

State of Kansas 2022 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 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. 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, Beginning Farmer loans and so forth. 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. KDFa 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. 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, and we recommend that the State utilize the Authority’s expertise on these financings.

KDFa 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, 2022. 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 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 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 K DFA 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 evidence 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. Congress, however, has identified certain qualifying private activities and projects as eligible for tax-exempt treatment. These debt obligations referred to as qualified private activity bonds are used to finance certain eligible activities and projects, including projects for educational facilities, affordable housing, first time farming loans, small manufacturing projects, senior care facilities, certain transportation facilities and various other activities with a clear public benefit component.

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 ACFR. 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 ACFR 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 \$802 million in the last six years to \$3.67 billion at the end of fiscal year 2022. A projected large increase in fiscal year 2022 from the \$504 million pension funding bond issued in August 2021 was largely offset by the defeasance of two 2015 series and the scheduled amortization of SGF backed bonds.

Component Units of the University System debt has grown substantially from 2005 to 2016, 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. More recently, Component Units of the University System debt has gone down about \$70 million over the last two years.

User-Fee revenue bonds which is mostly composed of state university debt has also grown measurably over the past 17 years but has also leveled out recently declining about \$60 million from its peak in 2017.

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%. This trend is expected to reverse itself since the loan program is expected to see much higher demand from municipalities for the programs' subsidized loans in a higher interest rate market.

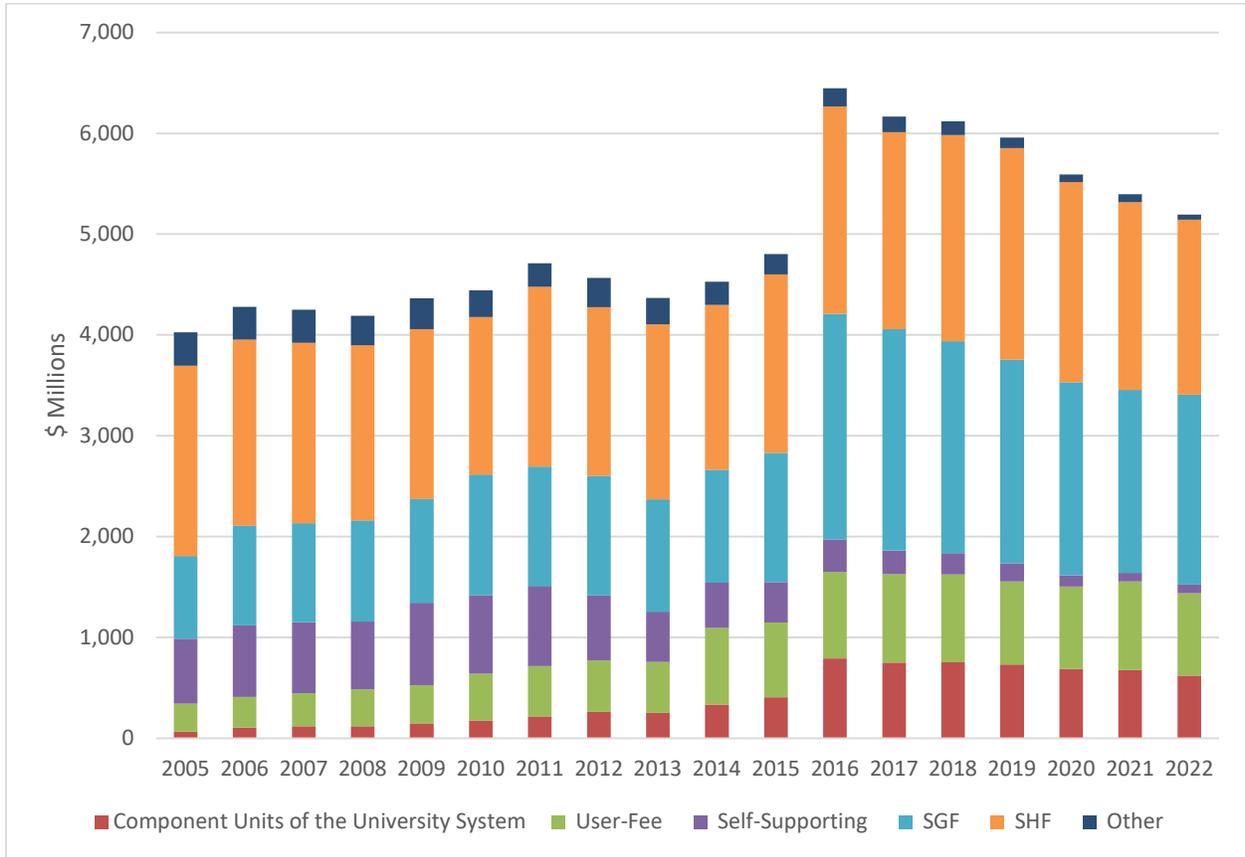
Overall, the State has used debt moderately in comparison to the US overall but more aggressively compared to surrounding states. Moody's reflects Kansas Net Tax Supported Debt as \$1,447 per capita. The US average is \$1,535 with a range of Connecticut at \$6,971 and Nebraska at \$18, with regional 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
2022	619.9	817.1	85.4	1,884.1	1,735.4	52.2	3,671.7	5,194.1
Annualized Growth	14.2%	6.5%	-11.2%	5.0%	-0.5%	-10.3%	1.1%	1.5%

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 was 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

The majority of the bonds related to the State Capitol and NBAF have been paid off whereas 83.6% of the KPERS bonds were outstanding as of the end of fiscal year 2022.

