

State of Kansas 2015 Debt Study



Prepared by:  Kansas Development Finance Authority

Background

Kansas Development Finance Authority (“KDFa”) was created by the Kansas legislature as a public body politic and corporate, with corporate succession, to streamline debt issuance and provide efficient execution of capital transactions on behalf of the State and other public and private entities. KDFa was formed as an independent instrumentality and public corporation, to clearly establish a separate entity from the State of Kansas for purposes of debt issuance in order that the revenue debt KDFa 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 KDFa, and not the State of Kansas.

In early 2008, KDFa developed the first annual debt study to provide relevant data to assist policymakers in making financing decisions for the State. The purpose of this 2015 Debt Study is to give policymakers a picture of the State’s debt position on June 30, 2015. 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 provides certain projections to help policymakers understand and measure the financial impact of future debt issuance.

The information generated by this analysis is provided to: the KDFa Board of Directors, the Governor’s office, the State Budget Director, the Legislative Research Division and, members of the State Finance Council. The Report is also posted on the KDFa website (www.kdfa.org). The information may be used by the legislature to establish priorities during the legislative budget process. Additionally, as the legislature considers new financing proposals, 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 audited financial report. This study is also not intended to fulfill any of the State’s or KDFa’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.

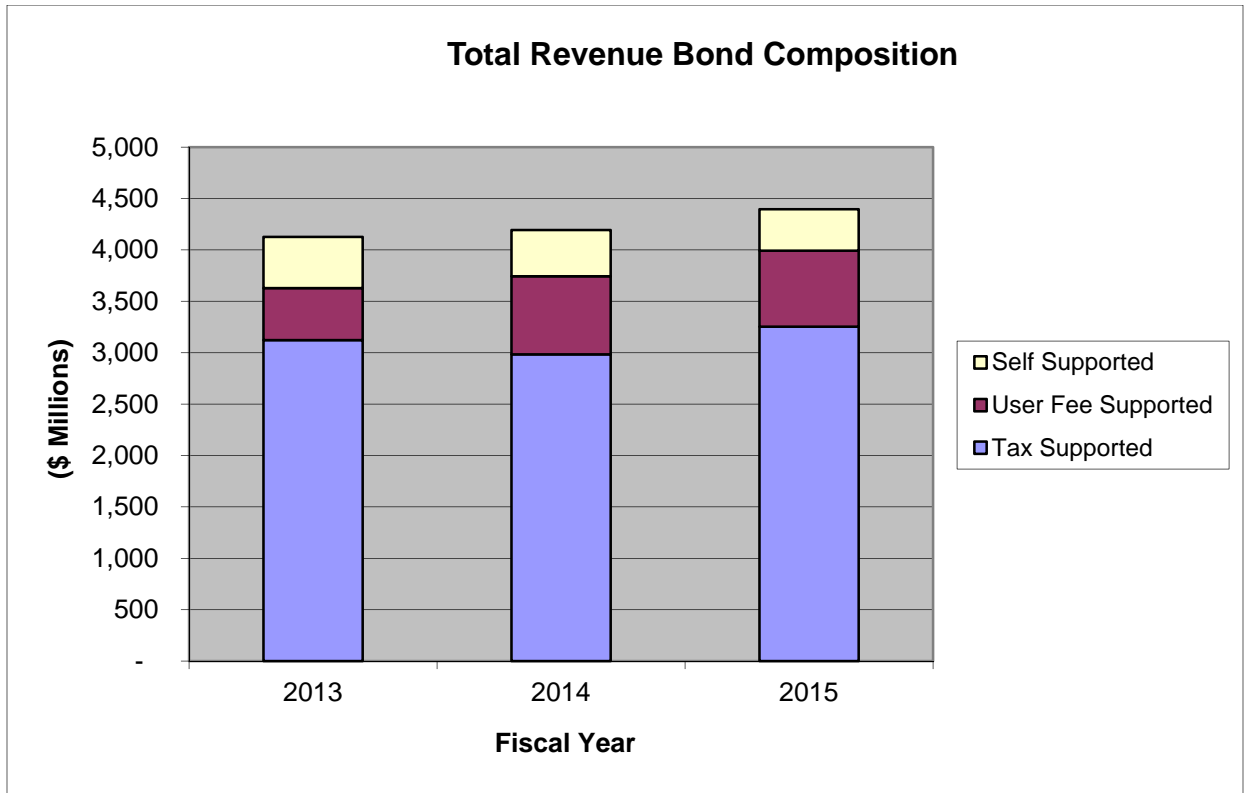
Tax-Supported Revenue Bonds are debt secured by traditional State revenues typically generated through taxation. For each debt issuance a specific pledge of revenues has been made to secure the repayment of principal and interest for the bonds (e.g. Highway Fund revenues for KDOT debt). None of this 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 KDFFA 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. KDFFA periodically performs refunding analyses to identify debt that may be currently or advance refunded to achieve economic savings.

