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

2007

DEBT CAPACITY REPORT

Table of Contents

Tables contained in the report

Charts contained in the report

Introduction

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

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

West Virginia must continue to strive for economic development through updating its infrastructure and education systems which will help the state remain competitive for attracting jobs. As these improvements are made then other byproducts naturally occur, such as a positive population trend and a shift toward attracting and keeping young people in West Virginia. Through careful management of the state's resources and its ability and capacity to issue debt, West Virginia can and should expect to see economic growth. It is the goal of this report to be a tool in the state's growth.

Other Post-Employment Benefits (OPEBs)

Over the course of the last eight years, the Debt Capacity Report has addressed debt management and capacity issues such as pension obligation bonds, funding for jails and prisons, debt capacity guidelines, quality of debt vs. quantity of debt and many other topics which impact West Virginia's credit rating. Today, the debt management topic which seems to be at the forefront with every state and local government in the United States is the topic of funding "Other Post-Employment Benefits" (OPEBs).

The OPEB dilemma

OPEBs have received a lot of "ink" over the past year. So, before looking at the situation, it is good to know the definition of an OPEB. OPEBs are defined as benefits other than pensions and termination incentives provided to former employees. Examples include medical, dental and vision coverage, life insurance and long-term care.

Some examples of headlines which have appeared in "The Bond Buyer" during December 2006 include:

> *OPEB Trust Fund on Tap* – This story discussed the possibility that Alabama may establish a trust fund to help pay for nearly $20 billion in unfunded liabilities for OPEBs. (Sigo, Shelly. "OPEB Trust Fund on Tap." The Bond Buyer, 12/21/2006).

> *Panel: Bonds Shouldn't Be First Resort in Addressing OPEBs* – A four member panel speaking at the Bond Buyer's 4th Annual Metro Finance Conference said that bonds should not be the first answer for state and local governments when addressing long-term retiree health care liabilities. Mr. Bob Doherty, a managing director at UBS securities LLC, said, "I rarely say this as an investment banker, but bonds should not be the first thing on folks' minds." According to Don Boyd, a senior fellow in the fiscal studies program at The Nelson A. Rockefeller Institute of Government, being forced to consider the increasing costs of employee benefits is good for governments around the country. Boyd said, "State and local governments are pathologically short-term thinkers and short-term planners, and this is going to improve long-term thinking." (Hanson, Matthew. "Panel: Bonds Shouldn't Be First Resort in Addressing OPEBs." The Bond Buyer, 12/12/2006).

The dilemma is not the fact that OPEBs are new to state and local governments. Healthcare beyond retirement is a common benefit that many government employees have received for their years of public service. However, the rapidly rising cost of healthcare and the fact that the Baby Boomers, those born between 1946 and 1964, are getting older and living longer has begun to put a strain on state and local budgets for these retirement benefits. West Virginia is especially unique in this category as it ranks the third "oldest" in the nation with more than 15.3% of its population over the age of 65. With the Baby Boomers ranging in age from 42 to 60, it's easy to see how OPEBs can quickly put a strain on government funds. Disclosure will enable our leaders and our citizens to determine how best to fund these liabilities.

What is the state's OPEB liability?

The Governmental Accounting Standards Board (GASB) Statement 45 requires that state and local governments must now disclose the projected amount of their OPEB liability. This new reporting requirement will be implemented in West Virginia for the period ending Fiscal Year 2007. According to a report in the "The Bond Buyer," preliminary figures indicate that West Virginia's OPEB liability is approximately $8 billion.

There are several methods of managing OPEB liabilities, such as raising premiums, lowering benefits, increasing the state's influx of "pay-as-you-go" funding, or issuing bonds to pay for the liability. According to Lester Lennon, Managing Director for Stone & Youngberg, issuing bonds has advantages and disadvantages. Some of the advantages include the following:

> OPEB Bonds are a relatively quick way to fund up an OPEB liability;
>
> Reduces required current OPEB contributions; and
>
> Potential savings if proceeds of bonds are invested at a higher rate than the interest cost of the OPEB Bonds.

Of course, there are risks with OPEB Bonds. According to Lennon, these risks could include:

> Poor performance of OPEB investment could eliminate savings and increase government contribution costs above the level required without Bonds;
>
> Use of bonding imposes an absolute obligation to pay debt service, reducing a government's flexibility to cope with its unfunded liability through alternative measures;
>
> The issuance of OPEB Bonds, without a comprehensive government plan to address long term OPEB issues, will only "band-aid" the problem;

OPEB financings may create the false expectation that the issuer has fulfilled its OPEB obligations, especially given the unpredictability of future health care costs; and

OPEB bonding can use up valuable debt capacity.

The actuarial liabilities of the state's pension funds and OPEBs are two important issues that face West Virginia and its leaders. For example, the West Virginia Legislature has appropriated surplus funds to various of the pension systems and has continued to fund above and beyond the required annual contribution to help "shore up" the Teachers Retirement Fund. It is anticipated that the extra contributions could level off the remaining 27 payments for the Teachers Retirement System to approximately $350 million annually, instead of having the payments balloon to more than $700 million.

Along with directing surplus funds toward the state's pension funds, West Virginia leaders have also taken the first steps toward addressing the question of OPEBs. The West Virginia Retiree Health Benefit Trust Fund was created in 2006 to provide for the funding and administering of retiree post-employment health care benefits for multiple employers. The West Virginia Public Employees Insurance Agency Finance Board is responsible for the Fund, and is required to adopt actuarial assumptions and determine required employer contribution rates. The West Virginia Investment Management Board invests the Trust Fund. The Public Employees Insurance Agency bills each employer for the employer annual required contribution and the included minimum annual employer premium payment. Any required contribution not satisfied by an employer remains the liability of that employer until fully paid. The establishment of this Trust Fund, the direction of surplus funds to long-term liabilities, and the constant and continued monitoring of the state's assets and liabilities demonstrate that West Virginia leaders are serious about fiscal prudence and the future of West Virginia and its citizens.

Debt Capacity

As stated above, it is the goal of this report to be a financial tool for the leaders of the state as they craft a comprehensive financial plan for the state and its success. The legislative purpose of this report is stated clearly in West Virginia Code §12-6B-1, which is as follows:

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

<u>Purpose I. Determine the amount of net tax supported debt outstanding</u>

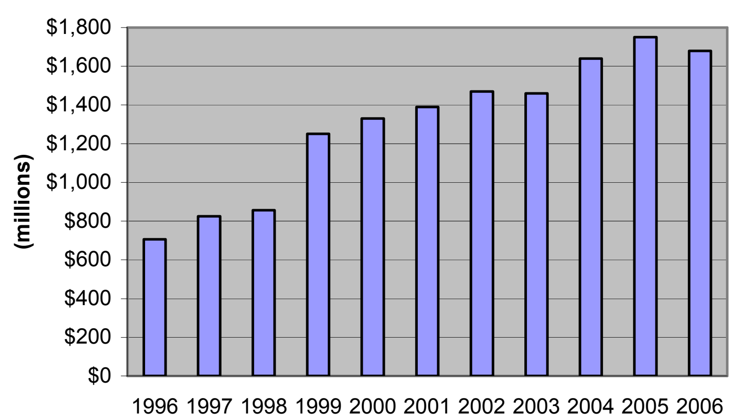
The West Virginia State Treasurer's Office Division of Debt Management has been tracking West Virginia's net tax supported debt for more than 10 years. The calculation of net tax supported debt includes General Obligation Bonds, Revenue Bonds of the School Building Authority which rely on an appropriation from the General Revenue Fund for debt service, Lottery Revenue Bonds and lease obligations of various state agencies.

