

State of Kansas 2018 Debt Study



Prepared by:  Kansas Development Finance Authority

Background

The Kansas Development Finance Authority (“KDFa” or the “Finance Authority”) was created by the Kansas legislature as a public body politic and corporate, to operate as a full service finance authority to provide financial expertise and services to the State, to streamline debt issuance and provide more efficient execution of financial 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 debt transactions KDFa facilitates 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 Finance Authority issues Private Activity debt to finance hospitals, affordable housing projects, manufacturing, agriculture, etc. and these obligations 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 KDFa, and not the State of Kansas.

The Finance Authority has developed significant financial expertise and works on request with the legislature, state agencies and other public and private entities to identify and structure optimal finance transactions for specific transactions. KDFa should not be thought of just as a bond issuer as the Authority is authorized to facilitate a broad range of finance activities, transactions and projects, which in addition to bonds, can include lease transactions, note transactions, private placement obligations, and virtually any other type of debt obligation. KDFa and the financial professionals we engage have extensive resources and capabilities and can bring advice, guidance and value to most significant finance issues and transactions, especially for projects in excess of \$10 million.

KDFa 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 the 2018 Debt Study is to give policymakers a picture of the State’s debt position on June 30, 2018. 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 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 financing proposal can be evaluated by KDFa 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

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 more than 40% in the last four years. This can be attributed primarily to two financings: K DFA 2015H KPERS Pension Deposit of \$1,000M 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.

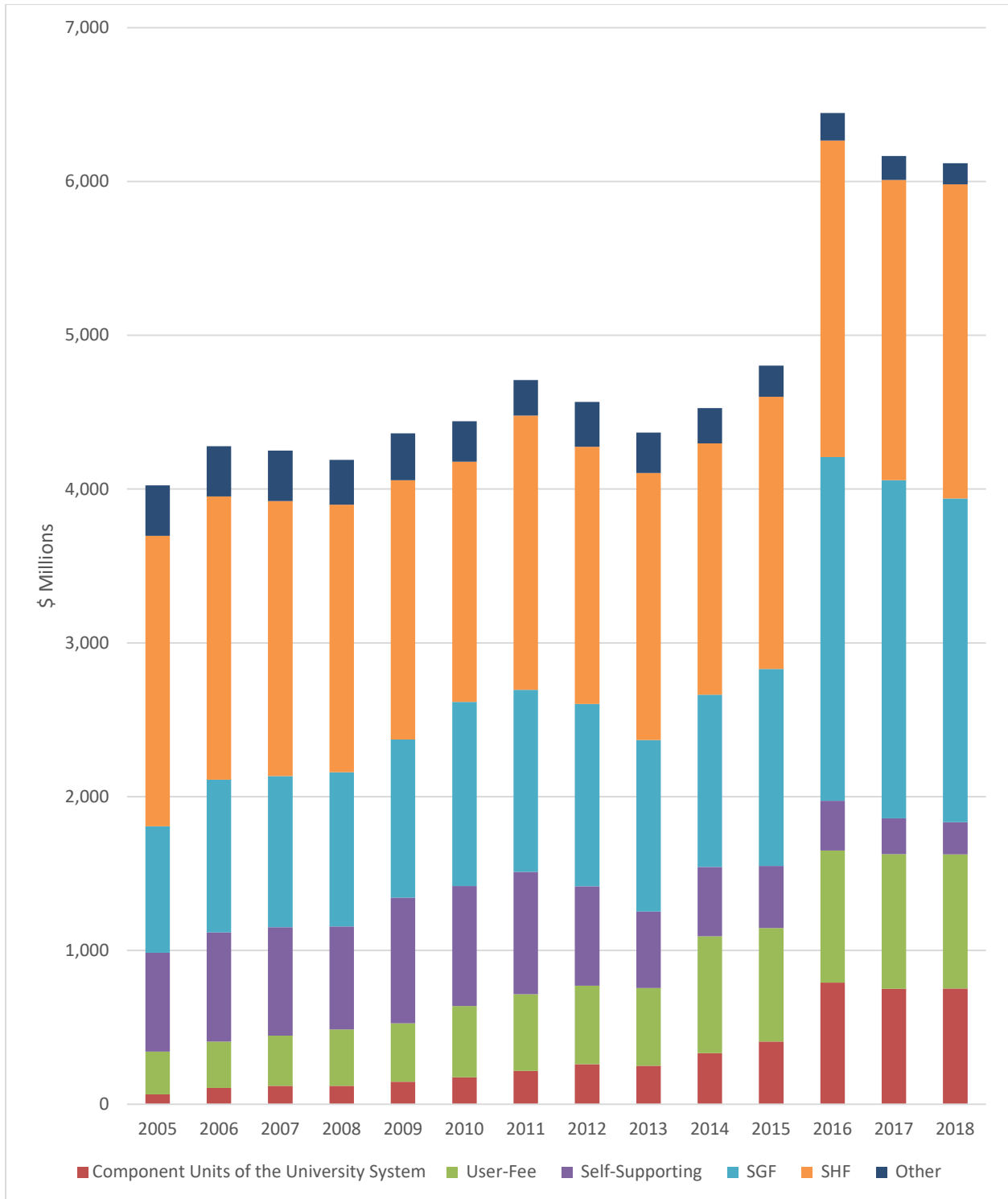
Self-Supporting revenue bonds which are almost entirely composed of financings backed by loans to Kansas municipalities for water, wastewater and road infrastructure has decreased by two thirds. In a low interest rate environment, where the program subsidy is not as meaningful, K DFA believes this has 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. If interest rates rise, the KDHE State Revolving Loan Fund Program may be used again more extensively. 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 \$6,544 and Nebraska at \$20.