Revenue Bonds Outstanding

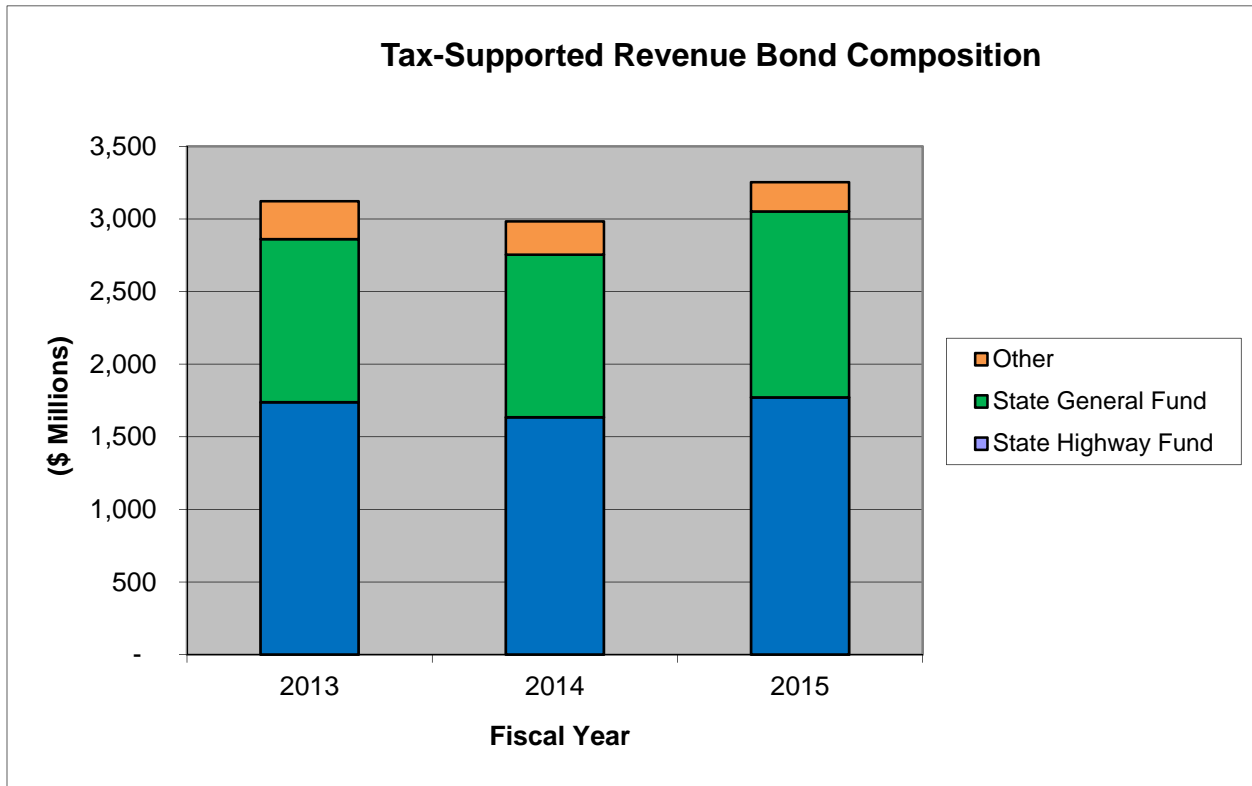
Total revenue bond debt outstanding at June 30, 2015 was \$4.395 billion approximately \$202 million MORE than at June 30, 2014. User-fee supported debt totaled \$739 million (Appendix page A-1). This represented a \$21 million DECREASE from the prior year. Additionally, self-supporting debt outstanding at June 30, 2015 was \$403 million which was \$47 million LESS than at June 30, 2014 (Appendix page A-2). Tax-supported debt totaled \$3.253 billion for financings supported by State tax revenues or tax-like revenues which was an annual INCREASE of approximately \$270 million (Appendix pages A-3 to A-5).



