

# State of Kansas 2014 Debt Study



Prepared by:  Kansas Development Finance Authority

## **Background**

Kansas Development Finance Authority (“K DFA”) was created by the Kansas legislature as a public body politic and corporate, with corporate succession, to be an independent instrumentality of the State of Kansas. K DFA was created as an independent instrumentality public corporation, to clearly establish a separate entity from the State of Kansas for purposes of debt issuance in order that the revenue debt K DFA issues on behalf of the State and other public and private entities may clearly be characterized as debt of the Authority, and not direct debt of the State of Kansas. The Authority’s independent public corporate status also serves to contain liability exposure and costs related to its debt issuance and post-issuance administration practices to K DFA, and not the State of Kansas.

In early 2008, K DFA developed its first annual debt study to provide relevant data to assist policymakers in making financing decisions for the State. The purpose of this 2014 Debt Study is to give policymakers a picture of the State’s debt position on June 30, 2014. It is anticipated that this report will continue to be prepared annually such that the State’s debt trends can be monitored. Further, the report makes some projections to help policymakers understand and measure the financial impact of future debt issuance.

The information generated by this analysis is provided to: the K DFA Board of Directors, the Governor’s office, the State Budget Director, the Legislative Research Division and, members of the State Finance Council. This analysis will also be posted on the K DFA website ([www.kdfa.org](http://www.kdfa.org)). The information may be used by the legislature to establish priorities during the legislative appropriation process. Additionally, as the legislature considers new financing initiatives, the long-term financial impact of any proposal can be evaluated upon request. The information generated by this analysis is important for policymakers to consider because their decisions on additional borrowing affect the fiscal health of the State.

This study is not intended to replicate the Comprehensive Annual Financial Report’s (CAFR) Long-term Obligations section. The CAFR is prepared annually by the Office of Financial Management within the Department of Administration and is the State’s official financial report. This study is also not intended to fulfill any of the State’s or K DFA’s continuing disclosure obligations which can be found on the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (<http://www.emma.msrb.org/>).

## Terminology & Nomenclature

**User-Fee Supported Revenue Bonds** are debt secured by revenues generated from the operation of the associated facilities that were financed by the debt issuance. Some examples are university debt payable from parking garage fees, housing revenues, or other available revenues of the obligor. *These obligations are not secured by traditional State tax revenues or the State General Fund.* None of this debt is secured by a general obligation pledge or an annual appropriation by the Legislature of State revenues. Tabulated in Appendix page A-1.

**Self-Supporting Revenue Bonds** are the primary obligation of a legal entity other than the State (in most cases these entities are city and county government units in the State). None of this debt is secured by a general obligation pledge or an annual appropriation by the Legislature of State revenues. Tabulated in Appendix page A-2.

