

Rating Action: Moody's assigns A1 to West Virginia EDA's \$25M Excess Lottery Revenue Bonds Ser. 2017 A&B; outlook stable

Global Credit Research - 10 Aug 2017

New York, August 10, 2017 -- Issue: Excess Lottery Revenue Bonds, Series 2017A (Tax-Exempt); Rating: A1; Rating Type: Underlying LT; Sale Amount: \$22,900,000; Expected Sale Date: 08/17/2017; Rating Description: Special Tax: Non-Sales/Non-Transportation;

Issue: Excess Lottery Revenue Bonds, Series 2017B (Taxable); Rating: A1; Rating Type: Underlying LT; Sale Amount: \$2,100,000; Expected Sale Date: 08/17/2017; Rating Description: Special Tax: Non-Sales/Non-Transportation;

Summary Rating Rationale

Moody's Investors Service assigns A1 ratings to West Virginia Economic Development Authority's \$22.9 million Excess Lottery Revenue Bonds Series 2017A (Tax-Exempt) and \$2.1 million Excess Lottery Revenue Bonds, Series 2017B (Taxable).

The A1 ratings reflect ample debt service coverage for senior and subordinate debt, balanced by the continued declines in pledged lottery revenues given recent significant increases to out-of-state competition. The bonds also benefit from a back-up pledge of revenues from the state lottery fund, further increasing coverage for creditors.

Rating Outlook

The outlook for all the state's Excess Lottery Revenue Bonds is stable, reflecting the expectation for strong coverage despite expected continued declines in pledged revenues. The stable outlook also reflects a significant decline in future out-of-state competition given the current legislative landscape in neighboring states.

Factors that Could Lead to an Upgrade

- Constitutional protection of the pledged revenues
- Trend of healthy revenue growth
- Stronger additional bonds test

Factors that Could Lead to a Downgrade

- Continuing decline in revenues
- Significant dilution of debt service coverage
- Weakening of the state's economy

Legal Security

The bonds are secured by lottery revenues that flow into the state's Excess Lottery Revenue Fund. The revenues are comprised of receipts from certain racetrack video games, table games and receipts from operations at Greenbrier, as well as limited video lottery receipts and fees. Following a change in state law in 2014, the bonds are also secured by revenues that flow into the State Lottery Fund, subordinate to first, second and third priority debt service paid out of that fund. The revenues in the State Lottery Fund are comprised of net profits from instant and on-line games, excluding the Veterans' instant lottery game, and certain racetrack video lottery game revenue.

The Lottery Act requires that priority of payment be given to debt service payments over other transfers out of the fund, with the exception of an annual funding of a senior citizen real estate tax credit. Since fiscal 2011 this

transfer is in the amount of \$10.0 million or 3.1% of 2017 Excess Lottery Revenue Fund receipts.

Debt service on the current issuance is subordinate to one outstanding series of bonds, the EDA Excess Lottery Grant Bonds, Series 2004. If funds in the Excess Lottery Revenue Fund are insufficient to satisfy all of the required transfers, funds are first set aside for the EDA's Series 2004 bonds, then to the remaining bonds secured by the Excess Lottery Revenue Fund, including the current issuance.

Use of Proceeds

Proceeds will be used to fund improvements at the Cacapon Resort State Park, located in Berkeley Springs, WV. Improvements include updating lodging accommodations, utility and infrastructure projects and golf course renovations.

Obligor Profile

The West Virginia Economic Development Authority is an instrumentality of the state, with a mission to advance the state's business development strategy and improve its economy. The authority issues debt to promote business development projects across the state.

The state is the obligor. West Virginia is the 38th most populous state, with an estimated 2016 population of 1.8 million residents. Its state gross domestic product is approximately \$73.4 billion in 2016. The state has relatively low industrial diversity, above-average concentration in the natural resource industry and relatively low personal income level equal to 75.4% of the US average.

Methodology

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in July 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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