TOTAL DEBT	<i>Fiscal Year End</i>					
(\$ Millions)	<i>2013</i>		<i>2014</i>		<i>2015</i>	
Tax Supported	3,122	75.7%	2,983	71.1%	3,253	74.0%
User Fee Supported	507	12.3%	760	18.1%	739	16.8%
Self Supported	498	12.1%	450	10.7%	403	9.2%
Total	4,127		4,193		4,395	

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 is attributable to 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 State Institutional Building Fund or other Special Revenue Funds (Appendix A-3).



TAX-SUPPORTED DEBT	<i>Fiscal Year End</i>					
	<i>2013</i>		<i>2014</i>		<i>2015</i>	
(\$ Millions)						
State Highway Fund	1,738	55.7%	1,634	54.8%	1,771	54.4%
State General Fund	1,123	36.0%	1,119	37.5%	1,280	39.4%
Other	261	8.4%	230	7.7%	202	6.2%
Total	3,122		2,983		3,253	

State General Fund Debt Ratio

The percentage of SGF Revenues going towards debt service over the past several years has been relatively stable at a little under 2%. While the overall percentage of SGF Revenues going towards debt service is comparatively small, it is projected to go up measurably (to 2.85%) in the near term due to the State’s cost share participation in NBAF and a taxable financing to make a \$1 billion deposit to KPERS. The largest contributors of 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)
- National Bio and Agro-Defense Facility State cost share participation (\$307M)
- 2015H Kansas Public Employees Retirement System (\$1,000.5M)

SGF DEBT SERVICE RATIO	<i>Fiscal Year</i>					
	(\$ Millions)	2012	2013	2014	2015	2016*
SGF Revenue	6,412.8	6,341.1	5,653.2	5,928.8	6,165.9	6,285.7
SGF Debt Service	125.9	118.2	109.7	109.3	142.9	179.3
Debt Service as % of Revenue	1.96%	1.86%	1.94%	1.84%	2.32%	2.85%

** November 2015 Revenue Estimate*

Authorized Proposed Debt Issuance

DESCRIPTION	AUTHORIZED BY	AUTHORIZED IN FY 2015	BALANCE AT 06/30/2015	ISSUED YTD FY 2016	REPAYMENT SECURITY
T-WORKS	Senate Sub for HB 2650		925,000,000	400,000,000	Tax-SHF
KPERS Deposit	SB 228 New Sec 1 (a) 2014 Session Law Chap 93 Sec 8[b]	1,000,000,000	1,000,000,000	1,000,000,000	Tax-SGF
FHSU Weist Hall Replacement			25,000,000		User Fee
KSU Salina campus Student Housing	2013 SB 171 Sec 232 (e)		6,000,000		User Fee
KSU School of Business KSU Seaton Hall College of Architecture	2013 SB 171 Sec 232 (g) SB 112 Sec 206(g)		50,000,000 60,000,000	60,000,000	User Fee User Fee
KSU Student Union Expansion	HB 2135 Sec 189(f)	25,000,000	25,000,000	25,000,000	User Fee
KU Earth Energy Environment Center	HB 2135 Sec 195(d)	25,000,000	25,000,000		User Fee
KU Residence Hall & Dining	HB 2135 Sec 195(e)	51,200,000	51,200,000		User Fee
KU Corbin Hall Renovation	HB 2135 Sec 195(f)	14,500,000	14,500,000		User Fee
KUMC Parking Garage	HB 2135 Sec 197(c)	39,600,000	39,600,000		User Fee
KUMC Health Education Building	HB 2135 Sec 197(d)	35,000,000	35,000,000		User Fee
KU Central District Project Lease	Board of Regents			350,000,000	User Fee
Total		1,250,300,000	2,256,300,000	1,835,000,000	

Proposed Debt Issuance

As of June 30, 2015, \$2.256 billion of debt was authorized by the Legislature. The most notable portion of this amount is for a \$1 billion financing to provide a deposit to KPERS which was completed in August 2015. Additionally, the 2010 Legislature authorized the T-WORKS program, permitting 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. In 2015, the Legislature waived the 18% statutory cap. To date, KDOT issued \$325 million during FY 2011; \$200 million in FY 2013; \$250 million in FY15; and, \$400 million on FY16.

