2010 Kansas Debt Study

Prepared by: Kansas Development Finance Authority

Background

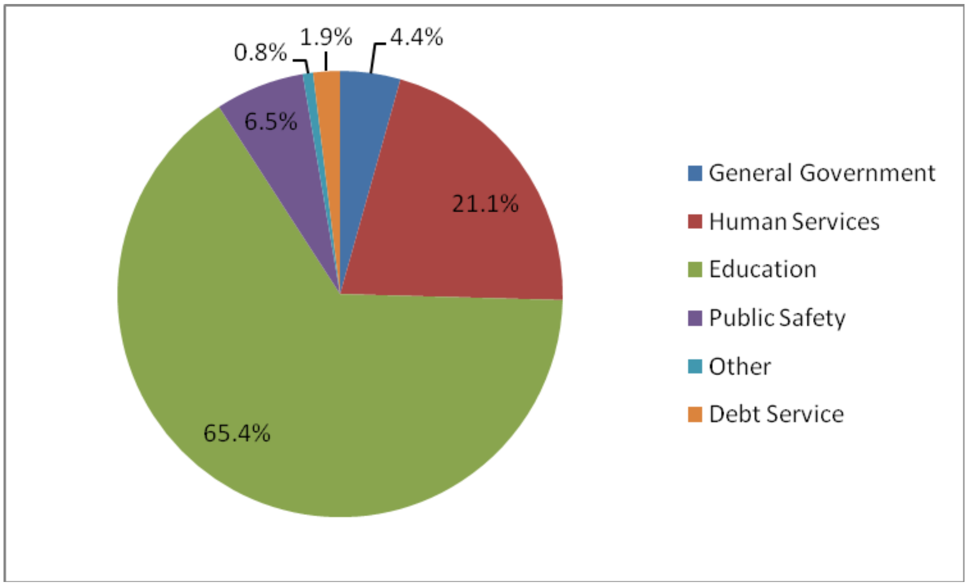
Kansas Development Finance Authority ("KDFA") was created by the Kansas legislature as a public body politic and corporate, with corporate succession, to be an independent instrumentality of the State of Kansas. KDFA was created as an independent instrumentality, to clearly establish a separate entity from the State of Kansas for purposes of debt issuance in order that the debt may clearly be characterized as debt of the Authority, and not direct debt of the State of Kansas. The Authority's independent public corporation status also serves to contain liability exposure related to its debt issuance and post-issuance administration practices to KDFA, and not the State of Kansas.

In early 2008, KDFA developed its first annual debt study to provide relevant data to assist policymakers in making financing decisions for the State. The purpose of this 2010 Debt Study is to give policymakers a picture of the State's debt position on June 30, 2010. 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 makes some 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; and, members of the State Finance Council. This analysis will also be posted on the KDFA website (www.kdfa.org). The information can be used by the legislature to establish priorities during the legislative appropriation process. Additionally, as the legislature considers new financing initiatives, the long-term financial impact of any proposal can be evaluated 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 meant to be a replication of the Comprehensive Annual Financial Report's (CAFR) Long-term Obligations section. The CAFR is prepared annually by the Division of Accounts and Reports.

State General Fund (SGF) Debt Service as a Percent of Expenditures (FY2011)



Terminology & Nomenclature

User-Fee Supported Debt is debt secured by revenues generated from the operation of the associated facilities that were financed by the debt issuance. Some examples are 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.