The following table and chart show West Virginia's net tax supported debt for the current and past 10 years:

Table 1
West Virginia Net Tax Supported Debt Outstanding
Fiscal Years 1996-2006

Fiscal Year Ending	Net Tax Supported Debt Outstanding
1996	$706 million
1997	$825 million
1998	$856 million
1999	$1.25 billion
2000	$1.33 billion
2001	$1.39 billion
2002	$1.47 billion
2003	$1.46 billion
2004	$1.64 billion
2005	$1.75 billion
2006	$1.66 billion

Chart 1
West Virginia Net Tax Supported Debt Outstanding
Fiscal Years 1996-2006

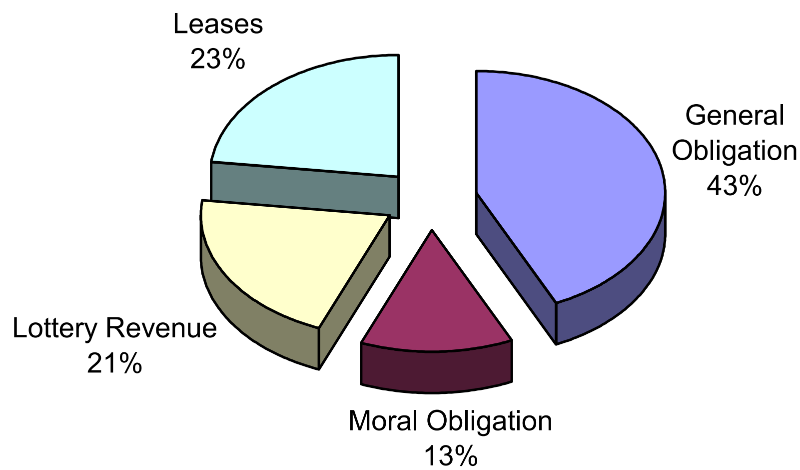


The net tax supported debt of the state at June 30, 2006 is outlined in the following table:

Table 2
West Virginia Net Tax Supported Debt Outstanding
June 30, 2006

Type of Debt		Principal Outstanding June 30, 2006 (rounded to the nearest thousand)	Percentage of debt outstanding
General Obligation Bonds	State Road Bonds Infrastructure Bonds	$ 447,995,000 265,521,000	43%
Moral Obligation Bonds	School Building Authority	218,899,000	13%
Lottery Revenue Bonds	Economic Development Authority School Building Authority State Building Commission	209,850,000 109,860,000 38,835,000	21%
Lease Obligations *		378,621,000	23%
Net Tax Supported Debt		$ 1,669,581,000	

Chart 2
West Virginia Net Tax Supported Debt Outstanding
by Type of Debt
June 30, 2006



Calculations of the net tax supported debt and debt service of the State of West Virginia for fiscal years 2001 through 2017 are contained in Tables 3 and 4 (pages 8-11). Fiscal years 2001 through 2006 are included to show the historical perspective of the actual debt issued and the debt service requirements for these obligations. The current and next ten fiscal years, 2007 through 2017, are included to show expected debt levels as existing obligations mature.

Subsequent to June 30, 2006 the State of West Virginia issued $94.2 million of General Obligation refunding bonds which refunded more than $95 million of General Obligation Infrastructure bonds. The refunding bonds are **included** in the projected debt calculations included in Tables 3 and 4 (pages 8-11).

Also, the state issued approximately $76 million in Special Obligation Notes (GARVEE bonds) subsequent to June 30, 2006. The bonds were issued for projects relating to US Route 35 in Putnam and Mason Counties and will be repaid from pledged revenues from the Federal Highway Administration (FHWA). Some rating agencies include GARVEE bonds as part of the calculation of net tax supported debt and others do not. For purposes of this report, the GARVEE bonds have been **excluded** in the projected debt calculations included in Tables 3 and 4 (pages 8-11); however, we will continue to monitor these obligations to insure that they do not have a direct impact on the net tax supported debt of the state.

Several agencies had revenue bonds outstanding at June 30, 2006 such as the West Virginia Higher Education Policy Commission, various state colleges and universities, the West Virginia Department of Education, the West Virginia Rail Authority and the West Virginia Regional Jail and Correctional Facilities Authority. These bonds are self-supporting from revenues of the projects they financed; therefore, they are **excluded** from the calculation of net tax supported debt.

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

As of the publication of this report, the West Virginia State Treasurer's Office has received only one notification concerning debt to be issued which would impact the net tax supported debt of the state. The West Virginia School Building Authority is working on a refunding issue which is anticipated to go to market during the first quarter of 2007. Since it is a refunding issue, it should have only a positive impact on the numbers presented in this report.

Revenue information included in Tables 3 & 4 was compiled and provided by the State Budget Office and is included in Appendix B.

Table 3. NET TAX SUPPORTED DEBT OUTSTANDING FOR FISCAL YEARS 2001 - 2017

	6/30/2001 FY01	6/30/2002 FY02	6/30/2003 FY03	6/30/2004 FY04	6/30/2005 FY05	6/30/2006 FY06
General Obligation						
Better Highways of 1973	30,620,000	18,660,000	10,815,000	5,090,000	1,480,000	-
Safe Roads of 1996	420,405,000	520,880,000	506,685,000	489,340,000	466,435,000	447,995,000
Better Schools of 1972	8,000,000	4,000,000	2,000,000	-	-	-
Infrastructure of 1994	289,433,910	285,663,910	281,678,910	277,448,910	273,013,910	265,521,492
Total General Obligation	748,458,910	829,203,910	801,178,910	771,878,910	740,928,910	713,516,492
Moral Obligations						
Economic Development Authority - Lottery	-	-	-	249,895,000	236,005,000	228,840,000
School Building Authority	279,820,000	274,645,000	267,470,000	259,010,000	250,160,000	241,920,000
School Building Authority - Lottery	62,445,000	48,155,000	32,970,000	16,940,000	135,805,000	124,015,000
State Building Commission - Lottery	74,985,000	68,915,000	62,545,000	55,855,000	48,830,000	41,455,000
Interagency Investment - $150 Million Regional Jail	143,505,126	-	-	-	-	-
Total Moral Obligations	560,755,126	391,715,000	362,985,000	581,700,000	670,800,000	636,230,000
Leases						
Leases	107,692,000	277,219,000	325,345,749	319,532,942	378,233,000	378,621,000
Total Leases	107,692,000	277,219,000	325,345,749	319,532,942	378,233,000	378,621,000
Deductions for debt service reserve accounts						
Economic Development Authority - Lottery	-	-	-	(18,990,559)	(18,990,000)	(18,990,000)
School Building Authority	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)
School Building Authority - Lottery	-	-	-	-	(14,155,000)	(14,155,000)
State Building Commission	(3,185,612)	(3,268,041)	(3,268,041)	(3,428,041)	(3,428,041)	(2,620,000)
Net Tax Supported Debt Outstanding	1,390,699,623	1,471,849,068	1,463,220,817	1,627,672,451	1,730,368,068	1,669,581,691
Assessed value (in thousands)	49,413,867	51,433,353	53,338,895	54,530,114	58,090,753	63,510,844
Net tax supported debt as a percentage of assessed value	2.81%	2.86%	2.74%	2.98%	2.98%	2.63%
Income (in thousands)	41,902,494	43,269,508	44,381,141	46,749,648	49,445,436	51,600,000
Net tax supported debt as a percentage of personal income	3.32%	3.40%	3.30%	3.48%	3.50%	3.24%
Population	1,809,000	1,812,800	1,813,000	1,814,600	1,816,856	1,819,306
Net tax supported debt per capita	768.77	811.92	807.07	896.99	952.40	917.70

