

kpfc

Kansas Public Finance Center

Hugo Wall School of Urban and Public Affairs
Wichita State University

State of Kansas 2005 Debt Affordability Report

September 1, 2005



PREFACE

The principal investigator for this project is Dr. W. Bartley Hildreth, Regents Distinguished Professor of Public Finance in the Hugo Wall School of Urban and Public Affairs and the W. Frank Barton School of Business. He also directs the Kansas Public Finance Center.

This report reflects the extensive contributions of students (six now alumni) and staff with the Masters of Public Administration (MPA) program in the Hugo Wall School of Urban and Public Affairs. Three students in public financial management started the inquiry: Lunda Asmani, Ty Lasher, and Dwight Radke. Three Van Riper Fellows in Public Finance – Stacey Kirk, Glynis Nelson and Felany Opiso – prepared early drafts of the complete report. Additional work was provided by current graduate assistants Anthony Swartzendruber and Pam Hoffman. Each student contributed to this product, but the current version greatly reflects the design prepared by Felany Opiso. Jo Turner handled production of the report, with assistance by Sharon Collins. Professor Ed Flentje, director of the Hugo Wall School, offered gentle advice and cogent suggestions throughout the project.

In the spirit of full disclosure, Professor Hildreth served on the Kansas Development Finance Authority from 1998 to 2003, and in 1999 served as an advisor to the Governor on structuring a second comprehensive transportation program.

All efforts have been taken to clarify assumptions and avoid mistakes. Readers are invited to notify the Kansas Public Finance Center with suggestions and comments.

Kansas Public Finance Center
Hugo Wall School of Public and Urban Affairs
Wichita State University, Wichita, KS 67260-0155
Telephone 316-978-7240

TABLE OF CONTENTS

| | |
|--|----|
| EXECUTIVE SUMMARY | 2 |
| I. INTRODUCTION | 5 |
| II. BACKGROUND HISTORY OF STATE PUBLIC FINANCING | 8 |
| III. RECENT BOND ISSUES AND AUTHORIZATIONS | 12 |
| Kansas Department of Transportation (KDOT) Debt | 12 |
| Kansas Public Employees Retirement System (KPERs) Debt..... | 14 |
| Other Debt Issues and Authorizations | 14 |
| IV. DEBT AFFORDABILITY | 17 |
| Debt Affordability Concepts | 17 |
| Value of Debt Affordability Analysis | 19 |
| Debt Burden Indicators..... | 19 |
| Scope | 19 |
| V. CURRENT DEBT PROFILE | 22 |
| Debt Outstanding..... | 22 |
| Debt Service | 28 |
| VI. KANSAS DEBT AFFORDABILITY | 36 |
| Debt per Capita | 37 |
| Debt per Capita as a Percent of Personal Income per Capita | 41 |
| Debt Service per Capita | 48 |
| Debt Service per Capita as a Percent of Personal Income..... | 48 |
| Debt Service as a Percent of General Fund Revenues | 49 |
| Debt Service as a Percent of General Fund Expenditures | 51 |
| Debt Service Coverage | 52 |
| VII. DEBT POLICY SUGGESTIONS | 53 |
| Best Practices..... | 53 |
| State Debt Capacity Approaches..... | 56 |
| VIII. CONCLUSIONS & RECOMMENDATIONS | 76 |
| APPENDICES | 79 |

EXECUTIVE SUMMARY

Most states in the country are experiencing revenue recovery after the recent economic slump. However, structural budget balance has not yet returned for many state governments, particularly for those with depleted reserves. In grappling to close budget gaps, the State of Kansas turned to debt financing. Thus, debt service on outstanding debt constitutes a growing element of state spending. Increases in the State's debt levels are primarily due to the State's Comprehensive Transportation Plan debt and the use of debt to help the Public Employees' Retirement System deal with large unfunded liabilities. As tax streams from future operations are earmarked for debt service payments, prudent debt policies become necessary to ensure the State's long-term fiscal stability and to safeguard the State's access to the capital market at affordable prices.

The purpose of this debt affordability analysis is to provide state policymakers with information to set capital financing policies to ensure that Kansas state government bonds will have a favorable long-term credit rating that will translate to lower interest rates. Public borrowing through bond financing is the State's primary source of funds for capital improvements. However, this funding source is limited by market conditions and credit criteria. Prudent handling of the state's debt capacity ensures the State's ability to borrow to meet its public infrastructure needs. This study includes measures that explore the size and composition of the State debt, reviews the historical and projected developments of Kansas' debt position, and examines the implications of the State's debt affordability ratios. Therefore, this study is primarily geared toward safeguarding the credit quality of the State's debt instruments and ensuring the sustainability of the State's financial position. A good credit quality has the residual effect of making the State's debt instruments, once issued, more readily tradable in the municipal securities secondary markets.

Derived from this study are several key points:

- The State of Kansas does not issue debt backed by the full faith and credit taxing power of the State. Instead, the State relies exclusively on the issuance of bonds backed by dedicated revenues stream and implicit pledges by the legislature to pay debt service when due. This distinction is important because full faith and credit (General Obligation) debt pays lower interest rates to purchasers of the bonds than required if revenue bonds are issued.
- Kansas does not qualify for the top credit rating (Triple-A). The State has been assigned an issuer credit rating of AA+/Stable by the independent credit rating firm, Standard & Poor's, which indicates that the State's credit has recovered from its recent negative outlook. Moody's Investors Service, another credit rating agency, has assigned the State an issuer rating of Aa1.

