical purposes debt is issued from 5 to 20 years depending on useful life of projects)

Use three ratios to measure debt burden:

- Debt as a percent of personal income: without Garvees 3.5% with Garvees 4.0%;
- Debt service as a percent of prior year revenues: without Garvees 7.0% with Garvees 8.0%;
- Debt per capita: without Garvees $1,200 with Garvees $1,500.

Ratios are applied to projected revenues and debt outstanding as well as authorized and unissued debt using projected debt issuance schedules.

Iowa:

(No debt affordability report/study. Not authorized to issue general obligation bonds)

Maryland: (Annual capital debt affordability recommendation by the Capital Debt Affordability Committee; 10 year horizon. GO Bonds limited to a 15 year term by Constitution)

Uses two affordability measures (Tax-supported debt includes transportation and Garvee bonds):

- State tax-supported debt outstanding should be no more than 4% of State personal income;
- Debt service on that debt should require no more than 8.0% of revenues.

Missouri:

(No debt affordability report/study)

Constitutionally prohibited from issuing GO bonds without voter approval except for refunding bonds and emergency issues up to $1 million. Revenue bonds and annual appropriation bonds are important component of capital financing strategy.

North Carolina:

(Annual report by the Debt Affordability Advisory Committee with capacity recommendations; 10 year horizon) (By policy GO debt limited to 20 years, Transportation to 25 years and appropriation supported to 25 years)

Uses three debt capacity guidelines:

General Fund Debt Capacity Recommendations:

- Net Tax-Supported Debt service as a percentage of General Tax Revenues should be targeted at no more than 4% and not exceed 4.75%;
- Net Tax-Supported Debt as a percentage of Personal Income should be targeted at no more than 2.5% and not exceed 3.0%;
- The amount of debt to be retired over the next ten years should be targeted at no less than 55% and not decline below 50%.

Transportation Debt Capacity Recommendations:

- Transportation-related debt service as a percentage of state transportation revenues should not exceed 6%.

Utah:

(No debt affordability report/study)

Two limits on debt:

- Constitutional debt limit: total general obligation indebtedness limited to 1.5% of the value of the total taxable property of the state;

- Statutory debt limit: maximum general obligation borrowing limited to no more than 45% of the maximum allowable state budget appropriations limit set in a specific statutory reference (a formula that reflects changes in population and inflation). Some highway bonds are exempt from this limitation.

Other States

Minnesota Aa1/AAA/AAA (Constitution limits GO bond term to 20 years)

(Minnesota Commissioner of Management and Budget to prepare an annual debt capacity report)

Capital Investment Guidelines adopted by Minnesota Management and Budget:

- Total tax-supported principal outstanding shall be 3.25% or less of total state personal income;

- Total amount of principal (both issued, and authorized but unissued) for state general obligations, state moral obligations, equipment capital leases, and real estate capital leases are not to exceed 6% of state personal income;

Minnesota (continued)

- 40% of general obligation debt shall be due within five years and 70% within ten years, if consistent with the useful life of the financed assets and/or market conditions.

New Mexico Aaa/AA+ (Statute requires final maturity of bonds 10 years)

(Annual Debt Affordability Study prepared by the Department of Finance and Administration and the State Board of Finance)

Key ratios examined are:

- Net Tax-supported debt to personal income
- Net Tax-supported debt per capita

Texas Aaa/AA+/AAA

(Annual Debt Affordability Study by Texas Bond Review Board; 5 year horizon. By policy of the Texas Bond Review Board, "Debt will be structured for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users within applicable federal tax law".)

Five ratios used to assess the impact on general revenue of the state's annual debt service requirement and projected levels of not self-supporting debt:

- Not self-supporting debt as a percentage of unrestricted general revenue 2% target, 3% cap;
- Not self-supporting debt as a percentage of budgeted general revenues;
- Not self-supporting debt as a percentage of personal income;
- Not self-supporting debt per capita;
- Rate of debt retirement.