Fiscal Year	Component Units of the University System	User-Fee	Self-Supporting	Tax-Supported			Total Tax-Supported	Total
				SGF	SHF	Other		
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
2018	752.3	872.6	209.7	2,104.1	2,043.5	137.0	4,284.6	6,119.1
Annualized Growth Rate	20.8%	9.2%	-8.3%	7.5%	0.6%	-6.5%	2.7%	3.3%

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 million
- Various Series of State Capitol Restoration Project \$327 million
- National Bio and Agro-Defense Facility State cost share participation \$307 million
- 2015H Kansas Public Employees Retirement System \$1,000 million

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

<i>Fiscal Year</i>	KS GDP (\$ million)	SGF Revenue (\$ million)	SGF Debt Service (\$ million)	Debt Service as % of Revenue
2005	103,937	4,841	40	0.82%
2006	112,650	5,394	48	0.89%
2007	122,453	5,809	63	1.09%
2008	127,682	5,693	86	1.51%
2009	124,341	5,587	84	1.50%
2010	127,745	5,191	87	1.68%
2011	135,315	5,882	119	2.03%
2012	140,478	6,413	126	1.96%
2013	143,221	6,341	118	1.86%
2014	148,276	5,653	110	1.94%
2015	151,680	5,929	109	1.84%
2016	155,580	6,073	143	2.35%
2017	159,108	6,339	176	2.77%
2018		7,298	189	2.59%
2019		7,310	184	2.52%
2020		7,271*	189	2.59%
2021		7,235*	186	2.57%

** November 2018 Revenue Estimate*

Authorized Proposed Debt Issuance

During fiscal 2018, \$4.92 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 2018	BALANCE AT 06/30/2018	ISSUED YTD FY 2019	REPAYMENT SECURITY
Kansas Department of Transportation (Note 1)	2017 Session Laws, Chapter 104, Section 164(j)	-	200,000,000	173,035,000	Tax-SHF
Department of Corrections Lansing Correctional Facility (Note 2)	Senate Substitute for House Bill No. 2002 § 214(e)	-	-	-	Tax-SGF
KHP Troop B Headquarters	Section 84 of SB No. 269	3,220,266	3,220,266	-	Tax-other
KSF Bison Arena Renovation	Section 107 of House Substitute for SB No. 109	1,700,000	1,700,000	-	Tax-other
	Total	4,920,266	204,920,266	173,035,000	

Note 1: KDOT received an authorization in fiscal 2017 for \$400,000,000 based on 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. Their fiscal 2018 issuance, KDOT Series 2018A, in the principal amount of \$173,035,000 resulted in net proceeds of \$199,416,732.96.