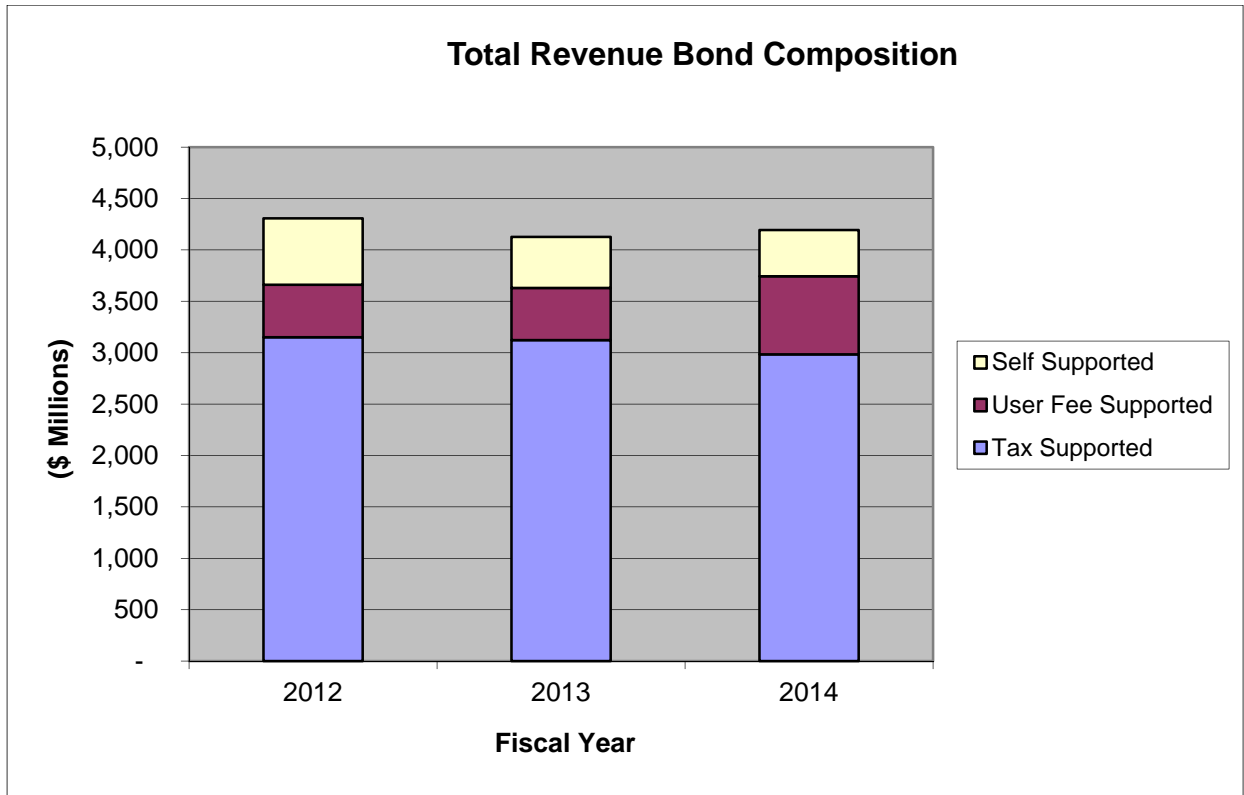
**Tax-Supported Revenue Bonds** are debt secured by traditional State revenues typically generated through taxation. For each debt issuance a specific pledge of revenues has been made to secure the repayment of principal and interest for the bonds (e.g. Highway Fund revenues for KDOT debt). None of this debt is secured by a general obligation pledge of State revenues. A portion of this debt is secured by an annual appropriation pledge by the Legislature. Tabulated in Appendix pages A-3 through A-5.

**Private Activity Bond Debt** is debt which is issued on behalf of various non-governmental entities to facilitate the development of health care facilities, first time farmer and rancher acquisitions, affordable housing facilities, manufacturing facilities, activities of 501(c)(3) facilities, and various other private activities. Private Activity Bond debt service is the **sole obligation** of the private activity borrower, and there is no recourse to the State of Kansas or any taxing subdivision thereof. The debt service is typically repaid through a pledge of the revenues generated by the financed facility or other general revenues of the private activity borrower. As such, private activity debt issued by KDFA is not included in this report.

**Refunding Bond Debt** is debt issued to refund currently outstanding bonds. Bonds may be refunded for various reasons, but most commonly are refunded in order to capture economic savings, analogous to refinancing a home loan. KDFA periodically performs refunding analyses to identify debt that may be currently or advance refunded to achieve economic savings.