Each year, Moody's Investors Service produces a report in which they rank states according to various debt ratios. The "2012 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 2012 was $1,408. The average debt as a percentage of personal income was 3.4%

Table 9 – Various Statistics from Moody's Publication, "2012 State Debt Medians"

Ratio	Average	Highest	Lowest	West Virginia Ranking*
NTSD per capita	$1,408	$5,096 Connecticut	$15 Nebraska	$1,168 #22
NTSD as a % of Personal Income	3.4%	9.6% Hawaii	0.0% Nebraska	3.6% #19
Total NTSD	$10,189,999	$96.4 billion California	$27.3 million Nebraska	$2.2 billion #36

** As reported by Moody's in May 2012. 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 4 and 5, pages 8 through 11.*

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

Recommended Caps:
At June 30, 2012 the net tax supported debt service as a percentage of the General Revenue Fund was 5.63% 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:

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%

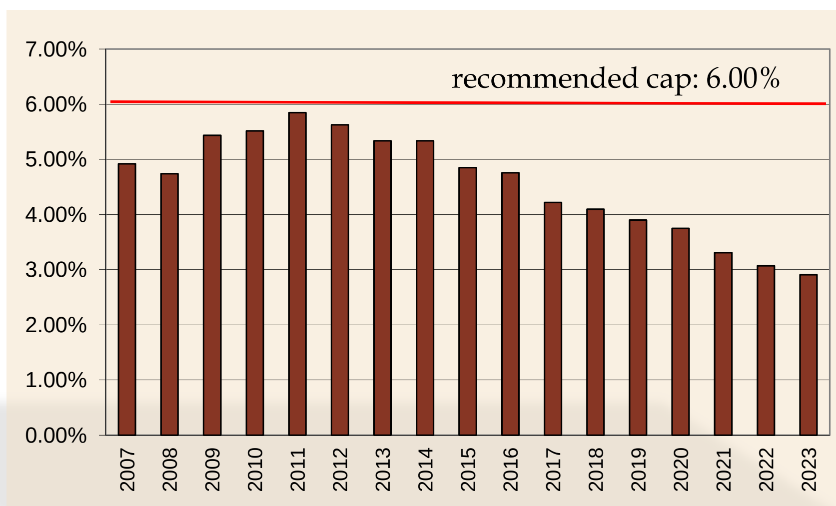
2011
Recommended cap: 6.00%
Actual Ratio: 5.85%

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.

This year's recommended cap remains at 6.00%; however, it comes with several warnings. The projected growth of the state's General Revenue Fund from fiscal year 2013 to 2014 has been reduced to 0.4%. This projection comes in light of a slower than expected national economic recovery and the fact that severance tax collections from the coal industry and business and occupation tax receipts from electric power generators will continue to decrease (MARK MUCHOW, ET AL., 2013 WEST VIRGINIA ECONOMIC OUTLOOK, WEST VIRGINIA FISCAL CONCERNS, 21, JOSE V. SARTARELLI, PH. D., ET AL., 2012). Also, as state agencies enter fiscal year 2013, they are faced with a general revenue budget reduction of 7.5% to combat rising Medicaid costs.

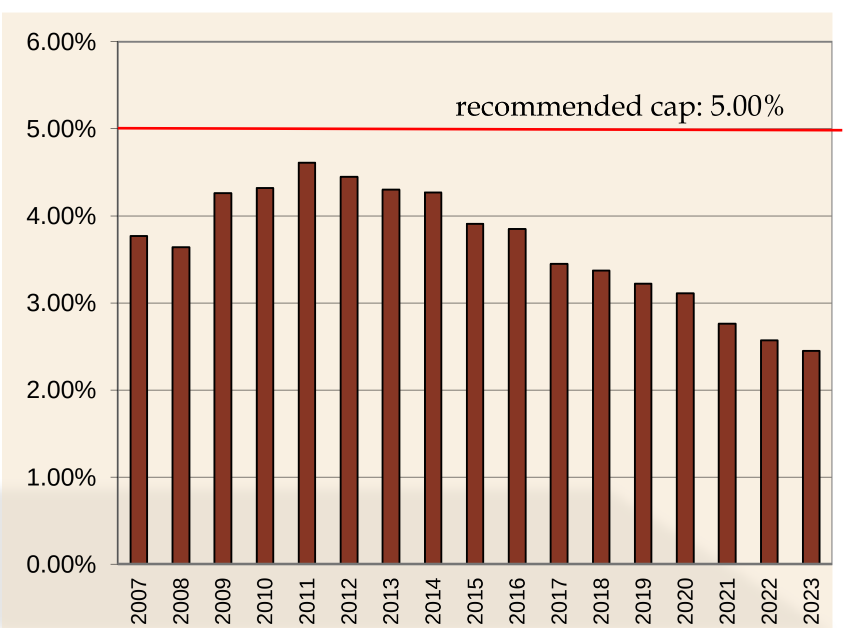
Keeping the potential debt service burden on the state's General Revenue Fund below 6.00% is prudent fiscal management, especially in the face of uncertain economic conditions.