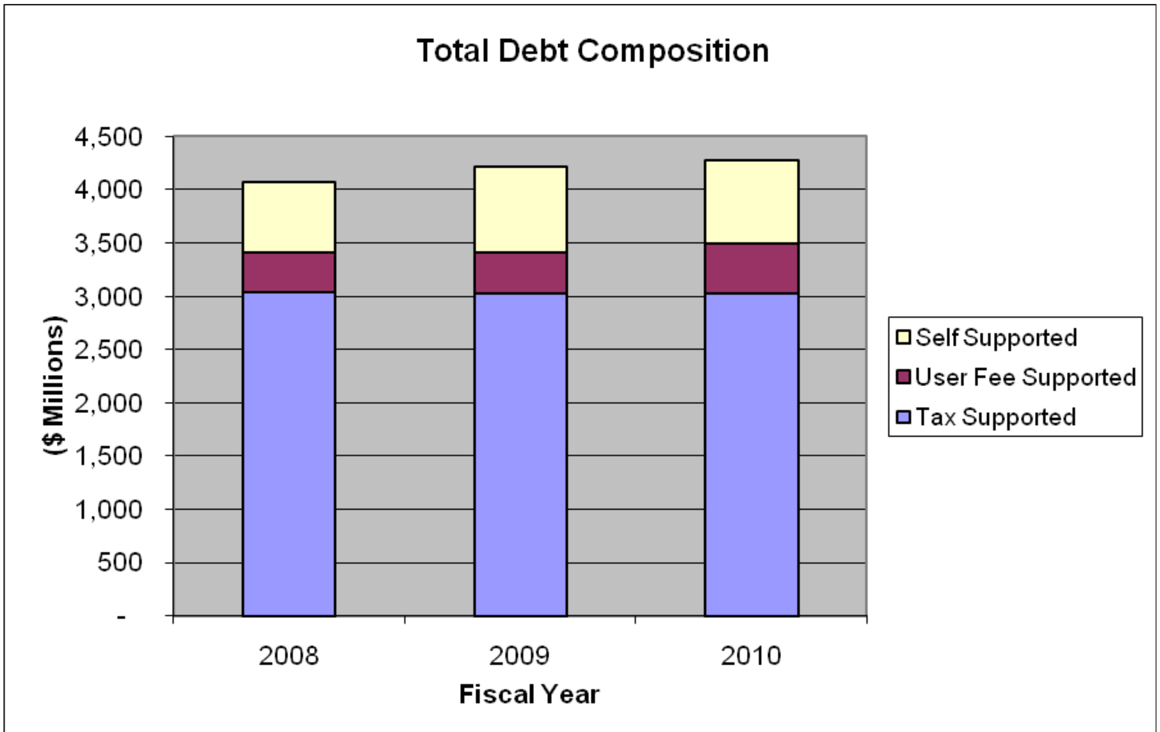
Self-Supporting Debt ***is the primary obligation of a legal entity <u>other than the State</u>*** (in most cases these entities are city and county government units in the State). None of this debt is secured by a general obligation pledge or an annual appropriation by the Legislature of State revenues. Tabulated in Appendix page A-2.

Tax-Supported Debt is 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 principle 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.

Private Activity Bond Debt is debt which is issued on behalf of various non-governmental entities to facilitate the development of health care facilities, affordable housing facilities, manufacturing facilities, activities of 501(c)(3) facilities, and various other private activities. Private Activity Bond debt service is the **sole obligation** of the private activity borrower, and there is no recourse to the State of Kansas or any taxing subdivision thereof. The debt service is typically repaid through a pledge of the revenues generated by the financed facility or other general revenues of the private activity borrower. As such, private activity debt issued by KDFA is not included in this report. Prior to issuing private activity debt, KDFA must provide notice of its intent to issue such debt to the municipality in which the private activity project is to be financed, and must hold a TEFRA public hearing in accordance with Section 147 of the Internal Revenue Code, and receive the approval of the Governor. Certain projects must receive private activity bond allocation which is administered by the Kansas Department of Commerce.