Income and Assessed value information and projections provided by the WV Budget Office

6/30/2007 FY07	6/30/2008 FY08	6/30/2009 FY09	6/30/2010 FY10	6/30/2011 FY11	6/30/2012 FY12	6/30/2013 FY13	6/30/2014 FY14	6/30/2015 FY15	6/30/2016 FY16	6/30/2017 FY17
-	-	-	-	-	-	-	-	-	-	-
429,845,000	401,190,000	371,105,000	339,515,000	306,350,000	271,485,000	246,255,000	221,415,000	195,325,000	167,930,000	152,630,000
-	-	-	-	-	-	-	-	-	-	-
295,864,156	285,121,320	243,149,607	232,225,041	221,163,971	209,902,386	198,509,731	186,875,493	174,938,538	162,644,132	139,225,959
725,709,156	686,311,320	614,254,607	571,740,041	527,513,971	481,387,386	444,764,731	408,290,493	370,263,538	330,574,132	291,855,959
221,565,000	214,125,000	206,480,000	198,590,000	190,415,000	181,920,000	173,070,000	163,830,000	154,170,000	144,065,000	133,415,000
231,475,000	220,410,000	208,670,000	196,265,000	183,250,000	169,590,000	155,260,000	140,200,000	124,375,000	107,720,000	90,080,000
111,700,000	99,040,000	85,650,000	71,715,000	57,130,000	41,790,000	25,615,000	8,670,000	-	-	-
33,675,000	25,465,000	16,805,000	7,690,000	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
598,415,000	559,040,000	517,605,000	474,260,000	430,795,000	393,300,000	353,945,000	312,700,000	278,545,000	251,785,000	223,495,000
379,000,000	379,000,000	380,000,000	380,000,000	380,000,000	380,000,000	380,000,000	380,000,000	380,000,000	380,000,000	380,000,000
379,000,000	379,000,000	380,000,000	380,000,000	380,000,000	380,000,000	380,000,000	380,000,000	380,000,000	380,000,000	380,000,000
(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)	(18,990,000)
(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)	(23,020,801)
(14,155,000)	(14,155,000)	(14,155,000)	(14,155,000)	(14,155,000)	(14,155,000)	(14,155,000)	-	-	-	-
(2,620,000)	(2,620,000)	(2,620,000)	(2,620,000)	-	-	-	-	-	-	-
1,644,338,355	1,565,565,519	1,453,073,806	1,367,214,240	1,282,143,170	1,198,521,585	1,122,543,930	1,058,979,692	986,797,737	920,348,331	853,340,158
66,400,000	69,400,000	72,500,000	75,800,000	79,200,000	82,800,000	86,500,000	90,400,000	94,500,000	98,800,000	103,200,000
2.48%	2.26%	2.00%	1.80%	1.62%	1.45%	1.30%	1.17%	1.04%	0.93%	0.83%
53,900,000	56,300,000	58,800,000	61,400,000	64,100,000	66,900,000	69,800,000	72,900,000	76,100,000	79,400,000	82,900,000
3.05%	2.78%	2.47%	2.23%	2.00%	1.79%	1.61%	1.45%	1.30%	1.16%	1.03%
1,821,756	1,824,206	1,826,656	1,829,141	1,827,866	1,826,591	1,825,316	1,824,041	1,822,758	1,822,758	1,822,758
902.61	858.22	795.48	747.46	701.44	656.15	614.99	580.57	541.38	504.92	468.16

Table 4. NET TAX SUPPORTED DEBT SERVICE FOR FISCAL YEARS 2001 - 2017

	6/30/2001 FY01	6/30/2002 FY02	6/30/2003 FY03	6/30/2004 FY04	6/30/2005 FY05	6/30/2006 FY06
General Obligation Debt Service						
Better Highways of 1973	18,585,856	13,651,806	8,932,506	6,360,225	3,909,038	1,566,950
Safe Roads of 1996	26,274,902	36,341,486	41,063,435	43,638,245	46,086,985	48,430,648
Better Schools of 1972	4,679,000	4,454,000	2,244,000	2,122,000	-	-
Infrastructure of 1994	15,974,951	16,076,399	16,022,923	15,991,970	15,920,030	19,664,363
Total General Obligation Debt Service	65,514,710	70,523,691	68,262,864	68,112,440	65,916,053	69,661,960
Moral Obligation Debt Service						
Economic Development Authority - Lottery	-	-	-	-	24,898,615	18,932,303
School Building Authority	22,667,670	20,573,905	23,345,905	22,644,690	22,642,530	21,561,365
School Building Authority - Lottery	17,592,119	17,551,156	17,572,516	17,539,594	26,499,359	18,028,268
State Building Commission - Lottery	9,837,863	9,847,988	9,836,988	9,830,488	9,822,613	9,794,175
Interagency Investment - $150 Million Regional Jail	13,745,875	10,313,520	-	-	-	-
Total Moral Obligations	63,843,526	58,286,569	50,755,408	50,014,771	83,863,117	68,316,111
Lease Debt Service						
Leases	21,000,000	25,000,000	33,000,000	35,500,000	36,758,000	39,716,000
Total Lease debt service	21,000,000	25,000,000	33,000,000	35,500,000	36,758,000	39,716,000
Net Tax Supported Debt Service	150,358,236	153,810,260	152,018,272	153,627,211	186,537,169	177,694,071
General revenue fund (expressed in thousands)	2,718,379	2,824,117	2,916,961	3,082,941	3,504,830	3,661,402
Debt service as a percentage of general revenue fund	5.53%	5.45%	5.21%	4.98%	5.32%	4.85%
Revenue (expressed in thousands and as defined in the rule)	3,449,625	3,656,432	3,753,890	4,031,310	4,406,785	4,749,070
Debt as a percentage of revenue (as defined in the rule)	4.36%	4.21%	4.05%	3.81%	4.23%	3.74%