## Revenue Bonds Outstanding

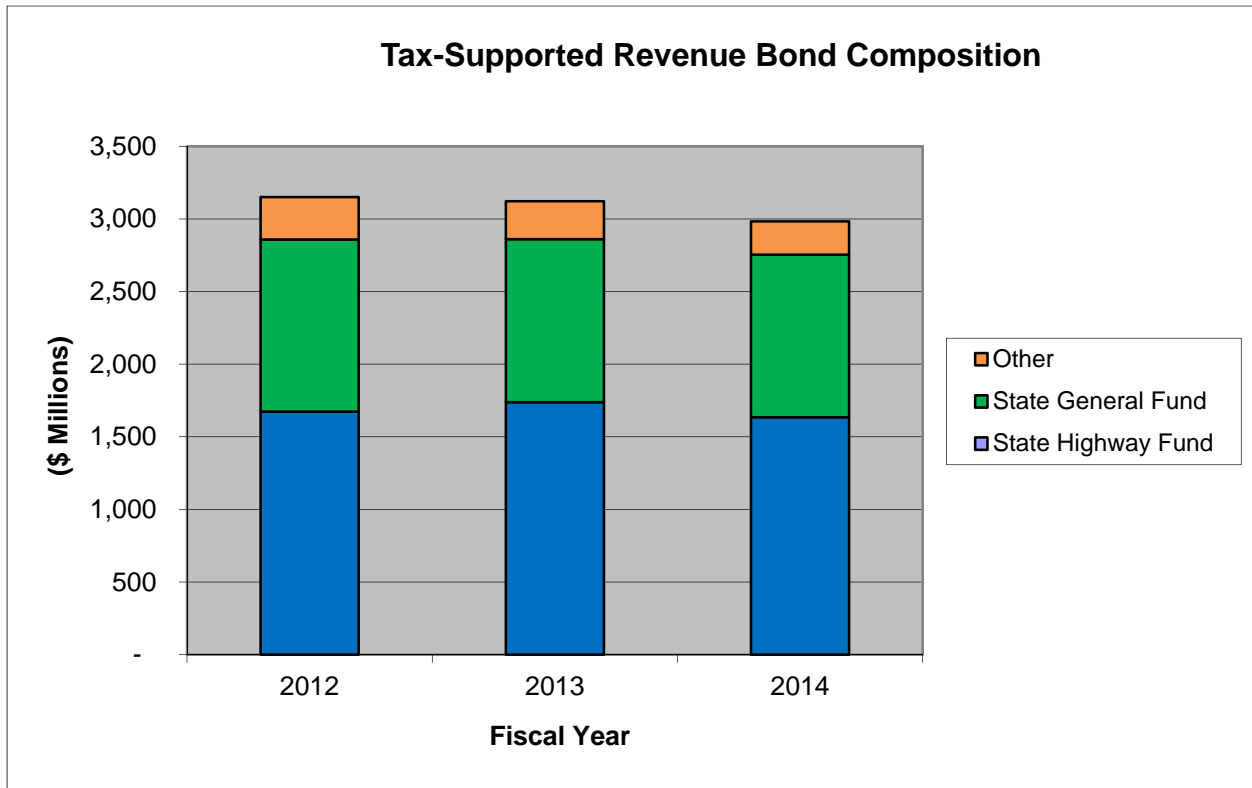
Total revenue bonds debt outstanding at June 30, 2014 was \$4.193 billion approximately \$66 million MORE than at June 30, 2013. User-fee supported debt totaled \$760 million (Appendix page A-1). This represented a \$253 million INCREASE from the prior year. Additionally, self-supporting debt outstanding at June 30, 2014 was \$450 million which was \$48 million LESS than at June 30, 2013 (Appendix page A-2). Tax-supported debt totaled \$2.983 billion for financings supported by State tax revenues or tax-like revenues which was an annual DECREASE of approximately \$139 million (Appendix pages A-3 to A-5).



<b>TOTAL DEBT</b> <b>(\$ Millions)</b>	<i>Fiscal Year End</i>					
	<i>2012</i>		<i>2013</i>		<i>2014</i>	
Tax Supported	3,150	73.1%	3,122	75.7%	2,983	71.1%
User Fee Supported	511	11.9%	507	12.3%	760	18.1%
Self-Supported	646	15.0%	498	12.1%	450	10.7%
<b>Total</b>	<b>4,307</b>		<b>4,127</b>		<b>4,193</b>	

## Tax-Supported Revenue Bonds

Tax-supported debt comprises the majority of the State’s debt. Further, a little over one half of tax-supported debt comes from the State’s investment in transportation infrastructure as detailed below. State Highway Fund (SHF) debt has been issued in conjunction with three multi-year transportation programs and is financed by motor fuel taxes, vehicle registration fees, sales taxes and federal aid reimbursements (Appendix A-5). State General Fund (SGF) debt is backed by an annual appropriation pledge from the Legislature (Appendix A-4). Other Tax-Supported debt includes bonds secured by the Educational Building Fund, State Institutional Building Fund, and other Special Revenue Funds (Appendix A-3).



<b>TAX-SUPPORTED Revenue Bonds</b>	<i>Fiscal Year End</i>					
	<i>2012</i>		<i>2013</i>		<i>2014</i>	
<b>(\$ Millions)</b>						
State Highway Fund	1,673	53.1%	1,738	55.7%	1,634	54.8%
State General Fund	1,185	37.6%	1,123	36.0%	1,119	37.5%
Other	292	9.3%	261	8.4%	230	7.7%
<b>Total</b>	<b>3,150</b>		<b>3,122</b>		<b>2,983</b>	

