

State of Kansas 2023 Debt Study



Prepared by:  Kansas Development Finance Authority

Background

The Kansas Development Finance Authority (“KDFFA” 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. The Finance Authority issues private activity debt to finance hospitals, affordable housing projects, senior assisted living, 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 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 effective and efficient finance transactions for the requesting entity. KDFFA should not be thought of just as a bond issuer but as the State’s finance authority, 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. KDFFA 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. We recommend that the State utilize the Authority’s expertise on all financings in excess of \$10 million.

KDFFA developed the first annual debt study in 2005 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, 2023. 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 KDFFA 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 KDFFA 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 KDFFA 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 KDFFA’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 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 as 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 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 --- Commentary

After peaking in 2016 at \$4.47 billion, outstanding *tax-supported* debt has decreased by about \$1.14 billion (-25.4%) in the last seven years to \$3.33 billion at the end of fiscal year 2023. 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 had 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. Since its peak in 2016, Component Units of the University System debt has gone down about \$263 million (-33.2%). A little over half of this decrease was driven by the implementation of GASB 91 in 2023 (see Appendix page A-1 for line-item detail), which shifted some of this debt to the User-Fee section as discussed below.

User-Fee revenue bonds which mostly consist of state university debt has also grown measurably over the past 18 years. After leveling out from 2017 to 2022, 2023 saw an increase of \$114.4 million of User-Fee revenue bonds driven entirely by the implementation of GASB 91 mentioned above, and the shifting of certain Component Units of the University System debt to the User-Fee section. Component Units of the University System debt and User-Fee revenue bonds on a combined basis increased \$22.6 million from 2022 to 2023 (1.6%), the combined change better reflecting total university debt.

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% from 2005 to 2022. In 2023 and with a much higher interest rate market the loan program is seeing much higher demand from municipalities for the programs' subsidized loans and this category is expected to grow in the coming years

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 \$1,487 per capita. The US mean is \$1,808 with a range of Connecticut at \$7,988 and Nebraska at \$40, with regional states averaging only \$639.

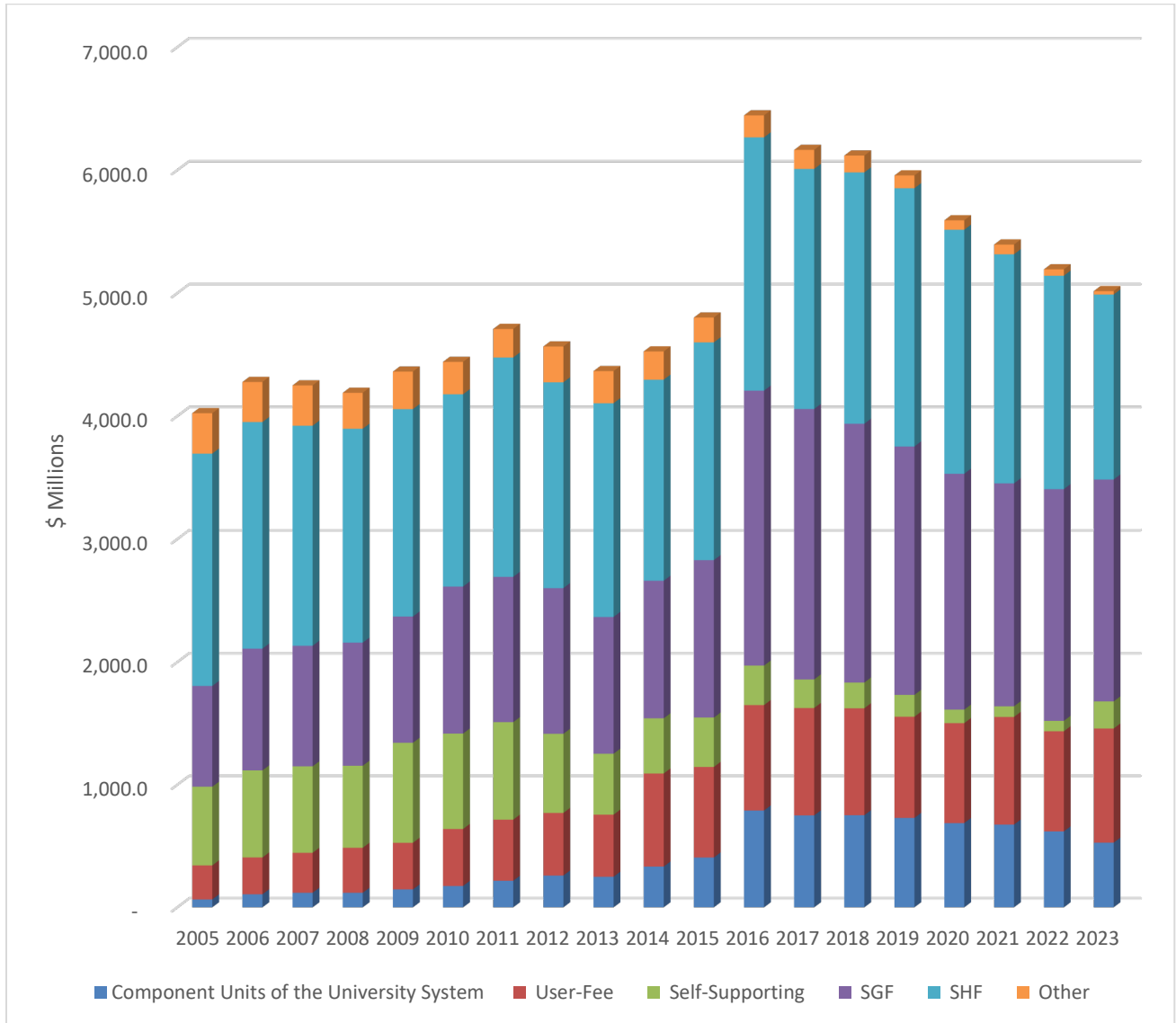
Revenue Bonds Outstanding --- Data Table

