

State of Kansas 2017 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 streamline debt issuance and provide efficient execution of capital transactions on behalf of the State and other public and private entities. K DFA 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 debt obligations 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. 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 K DFA, and not the State of Kansas.

K DFA developed the first annual debt study a decade ago to provide relevant data to assist policymakers in making financing decisions for the State. The purpose of this 2017 Debt Study is to give policymakers a picture of the State’s debt position on June 30, 2017. 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 K DFA 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 posted on the K DFA 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 financing proposal can be evaluated by K DFA 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 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

Bonds are defined by the KDFA Act, K.S.A. 74-8901 *et seq.* (the “Act”) to mean any bonds, leases, notes, debentures, interim certificates, grant and revenue anticipation notes, 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 30% in the last three 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.

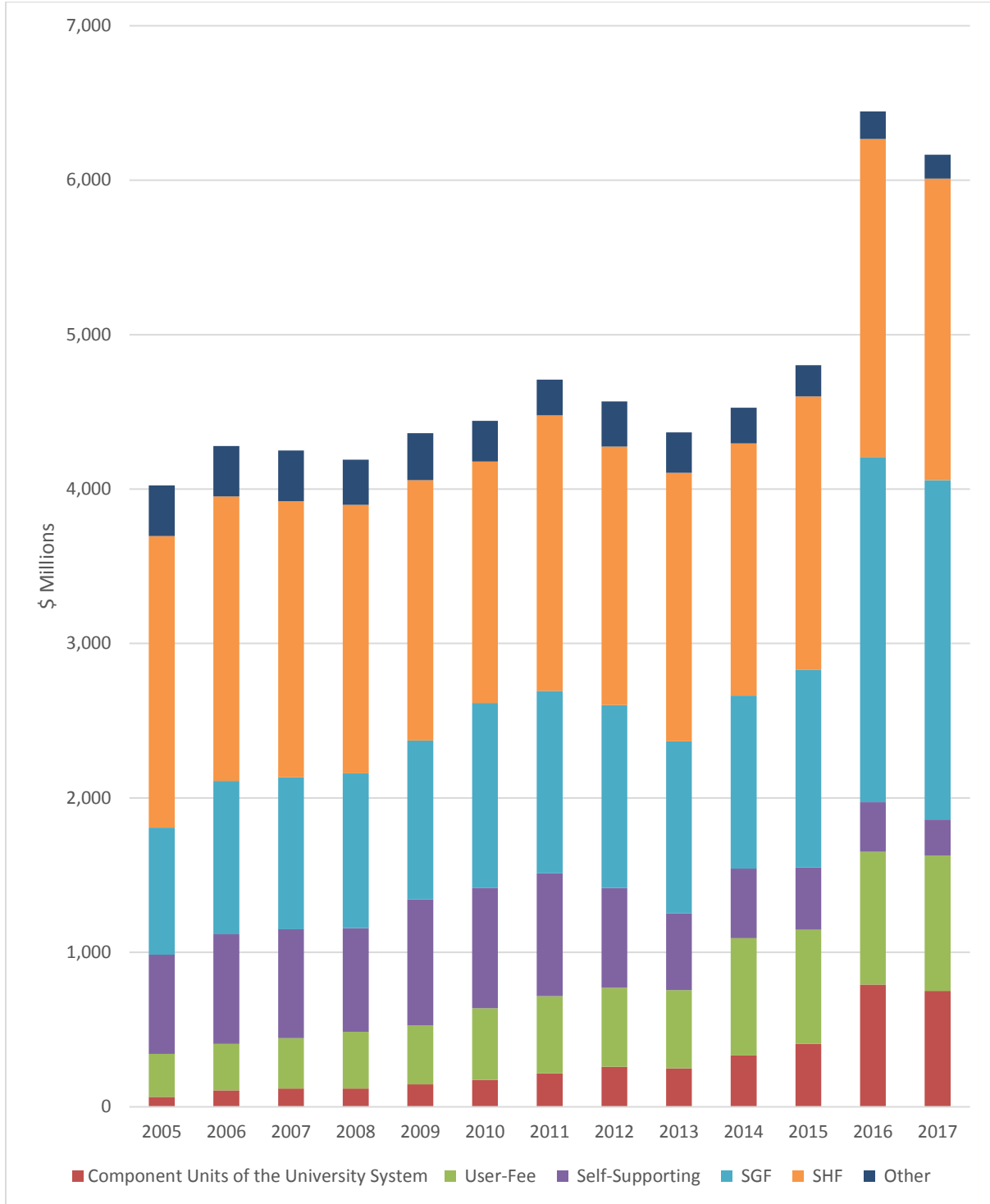
Self-Supporting revenue bonds which are almost entirely composed of financings backed by loans to Kansas municipalities for water, wastewater and road infrastructure has decreased by two thirds. In a low interest rate environment where the program subsidy is not as meaningful, KDFA believes this has resulted in municipalities choosing 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. The Legislature and KDOT have previously decided to not write new loans and close down the Transportation Revolving Fund 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 \$1,575 per capita. The US average is \$1,473 with a range of Connecticut at \$6,505 and Nebraska at \$18.