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

6/30/2007	6/30/2008	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017
FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
-	-	-	-	-	-	-	-	-	-	-
49,996,888	49,995,733	49,998,580	49,996,764	49,996,264	49,997,983	38,619,853	36,978,446	36,983,727	36,983,064	23,516,375
-	-	-	-	-	-	-	-	-	-	-
23,247,935	23,033,314	23,031,736	23,021,864	23,020,648	23,016,094	23,016,936	23,026,510	23,034,603	23,027,014	23,014,284
73,244,823	73,029,047	73,030,316	73,018,628	73,016,912	73,014,077	61,636,789	60,004,956	60,018,330	60,010,078	46,530,659
18,904,231	18,886,178	18,865,029	18,845,344	18,829,686	18,811,894	18,794,224	18,778,390	18,764,110	18,714,645	18,702,373
23,345,747	23,345,982	23,361,520	23,349,660	23,312,780	23,316,320	23,303,285	23,311,361	23,309,855	23,316,725	23,428,335
18,107,543	17,910,093	18,046,918	17,976,820	17,980,610	18,006,148	18,031,504	17,983,673	8,873,674	-	-
9,782,413	9,772,688	9,769,588	9,757,994	7,891,863	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
70,139,933	69,914,940	70,043,054	69,929,817	68,014,938	60,134,362	60,129,013	60,073,424	50,947,639	42,031,370	42,130,708
39,750,000	39,750,000	39,800,000	39,800,000	39,800,000	39,800,000	39,800,000	39,800,000	39,800,000	39,800,000	39,800,000
39,750,000	39,750,000	39,800,000	39,800,000	39,800,000	39,800,000	39,800,000	39,800,000	39,800,000	39,800,000	39,800,000
183,134,755	182,693,987	182,873,370	182,748,445	180,831,850	172,948,438	161,565,801	159,878,380	150,765,969	141,841,448	128,461,367
3,629,100	3,867,650	3,886,100	4,019,450	4,133,200	4,266,750	4,394,750	4,526,600	4,662,400	4,802,300	4,946,300
5.05%	4.72%	4.71%	4.55%	4.38%	4.05%	3.68%	3.53%	3.23%	2.95%	2.60%
4,625,844	4,820,465	4,788,225	4,925,625	5,046,105	5,206,676	5,323,550	5,466,300	5,612,900	5,763,800	5,918,800
3.96%	3.79%	3.82%	3.71%	3.58%	3.32%	3.03%	2.92%	2.69%	2.46%	2.17%

Net Tax Supported Debt Components

General Obligation Bonds

The General Obligation (GO) debt outstanding at June 30, 2006 was $713.5 million. GO Bonds pledge the full faith and credit of the state and are authorized only by a constitutional amendment approved by 2/3rds of both houses of the Legislature and a majority vote of the public. GO Bonds constitute 43% of the state's net tax supported debt.

Safe Road Amendment of 1996

This amendment authorized bonds to be issued in an amount not to exceed $550 million. As of June 30, 2006, the entire authorized amount had been issued and the net principal outstanding was $447.9 million. The bonds will be completely retired on June 1, 2025.

Table 5 shows the debt service burden on the Road Fund from 2001 through Fiscal Year 2006 and also projects the future debt service burden on the fund. According to these projections, the debt service burden peaked at 9.18% during fiscal year 2003. Revenue projections for the Road Fund assume that the temporary five cent Motor Fuel Excise Tax rate is retained as of August 1, 2007.

Table 5
Historical/Projected Debt Service Burden
State Road Fund

Fiscal Year	Debt Service	Road Fund Revenue	Debt Service as % of Road Fund
2001	44,860,758	535,346,000	8.38%
2002	49,993,292	563,515,000	8.87%
2003	49,995,941	544,729,000	9.18%
2004	49,998,470	570,742,000	8.76%
2005	49,996,023	578,050,000	8.65%
2006	49,997,598	580,904,000	8.61%
2007	49,996,888	599,344,000	8.34%
2008	49,995,733	618,515,000	8.08%
2009	49,998,580	582,825,000	8.58%
2010	49,996,764	582,075,000	8.59%
2011	49,996,264	583,905,000	8.56%
2012	49,997,983	578,526,000	8.64%
2013	38,619,853	584,300,000	6.61%
2014	36,978,446	590,200,000	6.27%
2015	36,983,727	596,000,000	6.21%
2016	36,983,064	602,000,000	6.14%
2017	23,516,375	608,000,000	3.87%

Road Fund revenue projections assume that the temporary five cent Motor Fuel Excise Tax rate is retained as of August 1, 2007

Infrastructure Improvement Amendment of 1994

This amendment authorized bonds in an amount not to exceed $300 million for water supply and sewage treatment systems and economic development sites. The bonds are secured by a dedication of the first $24 million in severance tax collections. The principal outstanding at June 30, 2006 was $265.5 million.

The Infrastructure Council also issued refunding bonds in the amount of $94.1 million which were able to refund more than $95 million of outstanding General Obligation bonds in November 2006. The true interest cost of the new bonds is 4.19% which refunded bonds that had true interest costs ranging from 5.11% to 5.81%. All of the General Obligation Infrastructure bonds issued will be retired on November 1, 2026.

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

Authorized but Unissued General Obligation Bonds

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

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

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

Moral Obligations

Various revenue bonds issued by State of West Virginia entities have a moral commitment of the State attached to them. Moral obligation bonds of the state constitute approximately 34% of the total net tax supported debt. Based on the definitions in the West Virginia Code and the Rules for the Reporting of Debt Capacity (see Appendix A), the debt issues include the School Building Authority Capital Improvement Revenue Bonds secured by appropriations of General Revenue funds and the Lottery Revenue Bonds issued by the Economic Development Authority, the School Building Authority and the State Building Commission.

School Building Authority Capital Improvement Revenue Bonds

The School Building Authority Capital Improvement Revenue Bonds net principal outstanding at June 30, 2006 was $218.9 million. No "new money" bonds may be issued by the Authority utilizing General Revenue appropriations for repayment. As mentioned on page 7, the School Building Authority is currently working on a refunding issue which is anticipated to be sold during the first quarter of 2007.

Lottery Revenue Bonds

The State's Lottery Revenue Bonds outstanding as of June 30, 2006 total $358.5 million (net). This total includes one issue of the Economic Development Authority, one issue of the School Building Authority and one issue of the State Building Commission.

The bonds issued by the Economic Development Authority are secured by an annual pledge of $19 million from the Excess Lottery Fund and, under certain circumstances, from a portion of the moneys on deposit in the State Lottery Fund. The bonds issued by the School Building Authority are secured by a first lien on the net proceeds of the State Lottery Fund and the bonds issued by the State Building Commission are secured by a second in priority lien of the State Lottery Fund.

Leases

As of June 30, 2006, the calculation of leases outstanding for fiscal year 2006 was $378.6 million. Approximately $22.2 million of new leases were incurred during Fiscal Year 2006. The largest issue was a $10.6 million dollar lease revenue issue for various energy saving projects at the state capitol complex. The bonds are secured by a lease agreement between the Economic Development Authority and the Secretary of Administration.

Deductions for Debt Service Reserve Accounts

A debt service reserve fund can be set up initially out of bond proceeds, can be built up over time or can be funded through a credit facility, such as a surety bond. Reserve funds are tapped only if funds are insufficient to meet the debt service payments. These reserve funds are typically set at an amount equal to six months to one year's debt service. The various reserve funds are outlined in Table 6, page 15, along with the revenue source, the principal outstanding at June 30, 2006, and the remaining authorization.