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>SUB 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	4,709.4
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	3,112.8	4,366.7
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	3,253.1	4,802.3
2016	790.8	860.0	321.6	2,235.5	2,059.1	178.8	4,473.4	6,445.8
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	878.8	87.0	1,812.5	1,862.8	79.1	3,754.3	5,395.7
2022	619.9	817.1	85.4	1,884.1	1,735.4	52.2	3,671.7	5,194.1
2023	528.1	931.5	221.5	1,804.2	1,504.0	27.9	3,336.1	5,017.2
Annualized Growth	12.4%	6.9%	-5.7%	4.5%	-1.3%	-12.8%	0.5%	1.2%

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 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 80.1% of the KPERS funding bonds were outstanding as of the end of fiscal year 2023. Further, KPERS funding bonds compose 90.1% of the outstanding SGF bonds as of the end of fiscal year 2023. 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
	(\$M)	(\$M)	(\$M)	
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	209,326	7,916	210	2.65%
2023		9,283	157	1.62%
2024		10,284*	154	1.50%
2025		10,257*	151	1.47%

** November 2023 Revenue Estimate*

Authorized Debt Issuance

During fiscal 2023, \$47.8 million of debt was authorized by the Legislature for three university projects.

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 2023	ISSUED YTD FY 2023	REPAYMENT SECURITY
ESU Nursing & Student Wellness Center		15,000,000		User-fee
WSU University Stadium		17,580,000	11,040,000	Other – Sedgwick County 1.5 mill
WSU NIAR Technology & Innovation Building		15,200,000		User-fee
	Total	47,780,000	11,040,000	

Surrounding State Comparison

In September 2023, Moody’s Investors Service published its annual report titled “Ability to service long-term liabilities and fixed costs improve” based fiscal year 2022 data. 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 2023 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 2022 Personal Income	Rank	Moody’s Rating
Kansas	\$1,487	23 (up 1)	2.5%	22 (down 4 up 1)	Aa2 ⁽²⁾
Oklahoma	\$488	40 (up 1)	0.9%	39 (down 1)	Aa2
Colorado	\$1,048	29 (down 2)	1.4%	30 (unchanged)	Aa1 ⁽²⁾
Nebraska	\$40	50 (down 1)	0.1%	50 (down 1)	Aa1 ⁽²⁾
Iowa	\$392	42 (up 1)	0.7%	44 (down 5)	Aaa ⁽²⁾
Missouri	\$378	43 (down 5)	0.7%	43 (down 6)	Aaa
Regional Mean	\$639		1.05%		
US Mean	\$1,808		2.7%		

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 slightly below average compared to most other states as reflected in our AA-, Aa2, and AA issuer ratings from Standard & Poor ("S&P"), Moody's, and Fitch 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 December 5, 2023, 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) Minimal liabilities for other post-employment benefits.

