

State of Kansas 2016 Debt Study



Prepared by:  Kansas Development Finance Authority

Revision 1: Added KDFA statutory definition of Bonds on page 3; grammatical edits throughout.

Background

Kansas Development Finance Authority (“KDFFA”) 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. KDFFA 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 KDFFA 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. Private Activity Bonds are issued to finance hospitals, affordable housing projects, manufacturing, agriculture, etc. and these bonds are solely the obligation of the underlying private entity borrower. 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 KDFFA, and not the State of Kansas.

In early 2008, KDFFA developed the first annual debt study to provide relevant data to assist policymakers in making financing decisions for the State. The purpose of this 2016 Debt Study is to give policymakers a picture of the State’s debt position on June 30, 2016. 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 KDFFA 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 KDFFA 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 KDFFA’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

Bonds are defined by the KDFA Act, K.S.A. 74-8901 *et seq.* (the “Act”) to mean any bonds, notes, debentures, interim certificates, grant and revenue anticipation notes, interest in a lease, lease certificate of participation, interest in a lease, lease certificate of participation or other evidences of indebtedness, whether or not the interest on is subject to federal income taxation, issued by the Authority pursuant to the Act.

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.

Component Units of University System are generally the student union corporations, athletic corporations, research corporations, and other affiliate corporations of the State Universities that have their financial statements consolidated onto their respective university’s financial statements and therefore onto the State’s CAFR. For the purpose of this report, the long term obligations of these entities is included for the first time in 2016 since it is a growing mechanism by which the universities are incurring long term obligations to finance their infrastructure. It is believed that these long term obligations that are recorded as a single number in the CAFR are primarily revenue bonds whose repayment obligation is secured by revenues generated from the operation of the associated facilities that were financed and not tax revenues.

Revenue Bonds Outstanding --- Data Table

After a decade of stability, tax-supported debt has increased by almost 50% in the last two years. This can be attributed primarily to two financings: KDFA 2015H KPERS Pension Deposit of \$1,000.5M and KDOT 2015B Highway Revenue Bonds of \$400M.

Component Units of the University System debt has grown substantially over the past decade, most notably with KU's Central District financing through the Wisconsin Public Finance Authority in January 2016 with net proceeds of \$350M and capitalized interest of \$30.8M.

User-Fee revenue bonds which is mostly composed of state university debt has also grown measurably over the past decade.

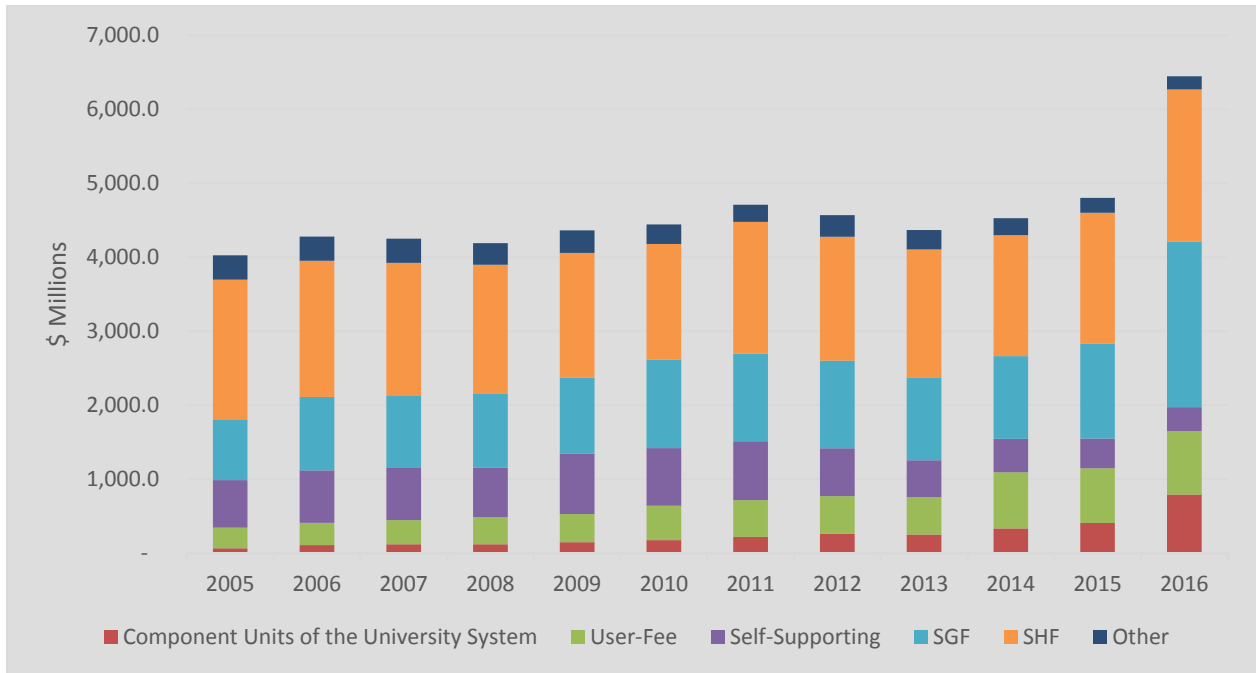
Self-Supporting revenue bonds which is almost entirely composed of financings backed by loans to Kansas municipalities for water, wastewater and road infrastructure has decreased by half. KDFA believes this has been the result of municipalities choosing, in a low interest rate environment where the program subsidy is not as meaningful, to finance their water and wastewater projects by themselves to avoid the EPA and other federal requirements that are attached to the subsidized loan program run by KDHE. For road infrastructure, the Legislature and KDOT have previously decided to not write new loans and close down the loan pool.