Table 6
Net Tax Supported Debt – Various Statistics
at June 30, 2006

Type of Obligation	Issue	Payable From	Principal Outstanding as of 6/30/06 (thousands)	Reserve Accounts as of 6/30/06 (thousands)	Remaining Authorization as of 6/30/06 (thousands)
General Obligation Bonds	Safe Roads of 1996	Road Fund	$447,995	NA	$0
	Infrastructure Improvement of 1994	Coal Severance Tax/General Revenue	$265,521	NA	$0
Moral Obligation Bonds	School Building Authority	General Revenue Fund	$265,521	$23,021	$0
	Economic Development Authority	Excess Lottery Fund	$228,840	$18,990	$0
	School Building Authority	Lottery Fund	$124,015	$14,155	per Legislation
	State Building Commission	Lottery Fund	$41,455	$2,620	$0
Leases	Various	Various	$378,621	NA	NA

Purpose II. Calculate key ratios that are commonly used to examine debt

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

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

Net Tax Supported Debt Service as a Percentage of Revenues;

Net Tax Supported Debt as a Percentage of Personal Income;

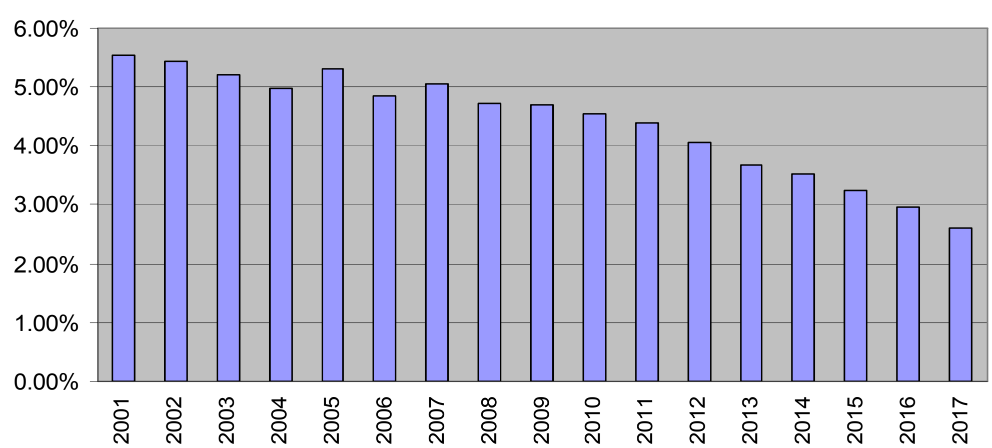
Net Tax Supported Debt Per Capita; and

Net Tax Supported Debt as a Percentage of Assessed Value.

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

This ratio is not required to be examined; however, it is a traditional measurement which provides important information on the debt service burden of the state's General Revenue Fund. At June 30, 2006, the State's General Revenue Fund had a 4.85% potential debt service burden (see Table 4, pages 10-11). Projections for the General Revenue Fund of the state were provided by the Department of Tax and Revenue, Budget Office and are provided in Appendix B.

Chart 3
Net Tax Supported Debt Service as a Percentage of the General Revenue Fund
Fiscal Years 2001-2017



Net Tax Supported Debt Service as a Percentage of Revenues

The definition of revenue includes:

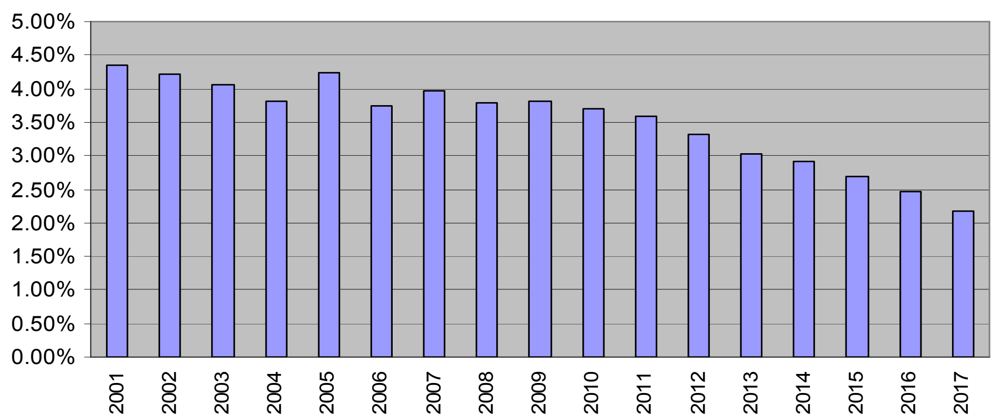
1. Total funds deposited in the general revenue fund;

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

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

At June 30, 2006, the state had a net tax supported debt service burden, as a percentage of revenues of 3.74% (see Table 4, pages 10-11).

Chart 4
Net Tax Supported Debt Service as a Percentage of Revenues
Fiscal Years 2001-2017



Net Tax Supported Debt as a Percentage of Personal Income

The income figures in this year's report were compiled and provided by the West Virginia Department of Revenue and are included in Table 3, pages 8-9.

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

Table 7 attempts to compare those states that share a Moody's ranking of Aa3 as of December 31, 2006. West Virginia, according to Moody's, had a net tax supported debt, as a percentage of personal income, of 4.4%. According to our calculation, West Virginia had a net tax supported debt, as a percentage of personal income, of 3.24% as of June 30, 2006. This does not match the figure calculated by Moody's Investor Services. The difference may be due to the timing of the report and the information that was available at the time of publication.

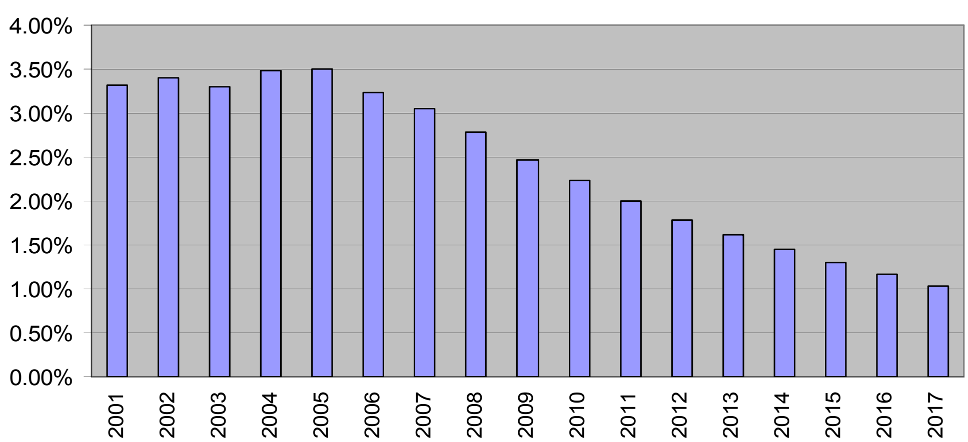
Table 7
Net Tax Supported Debt as a Percentage of Personal Income
Similarly Rated States

State	Moody's Rating	NTSD as a % of Personal Income
Montana	Aa3	1.4%
Oklahoma	Aa3	1.4%
Maine	Aa3	2.0%
Arizona	Aa3	2.2%
Rhode Island	Aa3	4.1%
West Virginia	Aa3	4.4%
Oregon	Aa3	4.5%
Wisconsin	Aa3	4.5%
Michigan	Aa3	4.8%
Illinois	Aa3	5.9%
New York	Aa3	6.7%

Source: "Moody's Investors Services, 2006 State Debt Medians," April 2006

The following chart examines the net tax supported debt as a percentage of personal income for fiscal years 2001 through 2017 based on the data contained in Table 3, pages 8-9:

Chart 5
Net Tax Supported Debt as a Percentage of Personal Income
Fiscal Years 2001-2017



Net Tax Supported Debt per Capita

The State of West Virginia has experienced a positive population trend of the past several years. For the 12 months ending in July, the state saw a gain of more than 4,300 residents. This gain was not from increased births but rather from people moving into the state. In fact, it is estimated that 467 more West Virginians died than were born this past year. According to the U.S. Census Bureau, the State of West Virginia is projected to see a peak in population by 2010 of approximately 1,829,000. The population for 2010 through 2015 is then projected to decline to approximately 1,823,000.