- State governments with higher bond ratings pay lower interest costs, while governments with lower bond ratings pay higher interest costs.
- Kansas principal debt increased almost five times in a 10-year span, from \$424 million in Fiscal Year (FY) 1992 to \$2.43 billion in FY 2002. Surges in total debt outstanding within the 10-year period correspond to the time lines of two comprehensive transportation programs implemented by KDOT.
- In FY 2005, Transportation constituted 48 percent of total state debt outstanding, or \$2 billion.
- At the end of FY 2005, the principal debt for all state agencies was \$4.0 billion.
- By six credit ratios used to assess debt affordability, Kansas has racked up a ten-year compound growth rate of 7.5 to 13.5 percent per year. On the seventh ratio tracked, KDOT debt coverage, the 7.4 percent decline over the same period is not in the preferred direction since it says that there is less money to support the existing debt.
- Kansas has higher than national averages in terms of debt per capita and debt as a percent of personal income.
- States surrounding Kansas—Oklahoma, Missouri, Colorado, and Nebraska—all have a lower ranking of net tax-supported debt per capita as a percent of personal income than Kansas.
- The State's higher debt burden is a significant factor in assessing the State's long-term financial health.
- It is recommended that the State consider General Obligation debt as a more efficient form of borrowing for General Fund financed projects.
- Kansas does not have a formal set of debt policies governing the State's debt issuance and management. Prudent debt policies must be established to efficiently manage the State's debt.
- A comprehensive database of all Kansas debt should be maintained.
- To its credit, Kansas has centralized its state debt issuing authority almost exclusively to the Kansas Development Finance Authority (K DFA), the Kansas Department of Transportation (KDOT), and the Kansas Turnpike Authority (KTA).

- Kansas should continue to rely upon KDFA as the core financing staff for state-supported programs and, accordingly, the State should avoid creating any other state financing authorities unless they are managed by KDFA.
- Annual preparation of a debt affordability study prior to the legislative session is recommended in order to guide subsequent debt issuance consideration. The Kansas Debt Affordability Model introduced here could serve as a initial design.

I. INTRODUCTION

Although states are slowly recovering from the economic slump that started around 2001, many are still currently plagued by budgetary problems. Many state governments were not prepared to handle decreasing revenue collections and increasing expenditures. In grappling to close budget gaps, with low levels of cash reserves and current revenues, state governments are prone to consider reductions in state expenditures and increases in debt to finance state operations. However, as a growing element of state spending, debt service on outstanding debt constitutes a long-term issue as future revenues are diverted to debt service payments.

The State of Kansas does not issue general obligation debt because the State Constitution limits it to \$1 million without a vote of the citizens. General Obligation (GO) debt is debt secured by the full faith, credit, and taxing power of the issuer (i.e. the State).

For the past few years, the annual Governor's Budget Report has continually stated that *"the state has not needed financial control mechanisms, such as debt ceilings."*¹ Like many states, Kansas does not have a comprehensive list of formal debt policies, but like many other states, *"rely more heavily upon the guidance provided by their own sets of standard practices or rules-of-thumb."*²

For the State of Kansas, capital project financing occurs primarily through tax-exempt borrowing. This method gives the State the option of financing capital improvements through bond issues that allocate infrastructure costs over a number of years—preferably over the life of the assets. Tax exempt bonds are bonds whose interest payments are not subject to federal and, for Kansas bonds purchased by Kansas taxpayers, state taxes. Issuing tax-exempt securities permits the State to borrow money at a lower cost than if it had to compensate investors for the tax due on interest payments from the State.

Establishing an affordable level of debt burden and utilizing debt policies are critical to ensure that the state meets its capital investment needs. The State faces large infrastructure demands, severe weather extremes, volatile revenue collections, heavy reliance on revenue bonds, and legal objection to the issuance of lower-cost General Obligation bonds. Since the State's debts are payable from specific revenue sources, instead of being backed by the State's full faith and credit power, the State may already be paying a higher rate of interest to borrow funds. The changing national economy may drive interest rates higher, thus making the State more vulnerable to higher debt service costs.

¹ Governor's FY 2004 Budget Report for the State of Kansas, Volume 1, p. 167; Governor's FY 2005 Budget Report for the State of Kansas, Volume 1, p. 171. Governor's FY 2006 Budget Report for the State of Kansas. Volume 1, p.150.

² Robbins, Mark D. and Dungan, Casey. "Debt Diligence: How States Manage the Borrowing Function." Public Budgeting & Finance, Volume 21, Number 2 (Summer 2001), 88–105.

Infrastructure policies should focus on future demand of the related services. Inter-period equity rules, demographic trends, usage patterns, and socio-economic as well as political developments should be considered in controlling capital investment levels particularly in states that have debt-financed capital budgets.³

Since Kansas does not issue debt backed by the full-faith and credit of the state, the state is assigned a proxy credit rating instead of a direct credit rating. Standard and Poor's terms this an Issuer Credit Rating (ICR) and for the State of Kansas, that rating is "AA+." In October 2002, Kansas was one of nine states assigned a negative outlook by Standard & Poor's. Moody's also placed the state's "Aa1" credit outlook at "negative in June 2003." In July, 2005, Kansas' ICR was revised to stable.⁴

In its most recent Public Finance Report Card for U.S. States⁵, Standard & Poor's stated that *"There is no doubt that a lasting legacy of the recent weak budgetary and economic environment will be higher fixed costs for debt service and other long-term liabilities. How states manage these costs in conjunction with their future capital requirements and spending programs will be a key element of Standard & Poor's credit analysis."* Moreover, *"To the extent that debt decisions in the current and upcoming budget cycles delay the return to structural budget balance, further credit stabilization and improvement may be impeded."* It is axiomatic that states with prudent debt policies take steps to ensure their long-term fiscal stability; therefore, these states will have an advantage at managing debt service costs in relation to future capital requirements and spending.