Overall, the State had used debt sparingly in prior decades and was previously considered a low debt state. Now we are a moderate debt state with Moody's Net Tax Supported Debt of \$1,534. The US average is \$1,431 with a range of Connecticut at \$6,155 and Nebraska at \$8.

<i>Fiscal Year</i>	<i>Component Units of the University System</i>	<i>User-Fee</i>	<i>Self-Supporting</i>	<i>Tax-Supported</i>			<i>Total Tax-Supported</i>	<i>Total</i>
				<i>SGF</i>	<i>SHF</i>	<i>Other</i>		
2005	64.6	278.0	642.3	822.1	1,889.0	328.6	3,039.7	4,024.6
2006	106.8	300.6	710.7	992.1	1,842.2	325.8	3,160.1	4,278.2
2007	119.1	326.2	705.6	982.4	1,789.2	328.1	3,099.7	4,250.6
2008	119.1	367.0	670.0	1,003.0	1,739.0	292.0	3,034.0	4,190.1
2009	146.5	380.5	816.5	1,028.0	1,686.0	305.0	3,019.0	4,362.5
2010	174.5	464.9	779.2	1,196.7	1,563.2	263.2	3,023.1	4,441.7
2011	217.0	499.0	795.7	1,182.3	1,783.4	232.0	3,197.7	4,709.5
2012	259.8	510.9	646.0	1,185.5	1,673.4	291.5	3,150.4	4,567.1
2013	249.6	506.6	497.7	1,113.7	1,737.6	261.5	3,112.7	4,366.6
2014	333.0	759.6	450.5	1,119.1	1,634.3	230.0	2,983.4	4,526.5
2015	406.9	739.2	403.1	1,280.4	1,770.9	201.8	3,253.0	4,802.3
2016	790.8	860.0	321.6	2,235.5	2,059.1	178.8	4,473.5	6,445.9
Growth Rate	26%	11%	-6%	10%	1%	-5%	4%	4%

Revenue Bonds Outstanding --- Bar Chart

The tabular data from the previous page is presented again in graphic form.



State General Fund Debt Ratio

The percentage of SGF Revenues going towards debt service has been growing over the past several years. The increase has been primarily driven by the financing programs set forth below:

- 2004C Kansas Public Employees Retirement System \$500.0M
- Various Series of State Capitol Restoration Project \$326.6M
- National Bio and Agro-Defense Facility State cost share participation \$307.0M
- 2015H Kansas Public Employees Retirement System \$1,000.5M

Debt service attributable to the pension deposits made to KPERS will be just over \$100M starting in the current fiscal year.