This particular ratio of debt per capita shows the debt service burden on the total population of the state. The debt per capita peaked at $952 in fiscal year 2005. The national average debt per capita has risen from $662 in 1997 to $1,060 in 2006.

Table 8 attempts to compare West Virginia with states that share a similar rating of Aa3 from Moody's. In comparison with this one ratio, West Virginia ranks 5th out of 13 similarly rated states.

Table 8
Net Tax Supported Debt per Capita
Similarly Rated States

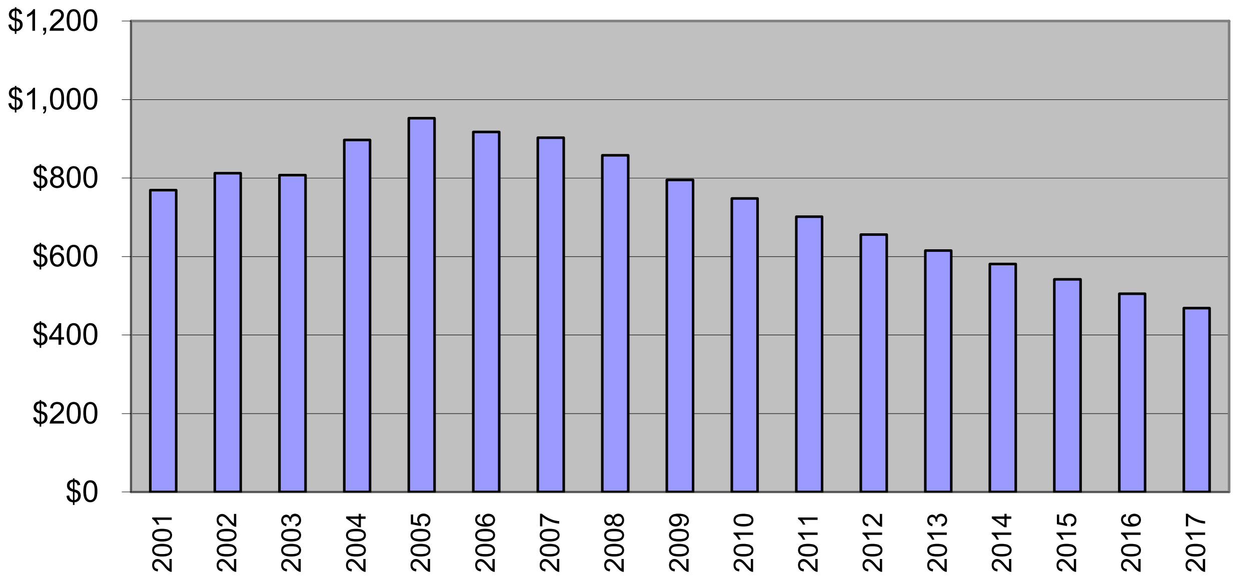
State	Moody's Rating	NTSD per capita
Montana	Aa3	$377
Oklahoma	Aa3	$395
Maine	Aa3	$606
Arizona	Aa3	$607
West Virginia	Aa3	$1,119
Mississippi	Aa3	$1,171
Oregon	Aa3	$1,350
Rhode Island	Aa3	$1,402
Wisconsin	Aa3	$1,437
Illinois	Aa3	$2,901
New York	Aa3	$2,569
New Jersey	Aa3	$3,276
Connecticut	Aa3	$3,624

Source: "Moody's Investors Services, 2006 State Debt Medians," April 2006

According to our calculations, West Virginia had a net tax supported debt per capita of $918 as of June 30, 2006 (see Table 3, pages 8-9 for the specific calculation). This figure does not match with the calculation presented in the Moody's "State Debt Medians" report. The difference may be due to the timing of the report and the information that was available at the time of publication.

The following chart examines the net tax supported debt per capita for fiscal years 2001 through 2017 based on the data contained in Table 3, pages 8-9:

Chart 6
Net Tax Supported Debt per Capita
Fiscal Years 2001-2017



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

It is difficult to find guidance on this ratio since it is not typically used or discussed; however, it is a ratio analysis required by West Virginia law. As of June 30, 2006, the net tax supported debt as a percentage of assessed value is 2.63%.

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

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

The following table was derived from Moody's *"2006 State Debt Medians."* It shows the average (or "median"), the high and the low for two of the ratios examined in this report. This comparison is made to West Virginia ratios in order to carry out the legislative intent of this report, which is to make recommendations with the aim of keeping the state in the "average to low range of nationally recognized debt limits." The average debt per capita for 2006 is $1,060 and the average debt as a percentage of personal income is currently 3.2%.

Table 9 – Moody's "2006 State Debt Medians"
April 2006

Ratio	Average	High	Low	West Virginia Ranking#
NTSD per capita	$1,060	$4,128 Massachusetts	$27 Nebraska	$1,119 #18
NTSD as a % of Personal Income	3.2%	12.1% Hawaii	0.1% Nebraska	4.4% #15
Total NTSD	NA	$57.7 billion California	$48 million Nebraska	$2 billion #31

As reported by Moody's in April 2006. These figures do not necessarily concur with the amounts stated in this report by the West Virginia State Treasurer's Office, generally due to timing. For our specific calculations, see Tables 3 and 4, pages 8 through 11.

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

Table 10
Debt Capacity Report - Past Ratio Recommendations & Levels

Ratio	*2002*		*2003*		*2004*		*2005*	
	Recommended	Actual	Recommended	Actual	Recommended	Actual	Recommended	Actual
NTSD service as a % of the General Revenue Fund	5.00%	5.50%	5.00%	5.20%	5.00%	4.98%	5.00%	5.32%
NTSD service as a % of Revenues	4.00%	4.40%	4.00%	3.90%	4.00%	3.88%	4.00%	4.17%
NTSD as a % of Personal Income	3.00%	3.40%	2.70%	3.40%	3.00%	3.56%	3.00%	3.66%
NTSD per capita	$654	$772	$800	$812	$850	$903	$950	$953
NTSD as a % of Assessed Value	2.00%	2.80%	2.00%	2.80%	2.00%	2.96%	2.00%	3.06%

Table 11
Debt Capacity Report, Current Ratio Recommendations & Levels

Ratio	*June 30, 2006*	
	Recommended	Actual
NTSD service as a % of the General Revenue Fund	5.00%	4.85%
NTSD service as a % of Revenues	4.00%	3.74%
NTSD as a % of Personal Income	3.00%	3.24%
NTSD per capita	$1,000	$918
NTSD as a % of Assessed Value	2.00%	2.63%