Moody's CHALLENGES

- (1) Weak demographics could limit long-term economic potential and revenue growth.
- (2) Debt and unfunded pension that account for a large share of GDP and the state's fixed costs are comparatively high.

As of February 28, 2023, S&P assigns the State's issuer rating as AA- with a positive outlook:

S&P STRENGTHS

- (1) The unemployment rate remains 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.
- (3) Ability to support cash flow needs using interfund borrowing and mid-year ability to delay or reduce disbursements in periods of revenue shortfalls and low fund balances.

S&P WEAKNESSES

- (1) Below average income, concentration in manufacturing employment, particularly in the aircraft and food sectors, and economic growth 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 a history of using POBs to improve the funded status of its pension plan.

As of January 9, 2024, Fitch assigns the State's issuer rating as AA with a stable outlook:

Fitch STRENGTHS

- (1) Recent trend of structurally balanced budgets, rebuilding of reserves and improved liquidity.
- (2) Revenue-raising ability, solid control over spending and moderate long-term liability burden.

Fitch CHALLENGES

- (1) Population growth rates and education levels have tended to lag national trends.
- (2) Economic recovery has lagged the national average.

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.

Series	Title	Balance 6/30/23	Optional Call Date	Call Price	Final Maturity
2008D	Kansas State University Salina Campus Project	1,600,000	none	n/a	2038
2012B-2	Kansas State University Athletics - 2023 GASB 91 add	4,680,000	anytime	Make Whole (+55)	2025
2013D	Kansas State University Foundation Lease (Dept of Ag) - 2023 GASB 91 add	6,135,000	10/1/2024	100%	2033
2014C	University of Kansas Housing Project	40,355,000	5/1/2022	100%	2039
2014E	University of Kansas Center for Research - 2023 GASB 91 add	4,995,000	2/1/2023	100%	2025
2015B	Kansas State University Projects & Refundings	44,685,000	5/1/2023	100%	2037
2016A	Kansas State University Projects & Refundings	73,720,000	3/1/2024	100%	2040
2016B	Fort Hays State University Housing & Refundings	22,925,000	4/1/2024	100%	2041
2016C	University of Kansas Medical Center Parking Garage	37,075,000	5/1/2024	100%	2041
2016D	Kansas State University Athletics - 2023 GASB 91 add	35,680,000	7/1/2024	100%	2032
2016J	Wichita State University Parking Garage	6,240,000	6/1/2024	100%	2036
2017A	University of Kansas Projects & Refundings	50,970,000	5/1/2025	100%	2042
2017B	Kansas State University Energy Projects	1,967,000	2/15/2018	103%	2032
2017D	Emporia State University Housing Projects	27,930,000	11/1/2025	100%	2038
2017E	Kansas State University Electrical Distribution Systems Project	2,275,000	any	100%	2025
2019A	Kansas State University Foundation Lease (Dept of Ag) - 2023 GASB 91 add	8,345,000	10/1/2027	100%	2049
2019C	Kansas State University Refunding Olathe Innovation Campus JCERTA	27,905,000	5/1/2027	100%	2044
2019H	Kansas State University Olathe Innovation Campus JCERTA - 2023 GASB 91 add	20,680,000	10/1/2027	100%	2039
2020A	University of Kansas Refunding Edwards Campus JCERTA	3,735,000	any; 1/1/2021; 1/1/2022	103%; 102%; 101%	2025
2020B	University of Kansas Refunding	47,620,000	5/1/2028	100%	2035
2020C	Fort Hays State University Project	9,330,000	4/1/2028	100%	2039
2020F	Emporia State University Refunding	6,085,000	none	n/a	2030
2020H	Pittsburg State University Refunding	8,925,000	6/1/2030	100%	2033
2020P	Wichita State University Projects & Refunding	71,445,000	6/1/2028	100%	2050
2020W	University of Kansas Refunding Medical Center JCERTA	6,820,000	any; 12/1/21; 12/1/22	103%; 102%; 101%	2030
2021A	Kansas State University Refundings	49,335,000	5/1/2029	100%	2040
2021C	Kansas State University Athletics - 2023 GASB 91 add	18,180,000	7/1/2026	100%	2040
2021D	University of Kansas Refunding	58,420,000	5/1/2030	100%	2038
2021L	Wichita State University Projects & Refunding	63,375,000	6/1/2029	100%	2051
2022A	Kansas State University Foundation Lease (Salina Dorms) - 2023 GASB 91 add	9,480,000	5/1/2030	100%	2053
2022D	Kansas State University Refundings	80,985,000	4/1/2030	100%	2044
2022E	Pittsburg State University Refunding	21,245,000	2/1/2030	100%	2035
2022G	Wichita State University Project	12,690,000	6/1/2030	100%	2047
2023C	Kansas State University Athletics - 2023 GASB 91 add	45,640,000	7/1/2031	100%	2043
		total	931,472,000		

