

State of Kansas 2021 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, 2021. 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 Annual Comprehensive Financial Report’s (ACFR) Long-term Obligations section. The ACFR 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 KDFFA 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 \$719 million in the last five years to \$3.75 billion at the end of fiscal year 2021. Financially, this decrease was partially offset by the Lansing Correctional Facility reconstruction taxable lease purchase financing and does not include the fiscal year 2022 issued pension bonds.

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 but has leveled out recently.

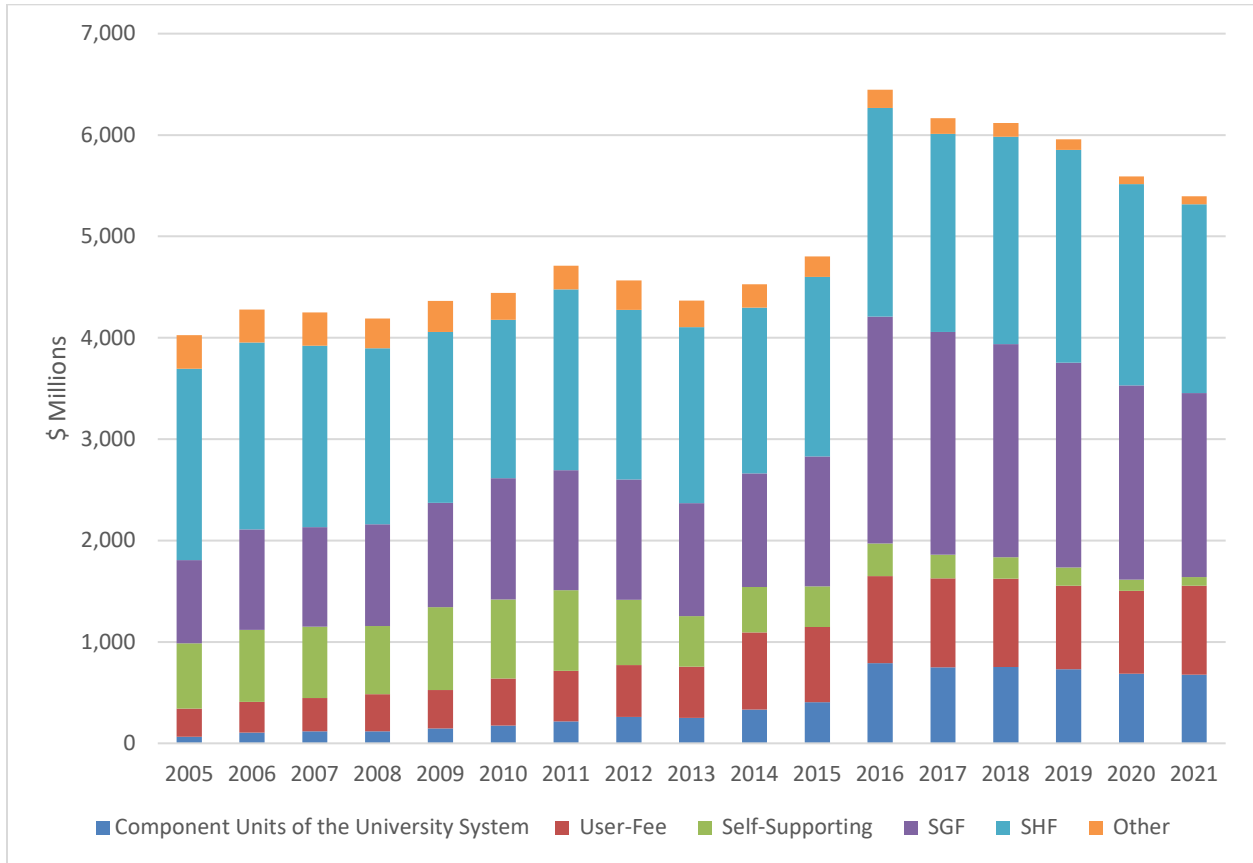
Self-Supporting revenue bonds which are almost entirely composed of financings backed by loans to Kansas municipalities for water, wastewater and road infrastructure has decreased by over 85%. In a low interest rate environment, where the program interest rate subsidy is not as meaningful, KDFA believes 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.

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 \$1,447 per capita. The US average is \$1,535 with a range of Connecticut at \$6,971 and Nebraska at \$18, with regional states averaging only \$511. Expressed in millions of dollars:

| <i>Fiscal Year</i> | <i>Component Units of the University System</i> | <i>User-Fee</i> | <i>Self-Supporting</i> | Tax-Supported | | | <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 |
| 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 |
| 2021 | 675.6 | 823.5 | 87.0 | 1,812.5 | 1,862.8 | 79.1 | 3,754.3 | 5,340.4 |
| Annualized Growth | 15.8% | 7.0% | -11.7% | 5.1% | -0.1% | -8.5% | 1.3% | 1.8% |

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
- 2021K Kansas Public Employees Retirement System \$504 million

Annual debt service attributable to the pension deposits made to KPERS is just over \$124 million.

| <i>Fiscal Year</i> | KS GDP | SGF Revenue | SGF Debt Service | 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 | 168,318 | 7,298 | 189 | 2.59% |
| 2019 | 173,100 | 7,368 | 184 | 2.50% |
| 2020 | 181,514 | 6,901 | 189 | 2.74% |
| 2021 | | 8,966 | 181 | 2.02% |
| 2022 | | 8,870* | 210 | 2.37% |
| 2023 | | 9,048* | 207 | 2.29% |

** November 2021 Revenue Estimate*

Authorized Proposed Debt Issuance

During fiscal 2021, \$710.5 million of debt was authorized by the Legislature for: KPERs, Docking Renovation, a KDHE Lab, WSU Convergence Sciences Building, and a Veterans Home Facility. This is a large increase compared to fiscal 2020 which only authorized \$74 million of debt.