These tables do not take into account future plans for any other planned capital expenditure that have 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 June 2015, Moody’s Investor Services published a report titled “2015 State Debt Medians”. In 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 2015 report the following data can be found for Kansas and surrounding states for comparison:

State	Net Tax-Supported Debt ⁽¹⁾ Per Capita	Rank	Net Tax-Supported Debt as a % of 2013 Personal Income	Rank	Moody’s Rating
Kansas	\$1,099	23	2.5%	25 (up 1)	Aa2 ⁽²⁾
Oklahoma	\$493	41	1.2%	42	Aa2
Colorado	\$478	42	1.0%	43	Aa1 ⁽²⁾
Nebraska	\$10	50	0.0%	50	NGO ⁽³⁾
Iowa	\$250	47	0.6%	47	Aaa ⁽²⁾
Missouri	\$606	38 (down 2)	1.5%	38 (down 1)	Aaa
Surrounding Average	\$489		1.1%		
US Average	\$1,419		3.1%		

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 groups, 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 practices, economic conditions, debt, and administrative/management. 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 or additional revenues. More recently, on July 31, 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; enactment of a near-structurally balanced budget for fiscal 2016; and, an economy that generally moves in line with the nation but with lower-than-average unemployment. Weaknesses include: negative low general fund balance; 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 July 30, 2015 Moody's affirmed the new Aa2 rating with a stable outlook and noted the State's historically strong governance; a diverse but slowing growing economy; and, low unemployment. Challenges noted include: a structurally imbalanced budget; reliance on interfund borrowing and transfers; and, as underfunded pension plan to which the State is not making contributions in accordance with the actuarially determined rate.

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 6/30/15</u>
2001B	Kansas Board of Regents - Emporia State University Student Recreation Facility Project	1,135,000
2003A	Kansas Board of Regents - Pittsburg State University Overman Student Center Renovation Project	115,000
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	365,000
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - Phase II - \$66,530,000	16,960,000
2005E-1&2	Kansas Board of Regents - University of Kansas Housing System Refunding & Medical Center Parking	680,000
2005F	Kansas Board of Regents - Emporia State University Towers Residential Complex Imprvmt. Proj.	6,160,000
2005G-1&2	Kansas Board of Regents - Fort Hays State University Memorial Union Renovation Tax-exempt & Taxable	5,180,000
2006B	Kansas Board of Regents - KU Parking Facilities Project	7,875,000
2007E	Kansas Board of Regents - University of Kansas Student Recreation Center	4,340,000
2007H	Kansas Board of Regents - Kansas State University Parking System	15,225,000
2007M	Kansas Law Enforcement Training Center	13,000,000
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	540,000
2009H	Kansas Board of Regents - Pittsburg State University Housing System	13,050,000
2009J	Kansas Board of Regents - Pittsburg State University Parking System	3,700,000
2009K	Kansas Board of Regents - Kansas State University Child Care Facility Project	5,795,000
2010A	Kansas Board of Regents - University of Kansas Housing System Project	20,105,000
2010B	University of Kansas Energy Conservation Program	16,890,000
2010G	Kansas Board of Regents - Kansas State University Student Recreation Center Expansion	20,560,000
2010H	Kansas Board of Regents - Kansas State University Farrell Library Expansion Project	250,000
2010J	Kansas Board of Regents - Emporia State University Student Union Project	11,845,000
2010K	Kansas Board of Regents - Univeristy of Kansas Medical Center Parking Garage & Economic Refundings	10,605,000
2010M	Kansas Board of Regents - University of Kansas Edwards Campus Building #4 (JCERTA)	16,140,000
2010P	Kansas Board of Regents - JCERTA KUMC Clinical Trials Facility	13,370,000
2010U	Kansas Board of Regents - Kansas State University Projects	18,500,000
2011C	Kansas Board of Regents - University of Kansas Housing Project	11,935,000
2011D	Kansas Board of Regents - Pittsburg State University Projects	6,375,000
2011G	Kansas Board of Regents - Kansas State University Projects	14,500,000
2012A	Kansas Board of Regents - Wichita State University Projects	21,620,000
2012D	Kansas Board of Regents - University of Kansas Refundings	44,145,000
2012F	Kansas Board of Regents - Kansas State University Energy Projects	15,960,000
2012H	Kansas Board of Regents - Kansas State University Refundings	34,270,000
2013G	Kansas Board of Regents - University of Kansas Engineering Project	76,815,000
2014A	Kansas Board of Regents - Pittsburg State University Projects	34,790,000
2014B	Kansas Board of Regents - University of Kansas Medical Center Energy Project	1,943,000
2014C	Kansas Board of Regents - University of Kansas Housing Project	56,620,000
2014D	Kansas Board of Regents - Kansas State University Projects & Refundings	132,280,000
2015B	Kansas Board of Regents - Kansas State University Projects & Refundings	61,685,000
	total	739,228,000

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.

