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Summary:

West Virginia; Appropriations; General Obligation; Moral Obligation; Non-School State Programs; School State Program

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Summary:

West Virginia; Appropriations; General Obligation; Moral Obligation; Non-School State Programs; School State Program

Credit Profile

Ohio Cnty Brd Of Ed GO		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
West Virginia GO		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Cabell Cnty Brd of Ed sch prog		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Downgraded

Rationale

Standard & Poor's Ratings Services lowered its rating to 'AA-' from 'AA' on West Virginia's general obligation debt. The downward revision reflects our view of structural changes to the state's economy due to weakness in the energy sector, specifically coal, which in our view is a long-term challenge rather than a cyclical setback. At the same time, we also lowered our ratings on West Virginia's appropriation and moral obligation debt to 'A+' and 'A-', respectively. We also lowered the West Virginia Municipal Bond Program rating to 'AA-' from 'AA' because this rating is linked to the state rating due to the nature of the program mechanics. The outlook on all ratings is stable.

More specifically, the lower ratings reflect the state's year-over-year economic deterioration given the global reduction in demand for mineral and ore products and ongoing challenges to diversify its employment base over the long term. The economic weakness has negatively affected revenue collections for fiscal years 2016 and 2017, leading to revenue shortfalls and challenges in reaching structural budget balance. Although officials face difficult decisions to realign revenues and expenditures through revenue enhancements, recurring budget cuts, or both, we believe the state's access to sizable "rainy day" funds provides credit strength at the 'AA-' rating level, however, the use of reserves and other one-time measures to close structural budgetary gaps could lead to greater fiscal pressures in future years.

The 'AA-' rating reflects our view of:

- A challenged economic base that has suffered significant deterioration year-over-year due to global weakness in demand for mineral and ore products;
- Strong rainy day fund balances that provide flexibility to weather temporary revenue shortfalls; and
- The state's demonstrated willingness and ability to tackle large-scale financial challenges, as evidenced by the progress made in addressing West Virginia's unfunded pension liability and other postemployment benefits.

We believe West Virginia's economy will continue to experience contraction due to concentration in coal mining operations. According to IHS Global Insight, most of the state's job losses between December 2014 and December

2015 have been related to the mining sector, with employment declining 12.6%. The job losses have been broad based, and the decline in the mining sector is compounded by an overall worsening in the state's total employment of 1.5% year-over-year through February 2016 and an unemployment rate that is the second highest among states, at 6.5% (second only to Alaska, with a rate of 6.6% in February 2016 and compared to the U.S. rate of 4.9%). Additionally, between 2015 and 2017, employment growth in West Virginia is projected at 0.5%, compared with the projected growth rate for the U.S. of over 1.5% during the same period. Further, ongoing federal clean air initiatives and a heightened regulatory environment for coal production will continue to dampen demand for mineral and ore exports, which account for over 50% of West Virginia's international shipments. The precipitous decline in exports, in our opinion, has also led to companies, such as Patriot Coal, Murry Energy Corp., and Blackhawk Mining, shuttering coal operations or permanently idling mines within West Virginia. Additionally, new projects are delayed, including that of Odebrecht, a Brazilian chemical company, which previously proposed building a multibillion-dollar ethane cracker petrochemical plant in Wood County, W.V. Although the state is partially located on the Marcellus Shale, demand for natural gas has also fallen as oil prices have trended lower. Positively, IHS Global Insight notes the state's cost of doing business is among the lowest in the country, which has facilitated success in attracting a Procter and Gamble manufacturing plant that broke ground in September 2015 and a large Macy's fulfillment center. Nevertheless, growth in employment in these sectors has not sufficiently stemmed the losses tied to the energy sector, specifically coal mining.

The governor's proposed fiscal 2017 budget closed an estimated \$466 million budget gap (nearly 10% of fiscal 2017 recommended ongoing, base budget general and lottery fund appropriations), which was predicated on the legislature's passing key revenue enhancements and expenditure cuts. Two measures -- an extension of the sales tax to telecommunications services and an increase in the tobacco tax that together were estimated to raise approximately \$138 million in fiscal 2017 -- were not passed during the regular session. Due to the inability to reach consensus on measures to achieve budget balance without substantial use of one-time revenues, the legislature adjourned on March 15, 2016, without passing a budget for fiscal 2017. Structural budget balance is further complicated by a negative revision to revenues for fiscal 2017, which lowered estimates for severance, sales, corporate, and personal income taxes by a combined \$92.0 million. The actions together with other revenue and expenditure adjustments created a subsequent \$271 million gap (5.7% of fiscal 2017 recommended ongoing, base budget general and lottery fund appropriations) for legislators to consider when developing the fiscal 2017 budget. The governor, who has unilateral authority to call and determine the scope of a special session, is expected to call for a special session in late April or early May to resolve the budget. Officials are working with legislative leadership to facilitate an agreement on the budget to ensure a swift and efficient outcome once the special session commences.