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 2021 | BALANCE AT 06/30/2021 | ISSUED YTD FY 2022 | REPAYMENT SECURITY |
|---|---|-----------------------|-----------------------|--------------------|--------------------|
| KSF Exhibit Hall Renovation (Note 1) | 2019 Session Laws, Chapter 68 Section 165 | | 1,700,000 | 1,230,000 | Tax-other |
| KPERs Deposit | House Bill No. 2405 | 500,000,000 | 500,000,000 | 500,000,000 | Tax-SGF |
| WSU Convergence Sciences Building | Section 162(c) of HB 2007 | 15,000,000 | 15,000,000 | 13,800,000 | User-Fee |
| Docking Renovation | Section 61(a) of SB No. 159 | 120,000,000 | 120,000,000 | | Tax-SGF |
| KDHE Health & Environment Lab | Section 61(b) of SB No. 159 | 65,000,000 | 65,000,000 | | Tax-SGF |
| State Veterans Home Facility | House Bill No. 2021 | 10,500,000 | 10,500,000 | | Tax-SGF |
| | Total | 710,500,000 | 712,200,000 | 515,030,000 | |

Note 1: The statutory authorization for the Kansas State Fair is not prescriptive on the maximum size of the debt. Practically, the size of the borrowing is limited by the nature of the statutory limit on revenue.

Surrounding State Comparison

In June 2021, Moody’s Investors Service published its annual report titled “Medians – State debt rose 2.5% in 2020, spurred by pandemic-linked borrowing”. 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 2021 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 2020 Personal Income | Rank | Moody’s Rating |
|---------------|--|-------------|---|-------------|--------------------|
| Kansas | \$1,447 | 20 | 2.6% | 19 (down 1) | Aa2 ⁽²⁾ |
| Oklahoma | \$365 | 43 | 0.7% | 42 (up 1) | Aa2 |
| Colorado | \$721 | 31 (up 2) | 1.1% | 34 (up 5) | Aa1 ⁽²⁾ |
| Nebraska | \$18 | 50 | 0.0% | 50 | Aa1 ⁽²⁾ |
| Iowa | \$157 | 47 (down 1) | 0.3% | 47 (down 1) | Aaa ⁽²⁾ |
| Missouri | \$413 | 41 | 0.8% | 41 (down 1) | Aaa |
| Regional Mean | \$520 | | 0.9% | | |
| US Mean | \$1,535 | | 2.5% | | |

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 below average compared to most other states 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.

As of August 5, 2021, Moody's assigns the State's issuer rating as Aa2 with a stable outlook:

Moody's STRENGTHS

- (1) Improved financial reserves over the past few years.
- (2) Broad flexibility to raise revenue.
- (3) Negligible other post-employment benefits liability burden.

Moody's CHALLENGES

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

As of August 4, 2021, S&P assigns the State's issuer rating as AA- with a stable outlook:

S&P STRENGTHS

- (1) Unemployment rate continues to remain below the national average and the state's economy fared better than the nation in the recent recession.
- (2) Willingness to make timely 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 borrowing and mid-year ability to delay or reduce disbursements in periods of revenue shortfall and low fund balances.

S&P WEAKNESSES

- (1) Below average income levels, concentration in manufacturing employment, particularly in the aircraft and food sectors, and an economy that has historically grown slower than the nation.
- (2) Historically uneven fund balances and until recently a history of structural budget imbalances.
- (3) Significant unfunded pension liabilities and annual pension contributions that were below the actuarial recommendation through fiscal 2020.

| 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</u> <u>6/30/21</u> | <u>Balance</u> <u>12/30/21</u> | <u>Optional Call</u> <u>Date</u> | <u>Call</u> <u>Price</u> | <u>Called</u> | <u>Final</u> <u>Maturity</u> |
| 2019SRF | KDHE - Water SRF Loan Funds Master Financing Indenture | 41,510,000 | 41,510,000 | 5/1/2029 | 100% | | 2031 |
| 2020SRF | KDHE - Water SRF Loan Funds Master Financing Indenture | 41,485,000 | 41,485,000 | none | n/a | | 2030 |
| 2021SRF | KDHE - Water SRF Loan Funds Master Financing Indenture | 4,000,000 | 4,000,000 | none | n/a | | 2022 |
| | total | 86,995,000 | 86,995,000 | | | | |

| 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 6/30/21</u> | <u>Balance 12/31/21</u> | <u>Optional Call Date</u> | <u>Call Price</u> | <u>Called</u> | <u>Final Maturity</u> |
| 2001W-1 | Series 2001W State of Kansas Projects: HR Acquisition & Renovation | 130,000 | - | 10/1/2011 | 100% | | 2021 |
| 2002H | DHR Acquisition & Renovation Project - 1430 Building (legally changed to DOL) | 270,000 | 270,000 | 5/1/2012 | 100% | | 2022 |
| 2013B | State of Kansas - State Institutional Building Fund Refundings | 5,055,000 | 5,055,000 | none | n/a | | 2024 |
| 2020K | State of Kansas - Refunding TPBC 2007A&B | 33,779,000 | 33,779,000 | 6/1/2025; 6/1/2026; 6/1/2027 | 102%; 101%; 100% | | 2030 |
| 2020T | Kansas Department of Commerce - IMPACT Program Refunding | 39,820,000 | 29,080,000 | none | n/a | | 2022 |
| | total | 79,054,000 | 68,184,000 | | | | |

