

THE BOND BUYER

Fitch upgrades rating on \$1.25 billion of Kansas highway revenue bonds

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Fitch Ratings raised the rating on about \$1.25 billion of outstanding Kansas Department of Transportation highway revenue bonds to AA with a stable outlook from AA-minus, citing solid credit attributes.

The upgrade "reflects the steady performance of the pledged revenue stream throughout the pandemic, growth in KDOT's available fund balances, and improvements in the underlying credit quality of the state of Kansas," the rating agency said Friday in a report.



Under Kansas Gov. Laura Kelly the state has stopped tapping the highway fund for general fund spending, although Fitch

warned the state transportation department's exposure to future state budgetary pressures remains a long-term risk factor that limits the rating. **Kansas Governor's Office**

It noted that recent operating surpluses boosted Kansas' liquidity and eliminated its dependence on annual cash flow borrowing and state highway fund transfers to support state general fund operations.

While the transfers have ceased, Fitch warned, "KDOT's exposure to future state budgetary pressures remains a long-term risk factor that limits the rating."

With the help of revenue growth, Gov. Laura Kelly's administration has [paid down pension and other debt](#) and stopped interfund borrowing and delayed payments.

Noting that Fitch cited her stopping transfers from the State Highway Fund (SHF) to the general fund for non-transportation expenditures as one reason for the upgrade, Kelly pointed more than \$1.7 billion of transfers from KDOT to fund other parts of the state budget by the Brownback administration from 2014 through 2018 — "a practice known as raiding the Bank of KDOT."

"Since taking office, my administration has exercised fiscal responsibility resulting in balanced budgets, fully funded schools for the fifth consecutive year, and closing the Bank of KDOT once and for all," she said. "This rating upgrade indicates that the financial sector recognizes the work we have done to get our state back on track and make Kansas attractive to families and businesses."

Kansas ended fiscal 2023 on June 30 with total tax collections of nearly \$10.2 billion, which exceeded estimates by nearly \$26 million, with Kelly attributing the outperformance to her administration's success in attracting businesses, expanding the workforce, and growing the economy.

The state's fiscal 2024 budget adds \$600 million to the rainy-day fund, bringing it to a record \$1.6 billion.

"The improved bond rating is a testament to the bi-partisan support of funding transportation in Kansas," Calvin Reed, acting secretary of transportation, said in a statement. "KDOT's overall financial health helps achieve our mission of making transportation investments that benefit Kansas now and into the future."

The agency expects to sell \$800 million to \$1.2 billion of bonds for its Eisenhower Legacy Transportation Program, with the first issuance scheduled for the fall of 2024, according to a KDOT spokesman. The 10-year program addresses highways, bridges, public transit, aviation, and other needs across the state.

KDOT highway bonds are special obligations of the state, backed by a gross lien on and payable from pledged revenue, including transportation-related taxes and fees and a share of the state's sales tax, Fitch said.