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 table five, pages 10 and 11, and also in Appendix B.

The recommended level for this year's report remains at 5.00%. This cap also comes with several warnings. The amount of bonds backed by a pledge of lottery revenue increased dramatically between fiscal years 2010 and 2011 (approximately 43% based on gross figures). The debt service on these existing obligations is expected to peak at $90 million during fiscal year 2013 and to level out to approximately $72 million for fiscal years 2015 through 2020. This continued debt service burden on lottery revenues comes at a time when West Virginia is faced with growing interstate lottery gaming competition. The bright spot is the fact that the bonds supported by lottery funds have a relatively fast amortization, with more than 32% maturing within the next 10 years and more than 71% maturing in the next 15 years.



Net Tax Supported Debt Service as a Percentage of Revenues

Recommended Caps:
At June 30, 2012 the net tax supported debt service as a percentage of Revenues was 4.45% 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:

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%

2011
Recommended cap: 5.00%
Actual Ratio: 4.61%

Net Tax Supported Debt as a Percentage of Personal Income

Recommended Caps:
At June 30, 2012 the net tax supported debt as a percentage of Personal Income was 2.89% which is below 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:

2007
Recommended cap: 3.00%
Actual Ratio: 3.22%

2008
Recommended cap: 3.00%
Actual Ratio: 2.90%

2009 (personal income figures revised)
Recommended cap: 3.00%
Actual Ratio: 2.90%

2010 (personal income figures revised)
Recommended cap: 3.10%
Actual Ratio: 3.05%

2011 (personal income figures revised)
Recommended cap: 3.10%
Actual Ratio: 3.21%

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 2012, West Virginia's per capita personal income is approximately 20% lower than the national average (West Virginia is approximately $33,513, United States is approximately $41,560). According to a projection given at the conference, West Virginia's per capita personal income is expected to grow at an annual rate of only 2.2% over the next five years.

According to Moody's "2011 State Debt Medians Report," the average of this particular ratio is 3.4% with the median being 2.8%. Comparing states that have a similar Moody's rating to that of West Virginia (Aa1), 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. It was raised slightly in 2010 due to an increase in the national average. Although the current national average is at 3.4%, it is not recommended that the cap be raised this year. Until West Virginia is able to see a greater increase in its personal income and begins to close the gap with the national average, careful attention should be paid to this important economic indicator.