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 6/30/23</u>	<u>Optional Call Date</u>	<u>Call Price</u>	<u>Final Maturity</u>
2019SRF	KDHE - Water SRF Loan Funds Master Financing Indenture	17,855,000	5/1/2029	100%	2031
2020SRF	KDHE - Water SRF Loan Funds Master Financing Indenture	37,745,000	none	n/a	2030
2022SRF	KDHE - Water SRF Loan Funds Master Financing Indenture	13,660,000	anytime	100%	2026
2023SRF	KDHE - Water SRF Loan Funds Master Financing Indenture	152,200,000			
	total	221,460,000			

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 6/30/23</u>	<u>Optional Call Date</u>	<u>Call Price</u>	<u>Final Maturity</u>
2013B	State of Kansas - State Institutional Building Fund Refundings	260,000	none	n/a	2024
2020K	State of Kansas - Refunding TPBC 2007A&B	26,790,000	6/1/2025; 6/1/2026; 6/1/2027	102%; 101%; 100%	2030
2021J	Kansas State Fair	890,000	none	n/a	2028
		total			
		27,940,000			

Tax-Supported Debt - <i>PRELIMINARY</i>					
State General Fund					
Source of Repayment: Annual appropriation from the State General Fund (SGF)					

<u>Series</u>	<u>Title</u>	<u>Balance</u> <u>6/30/23</u>	<u>Optional Call</u> <u>Date</u>	<u>Call Price</u>	<u>Called</u>	<u>Final</u> <u>Maturity</u>
2004C	Kansas Public Employees Retirement System	291,985,000	anytime	Make Whole (+12.5)		2034
2015A	State General Fund - KUMC Med Ed, KWO & Refundings	-	5/1/2023	100%	5/1/2023	2035
2015G	State General Fund - NBAF	-	4/1/2023	100%	4/1/2023	2035
2015H	State General Fund - KPERS	857,485,000	anytime	Make Whole (+35)		2045
2016H	State General Fund - Refundings	31,395,000	11/1/2024	100%		2028
2019F&G	State General Fund - Refundings	57,360,000	11/1/2027	100%		2034
2020R&S	State General Fund - Refundings	60,595,000	11/1/2028	100%		2034
2021K	State General Fund - KPERS	475,305,000	anytime	Make Whole (+15)		2051
2021P	State General Fund - Refundings	30,075,000	5/1/2030	100%		2033
	total	1,804,200,000				

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 6/30/23</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	81,675,000	none	n/a		2025
2010 A	State of Kansas - Department of Transportation - Highway Taxable Revenue Bonds (BABs)	325,000,000	anytime	Make Whole (+15)		2035
2012B	State of Kansas - Department of Transportation - Highway Revenue Refunding Bonds	-	none	n/a		2022
2012C	State of Kansas - Department of Transportation - Highway Revenue Bonds	-	9/1/2022	100%	9/1/2022	2032
2014A	State of Kansas - Department of Transportation - Highway Revenue Bonds	250,000,000	9/1/2024	100%		2030
2015A	State of Kansas - Department of Transportation - Highway Revenue Refunding Bonds	95,120,000	none	n/a		2024
2015B	State of Kansas - Department of Transportation - Highway Revenue Bonds	400,000,000	9/1/2025	100%		2035
2017A	State of Kansas - Department of Transportation - Highway Revenue Bonds	184,005,000	9/1/2027	100%		2037
2018A	State of Kansas - Department of Transportation - Highway Revenue Bonds	168,200,000	9/1/2027	100%		2037
	total	1,504,000,000				