



November 2008
PE 08-13-437

SPECIAL REPORT

LOANS MADE BY STATE AGENCIES

AUDIT OVERVIEW

Report on All Outstanding Loans Made By
West Virginia State Government Agencies



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OBJECTIVE, SCOPE & METHODOLOGY

Objective

This Special Report is authorized under the auspices of Chapter 4, Article 2, Section 5 of the West Virginia Code. The objective of this report is to identify how much money West Virginia state government agencies have in outstanding loans made to other entities.

Scope

The scope of this report covers all outstanding loans made by state government agencies as of June 30, 2008.

Methodology

The methodology of this review included surveying over 160 state government agencies to identify those that make loans. Agencies that do make loans were asked to provide the information for each loan. The requested information was then entered onto a spreadsheet. Various sorts were made of the data to complete the tables in the report. Information from the Consolidated Public Retirement Board (CPRB) was separated out since its loans are not made from state funds but from the CPRB's Members' Accumulation Fund. Therefore, the requested information was reported in aggregate since individual loan recipient information is confidential. Every aspect of this review complied with Generally Accepted Government Auditing Standards (GAGAS).

ISSUE 1

Report on All Outstanding Loans Made By West Virginia State Government Agencies.

The Legislative Auditor was requested to identify all outstanding loans made with state funds by all state agencies. Over 1,400 loans totaling over \$1.8 billion were identified spread across 11 different state agencies. All amounts stated in the following tables are current as of June 30, 2008, and are based on data provided by West Virginia state government agencies to the Legislative Auditor. It should be noted that the values for “Total Outstanding Balance” will not always equal the “Total Original Amount of Loans” minus the “Total Amount Paid”. This is a result of the impact of accrued interest added to the unpaid principal of the loans and how the reporting agency records such information.

Over 1,400 loans totaling over \$1.8 billion were identified spread across 11 different state agencies.

Agencies That Loan the Most

The Water Development Authority is responsible for the most money loaned at over \$1.4 billion, which represents 75 percent of all money loaned by the State, spread across 824 loans (see Table 1). The Water Development Authority administers loans for itself and the Infrastructure and Jobs Development Council from the Infrastructure Fund, the Bureau for Public Health from the Drinking Water Treatment Revolving Fund and the Department of Environmental Protection from the Clean Water Revolving Fund. The Insurance Commission is second with \$224 million for two loans. The Economic Development Authority is third with over \$192 million spread across 227 loans.

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Table 1
Loans Made With State Funds By West Virginia State Agencies

Agency	# of Loans	Total Original Amount of Loans	Total Amount Paid as of 6/30/08	Total Outstanding Balance	Total Interest Earned
Water Development Authority	824	\$1,413,582,847	\$301,879,776	\$1,105,866,450	\$231,128,439*
Insurance Commission	2	\$224,000,000	\$23,000,000	\$201,000,000	\$7,987,152
Economic Development Authority	227	\$192,389,185	\$57,709,327	\$138,368,697	\$39,404,243
Department of Environmental Protection	228	\$9,089,118	\$3,582,410	\$5,499,528	\$156,618
Department of Agriculture	69	\$4,018,677	\$2,409,589	\$4,543,518	\$1,227,340
Secretary of State	23	\$3,310,148	\$1,131,835	\$2,177,601	\$0
Higher Education Policy Commission, Office of the Chancellor	3	\$1,350,500	\$853,000	\$497,500	\$0
Adjutant General's Office	1	\$200,000	\$40,000	\$160,000	\$0
Health Care Authority	2	\$175,000	\$124,767	\$174,384	\$124,151
Rehabilitation Services	31	\$98,010	\$40,961	\$49,761	\$4,580
State Treasurer	2	\$39,072	\$33,263	\$15,608	\$2,218
State Totals	1412	\$1,848,252,557	\$390,804,928	\$1,456,553,047	\$280,100,819

Source: Data received from reporting state agencies in response to the Legislative Auditor's Survey. Data are current as of June 30, 2008.

* This amount does not include interest for 85 Economic Development Project loans because those loans are not paid through the issuance of state bonds and thus, not tracked on the Municipal Bond Commission's database. The Water Development Authority was unable to provide information on the interest of the 85 loans because its information management system does not facilitate easy reporting of that information.

Largest Single Loans

The largest outstanding state loan was made by the Insurance Commission to Brickstreet Mutual Insurance Company for \$200 million for the initial setup of the business (see Table 2). The next three largest loans were made by the Water Development Authority to local water and sewer companies for water and waste water projects. The fifth largest loan was for the initial setup of the Physicians Mutual Insurance Company for \$24 million.

The largest outstanding state loan was made by the Insurance Commission to Brickstreet Mutual Insurance Company for \$200 million for the initial setup of the business.

**Table 2
Top Five Largest Loans Made by State Agencies**

Agency	Loan Recipient	Date and Purpose of Loan	Original Loan Amount	Total Amount Paid as of 6/30/08	Total Outstanding Balance	Total Interest Earned
Insurance Commission	WV Employers' Mutual Insurance Company d/b/a/ Brickstreet Mutual Insurance Company	1/1/2006, To provide initial capital and surplus to setup company	\$200,000,000	\$15,000,000	\$185,000,000	\$6,954,436
Water Development Authority	City of Charleston	5/5/2005, waste water development project	\$36,617,310	\$797,675	\$35,819,635	\$5,321,636
Water Development Authority	Berkeley County Sewer PSD	10/28/1999, waste water development project	\$30,707,296	\$6,617,958	\$24,089,338	\$0*
Water Development Authority	Berkeley County Sewer PSD	8/28/2002, waste water development project	\$30,500,000	\$3,649,576	\$26,850,424	\$0*
Insurance Commission	WV Physicians' Mutual Insurance Company	6/30/2004, Initial capital and surplus to set up company	\$24,000,000	\$8,000,000	\$16,000,000	\$1,032,716

Source: Data received from reporting state agencies in response to the Legislative Auditor's Survey. Data are current as of June 30, 2008.
*Loans are non-interest bearing.