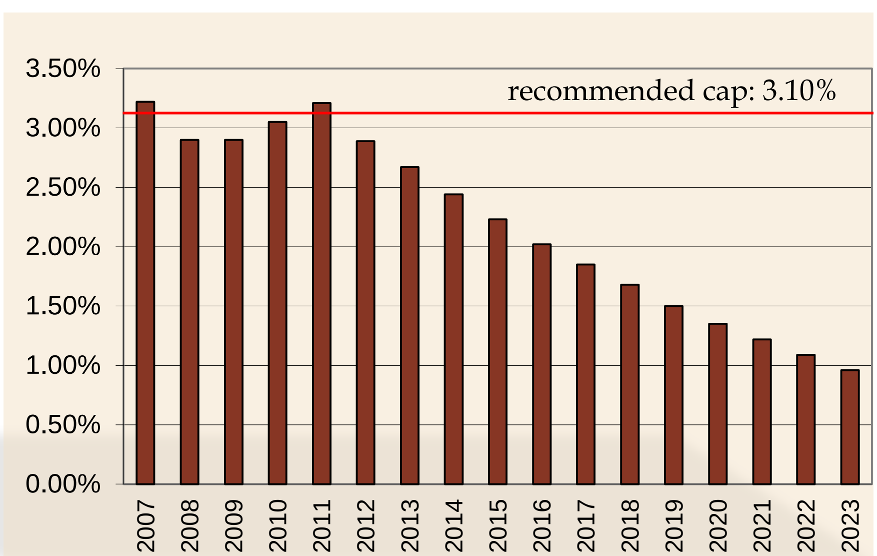
The recommended cap for this ratio remains at 3.1%. According to calculations from table four, pages 8 and 9, West Virginia was below the recommended cap at June 30, 2012 (2.89%).

Table 10 - Debt as a Percentage of Personal Income (similarly rated states) as Presented in 2012 State Debt Medians Report by Moody's Investors Service

State	Debt as a % of Personal Income*
North Dakota	0.6%
Montana	1.0%
Arkansas	1.0%
Colorado	1.3%
Idaho	1.7%
New Hampshire	1.8%
Alabama	2.5%
Minnesota	2.7%
Pennsylvania	2.8%
Ohio	2.8%
Florida	3.0%
Kansas	3.1%
West Virginia	3.6%
Oregon	5.5%
Washington	6.0%
Massachusetts	9.4%

** As reported by Moody's in May 2012. 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 4 and 5, pages 8 through 11.*

West Virginia Debt as a percentage of personal income Fiscal Years 2007-2012, 2013-2023(projected)



Net Tax Supported Debt Per Capita

Recommended Caps:
At June 30, 2012 the net tax supported debt per capita was $990 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:

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

2011
Recommended cap: $1,100
Actual Ratio: $1,074

Net Tax Supported Debt Per Capita

The national average for this particular ratio has risen from $810 in 2002 to $1,408 in 2012. That is approximately 74% in 10 years. West Virginia's net tax supported debt per capita has risen approximately 21% in that same time frame, $817 in 2002 to $990 in 2012 (as calculated by the West Virginia State Treasurer's Office).

Although West Virginia's debt per capita has risen less than one-third the national average over the last 10 years, the population has only risen 2.6% during that same period. West Virginia's population in 2002 was estimated at 1,802,000 and in 2012 at 1,859,864. According to the, "2013 West Virginia Economic Outlook," produced by the WVU Bureau of Business and Economic Research, West Virginia is likely to experience population growth over the next five years. According to the report, the increase is expected to come from net migration, "Net migration is forecast to accelerate from a little over 2,300 people in 2011 to more than 6,000 annually by 2017." (ERIC BOWEN, ET AL., 2013 WEST VIRGINIA ECONOMIC OUTLOOK, *WEST VIRGINIA OUTLOOK*, 17, JOSE V. SARTARELLI, PH. D., ET AL, 2012)

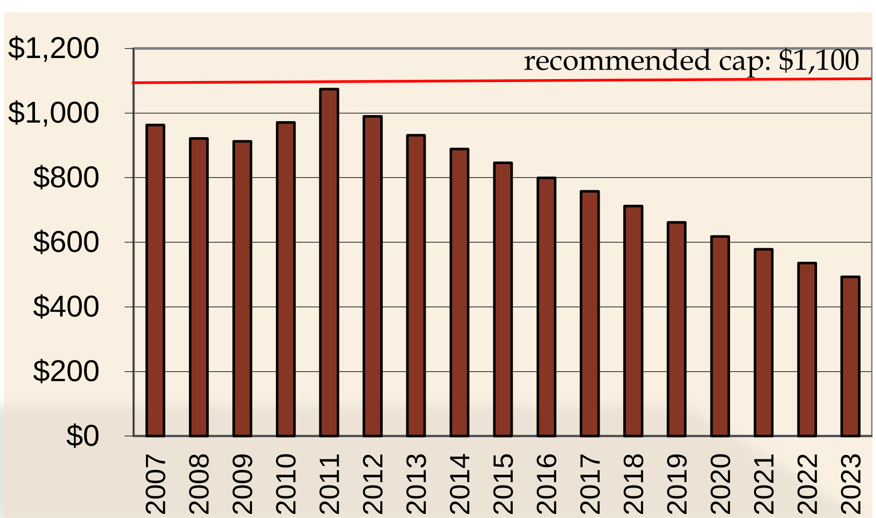
The recommended cap of net tax supported debt per capita remains at $1,100 as of June 30, 2012. This is well below the national average of $1,408. According to Moody's, the net tax supported debt per capita for West Virginia was $1,168 which was the fifth highest ratio among other states with a Moody's rating of Aa1 (See page 27). This figure is different than the figure calculated by the West Virginia State Treasurer's Office (see note on page 27).