The conclusion of the 2005 budget process was a factor in determining the credit ratings of various states. In its Public Finance Report Card for U.S. States dated April 2004⁶, Standard & Poor's stated that *"a review of fiscal 2005 state budget proposals indicates that revenue recovery is under way but structural budget balance has not returned for many states, and there will be limited progress in restoring reserves."* Revenue forecasting and performance plays a major role in long-term fiscal stability and has implications on credit quality. Standard & Poor's also noted that *"even with sustained revenue growth, it will be difficult to redirect revenues to reserves."* States with low reserve balances *"will face pent-up spending demand following a multi-year period of cutbacks and restraint and will have minimal prospects for immediate restoration."* These points emphasize that only states with fiscal policies to dedicate revenues in excess of forecast to reserves will have the flexibility and capacity to respond to financial and economic developments.

Assessing the debt affordability of the State of Kansas rests on a review of the history of state debt financing and recent major initiatives, in the context of the current

³ Dowall, David E. and Whittington, Jan. Making Room for the Future: Rebuilding California's Infrastructure. (San Francisco, California Public Policy Institute, 2003).

⁴ Standard and Poor's, "Kansas' Issuer Credit Rating Outlook Revised to Stable, Boosted by Healthy Reserves," (July 20, 2005).

⁵ Public Finance Report Card: The U.S. States Debt Profiles, (January 31, 2005).

⁶ Public Finance Report Card: The U.S. States, (April 12, 2004).

debt profile, for application of the concept of debt affordability to estimates of the foreseeable horizon of Kansas debt plans.

II. BACKGROUND HISTORY OF STATE PUBLIC FINANCING

Since 1859, the constitutional language on public debt, adopted by the constitutional convention and ultimately by electors of the Kansas Territory, has remained unchanged. The constitutional language of the principal section (originally article XI, section 5) is as follows:

“For the purpose of defraying extraordinary expenses and making public improvements, the State may contract public debts; but such debts shall never, in the aggregate, exceed one million dollars, except as hereinafter provided.”

The succeeding sections allow lawmakers to exceed the million-dollar cap only with submission of debt proposals to a direct vote of electors of the State at a general election, ratified by a majority of all votes cast. Also exempted is state borrowing for the purpose of repelling invasion, suppressing insurrection, or defending the State in times of war. In comparison with the debt provisions, the original constitutional language of the prohibition on internal improvement is clearer, simply stating: *“The State shall never be a party in carrying on works of internal improvement.”*

Kansas history reveals an evolution in public policy toward debt financing.⁷ From the beginning of statehood in 1861, the Kansas constitution set severe restrictions on capital finance, and limited the State government’s role in providing public infrastructure. Kansas joined the Union only after its debt crisis in the first half of the nineteenth century. The State had therefore drawn into its charter strict limitations on the issuance of public debt and a ban on state participation in internal improvements.

Constitutional restrictions on capital finance forced the State government to shift responsibility for financing public infrastructure to local governments. Within the State’s first decade, state lawmakers generously extended debt-financing authority to cities and counties. The Kansas Supreme Court sanctioned this move in 1871 by ruling State road projects as “internal improvements” and, therefore, unconstitutional – effectively banning the construction of roads, highways, bridges and similar infrastructure – but leaving out local government road projects. Existing revenues restricted State facility financing. Thus, financing of roads and other internal improvements fell to local governments.

Kansas’ awkward steps around the internal improvements prohibition and the strict pay-as-we-go philosophy would delay an effective response to the demand for building and maintaining roads and highways and would leave Kansas trailing behind most other states in public financing. Kansas avoided debt financing while local government debt increased. That trend changed when Kansas began moving toward debt financing in 1928 when voters overwhelmingly approved legislation authorizing the state government to adopt, construct, and maintain a state system of highways as well

⁷ Hildreth, W. Bartley and Flentje, H. Edward. “State Initiatives in Transportation Investment: The Evolution from Anti-Debt to Debt Financed Programs In Kansas.” Proceedings of the 92nd Annual Conference on Taxation, 1999, (Washington, DC: National Tax Association, 2000), pp. 148 -154.

as to levy special taxes, for road and highway purposes, primarily from motor vehicles and motor fuel taxes. This new direction changed the composition of the State budget, from no funding for roads and highways to approximately three-fifths of state expenditures 15 years later. The basic program for highways set in place in 1928 is still intact today.

In the 1930's, state legislators took the first step towards revenue financing by authorizing the state highway commission to obtain thirty-year loans from the Federal government. These "revenue anticipation warrants" were used for construction, improvement, and maintenance of public highways and bridges. Repayment of these loans was designed to come solely from revenues accruing to the highway fund. Upon challenge from the Kansas Attorney General's office, the Kansas Supreme Court in the case, *State, ex rel., vs. State Highway Commission*,⁸ held that warrants were not bonds and more importantly, the court ruled that state debt limits only applied to debts paid by a general property tax. The Court's logic on this issue was that since the property tax was the only source of state taxation when the constitution was written, the provisions intended to apply only to debt backed by property taxes. This interpretation sanctioned debt financed by other revenue sources.

Another major hindrance to State debt creation was removed in the 1953 case, *State, ex rel., vs. Kansas Armory Board*.⁹ The Kansas Supreme Court expanded avenues of debt financing by ruling as valid the issuance of revenue bonds with the repayment dependent upon annual legislative appropriation for building rentals drawn from the state general fund since they were not paid by property tax. With this decision, the court essentially rendered the constitutional limits on public debt insignificant.