Note 2: In January 2018, the State Finance Council authorized the Department of Corrections to enter into a lease purchase contract with CoreCivic for the reconstruction of Lansing Correctional Facility. The State did not take advantage of tax-exempt financing. 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%. On April 20, 2018, CoreCivic priced \$159.5 million of debt related to the project at 4.43%.

Surrounding State Comparison

In April 2018, Moody’s Investors Service published its annual report titled “Medians –State Debt continues slow growth trend”. 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 2018 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 2016 Personal Income	Rank	Moody’s Rating
Kansas	\$1,554	18	3.4%	17	Aa2 ⁽²⁾
Oklahoma	\$303	44 (down 2)	0.7%	44 (down 2)	Aa2
Colorado	\$484	40 (up 3)	0.9%	41 (up 4)	Aa1 ⁽²⁾
Nebraska	\$20	50	0.0%	50	Aa1 ⁽²⁾
Iowa	\$219	46	0.5%	46	Aaa ⁽²⁾
Missouri	\$532	38	1.2%	40 (down 1)	Aaa
Surrounding Mean	\$519		1.1%		
US Mean	\$1,477		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

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' assessment 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 be offset by strength in another. However, significant variations in any single factor can influence a 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

S&P's revised the State's issuer credit rating outlook from negative to stable on May 4, 2018 stating that:

"The revision of the outlook to stable reflects the state's better-than-estimated revenues in the current fiscal year following the repeal of income tax cuts beginning in 2018 and our view that deficits in the current biennium have narrowed significantly (from 5% to 0.5% for 2019) due to stronger revenue collections."

In their associated report, S&P noted the following strengths and weaknesses:

S&P STRENGTHS

- (1) Economy which has continued to show weaker growth than the nation and moderate concentration in manufacturing, although the state's unemployment rate remains below the national average;
- (2) Absence of constitutional limits on the legislature's ability to raise revenue or cut major expenditures;
- (3) History of making midyear budget adjustments, when necessary, although sometimes using budget items that we would consider of a one-time nature; and

- (4) 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 balance on a budgetary basis due to weaker economic growth, previous income tax cuts, budgeted fund balance drawdowns, and substantial midyear revenue shortfalls in the last four fiscal years. Kansas ended fiscal 2017 with a general fund balance of 1.6% of expenditures and currently projects a 4% balance for fiscal 2018;
- (2) Structural deficits for the last three fiscal years on a budgetary basis ranging from 1.8% in 2016 to 5% in 2015 although updated projections for 2018 show structural balance in 2018 and a 0.5% deficit in 2019 which we consider small; and
- (3) Significant unfunded pension liabilities and annual pension contributions that are projected to remain below the actuarially determined contribution (ADC) until 2020 and deferral of statutory payments to the plan, which further exacerbate the pressures on the system