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

<i>Fiscal Year</i>	KS GDP (\$M)	SGF Revenue (\$M)	SGF Debt Service (\$M)	Debt Service as % of Revenue
2005	105,526	4,841	40	0.83%
2006	114,092	5,394	48	0.89%
2007	123,879	5,809	63	1.08%
2008	128,604	5,693	86	1.51%
2009	125,349	5,587	84	1.50%
2010	128,591	5,191	87	1.68%
2011	136,359	5,882	119	2.02%
2012	141,818	6,413	126	1.96%
2013	144,483	6,341	118	1.86%
2014	150,184	5,653	110	1.95%
2015	154,958	5,929	109	1.84%
2016	160,451	6,073	143	2.35%
2017	165,183	6,339	176	2.78%
2018	172,343	7,298	189	2.59%
2019	176,564	7,368	184	2.50%
2020	177,581	6,901	189	2.74%
2021	191,381	8,865	181	2.04%
2022		7,916	210	2.65%
2023		9,701*	157	1.62%
2024		10,124*	154	1.52%

* November 2022 Revenue Estimate

Authorized Proposed Debt Issuance

During fiscal 2022, \$33.9 million of debt was authorized by the Legislature for: a State Veteran’s Home Facility and the WSU Clinton Hall Renovation. This is a large decrease compared to fiscal 2021 which authorized \$710.5 million of debt which was primarily due to the \$500 million KPERS bond authorization.

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 2022	BALANCE AT 06/30/2022	ISSUED YTD FY 2022	REPAYMENT SECURITY
State Veterans Home Facility	House Bill No. 2021	17,500,000	17,500,000		Tax-SGF
WSU Clinton Hall Renovation	Chapter 81 and Section 159(c) of 2022 Session Laws	16,400,000	16,400,000	12,850,000	User-fee
	Total	33,900,000	33,900,000	12,850,000	

Surrounding State Comparison

In September 2022, Moody’s Investors Service published its annual report titled “Debt, pension and OPEB liabilities all up in fiscal 2021”. 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 2022 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 2021 Personal Income	Rank	Moody’s Rating
Kansas	\$1,413	24 (down 4)	2.4%	23 (down 4)	Aa2 ⁽²⁾
Oklahoma	\$394	41 (up 2)	0.7%	38 (up 4)	Aa2
Colorado	\$874	27 (up 4)	1.3%	30 (up 4)	Aa1 ⁽²⁾
Nebraska	\$19	49 (up 1)	0.0%	49 (up 1)	Aa1 ⁽²⁾
Iowa	\$408	43 (up 4)	0.7%	39 (up 8)	Aaa ⁽²⁾
Missouri	\$398	38 (up 3)	0.7%	37 (up 4)	Aaa
Regional Mean	\$584		1.0%		
US Mean	\$1,772		2.8%		

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' 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' 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>6/30/22</u>	<u>Balance</u> <u>12/31/22</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	25,930,000	25,930,000	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	-	-	none	n/a		2022
2022SRF	KDHE - Water SRF Loan Funds Master Financing Indenture	18,000,000	18,000,000	anytime	100%		2026
	total	85,415,000	85,415,000				

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</u> <u>6/30/22</u>	<u>Balance</u> <u>12/31/22</u>	<u>Optional Call</u> <u>Date</u>	<u>Call</u> <u>Price</u>	<u>Called</u>	<u>Final</u> <u>Maturity</u>
2013B	State of Kansas - State Institutional Building Fund Refundings	2,715,000	2,715,000	none	n/a		2024
2020K	State of Kansas - Refunding TPBC 2007A&B	30,364,047	30,364,047	6/1/2025; 6/1/2026; 6/1/2027	102%; 101%; 100%		2030
2020T	Kansas Department of Commerce - IMPACT Program Refunding	18,075,000	6,795,000	none	n/a		2022
2021J	Kansas State Fair	1,059,000	1,059,000	none	n/a		2028
	total	52,213,047	40,933,047				

Tax-Supported Debt							
State Highway Fund (KDOT)							
Source of Repayment: motor fuel taxes, vehicle registration fees, sales taxes and federal aid reimbursements.							
<u>Series</u>	<u>Title</u>	<u>Balance 6/30/22</u>	<u>Balance 12/31/22</u>	<u>Optional Call Date</u>	<u>Call Price</u>	<u>Called</u>	<u>Final Maturity</u>
2004 C	State of Kansas - Department of Transportation - Adjustable Tender Highway Revenue Bonds	114,990,000	81,675,000	none	n/a		2025
2010 A	State of Kansas - Department of Transportation - Highway Taxable Revenue Bonds (BABs)	325,000,000	325,000,000	anytime	Make Whole (+15)		2035
2012B	State of Kansas - Department of Transportation - Highway Revenue Refunding Bonds	39,885,000	-	none	n/a		2022
2012C	State of Kansas - Department of Transportation - Highway Revenue Bonds	105,400,000	-	9/1/2022	100%	9/1/2022	2032
2014A	State of Kansas - Department of Transportation - Highway Revenue Bonds	250,000,000	250,000,000	9/1/2024	100%		2030
2015A	State of Kansas - Department of Transportation - Highway Revenue Refunding Bonds	143,030,000	95,120,000	none	n/a		2024
2015B	State of Kansas - Department of Transportation - Highway Revenue Bonds	400,000,000	400,000,000	9/1/2025	100%		2035
2017A	State of Kansas - Department of Transportation - Highway Revenue Bonds	187,540,000	184,005,000	9/1/2027	100%		2037
2018A	State of Kansas - Department of Transportation - Highway Revenue Bonds	169,565,000	168,200,000	9/1/2027	100%		2037
	total	1,735,410,000	1,504,000,000				