To further the advancement of state public financing in 1986, the Kansas legislature established the Kansas Development Finance Authority (KDFA)¹⁰ which issues revenue bonds for most capital projects of state agencies, except those to finance highway and other transportation projects carried out by the Kansas Department of Transportation (KDOT) and the Kansas Turnpike Authority (KTA). KDOT has exhausted its bond issuing power for the two large transportation programs enacted in 1989 and 1999, and KTA retains the responsibility for the turnpike. Kansas has refrained from creating a variety of agencies with separate bond issuing authority.

The Kansas Development Finance Authority is an independent instrumentality of the State charged with providing state agencies and other public and private organizations with access to the capital market.¹¹ KDFA is a governed by a five-member

⁸ *State ex rel., v. State Highway Commission*, 138 Kan. 913 (1934).

⁹ *State, ex rel., v. Kansas Armory Board*, 174 Kan. 379 (1953).

¹⁰ Flentje, H. Edward, *Kansas Policy Choices: Report for the Special Commission on a Public Agenda for Kansas*, (Lawrence, KS: University Press of Kansas, 1986). pp. 109-140.

¹¹ In 2003, Executive Reorganization Order No. 30 transferred the Housing division of the Kansas Department of Commerce and Housing to KDFA which, in turn, created the Kansas Housing Resources Corporation to perform those services. Although KDFA and KHRC have board members in common, the KHRC is not considered a component unit of KDFA, but rather a separate entity for legal and financial reporting purposes. It is unclear at this point if the dual responsibility of the board of directors is the optimal arrangement. To the extent that the board finds

board appointed by the Governor and subject to confirmation by the Senate for staggered four year terms. At least three members must be representatives of the general public with not more than three members of the same political party. The Governor designates the chairperson and vice-chairperson. To ensure gubernatorial control and responsibility, K DFA's chief executive officer – the President – is appointed by and serves at the will of the Governor. The President is an ex officio nonvoting member of the board. The President appoints and employs all employees, financial advisors, bond lawyers, and others, subject to the approval of the board of directors.

K DFA's professional staff consists of a general counsel and several financial analysts, along with other employees. As envisioned by K DFA's enabling legislation, this professional staff functions as the State's in-house financial advisor by offering independent, financial expertise to the Governor and other policy-makers on the most efficient and effective ways to access the capital markets. K DFA must be careful to avoid a policy role, otherwise it would diminish its power as the experts in structuring and marketing the capital market needs of the State.

Under accounting standards, K DFA is considered a component unit of the State of Kansas because its exclusion would cause the State's financial statements to be misleading.

K DFA has implemented two basic approaches to structuring debt: the traditional revenue bond approach of identifying a measurable stream of revenue which may be a special tax such as sales tax or income tax withholdings pledged for debt service payments; and, annual legislative appropriations from the State General Fund termed either leased revenue bonds or appropriation-backed bonds.

Lease revenue bonds are limited obligations of K DFA, payable solely from revenues, rents, and receipts, or subject to annual State appropriations, as specified in the particular capital lease agreement with K DFA acting as lessor. These bonds do not represent General Obligations of the State of Kansas, or any political subdivision thereof, or of K DFA. As of June 30, 2004, K DFA had \$269 million in lease revenue bonds outstanding. The amount of bonds authorized but not issued as of that date was \$631 million.¹²

K DFA also issues special obligation bonds which have various revenue streams that are pledged for repayment of principal and interest. These bonds, too, are not General Obligations of K DFA or the State. Moreover, since they are not financial liabilities of K DFA, under accounting standards they are not carried on K DFA's balance sheet. Bonds included in this group are those benefiting the Board of Regents, various state universities, the State's revolving loan programs administered by the Department of Health and Environment that promote water supply and water pollution control,

its attention diverted from serving as the State's experts in capital market financing, alternative governance of the KHRC may be in order.

¹² This and other financial data on K DFA in this section are from the K DFA audit for the year ended June 30, 2004. <http://www.kdfa.org/UPLOADS/fs04scan.pdf>

IMPACT, etc. As of June 30, 2004, the amount of outstanding bonds was \$1.545 billion.

KDFA also issues private activity bonds that do not appear on its balance sheet because they are obligations, not of KDFA, but of the ultimate borrower. Generally, these bonds are for the benefit of health care facilities, affordable multifamily housing, and industrial development purposes, but they also include athletic facilities (e.g. football stadiums, basketball arenas) secured by the nonprofit athletic association of the respective Regents institution. As of June 30, 2004, there were \$748 million in KDFA-issued private activity bonds outstanding. There are additional bonds issued for the beginning farmer program.

Currently, just less than a majority of Kansas state debt is with the Kansas Department of Transportation (KDOT). Philosophically, Kansas highway financing has shifted from pay-as-you-go to pay-as-you-use.¹³ The method of paying from current revenues has yielded to the reliance upon debt financing for highway improvements. Since the State faces strict limits on General Obligation debt, the primary source of funding for transportation improvements and major road rehabilitation projects has been through revenue bonds. Two major multi-year comprehensive financing plans have emerged.¹⁴ The first major highway program, adopted by the Legislature in 1989, authorized the issuance of \$890 million in revenue bonds, secured by enhanced revenues granted to the State Highway Fund, to finance the estimated \$3.7 billion in new construction over an 8-year period. Prompted by the successful implementation of the 1989 plan, the Legislature adopted in 1999 a new Comprehensive Transportation Plan that included an estimated \$12.9 billion in spending. This new program relied on an initial \$995 million in bonds, new motor fuels taxes and increased sales tax transfers from the General Fund to the State Highway Fund. As originally planned, this revenue stream along with projected federal funding would finance the Comprehensive Transportation Plan from Fiscal Year (FY) 2000 to Fiscal Year (FY) 2009.¹⁵

¹³ Flentje, Kansas Policy Choices.