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 6/30/18</u>
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - Phase II - \$66,530,000	5,425,000
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	380,000
2009H	Kansas Board of Regents - Pittsburg State University Housing System	11,730,000
2009J	Kansas Board of Regents - Pittsburg State University Parking System	3,130,000
2009K	Kansas Board of Regents - Kansas State University Child Care Facility Project	5,405,000
2010A	Kansas Board of Regents - University of Kansas Housing System Project	16,755,000
2010B	University of Kansas Energy Conservation Program	13,270,000
2010G	Kansas Board of Regents - Kansas State University Student Recreation Center Expansion	18,900,000
2010J	Kansas Board of Regents - Emporia State University Student Union Project	9,955,000
2010K	Kansas Board of Regents - Univeristy of Kansas Medical Center Parking Garage & Economic Refundings	8,870,000
2010M	Kansas Board of Regents - University of Kansas Edwards Campus Building #4 (JCERTA)	12,225,000
2010P	Kansas Board of Regents - JCERTA KUMC Clinical Trials Facility	11,255,000
2010U	Kansas Board of Regents - Kansas State University Projects	13,320,000
2011C	Kansas Board of Regents - University of Kansas Housing Project	10,720,000
2011D	Kansas Board of Regents - Pittsburg State University Projects	3,780,000
2011G	Kansas Board of Regents - Kansas State University Projects	13,350,000
2012A	Kansas Board of Regents - Wichita State University Projects	14,680,000
2012D	Kansas Board of Regents - University of Kansas Refundings	37,520,000
2012F	Kansas Board of Regents - Kansas State University Energy Projects	13,950,000
2012H	Kansas Board of Regents - Kansas State University Refundings	30,440,000
2013G	Kansas Board of Regents - University of Kansas Engineering Project	69,040,000
2014A	Kansas Board of Regents - Pittsburg State University Projects	30,950,000
2014B	Kansas Board of Regents - University of Kansas Medical Center Energy Project	489,000
2014C	Kansas Board of Regents - University of Kansas Housing Project	51,560,000
2014D	Kansas Board of Regents - Kansas State University Projects & Refundings	121,985,000
2015B	Kansas Board of Regents - Kansas State University Projects & Refundings	55,755,000
2015K	Kansas Board of Regents - Pittsburg State University Refund Series 2005D	1,006,000
2015M	Kansas Board of Regents - Pittsburg State University Refund Energy Lease	1,537,000
2016A	Kansas Board of Regents - Kansas State University Projects & Refundings	91,610,000
2016B	Kansas Board of Regents - Fort Hays State University Housing & Refundings	29,315,000
2016C	Kansas Board of Regents - University of Kansas Medical Center Parking Garage	44,050,000
2016J	Kansas Board of Regents - Wichita State University Parking Garage	8,840,000
2017A	Kansas Board of Regents - University of Kansas Projects & Refundings	63,465,000
2017B	Kansas Board of Regents - Wichita State University Parking Garage	2,884,000
2017D	Kansas Board of Regents - Emporia State University Housing Projects	35,815,000
2017E	Kansas Board of Regents - Kansas State University Electrical Distribution Systems Project	7,600,000
	total	872,561,000

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.

<u>Series</u>	<u>Title</u>	<u>Balance 6/30/18</u>
2008G	KDOT Communication System Lease Program	340,000
2010SRF	KDHE - Water SRF Loan Funds Master Financing Indenture	153,875,000
2011SRF	KDHE - Water SRF Loan Funds Master Financing Indenture	49,880,000
2018SRF-1	KDHE - Water SRF Loan Funds Master Financing Indenture Note	5,600,000
	total	209,695,000

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 6/30/18</u>
2002H	DHR Acquisition & Renovation Project - 1430 Building (legally changed to DOL)	990,000
2009A&B	Kansas Bioscience Authority Building	7,141,000
2009F	Kansas Department of Commerce - IMPACT Program Project	7,085,000
2010C	Kansas Department of Commerce - IMPACT Program Project	13,800,000
2011K	Kansas Department of Commerce - IMPACT Program Project	89,155,000
2013B	State of Kansas - State Institutional Building Fund Refundings	18,820,000
	total	136,991,000

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 6/30/18</u>
2001W	Series 2001W State of Kansas Projects - Fairgrounds Renov; Judicial Center & Capitol Renov	490,000
2004C	Kansas Public Employees Retirement System	378,300,000
2007K	State of Kansas Projects - Capitol Resto, Adj Gen Training Facility & Dept of Corrections Renovations	5,900,000
2008L	State of Kansas Projects - Capitol Renov, Armories & KU Pharmacy	3,050,000
2009A&B	State General Fund - Debt Restructure	3,445,000
2009M&N	State General Fund - State Capitol, W&P, KU Pharmacy, Refund 2002J & Restructure	90,900,000
2010E&F	State General Fund - NBAF, Economic Refundings & Restructure	63,885,000
2010O	State General Fund - State Capitol & Armories	30,275,000
2011B	State General Fund - State Capitol	38,605,000
2013A	State General Fund - State Capitol	56,200,000
2015A	State General Fund - KUMC Med Ed, KWO & Refundings	219,005,000
2015G	State General Fund - NBAF	196,335,000
2015H	State General Fund - KPERS	966,550,000
2016H	State General Fund - Refundings	51,165,000
	total	2,104,105,000

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 6/30/18
2004 A	State of Kansas - Department of Transportation - Highway Revenue Bonds	39,460,000
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	69,680,000
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	178,400,000
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	98,211,000
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
2017A	State of Kansas - Department of Transportation - Highway Revenue Bonds	200,000,000
	total	2,043,511,000