<i>Fiscal Year</i>	<i>Component Units of the University System</i>	<i>User-Fee</i>	<i>Self-Supporting</i>	Tax-Supported			<i>Sub Total Tax-Supported</i>	<i>Grand 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
2017	750.5	876.8	232.6	2,198.7	1,951.8	154.9	4,305.4	6,165.2
Growth Rate	22.7%	10.1%	-8.1%	8.5%	0.3%	-6.1%	2.9%	3.6%

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

Annual debt service attributable to the pension deposits made to KPERS are just over \$100M.

<i>Fiscal Year</i>	SGF Revenue	SGF Debt Service	Debt Service as % of Revenue
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	6,339,100,000	175,782,869	2.77%
2018	6,813,800,000*	189,232,682	2.78%
2019	6,783,400,000*	184,398,992	2.72%

** November 2017 Revenue Estimate*

Authorized Proposed Debt Issuance

During fiscal 2017, \$593.5 million of debt was authorized by the Legislature.

This table does not take into account future plans for any other planned capital expenditures that have not already been authorized by the Legislature to be financed through debt issuance.

DESCRIPTION	AUTHORIZED BY	AUTHORIZED IN FY 2017	BALANCE AT 06/30/2017	ISSUED YTD FY 2018	REPAYMENT SECURITY
Kansas Department of Transportation	2017 Session Laws, Chapter 104, Section 164(j)	400,000,000	400,000,000	200,000,000 Note 1	Tax-SHF
KSU Electrical Distribution Upgrade	Senate Substitute for House Bill No. 2002 § 202(c)	8,000,000	8,000,000	8,000,000	User Fee
ESU Abigail Morse Residence Hall	Senate Substitute for House Bill No. 2002 § 198(d)	30,500,000	30,500,000	30,500,000	User Fee
Department of Corrections Lansing Correctional Facility	Senate Substitute for House Bill No. 2002 § 214(e)	155,000,000 or lease purchase no limit	155,000,000 or lease purchase no limit	Note 2	Tax-SGF
Total		593,500,000	593,500,000	238,500,000	

Note 1: KDOT's \$400,000,000 authorization is based on the principal amount of bonds rather than net proceeds. Their fiscal 2017 issuance, KDOT Series 2017A, in the principal amount of \$200,000,000 resulted in net proceeds of \$241,462,390 deposited to the State Highway Fund.

Note 2: In January 2018, the State Finance Council authorized the Department of Corrections to enter into a lease purchase contract for the reconstruction of Lansing Correctional Facility. The present value of the anticipated \$362,000,000 in gross lease payments is estimated to be \$250,000,000 based on a twenty year payment stream starting in two years at \$15,000,000 escalating at 1.95% using a present value discount factor of 3.25%.