¹⁴ Hildreth and Flentje, "State Initiatives In Transportation Investment."

¹⁵ The State of Kansas' Fiscal Year is from July 1 to June 30 of the succeeding year.

III. RECENT BOND ISSUES AND AUTHORIZATIONS

Two programs dominating the State's most recent bond issues include the Kansas Department of Transportation (KDOT) and the Kansas Public Employees Retirement System (KPERS). In addition to these two areas, the State of Kansas has recently issued more debt, and authorized the issuance of new debt, to fund other state programs. However, Transportation remains the largest area of capital spending in Kansas.

KDOT DEBT

Recent budget problems have forced the State to reconfigure the multi-year Comprehensive Transportation Plan (CTP), by authorizing more than the assigned \$995 million in bond. In 2001, the Legislature authorized an additional \$277 millions in bonds as offset for a reduction of sales tax transfers from the State General Fund (SGF) to the State Highway Fund (SHF) at \$20 million per year for FY 2002 to FY 2009. This approach was a solution to a problem that had been building since FY 1997, because the State legislature has progressively limited the allowed transfer from the SGF to the SHF. For FY 2003 and FY 2004, the Legislature reduced the transfer from the statutory transfer rate of 11 percent and 11.25 percent, respectively, to 0 for both years. Accordingly, the SHF enjoys a total authorization of \$1,272,000,000 bond financing for the ten-year life of the CTP. All of these bonds are secured equally (on a parity) by the SHF.

The 2004 Legislature (SB 384) changed the funding of the Comprehensive Transportation Program. First, the law authorizes the issuance of revenue bonds in an amount not to exceed \$150 million plus costs of bond issuance, including credit enhancements and reserves. Bond revenues will be credited to the SHF. It also authorizes the issuance of additional bonds, subject to the approval of the State Finance Council, to offset any shortfall in anticipated federal receipts for state Fiscal Years 2005 to 2009 in an amount that is the lesser of the federal shortfall or \$60 million. The \$60 million in bonds is subject to review and recommendation to the Finance Council by the Legislative Budget Committee. Fundamental to both the \$150 million and \$60 million authorization is that the revenue bonds and interest are payable from money appropriated for that purpose. Therefore, the bonds are not obligations of KDOT or the SHF, but rather of KDFA but, as appropriation-backed debt, the SGF remains the ultimate source of funding. Second, the legislation also extends indefinitely the 5.3 percent state sales and compensating use tax rate which was scheduled to be reduced to 5.0 percent on July 1, 2006. An increased portion of the sales and use tax rate also will be earmarked for deposit in the SHF. Under prior law, one quarter cent was deposited in the SHF. This legislation expands the earmarking to 0.38 cents in FY 2007; and, 0.65 cents in FY 2008 and thereafter. Third, the bill eliminates the sales tax transfer from the SGF.

In summary, the ten-year program envisioned by the 1997 Comprehensive Transportation Plan is financed by \$1,272,000,000 in SHF bonds and up to \$210,000,000 of bond proceeds paid by the SGF.

In November 2003, the Kansas Department of Transportation (KDOT) executed three refunding transactions totaling more than \$398 million. Refunding transactions occur when an issuer redeems previously issued bonds with proceeds received from issuing lower-cost debt obligations. KDOT issued the refunding bonds in order to create cash flow savings and the risk of funding shortfalls for the Comprehensive Transportation Plan (CTP). The 2003 refunding plan included \$164 million in tax-exempt fixed-rate bonds (Series 2003A), \$84 million in taxable fixed-rate bonds (Series 2003B), and more than \$150 million in variable rate securities (Series 2003C) whose rates are set by auction each week.

In addition, KDOT issued \$250 million in CTP bonds (Series 2004A) in FY 2004. In November 2004 the final \$347 million in CTP bonds was issued (Series 2004B and C).

The bond refundings by KDOT have had a significant impact on the department's debt service payments. Refundings provide savings in the early years, but impact future debt service requirements and overall debt capacity. In its most recent Public Finance Report Card for the U.S. States¹⁶, Standard & Poor's stated that while bond refunding is generally a positive debt management tool, significant amounts of debt restructuring accomplished with refundings can lengthen bond maturities or back-load the principal repayment schedule. In fact, the FY 2002 KDOT refunding bonds extended the debt service payout period 6 years into the future and the FY 2003 refunding bonds extended that payout period an additional year to FY 2021. The FY 2003 debt service level more than doubled the expected debt service prior to the 1998 refunding.

As an issuer of variable-rate securities, KDOT has sought to limit its interest rate risk by entering into derivative instruments. KDOT remains exposed to more risk than if it issued fixed-rate securities, but the goal is to synthetically create fixed-rate debt at a rate lower than available in the cash, fixed-rate market. Events such as rising interest rates influence the total results.¹⁷

¹⁶ Standard & Poor's, Public Finance Report Card: The U.S. States Debt Profiles, (January 31, 2005).

¹⁷ KDOT, Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2004; and, Kansas Legislative Post-Auditor, Kansas Department of Transportation: Reviewing the Costs Associated with Recent Bond Issues (March 2005).