<i>Fiscal Year</i>	<i>SGF Revenue</i>	<i>SGF Debt Service</i>	<i>Debt Service as % of Revenue</i>
2005	4,841,300,000	39,712,444	0.82%
2006	5,394,400,000	48,231,543	0.89%
2007	5,809,000,000	63,326,489	1.09%
2008	5,693,400,000	85,998,793	1.51%
2009	5,587,400,000	83,645,121	1.50%
2010	5,191,300,000	87,329,960	1.68%
2011	5,882,100,000	119,200,000	2.03%
2012	6,412,751,000	125,900,000	1.96%
2013	6,341,125,000	118,200,000	1.86%
2014	5,653,197,000	109,693,535	1.94%
2015	5,928,781,000	109,344,486	1.84%
2016	6,073,463,000	142,865,750	2.35%
2017	5,980,100,000	179,275,433	3.00%
2018	5,536,400,000 *	188,750,613	3.41%
2019	5,575,400,000 *	183,255,998	3.29%

** November 2016 Revenue Estimate*

Authorized Proposed Debt Issuance

DESCRIPTION	AUTHORIZED BY	AUTHORIZED IN FY 2016	BALANCE AT 06/30/2016	ISSUED YTD FY 2017	REPAYMENT SECURITY
T-Works	Senate Sub for HB 2650		note (1)		Tax-SHF
KSU Salina Campus Student Housing	Ch. 104, § 206(e) 2015 Session Laws of Kansas		6,000,000		User Fee
KU Earth Energy Environment Center	Ch. 104, § 212(c) 2015 Session Laws of Kansas		25,000,000	25,000,000	User Fee
KU Corbin Hall Renovation	Ch. 104, § 212(f) 2015 Session Laws of Kansas		14,500,000	13,500,000	User Fee
KUMC Health Education Building Phase II	Ch. 104, § 214(d) 2015 Session Laws of Kansas		35,000,000	21,000,000	User Fee
WSU Parking Garage	SB 249 Sec 26(a)	7,200,000	7,200,000	7,200,000	User Fee
Total		7,200,000	87,700,000	66,700,000	

Note (1) KDFFA believes that KDOT does not currently have any capacity to issued additional debt under T-Works

Proposed Debt Issuance

As of June 30, 2016, \$87.7 million of debt was authorized by the Legislature. Following a couple years of very heavy new money issuance as previously identified, this is a significant reduction from prior years. Most of the authorized debt at the end of FY 2016 will be issued before the end of January 2017.

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. KDFFA believes that there is likely no existing capacity to issue new debt given the 18% constraint.

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.

Surrounding State Comparison

On May 2016, Moody’s Investor Services published a report titled “State Debt Medians 2016”. 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 2016 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 2014 Personal Income	Rank	Moody’s Rating
Kansas	\$1,534	17 (up 6)	3.4%	17 (up 8)	Aa2 ⁽²⁾
Oklahoma	\$397	43 (down 2)	0.9%	42	Aa2
Colorado	\$424	42	0.9%	43	Aa1 ⁽²⁾
Nebraska	\$8	50	0.0%	50	NGO ⁽³⁾
Iowa	\$239	47	0.5%	47	Aaa ⁽²⁾
Missouri	\$574	39 (down 1)	1.4%	39 (down 1)	Aaa
Surrounding Average	\$529		1.1%		
US Average	\$1,431		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 but with some recent weakening 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 stable outlook on July 26, 2016 based on "...structural budget pressures, as reflected by drawdowns in reserve levels to what we consider very low levels during a period of national economic expansion, despite four rounds of midyear adjustments in fiscal 2016." In their associated report S&P noted the following strengths and weaknesses:

S&P STRENGTHS

(1) Absence of constitutional limits on the legislature's ability to raise revenue or cut major expenditures.

(2) History of making midyear budget adjustments, when necessary, although sometimes using budget items that we would consider of a one-time nature.

(3) Ability to support cash flow needs through the use of interfund certificates of indebtedness and manage disbursements between fiscal years to preserve liquidity even in periods of low fund balances.