Surrounding State Comparison

In May 2017, Moody’s Investor Services published its annual report titled “Medians – Total State Debt Remains Essentially Flat in 2017”. 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 2017 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 2015 Personal Income	Rank	Moody’s Rating
Kansas	\$1,575	18 (down 1)	3.4%	17	Aa2 ⁽²⁾
Oklahoma	\$365	42 (up 1)	0.8%	42	Aa2
Colorado	\$353	43 (down 1)	0.7%	45 (down 2)	Aa1 ⁽²⁾
Nebraska	\$18	50	0.0%	50	NGO ⁽³⁾
Iowa	\$228	46 (up 1)	0.5%	46 (up 1)	Aaa ⁽²⁾
Missouri	\$579	38 (up 1)	1.4%	39	Aaa
Surrounding Average	\$520		1.1%		
US Average	\$1,473		3.0%		

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.

(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 Standard & Poor ("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." Further, in February 2017, S&P revised the State's issuer credit rating outlook from stable to negative citing "...continued weak economic trends and structural budget pressures which are expected to persist through fiscal 2019,..." 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) Low general fund balances on a budgetary basis due to weaker than expected economy growth, previous income tax cuts, a large budgeted fund balance drawdown in 2015, and substantial midyear revenue shortfalls in the last three fiscal years that the state has met with a mixture of ongoing and one-time budget adjustments.
- (2) Current structural deficits which they calculate at 8.8% and believe will continue.
- (3) Significant unfunded pension liabilities and annual pension contributions that are projected to remain below the actuarially determined contribution (ADC) until 2020 and proposed changes to the plan which may further exacerbate the pressures on the system. This significant long-term pension liability is offset in part by Kansas' moderate tax-supported debt burden.

S&P is currently reviewing the State's issuer credit rating.

Moody's assigns the State's issuer rating as Aa2 with a stable outlook. In their most recent report dated June 8, 2017 they note the following strengths and weaknesses:

Moody's STRENGTHS

- (1) Stable and diverse economy
- (2) 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) Recent history of balancing the budget through nonrecurring measures

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 6/30/17</u>
2001B	Kansas Board of Regents - Emporia State University Student Recreation Facility Project	795,000
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - Phase II - \$66,530,000	7,500,000
2005F	Kansas Board of Regents - Emporia State University Towers Residential Complex Imprvmt. Proj.	5,235,000
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	435,000
2009H	Kansas Board of Regents - Pittsburg State University Housing System	12,185,000
2009J	Kansas Board of Regents - Pittsburg State University Parking System	3,325,000
2009K	Kansas Board of Regents - Kansas State University Child Care Facility Project	5,540,000
2010A	Kansas Board of Regents - University of Kansas Housing System Project	17,920,000
2010B	University of Kansas Energy Conservation Program	14,530,000
2010G	Kansas Board of Regents - Kansas State University Student Recreation Center Expansion	19,525,000
2010J	Kansas Board of Regents - Emporia State University Student Union Project	10,605,000
2010K	Kansas Board of Regents - University of Kansas Medical Center Parking Garage & Economic Refundings	9,590,000
2010M	Kansas Board of Regents - University of Kansas Edwards Campus Building #4 (JCERTA)	13,560,000
2010P	Kansas Board of Regents - JCERTA KUMC Clinical Trials Facility	11,980,000
2010U	Kansas Board of Regents - Kansas State University Projects	15,065,000
2011C	Kansas Board of Regents - University of Kansas Housing Project	11,135,000
2011D	Kansas Board of Regents - Pittsburg State University Projects	4,675,000
2011G	Kansas Board of Regents - Kansas State University Projects	13,740,000
2012A	Kansas Board of Regents - Wichita State University Projects	17,100,000
2012D	Kansas Board of Regents - University of Kansas Refundings	40,000,000
2012F	Kansas Board of Regents - Kansas State University Energy Projects	14,645,000
2012H	Kansas Board of Regents - Kansas State University Refundings	31,790,000
2013G	Kansas Board of Regents - University of Kansas Engineering Project	71,770,000
2014A	Kansas Board of Regents - Pittsburg State University Projects	32,415,000
2014B	Kansas Board of Regents - University of Kansas Medical Center Energy Project	976,000
2014C	Kansas Board of Regents - University of Kansas Housing Project	53,515,000
2014D	Kansas Board of Regents - Kansas State University Projects & Refundings	126,210,000
2015B	Kansas Board of Regents - Kansas State University Projects & Refundings	57,660,000
2015K	Kansas Board of Regents - Pittsburg State University Refund Series 2005D	1,254,000
2015M	Kansas Board of Regents - Pittsburg State University Refund Energy Lease	1,838,000
2016A	Kansas Board of Regents - Kansas State University Projects & Refundings	94,885,000
2016B	Kansas Board of Regents - Fort Hays State University Housing & Refundings	30,595,000
2016C	Kansas Board of Regents - University of Kansas Medical Center Parking Garage	45,330,000
2016J	Kansas Board of Regents - Wichita State University Parking Garage	9,100,000
2017A	Kansas Board of Regents - University of Kansas Projects & Refundings	65,900,000
2017B	Kansas Board of Regents - Wichita State University Parking Garage	2,884,000
	total	876,807,000