KPERS DEBT

The Kansas Public Employees Retirement System (KPERS) provides retirement, disability, and survivor benefits to more than 240,000 public employees, and includes 1450 participating employers. The KPERS actuary from Milliman USA, in a valuation presentation on July 18, 2003,¹⁸ stated that the KPERS unfunded liability increased from \$1.78 billion to \$2.83 billion or about 25 percent for all plans as of December 31, 2002. Solving the KPERS funding problem includes reducing the unfunded actuarial liability of the state and school groups of KPERS.¹⁹

In the 2003 Legislative Session, the KPERS Omnibus Retirement Bill, HB 2014, authorized three different bond issues relating to KPERS pensions.²⁰ First, in September 2003, KDFA issued taxable pension bonds totaling \$40 million to cover the unfunded actuarial pension liabilities of KPERS' "Special Members" and "Thirteenth Check Deposit". Thirteenth Check Bonds of \$25.76 million constitute a 10-year issue to fund the state portion of the unfunded actuarial liability for approximately 15,000 pre-1987 retirees. These bonds will be paid from an increase in the state's employer contribution rate beginning in FY 2005.

Second, KDFA issued \$500 million of taxable pension obligation bonds in FY 2004 for KPERS. Although issued in 2004, principal repayment does not begin until 2009 and the bonds are not paid off until 2034. The bonds are secured by revenues generated from the anticipated increased employee contribution rates. To reduce the cash impact on the State General Fund (SGF) but to ensure that debt service was paid out of that fund, KPERS was to transfer to the SGF \$700,000 in FY 2004 and \$3.1 million in FY 2005.²¹

The third bond issuance, composed of the Regents Bonds of \$14.07 million, are taxable revenue bonds of 10 years, maturing with The Board of Regents paying for the related debt service, subject to state appropriations.

OTHER DEBT ISSUES AND AUTHORIZATIONS

In 2003, the Legislature enacted SB 281 or the Economic Development Revitalization Act, which allows for KDFA to "issue bonds of up to \$500 million plus certain bond expenses for a project involving research, development, engineering, or manufacturing for an eligible business engaged in manufacturing."²² These are income tax withholding bonds with a maximum maturity of 20 years; 30 years if deemed

¹⁸ Kansas Legislative Research Department, Accent (July 25, 2003). Accessed 8/26/03.

¹⁹ Joint Committee on Pensions, Investments, and Benefits, November 19, 2002, Minutes, Kansas Legislative Research Department, December 16, 2002.

²⁰ Kansas Legislative Research Department, Accent (June 5, 2003). Accessed 8/26/03.

²¹ Governor's FY 2005 Budget Report for the State of Kansas, Volume 1: One-Time Transfers, p.27.

²² Kansas Legislative Research Department, 2003 Legislative Highlights, May 29, 2003, <http://www.kslegislature.org/kldr>.

necessary by the State Secretary of Commerce.²³ Rooted in the State's endeavor to boost the economy by enticing Boeing's 7E7 passenger jet production to Wichita, SB 281 bill was in effect until July 1, 2005. Because of its broad scope, this bill sets precedence for economic incentive packages geared towards research and development rather than capital improvements, as has historically been the case.

The 2003 Legislature enacted HB 2208, which amended tax increment financing (TIF) laws to provide statewide authority for sales tax and revenue (STAR) bonds to be used for special bond projects of regional and statewide importance. Legislation excludes projects involving gambling casinos but generally qualifies a project with at least \$50 million capital investment and \$50 million in projected gross annual sales revenues generated within the TIF district; and, is located outside a metropolitan statistical area (MSA) which the Secretary of Commerce deems an eligible area under TIF law and of regional or statewide importance. Major multi-sport athletic complex and river walk canal facilities are eligible projects. To fund the special obligation bonds, 100 percent of local sales taxes are required to be pledged, except for those amounts already committed for other uses by election of voters prior to the effective date of the act. The legislation requires Kansas, Inc. to include an analysis of STAR bonds in that agency's annual report on the cost effectiveness of economic development tax exemptions and credits. The STAR bond authority providing for special bond projects under the legislation sunsets on July 1, 2007.²⁴

Also in 2003, the concept of a virtual TIF district was proposed to the Joint Committee on Economic Development.²⁵ Initially proposed by the Chief Executive Officer of the Stover Institute and hinged on increased investments in basic biomedical research at the University of Missouri – Kansas City and the University of Kansas Medical Center, a portion of the incremental growth from these sources would then be used to fund life sciences research at the Kansas universities. Current amounts of tax revenue generated from life science companies and their employees would be used as the base. Rather than establishing a tax increment financing district based upon geography, a "virtual" TIF district would be based upon the functionality of the businesses. Ten acts were created or amended by the Kansas Economic Growth Act (HB 2647), which included the Bioscience Authority Act and the Bioscience Development Financing Act. Power of the Authority included incurring debt and entering into contracts with the KDFA for bonding to construct state-of-the-art facilities owned by the Authority. One or more bioscience development projects could occur within an established bioscience development district and counties may establish bioscience development districts in unincorporated areas. KDFA may issue special obligation bonds to finance bioscience development projects. These bonds will be paid with ad valorem tax increments, private sources, contributions, or other financial assistance from the state and federal government. The Bioscience Development Bond Fund will be managed by the Authority and not be part of the State Treasury. A separate account

²³ Kansas Legislative Research Department, "Income Tax Withholding Bonds." Accent (June 10, 2003).

²⁴ Kansas Legislative Research Department, "Statewide STAR Bond Authority." Accent (June 10, 2003).

²⁵ Kansas Legislative Research Department, "Virtual Tax Increment Financing District." Joint Committee on Economic Development. Kansas Legislative Research Department, 2003 Economic Development, pp. 11-16.
<http://skyways.lib.ks.us/ksleg/KLRD/2003CommRpts/FinalCommRept.pdf>

will be created for each bioscience development district (BDD) and distributions will pay for the bioscience development project costs in a BDD.²⁶

In addition, the State has \$635 million in authorized but unissued debt as of June 30, 2005.²⁷ University projects account for 39 percent while KDOT's access to General Fund financing accounts for 33 percent, a new transportation revolving loan program for local governments and a new debt issuance for the water pollution control revolving loan program jointly account for 13 percent; and, special incentive financing for Goodyear equals 2 percent. The remaining authorized but unissued bonds reflect other state agency plans.