S&P WEAKNESSES

(1) A low general fund balances on a budgetary basis, the result of previous income tax cuts, a large budgeted fund balance drawdown in 2015, and substantial midyear revenue shortfalls in fiscal years 2015 and 2016 that the state has met with a mixture of ongoing and one-time budget adjustments. Kansas currently projects a fiscal year-end 2016 general fund balance of only 0.7% of expenditures, and a 1.5% balance at fiscal year-end 2017.

(2) Significant unfunded pension liabilities and annual pension contributions that are projected to remain below the actuarially determined contribution (ADC) until 2020, despite a \$1.0 billion pension bond issue last year. This significant long-term pension liability is offset in part by Kansas' moderate tax-supported debt burden.

Moody's assigns the State's issuer rating as Aa2 with a negative outlook. In their most recent report dated August 10, 2016 they note the following strengths and weaknesses:

Moody's STRENGTHS

- (1) Low unemployment rate and other favorable economic indicators
- (2) Diverse economy
- (3) Large amount of budgetary flexibility on both the revenue and expenditure sides of the budget.

Moody's WEAKNESSES

- (1) History of underfunding pensions, leading to above-average unfunded pension liabilities
- (2) Ongoing difficulties balancing budget with recurring measures after tax cuts

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 6/30/16</u>
2001B	Kansas Board of Regents - Emporia State University Student Recreation Facility Project	970,000
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - WSU Engineering Complex	2,305,000
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - Phase II - \$66,530,000	9,480,000
2005F	Kansas Board of Regents - Emporia State University Towers Residential Complex Imprvmt. Proj.	5,710,000
2006B	Kansas Board of Regents - KU Parking Facilities Project	6,690,000
2007E	Kansas Board of Regents - University of Kansas Student Recreation Center	4,050,000
2007M	Kansas Law Enforcement Training Center	12,140,000
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	490,000
2009H	Kansas Board of Regents - Pittsburg State University Housing System	12,625,000
2009J	Kansas Board of Regents - Pittsburg State University Parking System	3,515,000
2009K	Kansas Board of Regents - Kansas State University Child Care Facility Project	5,670,000
2010A	Kansas Board of Regents - University of Kansas Housing System Project	19,035,000
2010B	University of Kansas Energy Conservation Program	15,735,000
2010G	Kansas Board of Regents - Kansas State University Student Recreation Center Expansion	20,050,000
2010J	Kansas Board of Regents - Emporia State University Student Union Project	11,235,000
2010K	Kansas Board of Regents - Univeristy of Kansas Medical Center Parking Garage & Economic Refundings	10,295,000
2010M	Kansas Board of Regents - University of Kansas Edwards Campus Building #4 (JCERTA)	14,865,000
2010P	Kansas Board of Regents - JCERTA KUMC Clinical Trials Facility	12,685,000
2010U	Kansas Board of Regents - Kansas State University Projects	16,790,000
2011C	Kansas Board of Regents - University of Kansas Housing Project	11,540,000
2011D	Kansas Board of Regents - Pittsburg State University Projects	5,535,000
2011G	Kansas Board of Regents - Kansas State University Projects	14,125,000
2012A	Kansas Board of Regents - Wichita State University Projects	19,415,000
2012D	Kansas Board of Regents - University of Kansas Refundings	42,390,000
2012F	Kansas Board of Regents - Kansas State University Energy Projects	15,310,000
2012H	Kansas Board of Regents - Kansas State University Refundings	33,065,000
2013G	Kansas Board of Regents - University of Kansas Engineering Project	74,360,000
2014A	Kansas Board of Regents - Pittsburg State University Projects	33,840,000
2014B	Kansas Board of Regents - University of Kansas Medical Center Energy Project	1,461,000
2014C	Kansas Board of Regents - University of Kansas Housing Project	55,375,000
2014D	Kansas Board of Regents - Kansas State University Projects & Refundings	130,265,000
2015B	Kansas Board of Regents - Kansas State University Projects & Refundings	59,480,000
2015K	Kansas Board of Regents - Pittsburg State University Refund Series 2005D	1,500,000
2015M	Kansas Board of Regents - Pittsburg State University Refund Energy Lease	2,136,000
2016A	Kansas Board of Regents - Kansas State University Projects & Refundings	97,815,000
2016B	Kansas Board of Regents - Fort Hays State University Housing & Refundings	31,115,000
2016C	Kansas Board of Regents - University of Kansas Medical Center Parking Garage	45,330,000
	total	859,992,000

