

State of Kansas 2020 Debt Study



Prepared by:  Kansas Development Finance Authority

Background

The Kansas Development Finance Authority (“K DFA” or the “Finance Authority”) was created by the Kansas legislature as a public corporate entity, 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. 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 transactions K DFA 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. These private obligations are solely the responsibility 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 the Finance Authority, 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. K DFA should not be thought of just as a bond issuer but as the State’s finance entity, 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. K DFA 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, and we recommend that the State utilize the Authority’s expertise on these financings.

K DFA developed the first annual debt study more than a decade ago to provide relevant data to assist policymakers in making financing decisions for the State. The purpose of the Debt Study is to give policymakers a picture of the State’s debt position on June 30, 2020. 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.

The federal tax code classifies state and local government bonds as either governmental bonds or private activity bonds. Generally, the interest on state and local governmental bonds is exempt from taxation whereas the interest on private activity bonds is not tax-exempt. However, the federal tax code allows state and local governments to use tax-exempt bonds to finance certain eligible projects on a tax-exempt basis, these bonds are called qualified private activity bonds.

User-Fee Supported Revenue Bonds are debt primarily 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 are 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 peaking in 2016 at \$4.47 billion, outstanding *tax-supported* debt has decreased by about \$495 million in the last four years to \$3.98 billion at the end of fiscal year 2020. Financially, this decrease was partially offset by the Lansing Correctional Facility reconstruction taxable lease purchase financing.

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.

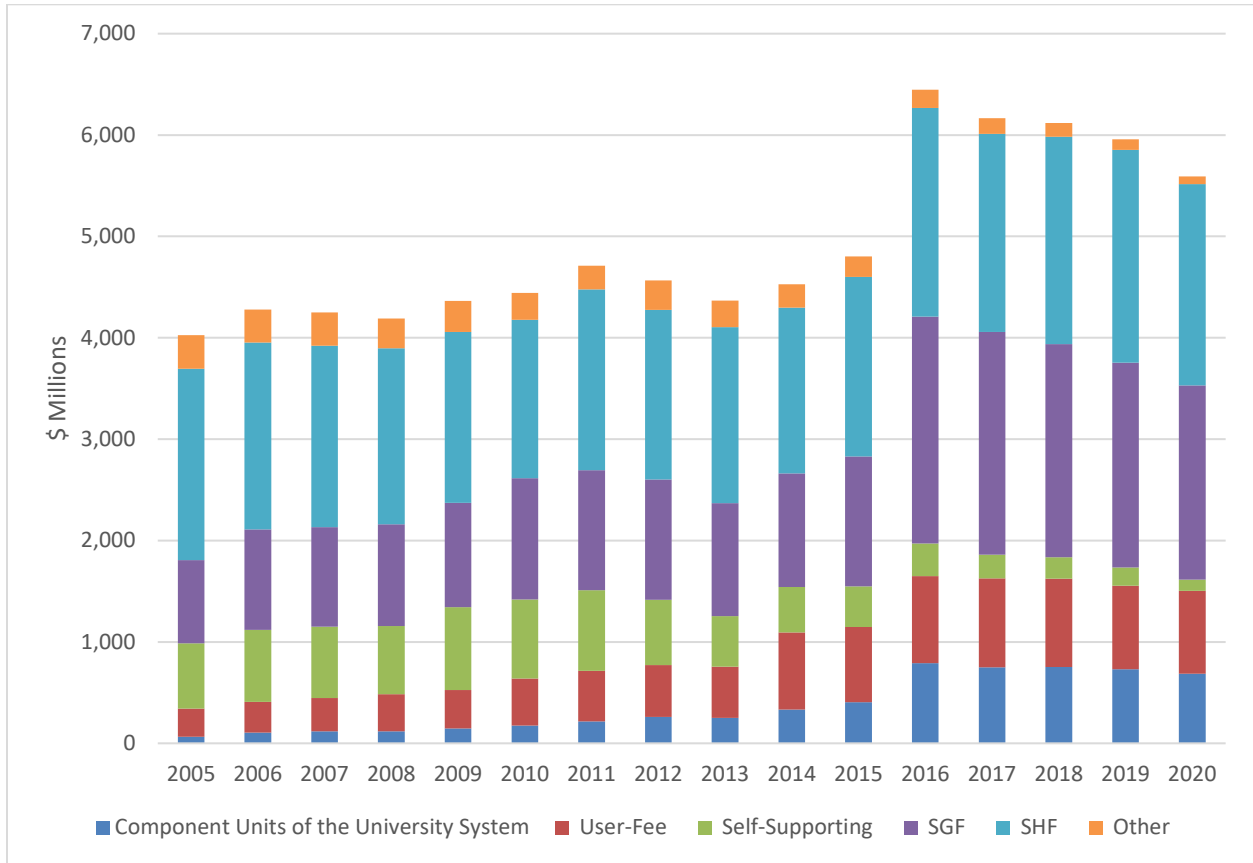
Self-Supporting revenue bonds which are almost entirely composed of financings backed by loans to Kansas municipalities for water, wastewater and road infrastructure has decreased by over 85%. In a low interest rate environment, where the program subsidy is not as meaningful, KDFA believes this has resulted 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. If interest rates rise, the KDHE State Revolving Loan Fund Program may be used again more extensively.