## State General Fund Debt Ratio

The percentage of SGF Revenues going towards debt service over the past several years has been relatively stable, ranging from 1.86% to 2.03%. While the overall percentage of SGF Revenues going towards debt service is comparatively small, even with the decline of SGF Revenues due to lower income tax rates, KDFA expects the percentage to go up to approximately 2.25% due to financing the remaining (\$231 million) of the State’s cost share participation for NBAF. The largest contributors for SGF Debt Service in recent years are from the following issuances of debt:

- 2004C Kansas Public Employees Retirement System (\$500.0M)
- Various Series of State Capitol Restoration Project (\$326.6M)
- 2006A Kansas Department of Administration – Comprehensive Transportation Program (\$209.5M)
- *Expected* National Bio and Agro-Defense Facility State cost share participation (\$231M remaining of \$307M authorized)

<b>SGF DEBT SERVICE RATIO</b>	<i>Fiscal Year</i>					
	( <b>\$ Millions</b> )	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015*</i>
SGF Revenue	5,882.1	6,412.8	6,341.1	5,653.2	5,768.7	5,811.4
SGF Debt Service	119.2	125.9	118.2	109.7	109.3	113.9
Debt Service as % of Revenue	2.03%	1.96%	1.86%	1.94%	1.90%	1.96%

\* *November 2014 Revenue Estimate*

## Authorized Proposed Debt Issuance

DESCRIPTION	AUTHORIZED BY	BALANCE FORWARD	AUTHORIZED IN FY 2014	BALANCE AT 06/30/2014	ISSUED YTD FY 2015	REPAYMENT SECURITY
T-WORKS	Senate Sub for HB 2650	1,175,000,000		1,175,000,000	250,000,000	Tax - SHF
Bioscience & Agro Defense Facility NBAF	2013 SB171 Sec 267 (b)	29,338,195		29,338,195		Tax - SGF
Bioscience & Agro Defense Facility NBAF	2013 SB171 Sec 267 (c)	202,000,000		202,000,000		Tax - SGF
KUMC Medical Education Building	2014 Session Law Chap 93 Sec 20[b]		25,000,000	25,000,000	25,000,000	Tax - SGF
KWO John Redmond Reservoir Dredging	SFC Resolution 14-642				20,000,000	Tax - SGF
KU Earth Energy Environment Center	2014 Session Law Chap 93 Sec 18[b]		25,000,000	2,500,000		User Fee
FHSU Weist Hall Replacement	2014 Session Law Chap 93 Sec 8[b]		25,000,000	25,000,000		User Fee
KSU Salina campus Student Housing	2013 SB 171 Sec 232 (e)	6,000,000		6,000,000		User Fee
KSU School of Business	2013 SB 171 Sec 232 (g)	50,000,000		50,000,000		User Fee
KSU Chill Water Plant	2014 Session Law Chap 93 Sec 10[c]		56,000,000	56,000,000		User Fee
<b>Total</b>		<b>1,462,338,195</b>	<b>131,000,000</b>	<b>1,570,838,195</b>	<b>295,000,000</b>	

## Proposed Debt Issuance

As of June 30, 2014, potentially \$1.571 billion of debt could be issued over the next several years based on current authorizations from the State Legislature. The most notable portion of this amount is for T-WORKS whereby the 2010 Legislature authorized KDOT to issue bonds secured by the State Highway Fund (SHF) up to an amount whereby annual debt service on the bonds would not exceed 18% of the projected SHF revenues. KDOT has previously estimated that \$1.7 billion in bonds could be issued pursuant to this authorization of which KDOT issued \$325 million during FY 2011; \$200 million in FY 2013; and, \$250 million in FY15.

These tables do not take into account future plans for any other planned capital expenditure that has not already been authorized by the Legislature to be financed through debt issuance.

The projects identified in the table above are authorized to be financed through debt issuance. Certain projects may have already been financed, and the authorization represents unissued debt which may be issued, if necessary, to complete the project, or may contain remainder authorization that ultimately will not be needed or issued. In some instances, the agencies elect to pursue a different course, and debt may never be issued for an authorized project.