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	<u>Balance</u> <u>6/30/17</u>
2008G	KDOT Communication System Lease Program	569,000
2009 TR	Kansas Dept. of Transportation Revolving Loan Fund	15,805,000
2010SRF	KDHE - Water SRF Loan Funds Master Financing Indenture	166,310,000
2011SRF	KDHE - Water SRF Loan Funds Master Financing Indenture	49,880,000
	total	232,564,000

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 6/30/17</u>
2002H	DHR Acquisition & Renovation Project - 1430 Building (legally changed to DOL)	1,215,000
2002N-1&2	SRS Larned State Hospital & KHP Fleet Operations Project	360,000
2009F	Kansas Department of Commerce - IMPACT Program Project	13,895,000
2010C	Kansas Department of Commerce - IMPACT Program Project	20,210,000
2011K	Kansas Department of Commerce - IMPACT Program Project	95,050,000
2013B	State of Kansas - State Institutional Building Fund Refundings	24,195,000
	total	154,925,000

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 6/30/17</u>
2001W	Series 2001W State of Kansas Projects - Fairgrounds Renov; Judicial Center & Capitol Renov	600,000
2004C	Kansas Public Employees Retirement System	393,075,000
2006A	Kansas Dept. of Administration - Comprehensive Transportation Program (Reimbursement)	10,230,000
2007K	State of Kansas Projects - Capitol Resto, Adj Gen Training Facility & Dept of Corrections Renovations	8,655,000
2008L	State of Kansas Projects - Capitol Renov, Armories & KU Pharmacy	5,975,000
2009A&B	State General Fund - Debt Restructure	11,820,000
2009M&N	State General Fund - State Capitol, W&P, KU Pharmacy, Refund 2002J & Restructure	96,460,000
2010E&F	State General Fund - NBAF, Economic Refundings & Restructure	71,655,000
2010O	State General Fund - State Capitol & Armories	32,305,000
2011B	State General Fund - State Capitol	40,865,000
2013A	State General Fund - State Capitol	59,855,000
2015A	State General Fund - KUMC Med Ed, KWO & Refundings	225,190,000
2015G	State General Fund - NBAF	203,585,000
2015H	State General Fund - KPERS	986,880,000
2016H	State General Fund - Refundings	51,500,000
	total	2,198,650,000

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 6/30/17
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	94,270,000
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	185,800,000
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	137,730,000
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	1,951,795,000