Warm winter weather and a roughly 45% drop in demand for mineral exports between 2014 and 2015 weigh on the state's economy as well as the general fund revenue collections. In December 2015, officials identified a midyear budget gap of \$381 million (about 8.1% of ongoing, base budget general and lottery fund appropriations). The midyear gap was recommended by the governor to be closed through revenue enhancements and reallocations (about \$235 million), expenditure reductions (\$94.3 million), and a draw on the rainy day reserves (\$51.8 million). Subsequent to closing the midyear gap, monthly revenues in January and March continued to trend below estimates, which pressures the budget for the fiscal year that ends June 30. Given the weakness in the economy and the importance of income tax revenues, officials will solidify their estimates of the remaining gap following receipt of April income tax collections.

Development of a contingency plan to solve the 2016 year-end gap is underway, including delaying Medicaid reimbursement payments to fiscal 2017 and considering additional use of one-time funds, but specifics of the plan are yet to be determined.

Through March 2016 (the first nine months of the fiscal year), general revenues are \$146.4 million, or nearly 5%, under estimate. Severance tax collections are the largest component of the fiscal 2016 revenue shortfall, at \$141.8 million, and are off 39% from the prior year. Although severance taxes account for the bulk of the revenue shortfall, personal income and sales tax collections are together \$44.2 million (or 2%) under estimates, reflecting the employment base erosion. In our view, the state will be challenged to close the year-end gap without compromising structural balance and relying on additional nonrecurring revenues, given the limited time frame within which to make expenditure adjustments. Reliance on one time sources of revenues to close budgetary gaps, while potentially necessary this late in the fiscal year, would translate into continued structural balance challenges in fiscal 2017.

Favorably, West Virginia retains large, statutorily required rainy day fund balances, which are available to offset revenue shortfalls (as in the current circumstance), fund emergency revenue needs from acts of God or natural disasters, or other needs as determined by the legislature. West Virginia Code requires 50% of all general fund surplus revenues to be deposited into the rainy day fund until it exceeds 13% of the appropriations for the fiscal year just ended. At fiscal year-end 2014, the state's rainy day funds together contained nearly \$956 million, or about 22% of general revenue appropriations. The state planned a reduction in reserves in fiscal 2015 and ended the year with balances totaling \$869 million, or approximately 20.2% of general fund appropriations. The fiscal 2016 budget originally included an appropriation of \$14.8 million in rainy day funds. An additional \$51.8 million was appropriated to solve the midyear budget gap. As a result, approximately \$67 million of rainy day funds are expected to be drawn upon in fiscal 2016; however, officials have not ruled out an additional appropriation prior to year-end should personal income taxes fall significantly below estimates. Should no additional appropriations be made in fiscal 2016, combined rainy day funds will total approximately \$800 million, or nearly 18% of ongoing, base budget general revenue appropriations, which is still strong, in our opinion.

Based on the analytic factors we evaluate for states, on a four-point scale in which '1.0' is the strongest, we have assigned West Virginia an overall score of '2.1'.

For more information about West Virginia's credit characteristics, please refer to the reports published April 28, 2015, and Dec. 29, 2014, on RatingsDirect.

Outlook

The stable outlook reflects the state's continued strong reserve position and the demonstrated commitment to addressing its long-term liabilities, including adequately funding its pensions. The outlook additionally reflects our view that state officials will continue to update revenue projections and take further budgetary actions if necessary to offset any further potential revenue shortfalls over the two-year horizon.

We could lower the ratings over the two-year outlook horizon if economic indicators decline further or revenues fall considerably below current estimates. Should the state be unable to reach consensus on sufficient budget adjustment

measures to demonstrate long-term structural balance, the ratings could also be pressured. Upward rating potential over the near term is limited, in our view. However, we would likely view further diversification of the economy or maintenance of very strong reserves to offset volatile revenues as favorable.

Related Criteria And Research

Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Moral Obligation Bonds, June 27, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of April 21, 2016)		
Braxton Cnty Brd of Ed GO State Credit Enhancement (AGM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Downgraded
Brooke Cnty Brd of Ed pub sch rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Brooke Cnty Brd of Ed GO		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Cabell Cnty Brd of Ed pub sch rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Calhoun Cnty Brd of Ed pub sch bnds		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Doddridge Cnty Brd of Ed GO		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Hancock Cnty Brd of Ed pub sch bnds		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Hardy Cnty Brd of Ed pub sch bnds		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Jefferson Cnty Brd of Ed pub sch rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Marion Cnty Brd of Ed pub sch bnds		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Monongalia Cnty Brd of Ed pub sch rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Pleasants County Board of Education GO		
<i>Long Term Rating</i>	AA-/Stable	Downgraded

Ratings Detail (As Of April 21, 2016) (cont.)