Debt Outstanding

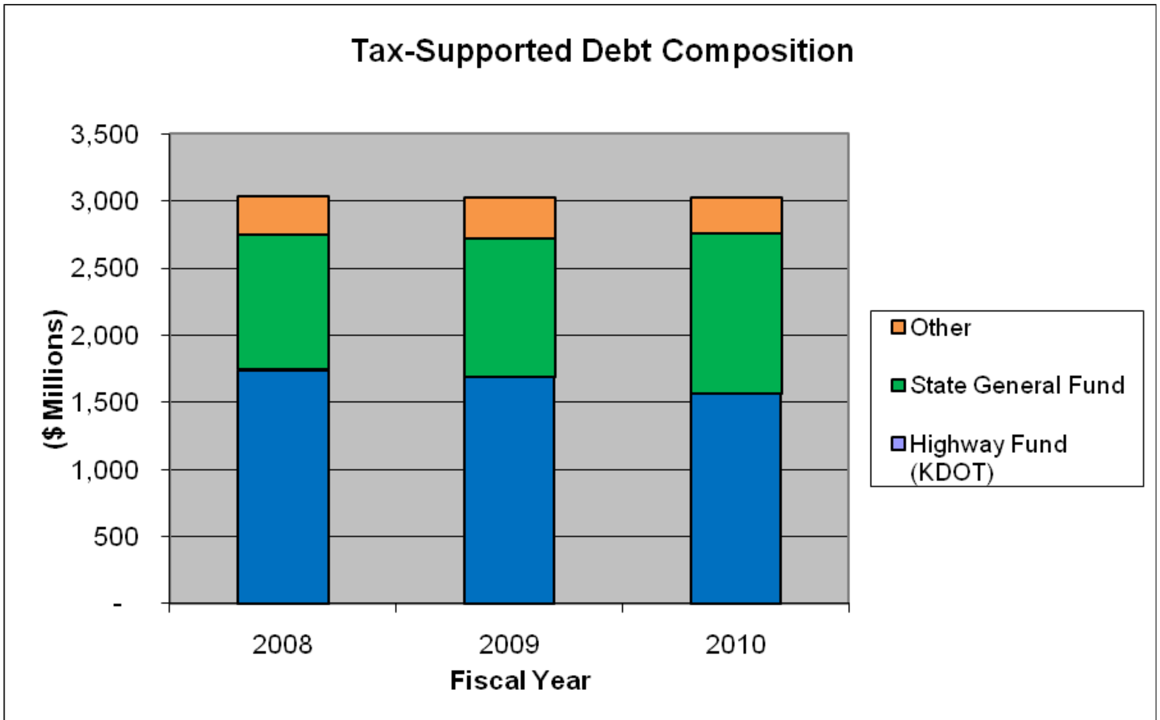
Total State debt outstanding at June 30, 2010 was $4.267 billion approximately $50 million MORE than at June 30, 2009. User-fee supported debt totaled $465 million (Appendix page A-1). This represented a $75 million INCREASE from the prior year. Additionally, self-supporting debt outstanding at June 30, 2010 was $779 million which was $37 million LESS than at June 30, 2009 (Appendix page A-2). Tax-supported debt totaled $3.023 billion for financings supported by State tax revenues or tax-like revenues which was an annual INCREASE of approximately $3 million (Appendix pages A-3 to A-5). A little over one quarter of all debt is supported by the State General Fund (SGF).



TOTAL DEBT	*Fiscal Year End*					
($ Millions)	*2008*		*2009*		*2010*	
Tax Supported	3,033	74.5%	3,020	71.6%	3,023	70.8%
User Fee Supported	367	9.0%	380	9.0%	465	10.9%
Self Supported	670	16.5%	816	19.4%	779	18.3%
Total	**4,070**		**4,217**		**4,267**	

Tax-Supported Debt

Tax-supported debt comprises the majority of the State's debt. Further, the majority of tax-supported debt comes from the State's investment in transportation infrastructure as detailed below. Highway Fund (KDOT) debt was issued in conjunction with the State's Comprehensive Transportation Programs and is financed by motor fuel taxes, vehicle registration fees, sales taxes and federal aid reimbursements (Appendix A-5). State General Fund debt is backed by an annual appropriation pledge from the Legislature (Appendix A-4). Other Tax-Supported debt includes bonds secured by the Educational Building Fund and other Special Revenue Funds (Appendix A-3).



TAX-SUPPORTED DEBT	*Fiscal Year End*					
($ Millions)	*2008*		*2009*		*2010*	
State Highway Fund	1,739	57.3%	1,686	55.8%	1,563	51.7%
State General Fund	1,003	33.1%	1,028	34.0%	1,197	39.6%
Other	292	9.6%	305	10.1%	263	8.7%
Total	**3,033**		**3,020**		**3,023**	

State General Fund Debt Ratio

While there has been measurable growth in the percentage of SGF Revenues going towards debt service over the past several years, the overall percentage of SGF Revenues going towards debt service is small. The largest contributors for the growth in SGF Debt Service in recent years are from the following issuances of debt:

- 2004C Kansas Public Employees Retirement System ($500.0M)
- Various Series of State Capitol Restoration Project ($254.7M)
- 2006A Kansas Department of Administration – Comprehensive Transportation Program ($209.5M)

SGF DEBT SERVICE RATIO	*Fiscal Year*					
($ Millions)	***2007***	***2008***	***2009***	***2010***	***2011****	***2012****
SGF Revenue	5,809.0	5,693.4	5,587.4	5,191.3	5,789.9	6,044.8
SGF Debt Service	63.3	86.0	83.6	87.3	111.5	113.3
Debt Service as % of Revenue	1.09%	1.51%	1.50%	1.68%	1.92%	1.87%

** November 2010 Revenue Estimate*

Proposed Debt Issuance

As of June 30, 2010, approximately $2.08 billion of debt is could be issued over the next several years based on current authorizations from the State Legislature. This is approximately $1.56 billion more than a year ago. The most notable addition is KDOT's T-WORKS Program which was adopted by the 2010 Legislature. T-WORKS allows KDOT to issue bonds up to 18% of annual revenues (for the current or an future year). KDOT has estimated that this upper limit could support up to $1.7 billion of bonds.