²⁶ Regional Economic Area Partnership handout (May 10, 2004).

²⁷ See Appendix 1.

IV. DEBT AFFORDABILITY

Debt affordability refers to the burden associated with repaying debt. To be affordable, the repayment of debt should not cause a jurisdiction's tax rate to increase to uncompetitive levels in order to cover the debt service, nor should the repayment of debt negatively impact the provision of ongoing public services. This debt affordability analysis looks into how much debt the State of Kansas can prudently issue without affecting ratings, interest costs, draws on the general fund, capital market access, and without having adverse impacts on other state spending needs.

High taxes and public service disruptions can make the State less attractive as a place in which to live and work. In addition, the long-term nature of debt and high levels of debt service can have a severe impact on the State's financial condition. Future revenues will be tied to debt service payments and reduce the State's flexibility to adapt to changing economic conditions and public service needs. State policy makers should continually consider the factors involved in incurring debt for capital improvements and evaluate the proper level of that debt.

DEBT AFFORDABILITY CONCEPTS

Debt financing is a tool used to provide the necessary resources for large infrastructure improvements that have a useful life span of several years. *Debt issuance* is a mechanism to spread the cost of these large projects over to succeeding years' taxpayers who benefit from these improvements. *Debt affordability* establishes a means of judging the State's ability to repay debt issued to finance capital needs. An *affordability analysis* draws a proper balance between the State's capital needs and the ability to repay debt service issued for those capital needs.

Another important concept is debt capacity. *Debt capacity* is the amount of financing that may be issued by the State within legal constraints without overextending the State's ability to repay its obligations. Debt capacity is a measurement of the extent of additional debt that can be issued in the future given the State's existing debt level. In Kansas, there is a constitutional limit of \$1 million for State debt backed by property taxes – the State's General Obligation capacity short of voter-approved debt. However, there are no specific limits of debt when public financing is based on revenue pledges or voter-approved General Obligation debt other than the appropriation limits that State lawmakers place on financing.

This study provides a detailed examination of the debt of the State of Kansas. When analyzing the debt associated with a state government, one must consider the credit rating assigned to that particular state. Credit ratings are assigned to states by independent credit rating agencies; and the ratings reflect the likelihood that a government will be able to pay back its borrowed funds on time and in full. Governments with better bond ratings pay lower interest costs, while governments with worse bond ratings pay higher interest costs. When assigning ratings to state and local governments, Moody's Investors Service, Standard and Poor's, and Fitch Ratings

Service consider four basic analytical areas – economy, finances, debt, and management.²⁸

Two primary measures of debt burden are debt outstanding and debt service. Specific measures used in this study that are based on debt outstanding data are: (1) *debt per capita*; and, (2) *debt per capita as a percentage of personal income per capita*. Debt service data permit the use of four additional measures: (3) *debt service per capita*; (4) *debt service per capita as a percentage of personal income per capita*; (5) *debt service as a percentage of general fund revenues*; (4) *debt service as a percentage of general fund expenditures*; and, (6) *debt service coverage*. Use of these ratios can focus attention beyond a particular debt authorization and into the sustainability of the State's financial position and its capacity for meeting debt service obligations in the future.

Finally, this study aids in formulating formal debt policies. Budgets, expenditures, and deficits are directly related to outstanding debt, thus creating the need for prudent financial management as well as debt management practices guided by formal debt policies. According to Standard & Poor's, states that have debt affordability models and parameters are better positioned to address changes that impact the operating budget, and that competitive positions among states depend on budget balancing strategies.²⁹ The debt affordability ratios used in this study are based on industry standards. For example, two of the Government Finance Officers Association (GFOA) recommended budget practices call for: (1) analyzing debt capacity and establishing associated debt limits, and (2) developing a debt policy.³⁰

In October 2002, Kansas was one of nine states assigned a negative outlook by Standard & Poor's. For the State, this negative outlook "*reflects ongoing revenue shortfalls which have drained the state's liquidity despite statutory provisions designed to limit such occurrences.*"³¹ The rating agency cites the State's "*diminished ending balances and the abnormally high use of one-time money in the FY 2003 state budget*"³² for placing Kansas' AA+ Issuer Credit Rating on the "negative watch" category. Since the State of Kansas does not issue General Obligation debt, the State is assigned an "issuer" credit rating. Moody's also placed the state's Aa1 credit outlook at "negative."

On July 20, 2005, Standard and Poor's rating service, confirmed the State's Issuer Credit Rating of AA+, and revised the outlook to "stable" from "negative." The firm said the change "*reflects the state's relatively diverse economic base, historically conservative fiscal management, ongoing financial challenges related to school*

²⁸ Standard & Poor's, "Public Finance Criteria: Ratio and GO Credit Ratings," (April 23, 2003); Moody's Investors Service; "The Determinants of Credit Quality," (May 2002); Fitch Ratings, "Public Finance: Local Government General Obligation Rating Guidelines," (May 23, 2000).

²⁹ "Public Finance Report Card: The States," (October 7, 2002).

³⁰ Miranda, Rowan A. and Picur, Ronald D. Benchmarking and Measuring Debt Capacity (Chicago, IL: Government Finance Officers Association, 2000).

³¹ Standard & Poor's, "Public Finance Report Card: The States," (October 7, 2002).

³² Ibid., also noted in Governor's FY 2004 Budget Report for the State of Kansas, Volume 1, p. 167.

financing, and low debt burden.”³³ It is in the State of Kansas’ financial interest to safeguard and improve its credit ratings.