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 6/30/16
2001 Series I&II	Kansas Department of Health and Environment - Water Pollution Control Revolving Loan Fund	2,610,000
2005 CW	KDHE Clean Water	23,955,000
2006 TR	Kansas Dept. of Transportation Revolving Loan Fund	8,600,000
2008G	KDOT Communication System Lease Program	787,000
2009C	KBOR - Post Secondary Educational Institutional Loan Program	2,500,000
2009 TR	Kansas Dept. of Transportation Revolving Loan Fund	17,945,000
2009DW	KDHE - Public Water Supply Revolving Loan Fund	35,040,000
2010SRF	KDHE - Water SRF Loan Funds Master Financing Indenture	174,390,000
2011SRF	KDHE - Water SRF Loan Funds Master Financing Indenture	51,275,000
2015SRF-1	KDHE - Water SRF Loan Funds Master Financing Indenture Note	4,500,000
	total	321,602,000

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 6/30/16</u>
2002H	DHR Acquisition & Renovation Project - 1430 Building (legally changed to DOL)	1,430,000
2002N-1&2	SRS Larned State Hospital & KHP Fleet Operations Project	700,000
2007F	Kansas Department of Commerce - IMPACT Program Project	4,240,000
2009F	Kansas Department of Commerce - IMPACT Program Project	20,445,000
2010C	Kansas Department of Commerce - IMPACT Program Project	26,315,000
2011K	Kansas Department of Commerce - IMPACT Program Project	96,380,000
2013B	State of Kansas - State Institutional Building Fund Refundings	29,320,000
	total	178,830,000

Tax-Supported Debt		
State General Fund		
Source of Repayment: Annual appropriation from the State General Fund (SGF)		
<u>Series</u>	<u>Title</u>	<u>Balance 6/30/16</u>
2001W	Series 2001W State of Kansas Projects - Fairgrounds Renov; Judicial Center & Capitol Renov	700,000
2004C	Kansas Public Employees Retirement System	407,160,000
2006A	Kansas Dept. of Administration - Comprehensive Transportation Program (Reimbursement)	20,045,000
2006L	State of Kansas Projects - Capitol Resto & PSU Armory	875,000
2007K	State of Kansas Projects - Capitol Resto, Adj Gen Training Facility & Dept of Corrections Renovations	11,290,000
2008L	State of Kansas Projects - Capitol Renov, Armories & KU Pharmacy	31,545,000
2009A&B	State General Fund - Debt Restructure	3,910,000
2009M&N	State General Fund - State Capitol, W&P, KU Pharmacy, Refund 2002J & Restructure	101,785,000
2010E&F	State General Fund - NBAF, Economic Refundings & Restructure	79,125,000
2010O	State General Fund - State Capitol & Armories	34,280,000
2011B	State General Fund - State Capitol	43,035,000
2013A	State General Fund - State Capitol	63,365,000
2015A	State General Fund - KUMC Med Ed, KWO & Refundings	229,645,000
2015G	State General Fund - NBAF	203,585,000
2015H	State General Fund - KPERs	1,005,180,000
	total	2,235,525,000

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 6/30/16
2004 A	State of Kansas - Department of Transportation - Highway Revenue Bonds	76,235,000
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	156,235,000
2010 A	State of Kansas - Department of Transportation - Highway Taxable Revenue Bonds (BABs)	325,000,000
2012B	State of Kansas - Department of Transportation - Highway Revenue Refunding Bonds	144,885,000
2012C	State of Kansas - Department of Transportation - Highway Revenue Bonds	193,000,000
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	175,875,000
2015A	State of Kansas - Department of Transportation - Highway Revenue Refunding Bonds	190,875,000
2015B	State of Kansas - Department of Transportation - Highway Revenue Bonds	400,000,000
	total	2,059,105,000