Authorized ***Proposed*** Debt Issuance

DESCRIPTION	AUTHORIZED BY (OR REAUTHORIZED)	BALANCE AT 06/30/09	ISSUED IN FY 2010	AUTHORIZED IN FY 2010 (OR REAUTHORIZED)	BALANCE AT 06/30/2010	ISSUED YTD FY 2011	Repayment Security
KSU Greenhouse Lab	Ch 165 Sec 126 (d) of the 2010 Session Laws	1,700,000		1,700,000	1,700,000		Tax - EBF
KSU Horticulture Research Center	Ch 165 Sec 126 (e) of the 2010 Session Laws	1,500,000		1,500,000	1,500,000		Tax- EBF
		3,200,000		**3,200,000**	**3,200,000**		**TOTAL Tax - Other**

DESCRIPTION	AUTHORIZED BY (OR REAUTHORIZED)	BALANCE AT 06/30/09	ISSUED IN FY 2010	AUTHORIZED IN FY 2010 (OR REAUTHORIZED)	BALANCE AT 06/30/2010	ISSUED YTD FY 2011	Repayment Security
T-WORKS	Senate Sub for HB 2650			max 18% annual revenues ($1.7 Billion by KDOT estimate)	max 18% annual revenues ($1.7 Billion by KDOT estimate)	325,000,000	Tax - SHF
		-		**1,700,000,000**	**1,700,000,000**	**325,000,000**	**TOTAL Tax - SHF**

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DESCRIPTION	AUTHORIZED BY (OR REAUTHORIZED)	BALANCE AT 06/30/09	ISSUED IN FY 2010	AUTHORIZED IN FY 2010 (OR REAUTHORIZED)	BALANCE AT 06/30/2010	ISSUED YTD FY 2011	Repayment Security
BOR Community College loans (PEI Loan Program)	KSA 76-7,116	60,000,000			40,000,000		SGF - Interest; Self-Supporting - Principal
Adjutant General - renovate armories	Ch 165 Sec 135 (b) of the 2010 Session Laws			3,000,000	3,000,000	3,000,000	Tax - SGF
DOA - Capitol Renovations	SB 534 Sec 137(i)	38,800,000	38,800,000				Tax - SGF
DOA - Capitol Renovations	Ch 144 Sec 8 (o) of the 2009 Session Laws	38,000,000			38,000,000	38,000,000	Tax - SGF
DOA - Capitol Renovations	Ch 165 Sec 61 (q) of the 2010 Session Laws			36,000,000	36,000,000		Tax - SGF
Attorney General – Water Litigation	Ch 165 Sec 49 (i) of the 2010 Session Laws			19,000,000	19,000,000		Tax – SGF (backstop)
KU Construct & Remodel School of Pharmacy	HB2354	30,000,000	30,000,000				Tax - SGF
NBAF	KSA 74-8963	105,000,000	30,261,805		74,738,195		Tax - SGF
DWP - New office space	HB2354	1,665,000	1,665,000				Tax - SGF
		273,465,000	**100,726,805**	**58,000,000**	**210,738,195**	**41,000,000**	**TOTAL Tax - SGF**

DESCRIPTION	AUTHORIZED BY (OR REAUTHORIZED)	BALANCE AT 06/30/09	ISSUED IN FY 2010	AUTHORIZED IN FY 2010 (OR REAUTHORIZED)	BALANCE AT 06/30/2010	ISSUED YTD FY 2011	Repayment Security
KSU Child Care Facility	HB2354	6,000,000	5,000,000				User-Fee
KSU Renovation of Bramlage Coliseum & Bill Snyder Family Stadium	Ch 165 Sec 125 (d) of the 2010 Session Laws	45,000,000		45,000,000	45,000,000		User-Fee
KSU Housing (JARDINE)	Ch 165 Sec 125 (c) of the 2010 Session Laws	38,000,000		38,000,000	38,000,000		User-Fee
PSU - Student Housing	Ch 124 Sec 117 (e) of the 2009 Session Laws	9,000,000			9,000,000		User-Fee
KUMC parking facilities 4	HB2354	9,200,000	8,250,000				User-Fee
KUMC Remodel Clinical Research Center	Ch 165 Sec 128 (e) of the 2010 Session Laws	25,000,000		25,000,000	25,000,000	14,400,000	User-Fee
KUMC Renovate Hixon/Wahl Lab	Ch 165 Sec 129 (f) of the 2010 Session Laws	34,000,000		34,000,000	34,000,000	30,160,000	User-Fee
KU Renovation of Jayhawk Towers - Phase 2	HB2354	6,950,000	6,950,000				User-Fee
KU Renovation of Pearson Hall	Ch 165 Sec 128 (c) of the 2010 Session Laws	13,075,000		13,075,000	13,075,000		User-Fee
KU Construct Bldg #4 - Edwards Campus	HB2354	24,950,000	22,150,000				User-Fee
		211,175,000	**42,350,000**	**155,075,000**	**164,075,000**	**44,560,000**	TOTAL User-Fee