Overall, the State had used debt moderately in comparison to the US overall but more aggressively compared to surrounding states. Moody's reflects Kansas Net Tax Supported Debt as \$1,491 per capita. The US average is \$1,506 with a range of Connecticut at \$6,637 and Nebraska at \$19, with regional states averaging only \$511. Expressed in millions of dollars:

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
2019	730.0	826.1	178.2	2,019.4	2,099.9	104.0	4,223.3	5,957.5
2020	688.0	815.7	110.2	1,917.8	1,984.1	76.8	3,978.8	5,592.7
Annualized Growth	17.1%	7.4%	-11.1%	5.8%	0.3%	-9.2%	1.8%	2.2%

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 stabilized in recent years after growing measurably from 2007 to 2017. The increase has been primarily driven by the financing programs set forth below:

- 2004C Kansas Public Employees Retirement System \$500 million
- Various series of bonds for the 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 billion

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

<i>Fiscal Year</i>	<i>KS GDP</i>	<i>SGF Revenue</i>	<i>SGF Debt Service</i>	<i>Debt Service as % of Revenue</i>
2005	103,966	4,841	40	0.82%
2006	112,634	5,394	48	0.89%
2007	122,349	5,809	63	1.09%
2008	127,825	5,693	86	1.51%
2009	124,780	5,587	84	1.50%
2010	127,970	5,191	87	1.68%
2011	135,529	5,882	119	2.03%
2012	140,764	6,413	126	1.96%
2013	143,066	6,341	118	1.86%
2014	148,943	5,653	110	1.94%
2015	154,016	5,929	109	1.84%
2016	159,233	6,073	143	2.35%
2017	163,968	6,339	176	2.77%
2018	171,719	7,298	189	2.59%
2019	176,493	7,368	184	2.50%
2020		6,901	189	2.73%
2021		7,708*	186	2.41%
2022		7,484*	184	2.46%

** November 2020 Revenue Estimate*

Authorized Proposed Debt Issuance

During fiscal 2020, \$74 million of debt was authorized by the Legislature for two higher education building construction and acquisition projects. Debt service on these bonds is the obligation of the respective universities. This compares favorably to the \$365 million of debt that amortized during the fiscal year.

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 2020	BALANCE AT 06/30/2020	ISSUED YTD FY 2021	REPAYMENT SECURITY
KSF Exhibit Hall Renovation (Note 1)	2019 Session Laws, Chapter 68 Section 165		1,700,000	-	Tax-other
FHSU Memorial Union Addition (Note 2)	2019 Session Laws, Chapter 68 Section 151(c)		5,000,000		User-fee
KU Oliver Hall Renovation (Note 2)	2019 Session Laws, Chapter 68 Section 155(d)		28,000,000		User-fee
WSU Business School Project	Section 98(b) of SB No. 66	25,000,000	25,000,000	25,000,000	User-fee
WSU Housing Project	Section 148(d) of SB No. 66	49,000,000	49,000,000	49,000,000	User-fee
	Total	74,000,000	108,700,000	74,000,000	

Note 1: The statutory authorization for the Kansas State Fair is not proscriptive on the maximum size of the debt. Practically, the size of the borrowing is limited by the nature of the statutory limit on revenue. The Kansas State Fair is indicated previously the project would be approximately \$1.7 million.

Note 2: Unlikely to be used.

Surrounding State Comparison

In May 2020, Moody’s Investors Service published its annual report titled “Medians – State debt declined in 2019, but likely to grow in coming years”. 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 2020 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	\$1,491	20 (down 2)	2.8%	18	Aa2 ⁽²⁾
Oklahoma	\$337	43	0.7%	43	Aa2
Colorado	\$603	33 (up 8)	1.0%	39 (up 2)	Aa1 ⁽²⁾
Nebraska	\$19	50	0.0%	50	Aa1 ⁽²⁾
Iowa	\$150	46	0.3%	46	Aaa ⁽²⁾
Missouri	\$464	41 (down 1)	0.9%	40	Aaa
Regional Mean	\$511		1.0%		
US Mean	\$1,506		2.6%		

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 issuer 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 August 26, 2020 they note the following strengths and weaknesses:

Moody's STRENGTHS

- (1) Significantly improved reserves before pandemic hit;
- (2) Broad flexibility to raise revenue; and
- (3) Negligible other post-employment benefits liability burden.

Moody's WEAKNESSES

- (1) Weak demographics could limit long-term economic potential and revenue growth and
- (2) Debt and unfunded pensions are high relative to state GDP and fixed costs comprise an above average share of revenue.

S&P assigns the State's issuer rating as AA- with a stable outlook. In their most recent report dated August 26, 2020 they note 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) History of making midyear budget adjustments, when necessary, although sometimes using budget items that we would consider of a one-time nature; and
- (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 balance on a budgetary basis as a result of weaker economic growth, previous income tax cuts, budgeted fund balance drawdowns, and substantial midyear revenue shortfalls in previous fiscal years;

- (2) Reliance on unsustainable budget practices, albeit improving, that include underfunding pension contributions, bridge loans from the state's investment fund, and transfer of state highway fund revenue to support general fund operations; and
- (3) Significant unfunded pension liabilities and annual pension contributions that were below the actuarially determined contribution (ADC) through 2020.