Preston Cnty Brd of Ed pub sch bnds		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Putnam Cnty Brd of Ed SCHSTPR		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Taylor Cnty Brd of Ed GO		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Wayne County Board of Education SCHSTPR		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Wheeling GO non sch prog		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Wood Cnty Brd of Ed pub sch rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Berkeley Cnty Brd of Ed pub sch bnds ser 2010		
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Greenbrier Cnty Brd of Ed GO State Credit Enhancement		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Downgraded
<i>Long Term Rating</i>	AA-/Stable	Downgraded
Jefferson Cnty Brd of Ed GO		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Downgraded
Marshall Cnty Brd of Ed GO		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Downgraded
Mason Cnty Brd of Ed GO		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Downgraded
Monongalia Cnty Brd of Ed GO State Credit Enhancement		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Downgraded
West Virginia GO		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Downgraded
<i>Long Term Rating</i>	AA-/Stable	Downgraded
West Virginia Sch Bldg Auth		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Downgraded
Raleigh Cnty Bldg Commn, West Virginia		
West Virginia		
Raleigh Cnty Bldg Commn (West Virginia)		
<i>Long Term Rating</i>	A+/Stable	Downgraded
West Virginia Econ Dev Auth, West Virginia		
West Virginia		

Ratings Detail (As Of April 21, 2016) (cont.)		
West Virginia Econ Dev Auth (West Virginia)		
<i>Long Term Rating</i>	A+/Stable	Downgraded
West Virginia Econ Dev Auth (West Virginia)		
<i>Long Term Rating</i>	A+/Stable	Downgraded
West Virginia Econ Dev Auth (West Virginia) APPROP		
<i>Long Term Rating</i>	A+/Stable	Downgraded
West Virginia Econ Dev Auth (West Virginia) APPROP		
<i>Long Term Rating</i>	A+/Stable	Downgraded
West Virginia Econ Dev Auth (West Virginia) APPROP		
<i>Long Term Rating</i>	A+/Stable	Downgraded
West Virginia Econ Dev Auth (West Virginia) (Capitol Parking Garage)		
<i>Long Term Rating</i>	A+/Stable	Downgraded
West Virginia Econ Dev Auth (West Virginia) (Correctional Juvenile & Pub Safety Facs)		
<i>Long Term Rating</i>	A+/Stable	Downgraded
West Virginia Econ Dev Auth (West Virginia) (Correctional, Juvenile & Pub Safety Facs)		
<i>Long Term Rating</i>	A+/Stable	Downgraded
West Virginia Econ Dev Auth (West Virginia) (Dept Eniv Prot Office Bldg)		
<i>Long Term Rating</i>	A+/Stable	Downgraded
West Virginia Econ Dev Auth (West Virginia) (State Office Bldg)		
<i>Long Term Rating</i>	A+/Stable	Downgraded
West Virginia Econ Dev Auth (West Virginia) (State Office Building 3)		
<i>Long Term Rating</i>	A+/Stable	Downgraded
West Virginia Econ Dev Auth lse rev bnds (Correctional Juvenile & Pub Saf Facs) 2002 ser B dtd 01/15/2002 due 06/01/2006-2021 2026		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Downgraded
West Virginia Wtr Dev Auth, West Virginia		
West Virginia		
West Virginia Wtr Dev Auth wtr dev (Loan Prog II) ser 2003 B-D		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Downgraded
West Virginia Wtr Dev Auth (Infrastructure & Jobs Dev Council Prog) ser 2003A		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Downgraded
West Virginia Wtr Dev Auth (Infrastructure & Jobs Dev Council Prog) ser 2006A&B		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Downgraded
West Virginia Wtr Dev Auth (Infrastructure & Jobs Dev Council Prog) ser 2007A		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Downgraded
West Virginia Wtr Dev Auth (West Virginia) wtr dev (Loan Prog II)		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Downgraded
West Virginia Wtr Dev Auth (West Virginia) wtr dev (Loan Prog IV) ser 2005A		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Downgraded
West Virginia Wtr Dev Auth (West Virginia) wtr dev (Loan Prog IV) ser 2005B-IV		

Ratings Detail (As Of April 21, 2016) (cont.)

<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Downgraded
Many issues are enhanced by bond insurance.		

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