NTSD stands for Net Tax Supported Debt

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

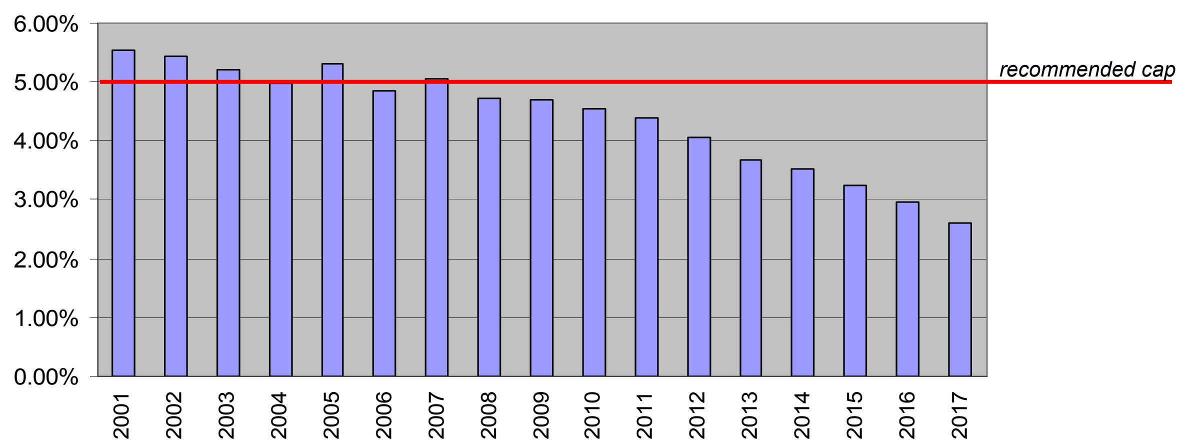
Perhaps the most important ratio measurement is the debt service burden on the General Revenue Fund. This ratio shows the potential strain on the General Revenue Fund if, for some reason, all other funds are insufficient to pay debt service. Table 12 (below) was developed through research of several publications such as "Developing Formal Debt Policies" a publication from GFOA, "Benchmark GO Ratios" from Standard & Poor's Credit Week, and various debt management reports from around the country.

Table 12 – Burden Levels of Net Tax Supported Debt Service as a Percentage of the General Revenue Fund

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

As detailed in Table 11, page 22, the state had a 4.85% debt burden as a percentage of the General Revenue Fund at June 30, 2006. This is currently below the recommended cap of 5% as demonstrated in the following chart:

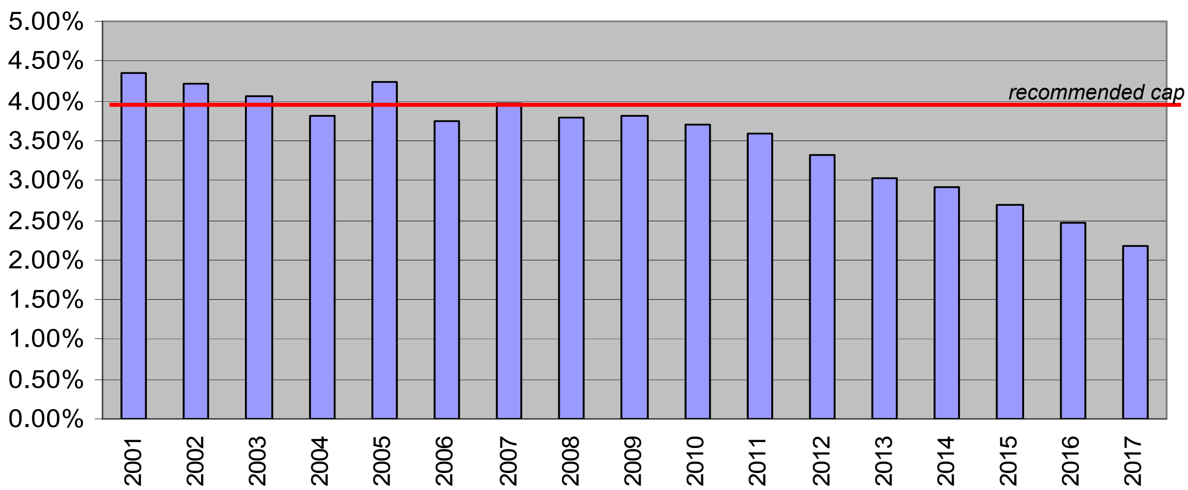
Chart 7
Recommended Cap of Net Tax Supported Debt Service as a Percentage of the General Revenue Fund
Fiscal Years 2001-2017



Net Tax Supported Debt Service as a Percentage of Revenues
The recommended cap on this particular ratio is currently at 4%. This ratio is lower because it includes all revenues, e.g. the Road Fund, the Lottery Fund and the dedicated severance tax collections used to pay debt service on the Infrastructure General Obligation Bonds. At June 30, 2006, the state had a net tax supported debt service burden as a percentage of revenues of 3.74%.

The following chart examines the net tax supported debt service requirements as a percentage of revenues for fiscal years 2001 through 2017, in relation to our recommended cap of 4%, and based on the data contained in Table 4, pages 10-11:

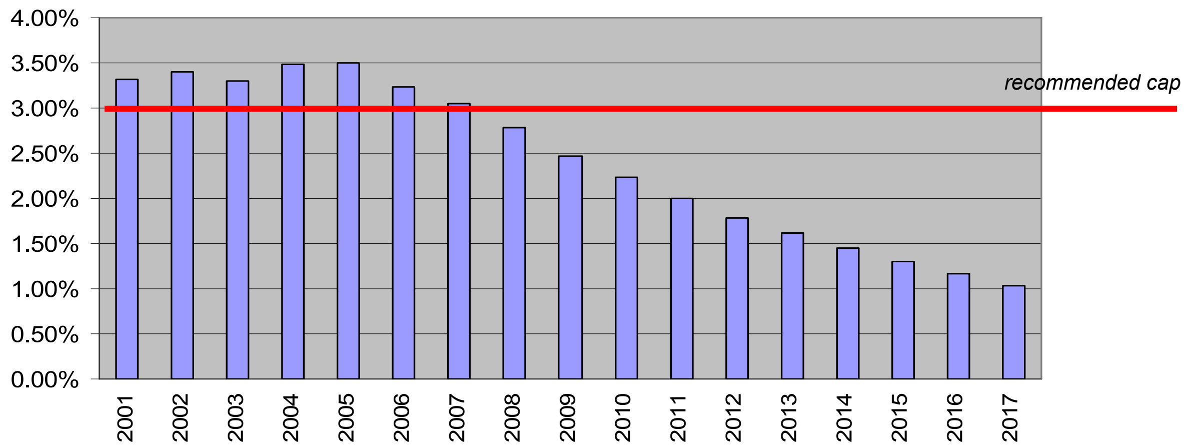
Chart 8
Recommended Cap of Net Tax Supported Debt Service
as a Percentage of Revenues
Fiscal Years 2001-2017