Table 11 - Debt Per Capita (similarly rated states) as Presented in 2012 State Debt Medians Report by Moody's Investors Service

State	Debt Per Capita*
North Dakota	$255
Arkansas	$333
Montana	$348
Colorado	$529
Idaho	$558
New Hampshire	$776
Alabama	$839
Ohio	$1,012
Pennsylvania	$1,134
Minnesota	$1,148
Florida	$1,167
West Virginia	$1,168
Kansas	$1,215
Oregon	$2,015
Washington	$2,588
Massachusetts	$4,814

** As reported by Moody's in May 2012. 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 4 and 5, pages 8 through 11.*

West Virginia Debt Per Capita Fiscal Years 2007-2012, 2013-2023(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, 2012, the ratio was 2.25%.

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 3.35%. The state with the highest ratio was Massachusetts at 8.37% 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 United States suffered one of its deepest economic recessions in 2008 & 2009. Before and during the recession, West Virginia was able to not only maintain a balanced budget but also to post surplus balances because of severance tax revenues, lottery revenues and fiscal prudence. It has been mentioned throughout this report that forecasts show a weakening in the state's severance tax collections and a pinch on lottery revenues; this leaves fiscal prudence.

The recommendations made in this report are meant to help the state maintain a "moderate-to-low" debt burden. This burden does not take into account the state's "soft" debts such as pension liabilities or other post-employment benefits, but it does consider those debts for which the state's citizens and its lawmakers have authorized the issuance of bonds and committed future financial resources to pay our debtors. Therefore, it is important to maintain fiscal prudence.

West Virginia is below the recommended caps on almost all of the ratios examined in this report. This does allow the state some flexibility when examining the feasibility of future debt issuances; however, each ratio should be carefully considered in the light of current national economic trends. If the United States is unable to reach a workable resolution to issues concerning taxes and spending, it is possible that another economic recession could derail the fragile recovery. This would, in turn, add to the stress of West Virginia's economic condition.

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%

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.

This page is intentionally blank

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.

Appendix B

Revenue Information

This page is intentionally blank

Revenue & Revenue Projections
(thousands)

Year	General Revenue	Road Fund	Lottery**	Severance	Total
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	4,103,305	665,602	399,263	24,000	5,192,170
*2013	4,149,751	678,556	302,504	24,000	5,154,811
*2014	4,167,751	714,459	300,704	24,000	5,206,914
*2015	4,304,301	710,358	298,704	24,000	5,337,363
*2016	4,408,271	711,050	298,705	24,000	5,442,026
*2017	4,621,200	714,557	298,705	24,000	5,658,462
*2018	4,754,250	717,200	298,705	24,000	5,794,155
*2019	4,920,650	719,900	298,705	24,000	5,963,255
*2020	5,092,900	722,600	298,705	24,000	6,138,205
*2021	5,271,100	725,300	298,705	24,000	6,319,105
*2022	5,455,600	728,000	298,705	24,000	6,506,305
*2023	5,646,600	730,700	298,705	24,000	6,700,005
*2024	5,844,200	733,400	298,705	24,000	6,900,305

Note: Revenue information provided by the West Virginia Budget Office

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

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