Series	Title	Balance 6/30/15
2001 Series I&II	Kansas Department of Health and Environment - Water Pollution Control Revolving Loan Fund	31,000,000
2004 Series I&II	Kansas Department of Health and Environment - Water Pollution Control Revolving Loan Fund	2,915,000
2004 Series 1&2	KDHE Drinking Water	940,000
2005 CW	KDHE Clean Water	36,980,000
2005 TR	Kansas Dept. of Transportation Revolving Loan Fund	15,395,000
2006 TR	Kansas Dept. of Transportation Revolving Loan Fund	10,670,000
2008A	KBOR - Post Secondary Educational Institutional Loan Program	2,500,000
2008G	KDOT Communication System Lease Program	996,000
2009C	KBOR - Post Secondary Educational Institutional Loan Program	5,000,000
2009 TR	Kansas Dept. of Transportation Revolving Loan Fund	19,495,000
2009DW	KDHE - Public Water Supply Revolving Loan Fund	36,070,000
2010SRF	KDHE - Water SRF Loan Funds Master Financing Indenture	183,325,000
2011SRF	KDHE - Water SRF Loan Funds Master Financing Indenture	52,655,000
2014SRF-1	KDHE - Water SRF Loan Funds Master Financing Indenture Note	5,200,000
	total	403,141,000

Tax-Supported Debt		
Other		
Source of Repayment: Specific revenue fund OTHER THAN the State General Fund (SGF).		
<u>Series</u>	<u>Title</u>	<u>Balance 6/30/15</u>
2002H	DHR Acquisition & Renovation Project - 1430 Building (legally changed to DOL)	1,635,000
2002N-1&2	SRS Larned State Hospital & KHP Fleet Operations Project	1,025,000
2007F	Kansas Department of Commerce - IMPACT Program Project	8,280,000
2009F	Kansas Department of Commerce - IMPACT Program Project	26,685,000
2010C	Kansas Department of Commerce - IMPACT Program Project	32,310,000
2011K	Kansas Department of Commerce - IMPACT Program Project	97,645,000
2013B	State of Kansas - State Institutional Building Fund Refundings	34,200,000
	total	201,780,000

Tax-Supported Debt		
State General Fund		
Source of Repayment: State General Fund (SGF)		
Series	Title	Balance 6/30/15
2001W	Series 2001W State of Kansas Projects - Fairgrounds Renov; Judicial Center & Capitol Renov	800,000
2004C	Kansas Public Employees Retirement System	420,600,000
2006A	Kansas Dept. of Administration - Comprehensive Transportation Program (Reimbursement)	29,425,000
2006L	State of Kansas Projects - Capitol Resto & PSU Armory	1,715,000
2007K	State of Kansas Projects - Capitol Resto, Adj Gen Training Facility & Dept of Corrections Renovations	13,820,000
2008L	State of Kansas Projects - Capitol Renov, Armories & KU Pharmacy	33,385,000
2009A&B	State General Fund - Debt Restructure	4,125,000
2009M&N	State General Fund - State Capitol, W&P, KU Pharmacy, Refund 2002J & Restructure	107,420,000
2010E&F	State General Fund - NBAF, Economic Refundings & Restructure	86,925,000
2010O	State General Fund - State Capitol & Armories	36,205,000
2011B	State General Fund - State Capitol	45,140,000
2013A	State General Fund - State Capitol	66,735,000
2015A	State General Fund - KUMC Med Ed, KWO & Refundings	230,475,000
2015G	State General Fund - NBAF	203,585,000
	total	1,280,355,000

Tax-Supported Debt		
State Highway Fund (KDOT)		
Source of Repayment: motor fuel taxes, vehicle registration fees, sales taxes and federal aid reimbursements.		
Series	Title	Balance 6/30/15
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	38,225,000
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
2014A	State of Kansas - Department of Transportation - Highway Revenue Bonds	250,000,000
2014B	State of Kansas - Department of Transportation - Highway Revenue Refunding Index Bonds	212,875,000
	total	1,770,900,000