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 6/30/20</u>
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - Phase II - \$66,530,000	2,820,000
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	265,000
2009K	Kansas Board of Regents - Kansas State University Child Care Facility Project	500,000
2010G	Kansas Board of Regents - Kansas State University Student Recreation Center Expansion	17,860,000
2010P	Kansas Board of Regents - JCERTA KUMC Clinical Trials Facility	9,760,000
2010U	Kansas Board of Regents - Kansas State University Projects	11,025,000
2011C	Kansas Board of Regents - University of Kansas Housing Project	9,850,000
2011D	Kansas Board of Regents - Pittsburg State University Projects	2,470,000
2012A	Kansas Board of Regents - Wichita State University Projects	9,455,000
2012F	Kansas Board of Regents - Kansas State University Energy Projects	12,470,000
2012H	Kansas Board of Regents - Kansas State University Refundings	27,540,000
2013G	Kansas Board of Regents - University of Kansas Engineering Project	63,845,000
2014A	Kansas Board of Regents - Pittsburg State University Projects	27,885,000
2014C	Kansas Board of Regents - University of Kansas Housing Project	47,355,000
2014D	Kansas Board of Regents - Kansas State University Projects & Refundings	112,895,000
2015B	Kansas Board of Regents - Kansas State University Projects & Refundings	51,645,000
2015K	Kansas Board of Regents - Pittsburg State University Refund Series 2005D	506,000
2015M	Kansas Board of Regents - Pittsburg State University Refund Energy Lease	929,000
2016A	Kansas Board of Regents - Kansas State University Projects & Refundings	84,820,000
2016B	Kansas Board of Regents - Fort Hays State University Housing & Refundings	26,890,000
2016C	Kansas Board of Regents - University of Kansas Medical Center Parking Garage	41,405,000
2016J	Kansas Board of Regents - Wichita State University Parking Garage	8,300,000
2017A	Kansas Board of Regents - University of Kansas Projects & Refundings	57,350,000
2017B	Kansas Board of Regents - Wichita State University Parking Garage	2,440,000
2017D	Kansas Board of Regents - Emporia State University Housing Projects	33,295,000
2017E	Kansas Board of Regents - Kansas State University Electrical Distribution Systems Project	5,530,000
2019C	Kansas Board of Regents - Kansas State University Refunding Olathe Innovation Campus JCERTA	30,165,000
2020A	Kansas Board of Regents - University of Kansas Refunding Edwards Campus JCERTA	8,440,000
2020B	Kansas Board of Regents - University of Kansas Refunding	76,380,000
2020C	Kansas Board of Regents - Fort Hays State University Project	10,480,000
2020F	Kansas Board of Regents - Emporia State University Refunding	8,270,000
2020H	Kansas Board of Regents - Pittsburg State University Refunding	11,220,000
	total	815,660,000

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 6/30/20
2019SRF	KDHE - Water SRF Loan Funds Master Financing Indenture	41,510,000
2020SRF	KDHE - Water SRF Loan Funds Master Financing Indenture	68,730,000
	total	110,240,000

Tax-Supported Debt		
Other		
Source of Repayment: Specific revenue fund OTHER THAN the State General Fund (SGF).		
		<u>Balance</u>
<u>Series</u>	<u>Title</u>	<u>6/30/20</u>
2002H	DHR Acquisition & Renovation Project - 1430 Building (legally changed to DOL)	520,000
2011K	Kansas Department of Commerce - IMPACT Program Project	68,995,000
2013B	State of Kansas - State Institutional Building Fund Refundings	7,280,000
	total	76,795,000

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 6/30/20</u>
2001W	Series 2001W State of Kansas Projects - Fairgrounds Renov; Judicial Center & Capitol Renov	255,000
2004C	Kansas Public Employees Retirement System	346,440,000
2010E&F	State General Fund - NBAF, Economic Refundings & Restructure	47,760,000
2010O	State General Fund - State Capitol & Armories	26,030,000
2011B	State General Fund - State Capitol	33,790,000
2013A	State General Fund - State Capitol	48,395,000
2015A	State General Fund - KUMC Med Ed, KWO & Refundings	189,575,000
2015G	State General Fund - NBAF	180,755,000
2015H	State General Fund - KPERS	924,665,000
2016H	State General Fund - Refundings	46,215,000
2019F&G	State General Fund - Refundings	73,940,000
	total	1,917,820,000

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 6/30/20
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	23,000,000
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	113,885,000
2012C	State of Kansas - Department of Transportation - Highway Revenue Bonds	163,000,000
2014A	State of Kansas - Department of Transportation - Highway Revenue Bonds	250,000,000
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	199,000,000
2018A	State of Kansas - Department of Transportation - Highway Revenue Bonds	172,385,000
	total	1,984,145,000