Loans Earning the Most Interest

Loans made by state agencies have interest rates ranging between 0 to 10 percent. The loan that has earned the most interest is to Malden PSD from the Water Development Authority (see Table 3). The loan was made in 1978 and has earned nearly \$11.9 million. Interest earned from loans administered by the Water Development Authority, totaling more than \$231 million, account for 83 percent of interest earned by all outstanding state loans.

The loan that has earned the most interest is to Malden PSD from the Water Development Authority. The loan was made in 1978 and has earned nearly \$11.9 million.

Table 3
Top Five State Loans Earning the Most Interest

Lending Agency	Loan Recipient	Date and Purpose of Loan	Original Loan Amount	Total Amount Paid as of 6/30/08	Total Outstanding Balance	Total Interest Earned	Interest Rate
Water Development Authority	Malden Sewer PSD	12/21/1978, waste water development project	\$7,040,000	\$3,040,000	\$4,000,000	\$11,892,553	6.000% - 7.200%
Water Development Authority	Elk Valley (Elk-Pinch) Sewer PSD	8/20/1987, waste water development project	\$5,227,400	\$931,215	\$4,296,185	\$8,470,116	8%
Insurance Commission	WV Employers' Mutual Insurance Company d/b/a/ Brickstreet Mutual Insurance Company	1/1/2006, To provide initial capital and surplus to setup company.	\$200,000,000	\$15,000,000	\$185,000,000	\$6,954,436	1.5% until 12/31/08 -then interest is fluctuating rate per annum equal to the Prime Rate
Water Development Authority	City of Weirton	5/23/1991, water development project	\$4,784,000	\$1,972,150	\$2,811,850	\$5,511,408	8%
Water Development Authority	City of Charleston	5/5/2005, waste water development project	\$36,617,310	\$797,675	\$35,819,635	\$5,321,636	5%

Source: Data received from reporting state agencies in response to the Legislative Auditor's Survey. Data are current as of June 30, 2008.

Recipients with Multiple Loans

Loan recipients with multiple loans are mostly water and sewer public service districts and city sewer departments (see Table 4). Berkeley County Sewer PSD received the most loans at 24 totaling over \$91 million. The City of Charleston was second with 20 loans totaling over \$74 million, all of which were for waste water development projects. Logan County PSD, Shady Spring PSD and Salt Rock PSD had 17, 12 and 10 loans respectively. All loans received by the top recipients are administered through the Water Development Authority.

Berkeley County Sewer PSD received the most loans at 24 totaling over \$91 million.

**Table 4
Top Five Recipients With the Largest Number of State Loans**

Recipient	Number of Loans	Total Original Amount of Loans	Total Amount Paid as of 6/30/08	Total Outstanding Balance	Total Interest Earned
Berkeley County Sewer PSD	24	\$91,732,784	\$21,211,314	\$70,521,470	\$3,580,061
City of Charleston	20	\$74,346,708	\$10,193,983	\$64,152,725	\$12,904,971
Logan County PSD	17	\$37,597,185	\$7,979,507	\$29,617,678	2,633,962
Shady Spring PSD	12	\$17,703,154	\$3,753,489	\$13,949,665	\$2,083,604
Salt Rock PSD	10	\$34,714,312	\$2,703,730	\$32,010,582	\$6,250,596

Source: Data received from reporting state agencies in response to the Legislative Auditor’s Survey. Data are current as of June 30, 2008.

The Consolidated Public Retirement Board Makes Loans from the Members’ Accumulation Fund

Separate from the loans made from state funds, the Consolidated Public Retirement Board has 1,859 loans outstanding totaling over \$7.7 million as of June 30, 2008 (see Table 5). The funding for the loans, which are not state funds, comes from the Members’ Accumulation Fund. These loans are made to members of the Deputy Sheriff Retirement System and Teachers’ Retirement System. An active member who was hired before July 1, 2005 may borrow up to 50% of his or her contributions, but the

total existing loan may not exceed \$8,000. These loans do not come from the employer contributions. Basically, members are being loaned their own money. Therefore, the loans are fully secured. Any outstanding loan balance must be paid in full before a member can receive retirement benefits. A member may elect to receive a lifetime actuarial reduction of his or her monthly retirement benefit to pay-off the outstanding loan balance.

Table 5
Loans Made by the Consolidated Public Retirement Board

System Name	# of Loans	Total Original Amount of Loans	Total Amount Paid as of 6/30/08	Total Outstanding Balance	Total Interest Earned	Interest Rate
Teachers' Retirement System	1,751	\$13,146,858	\$5,757,872	\$7,502,086	\$3,694,703	2% higher than the most recent rate of interest used by the Consolidated Public Retirement Board for determining actuarial contribution levels. Currently 9.5%.
Deputy Sheriff Retirement System	108	\$653,428	\$437,194	\$227,234	\$84,891.13	2% higher than the most recent rate of interest used by the Consolidated Public Retirement Board for determining actuarial contribution levels. Currently 9.5%
Agency Totals	1,859	\$13,800,286	\$6,195,066	\$7,729,320	\$3,779,594	

Source: Data received from reporting state agencies in response to the Legislative Auditor's Survey. Data are current as of June 30, 2008.



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