## Surrounding State Comparison

In May 2014, Moody’s Investor Services published a report titled “2014 State Debt Medians”. With this report Moody’s calculates a handful of debt ratios for all fifty states and tabulates the results listing all the states in order for the various ratios. In the 2014 report the following data can be found for Kansas and surrounding states for comparison:

State	Net Tax-Supported Debt <sup>(1)</sup> Per Capita	Rank	Net Tax-Supported Debt as a % of 2012 Personal Income	Rank	Moody’s Rating
Kansas	\$1,097	23 (up 1)	2.6%	26 (up 1)	Aa2 <sup>(2)</sup>
Oklahoma	\$529	41 (down 3)	1.3%	42 (down 4)	Aa2
Colorado	\$517	42 (down 2)	1.1%	43 (down 2)	Aa1 <sup>(2)</sup>
Nebraska	\$12	50	0.0%	50	NGO <sup>(3)</sup>
Iowa	\$275	47 (up 1)	0.6%	47	Aaa <sup>(2)</sup>
Missouri	\$668	36 (up 1)	1.7%	37 (up 1)	Aaa
Surrounding Average	\$516		1.2%		
US Average	\$1,436		3.2%		

Notes: (1) Moody’s defines Net Tax-Supported Debt to include some User-Fee Supported Debt. In the case for Kansas, this figure includes SGF backed debt, all other Tax-Supported debt including KDOT debt, and the majority of User-Fee Supported Debt. A similar S&P’s study yields consistent results  
 (2) Issuer Credit Rating  
 (3) No General Obligation Rating

While Kansas’s ratios are measurably higher than the surrounding state group’s, it is important to note that Moody’s rating, which is an “all in” measure of a state’s ability and willingness to pay its obligations on time, is consistent with the surrounding state group. Further, different states make different financing choices which leads to variations in the level of services provided by the state and the condition of the state’s infrastructure. ***Kansas’s ability and cost of using debt as a financing tool is determined by our credit rating not by the ranking in this study.***



## Review of Credit Ratings

Credit ratings are the rating agencies' assessments of a governmental entity's ability and willingness to repay debt on a timely basis. Credit ratings are an important indicator in the credit markets and influence interest rates a borrower must pay. Each of the rating agencies believes that debt management generally, and this debt report in particular, are positive factors in assigning credit ratings.

Kansas is a strong credit as reflected in our AA and Aa2 ratings from S&P and Moody's respectively. There are several factors which rating agencies analyze in assigning credit ratings: financial factors, economic factors, debt factors, and administrative/management factors. Weakness in one area may well be offset by strength in another. However, significant variations in any single factor can influence a bond rating.

S&P's lowered the State's issuer credit rating from AA+ to AA with a negative outlook on August 6, 2014 based on a structurally unbalanced budget following state income tax cuts that have not been matched with offsetting ongoing expenditure cuts. More recently, on February 11, 2015 S&P affirmed the new AA rating along with the negative outlook and noted the State's strong governmental framework; ability to support cash flow needs through the use of interfund certificates of indebtedness; a good fiscal year-end 2014 general fund balance of 6%; and, an economy that generally moves in line with the nation but with lower-than-average unemployment. Weaknesses include: a projected negative fund balance at fiscal year-end 2015; the likelihood that general fund balances will remain low; and, significant unfunded pension liabilities and annual pension contributions that are below the actuarial annual required contribution.

Moody's lowered the State's issuer rating from Aa1 to Aa2 on April 30, 2014 based on a sluggish economic recovery and a structurally imbalanced budget. More recently, on February 4, 2015 Moody's affirmed the new Aa2 rating with a stable outlook and noted the State's historically strong governance, with adherence to fiscal best practices; a low unemployment rate and other favorable economic indicators; and, a diverse economy as strengths. Challenges noted include: reduction in ending fund balance due to enacted income tax cuts; use of non-recurring measures to achieve operating budget balance; and, a weak pension funded status and growing pension costs.

## User-Fee Supported Debt

Source of Repayment: revenues generated from the operation of the associated facilities that were financed by the debt issuance. These obligations are not secured by traditional State tax revenues. None of this debt is secured by a general obligation pledge or an annual appropriation by the Legislature of State revenues.