These tables do not take into account future plans for any other planned capital expenditure that has not already been authorized by the Legislature to be financed through debt issuance.

The projects identified in the table above are authorized to be financed through debt issuance. Certain projects may have already been financed, and the authorization represents unissued debt which may be issued, if necessary, to complete the project, or may contain remainder authorization that ultimately will not be needed or issued as projects were able to be constructed/financed below initial cost estimates. In some instances, the agencies elect to pursue a different course, and debt may never be issued for an authorized project.

As indicated by the sum total of the second to last column, $410.56 million of the outstanding authorizations at the end of Fiscal Year 2010 had been issued in the first half of Fiscal Year 2011 with 79% ($325 million) of issuance being attributable to the T-WORKS program authorized by the 2010 Legislature.

Surrounding State Comparison

In May 2010, Moody's Investor Services published a report titled "2010 State Debt Medians". With 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 2010 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 2007 Personal Income	Rank	Moody's Rating
Kansas	$1,140	19 (down 2)	3.0%	22 (down 3)	Aa1[2]
Oklahoma	$570	38	1.6%	39	Aa2
Colorado	$400	42	1.0%	44	Aa1[2]
Nebraska	$15	50	0.0%	50	NGO[3]
Iowa	$73	49	0.2%	48	Aaa[2]
Missouri	$780	31	2.2%	33	Aaa
Surrounding Average	$496		1.3%		
US Average	$1,297		3.2%		

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. A similar S&P's study yields consistent results
(2) Issuer Credit Rating
(3) No General Obligation Rating

While Kansas's ratios are measurably higher than the surrounding state group's, ***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 to us debt as a financing tool is determined by our credit rating not by the ranking in this study. In fact, while Oklahoma's per capita rankings are much lower than Kansas', their credit rating is one notch lower. Further, Iowa's per capita rankings are near the bottom of the rankings but has a credit rating only one notch higher than Kansas.

Review of Credit Ratings

Credit ratings are the rating agencies' assessments 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 believe that debt management generally, and this debt report in particular, are positive factors in assigning credit ratings.

Kansas is a strong credit as reflected in our AA+ and Aa1 ratings from S&P and Moody's respectively. There are several factors which rating agencies analyze in assigning credit ratings: financial factors, economic factors, debt factors, and administrative / management factors. Weakness in one area may well be offset by strength in another. However, significant variations in any single factor can influence a bond rating.

S&P's confirmed the stable outlook for the State's AA+ issuer credit rating in July 2010. S&P notes that the rating reflects the states: adoption of revenue increases; good income levels; absence of constitutional revenue raising limits; and, ability to adjust disbursements to stabilize cash flow. S&P also points out some factors that limit the rating, including: ongoing budget challenges related to increased education spending, coupled with continued suspension of the statutory reserve requirement; weakening revenue streams; and, consistent decline on the funding status of the State's pension system.

Moody's has a stable outlook for the State's Aa1 issuer credit rating in July 2010. Among the strengths that Moody's lists which help maintain the current rating of Aa1 are: strong management; a high level of institutional financial flexibility; a recent record of above-average job growth and low unemployment rate; a low liability for other post-employment benefits (i.e. retiree healthcare); a history of timely appropriations for debt service; and, reliance on market access for subject-to-appropriation debt. Factors that Moody's points out as challenges for the State going forward are: revenue shortfalls leading to depletion of reserves; negative fund balances accompanied by operating fund liquidity pressures; weak pension funding status; reliance on debt restructuring and other non-recurring fiscal measures; and, economic exposure to the volatile manufacturing sector and consolidation in the telecommunications industry.