Net Tax Supported Debt as a Percentage of Personal Income

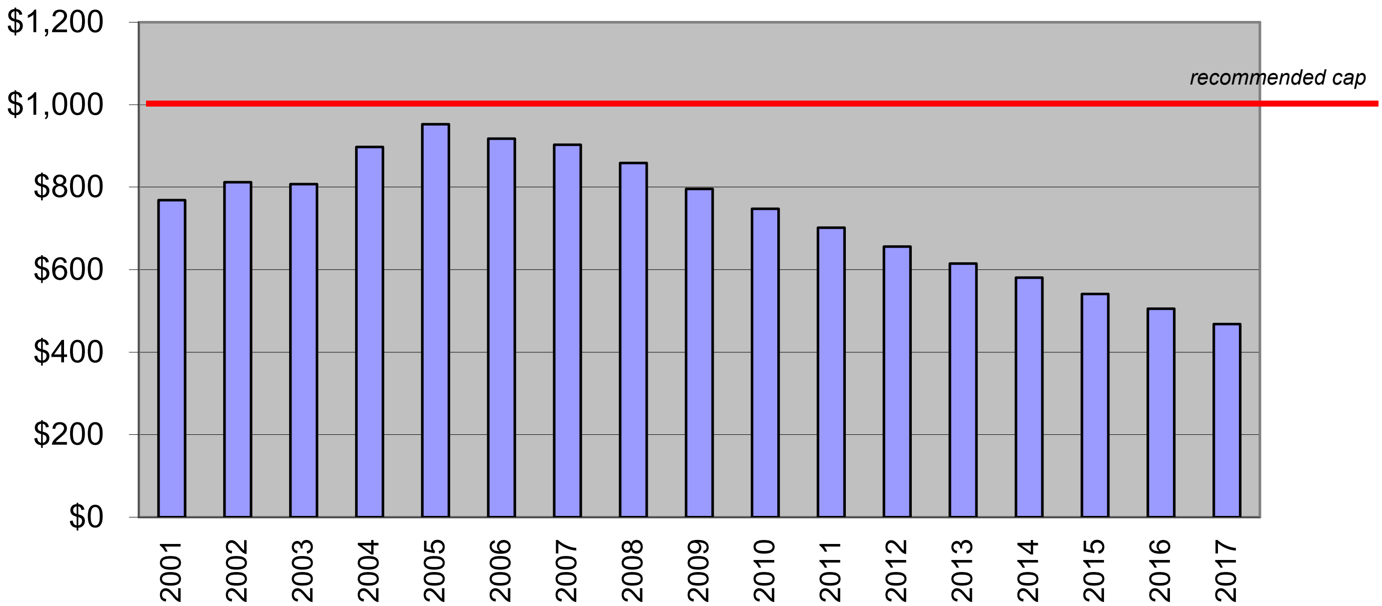
The recommended cap for this particular ratio is 3.0% because the average net tax-supported debt as a percentage of personal income is 3.2% and this report calls for recommendations on the average-to-low range of the ratio. The following chart examines the net tax supported debt outstanding as a percentage of personal income for fiscal years 2001 through 2017, in relation to our recommended cap of 3.0% and based on data contained in Table 3, pages 8-9:

Chart 9
Recommended Cap of Net Tax Supported Debt as a Percentage of Personal Income
Fiscal Years 2001-2017



Net Tax Supported Debt Per Capita
As discussed on page 19, the national average of this particular ratio has from $662 in 1997 to $1,060 in 2006. Based upon the current national average, the recommendation for this particular cap is $1,000. The following chart examines the net tax supported debt outstanding as a percentage of personal income for fiscal years 2001 through 2017, in relation to our recommended cap of 3.0% and based on data contained in Table 3, pages 8-9:

Chart 10
Recommended Cap of Net Tax Supported Debt per Capita
Fiscal Years 2001-2017



Net Tax Supported Debt as a Percentage of the Assessed Value of Taxable Property
As of June 30, 2006, the net tax supported debt as a percentage of assessed value is 2.63%. The recommended cap for this recommendation is 2.0% and has no basis on any particular research since none has been located at the time of this publication.

Summary of Recommendations

West Virginia is below the recommended cap on the two most important measures presented in this report, which are as follows:

Net Tax Supported Debt Service as a Percentage of the General Revenue Fund, and
Net Tax Supported Debt Service as a Percentage of Revenues.

Being in this low range is very important as West Virginia deals with issues of pension funding, the liability of OPEBs, the development of infrastructure and the economy – just to name a few. The state is in a unique position of being able to possibly utilize debt financing while not placing the state in jeopardy of putting too much of a burden on the state's resources. Of course, with the consideration of any debt issuance, prudence is vital.

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

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

Net Tax Supported Debt Service as a percentage of the General Revenue Fund:	5.0%
Net Tax Supported Debt Service as a percentage of Revenues:	4.0%
Net Tax Supported Debt as a percentage of Personal Income:	3.0%
Net Tax Supported Debt Per Capita:	$1,000
Net Tax Supported Debt as a percentage of Assessed Value:	2.0%

As stated earlier, the state is below the two most important measurements. We recommend that any additional debt issued this year be carefully scrutinized and be used in a prudent manner to keep West Virginia at or below the recommended levels of debt.

We further recommend that any new debt should be issued as General Obligation debt since it carries the highest quality and requires a constitutional amendment. This recommendation applies to net tax supported debt only and is not intended to inhibit the issuance of self-supporting revenue bonds.

This page 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 it's debt obligations, and to incur new debt, and for conducting an ongoing review of the amount and condition of bonds, notes, and other security obligations of the State's spending units.

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

1.3. Filing Date. — May 6, 1998

1.4. Effective Date. — May 7, 1998

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

§112-9-2. Definitions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.2.1. Current net tax supported debt;

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

3.2.3. Current net tax supported debt per capita;

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

3.2.5. The recommendation of the Treasurer;

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

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

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

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

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

Appendix B

Revenue Information

This page intentionally blank.

Revenue & Revenue Projections
(thousands)

Year	General Revenue	Road Fund*	Lottery**	Severance	Total
2001	2,718,379	535,346	131,900	24,000	3,409,625
2002	2,824,117	563,515	244,300	24,000	3,655,932
2003	2,916,961	544,729	268,200	24,000	3,753,890
2004	3,082,941	570,742	356,500	24,000	4,034,183
2005	3,504,830	578,050	303,709	24,000	4,410,589
2006	3,661,402	580,904	486,800	24,000	4,753,106
2007	3,629,100	599,344	379,500	24,000	4,631,944
2008	3,867,650	618,515	318,900	24,000	4,829,065
2009	3,886,100	582,825	304,200	24,000	4,797,125
2010	4,018,950	582,075	309,300	24,000	4,934,325
2011	4,133,200	583,905	314,500	24,000	5,055,605
2012	4,266,750	578,526	347,200	24,000	5,216,476
2013	4,394,750	584,300	320,500	24,000	5,323,550
2014	4,526,600	590,200	325,500	24,000	5,466,300
2015	4,662,400	596,000	330,500	24,000	5,612,900
2016	4,802,300	602,000	335,500	24,000	5,763,800
2017	4,946,300	608,000	340,500	24,000	5,918,800

Note: Revenue information provided by the West Virginia Office of Budget
* Assumes that the temporary 5 cent Motor Fuel Excise Tax Rate is retained as of 8/1/2007
** State revenues net of any transfers to the General Revenue Fund