<u>Series</u>	<u>Title</u>	<u>Balance 6/30/14</u>
2001B	Kansas Board of Regents - Emporia State University Student Recreation Facility Project	1,295,000
2003A	Kansas Board of Regents - Pittsburg State University Overman Student Center Renovation Project	250,000
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - \$72,670,000	
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - WSU Engineering Complex	2,305,000
2003D-1&2	Kansas Board of Regents - Fort Hays State University Housing System Projects	440,000
2005A	Kansas State University Housing System, Manhattan Campus - Jardine	2,125,000
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - Phase II - \$66,530,000	21,250,000
2005E-1&2	Kansas Board of Regents - University of Kansas Housing System Refunding & Medical Center Parking	1,335,000
2005F	Kansas Board of Regents - Emporia State University Towers Residential Complex Imprvmt. Proj.	6,610,000
2005G-1&2	Kansas Board of Regents - Fort Hays State University Memorial Union Renovation Tax-exempt & Taxable	5,550,000
2006B	Kansas Board of Regents - KU Parking Facilities Project	9,015,000
2007A	Kansas Board of Regents - Kansas State University Housing System, Manhattan Campus Project, Jardine Apartments	8,650,000
2007E	Kansas Board of Regents - University of Kansas Student Recreation Center	4,620,000
2007H	Kansas Board of Regents - Kansas State University Parking System	15,645,000
2007M	Kansas Law Enforcement Training Center	13,830,000
2008D	Kansas Board of Regents - Kansas State University Salina Campus Project	1,600,000
2009G	Kansas Board of Regents - Pittsburg State University Student Health System	590,000
2009H	Kansas Board of Regents - Pittsburg State University Housing System	13,460,000
2009J	Kansas Board of Regents - Pittsburg State University Parking System	3,880,000
2009K	Kansas Board of Regents - Kansas State University Child Care Facility Project	5,915,000
2010A	Kansas Board of Regents - University of Kansas Housing System Project	21,145,000
2010B	University of Kansas Energy Conservation Program	18,000,000
2010G	Kansas Board of Regents - Kansas State University Student Recreation Center Expansion	21,065,000
2010H	Kansas Board of Regents - Kansas State University Farrell Library Expansion Project	515,000
2010J	Kansas Board of Regents - Emporia State University Student Union Project	12,445,000
2010K	Kansas Board of Regents - Univeristy of Kansas Medical Center Parking Garage & Economic Refundings	10,900,000
2010M	Kansas Board of Regents - University of Kansas Edwards Campus Building #4 (JCERTA)	17,390,000
2010P	Kansas Board of Regents - JCERTA KUMC Clinical Trials Facility	14,035,000
2010U	Kansas Board of Regents - Kansas State University Projects	20,335,000
2011C	Kansas Board of Regents - University of Kansas Housing Project	12,320,000
2011D	Kansas Board of Regents - Pittsburg State University Projects	7,180,000
2011G	Kansas Board of Regents - Kansas State University Projects	14,870,000
2012A	Kansas Board of Regents - Wichita State University Projects	23,720,000
2012D	Kansas Board of Regents - University of Kansas Refundings	45,840,000
2012F	Kansas Board of Regents - Kansas State University Energy Projects	16,590,000
2012H	Kansas Board of Regents - Kansas State University Refundings	35,425,000
2013G	Kansas Board of Regents - University of Kansas Engineering Project	77,335,000
2014A	Kansas Board of Regents - Pittsburg State University Projects	35,175,000
2014B	Kansas Board of Regents - University of Kansas Medical Center Energy Project	2,423,000
2014C	Kansas Board of Regents - University of Kansas Housing Project	56,655,000
2014D	Kansas Board of Regents - Kansas State University Projects & Refundings	133,550,000
	<b>total</b>	<b>759,622,429</b>

## Self-Supporting Debt

Source of Repayment: Loan agreements with city and county governments in the State. None of this debt is secured by a general obligation pledge or an annual appropriation by the Legislature of State revenues.

<u>Series</u>	<u>Title</u>	<u>Balance 6/30/14</u>
2001 Series I&II	Kansas Department of Health and Environment - Water Pollution Control Revolving Loan Fund	40,500,000
2004 Series I&II	Kansas Department of Health and Environment - Water Pollution Control Revolving Loan Fund	5,725,000
2004 Series 1&2	KDHE Drinking Water	3,000,000
2005 CW	KDHE Clean Water	48,320,000
2005 TR	Kansas Dept. of Transportation Revolving Loan Fund	17,690,000
2006 TR	Kansas Dept. of Transportation Revolving Loan Fund	12,630,000
2008A	KBOR - Post Secondary Educational Institutional Loan Program	5,000,000
2008G	KDOT Communication System Lease Program	1,196,000
2009C	KBOR - Post Secondary Educational Institutional Loan Program	7,500,000
2009 TR	Kansas Dept. of Transportation Revolving Loan Fund	20,970,000
2009DW	KDHE - Public Water Supply Revolving Loan Fund	36,830,000
2010SRF	KDHE - Water SRF Loan Funds Master Financing Indenture	192,965,000
2011SRF	KDHE - Water SRF Loan Funds Master Financing Indenture	53,025,000
2013SRF-2	KDHE - Water SRF Loan Funds Master Financing Indenture Note	5,100,000
	<b>total</b>	<b>450,451,000</b>

<b>Tax-Supported Debt</b>		
<b>Other</b>		
Source of Repayment: Specific revenue fund OTHER THAN the State General Fund (SGF).		
<u>Series</u>	<u>Title</u>	<u>Balance 6/30/14</u>
2002H	DHR Acquisition & Renovation Project - 1430 Building (legally changed to DOL)	1,830,000
2002N-1&2	SRS Larned State Hospital & KHP Fleet Operations Project	1,330,000
2004A	State of Kansas Projects	2,165,000
2005H-2	State of Kansas Projects - Dept. of Human Resources - Unemployment Benefit System	4,920,000
2007F	Kansas Department of Commerce - IMPACT Program Project	12,130,000
2009F	Kansas Department of Commerce - IMPACT Program Project	32,625,000
2010C	Kansas Department of Commerce - IMPACT Program Project	37,670,000
2011K	Kansas Department of Commerce - IMPACT Program Project	100,115,000
2013B	State of Kansas - State Institutional Building Fund Refundings	37,220,000
	<b>total</b>	<b>230,005,000</b>

<b>Tax-Supported Debt</b>		
<b>State General Fund</b>		
Source of Repayment: State General Fund (SGF)		
<b>Series</b>	<b>Title</b>	<b>Balance 6/30/14</b>
2001W	Series 2001W State of Kansas Projects - Fairgrounds Renov; Judicial Center & Capitol Renov	895,000
2004A-2	State of Kansas Projects - Kansas State Fairgrounds - Renovation Project	2,165,000
2004C	Kansas Public Employees Retirement System	433,435,000
2005H	State of Kansas Projects - Capitol Resto, Armories, Public Broadcasting & Dept Corrections Refunding	53,480,000
2006A	Kansas Dept. of Administration - Comprehensive Transportation Program (Reimbursement)	156,125,000
2006L	State of Kansas Projects - Capitol Resto & PSU Armory	8,360,000
2007K	State of Kansas Projects - Capitol Resto, Adj Gen Training Facility & Dept of Corrections Renovations	46,890,000
2008L	State of Kansas Projects - Capitol Renov, Armories & KU Pharmacy	52,440,000
2009A&B	State General Fund - Debt Restructure	4,340,000
2009M&N	State General Fund - State Capitol, W&P, KU Pharmacy, Refund 2002J & Restructure	112,325,000
2010E&F	State General Fund - NBAF, Economic Refundings & Restructure	93,940,000
2010O	State General Fund - State Capitol & Armories	38,090,000
2011B	State General Fund - State Capitol	47,185,000
2013A	State General Fund - State Capitol	69,400,000
	<b>total</b>	<b>1,119,070,000</b>

<b>Tax-Supported Debt</b>		
<b>State Highway Fund (KDOT)</b>		
Source of Repayment: motor fuel taxes, vehicle registration fees, sales taxes and federal aid reimbursements.		
<b>Series</b>	<b>Title</b>	<b>Balance 6/30/14</b>
2002 B & C	State of Kansas - Department of Transportation - Highway Revenue Bonds	236,215,000
2004 A	State of Kansas - Department of Transportation - Highway Revenue Bonds	76,235,000
2004 B	State of Kansas - Department of Transportation - Adjustable Tender Highway Revenue Bonds	200,000,000
2004 C	State of Kansas - Department of Transportation - Adjustable Tender Highway Revenue Bonds	147,000,000
2009 A	State of Kansas - Department of Transportation - Highway Revenue Bonds	176,680,000
2010 A	State of Kansas - Department of Transportation - Highway Taxable Revenue Bonds (BABs)	325,000,000
2012A	State of Kansas - Department of Transportation - Highway Revenue Refunding Index Bonds	128,290,000
2012B	State of Kansas - Department of Transportation - Highway Revenue Refunding Bonds	144,885,000
2012C	State of Kansas - Department of Transportation - Highway Revenue Bonds	200,000,000
	<b>total</b>	<b>1,634,305,000</b>