VALUE OF DEBT AFFORDABILITY ANALYSIS

Determining how much debt Kansas can afford to issue in the future is a prudent method to ensure efficient financial management. A debt affordability analysis provides:

- Relevant data on existing debt service requirements and a basis for evaluating acceptable debt service expenditure percentages;
- An assessment of the state’s performance through historical trends;
- Measures of the debt burden on the state;
- A basis for establishing debt, tax, and spending constraints;
- A basis for formulating debt policies relative to capital improvements;
- An initial step to evaluating the impact of debt policies on the state’s current debt position;
- Trends not only indicative of the state’s financial condition but also relevant in planning for the sustainability of state operations and services; and,
- Evidence of prudent financial management that will help improve the state’s credit ratings.

DEBT BURDEN INDICATORS

The primary debt burden indicators used in debt affordability analyses are: Debt Outstanding; and Debt Service. Debt Outstanding refers to the total amount owed at any given point in time while Debt Service constitutes the annual expenditures relating to the interest and principal payments. However, absolute amounts do not always provide reliable and valid measures, particularly in benchmarking the State’s performance against those of similar jurisdictions, after adjusting for differences in size and economic strength.

Specific debt burden measures used in this study are: (1) *debt per capita*; (2) *debt per capita as a percentage of personal income per capita*; (3) *debt service per capita*; (4) *debt service per capita as a percentage of personal income per capita* (5) *debt service as a percentage of general fund revenues*; (6) *debt service as a percentage of general fund expenditures*; and, (7) *debt service coverage*.

SCOPE

While the State constitution allows for the issuance of General Obligation bonds up to \$1 million without a vote of the people, the State relies on KDOT and the K DFA to finance almost all state-sponsored debt. Currently, the State of Kansas does not have any GO debt outstanding. Because transportation investments play such an important role in the State’s economic development, the Kansas legislature passed two large,

³³ Standard and Poor’s, “Kansas Issuer Credit Rating Outlook Revised to Stable, Boosted by Healthy Reserves.”

multi-year transportation plans in 1989 and 1999. These two transportation programs have similar revenue sources, both secured by dedicated revenues in the State Highway Fund. Because of the amount of debt issued by KDOT, this report shows debt issued by KDOT and all other State debt separately.

This report excludes certain debt issued by Kansas counties, cities, townships, and special authorities, as well as other long-term obligations.³⁴ Specifically, this report excludes debt not cited herein because that debt is not a long-term obligation of the State of Kansas with scheduled debt service.

For example, debt issued by the Kansas Turnpike Authority (KTA) is not included in total State debt figures. As a separate legal entity, the KTA issues bonds that are not included in the total state debt figures. In its most recent Annual Report, KTA reported outstanding debt in the amount of \$272,765,000 as of December 31, 2004. In July 2004, KTA issued turnpike revenue bonds in the amount of \$103 million in order to refund and decrease approximately \$97 million of its outstanding 1993 bonds. In November 2004, KTA issued \$51.3 million in bonds.³⁵ As of December 2004, the KTA debt service requirement for 2005 was \$12 million.³⁶

Statutory loans between the State Treasurer and other state agencies, including loans from the Pooled Money Investment Board to state agencies are also not included since they are inter-fund payables and receivables of the State which have been mandated by the Legislature, rather than bonded indebtedness payable to a third party. Bond anticipation notes and other short-term obligations generally maturing within one year of their issuance also are not considered as indebtedness.

This report primarily rests on the financial data used by the State of Kansas Division of the Budget to prepare the annual budget.³⁷ This report includes debt issuances as of June 30, 2005. Thus, if the State of Kansas authorizes and issues additional debt not covered by the most recent sources used in this report, findings need to be adjusted accordingly.

Data from the State's annual financial reports, budget analyses, and adopted budgets are also used in this study. Revenue and expenditure data are taken from the State of Kansas "Comprehensive Annual Financial Reports" – the end-of-year audited financial statements – and where unavailable, from Budget Analysis Reports and the

³⁴ See Appendix 2 for a snapshot of these excluded items.

³⁵ Since KTA bonds are backed by bond insurance which provides security for bondholders, KTA's underlying rating of "A1" from Moody's Investors Service and "A" from Standard & Poor's are offset by the Triple-A rating of the bond insurers.

³⁶ Kansas Turnpike Authority, 2003 Annual Report, pp. 31-33, <http://ksturnpike.com/03AnnRep/03annrep.pdf>; and Kansas Turnpike Authority, 2004 Financial Statement: <http://ksturnpike.com/04ANNREP/2004AR.pdf>.

³⁷ Data based on Kansas Division of the Budget spreadsheets for bonds outstanding as of June 30, 2005, as provided by the Kansas Development Finance Authority, and as extended by transportation debt service spreadsheets provided by the Kansas Department of Transportation and spreadsheets on the debt service for the blanket financing program as provided by the Kansas Division of Administration. Given that this information is eventually combined for the annual budget, this source data hereafter is referred to simply as "Kansas Division of the Budget Spreadsheets as of June 30, 2005." Errors as found were corrected.

Governor's Annual Budget Reports, with the U.S. Census Bureau Statistical Abstracts as data sources of last recourse. Population and per capita personal income for previous years are based on figures obtained from Global Insight. To keep the forecasts relatively simple, annual per capita personal income, State, and KDOT revenue and expenditure data are forecasted using compound annual growth rates. Projected trends tend to be linear. The compound annual growth rate method assumes that the rate of growth each year is uniform within the time period used. With the positive annual compound growth rates, focus veers away from the most recent declining trend. Alternative scenarios are possible.

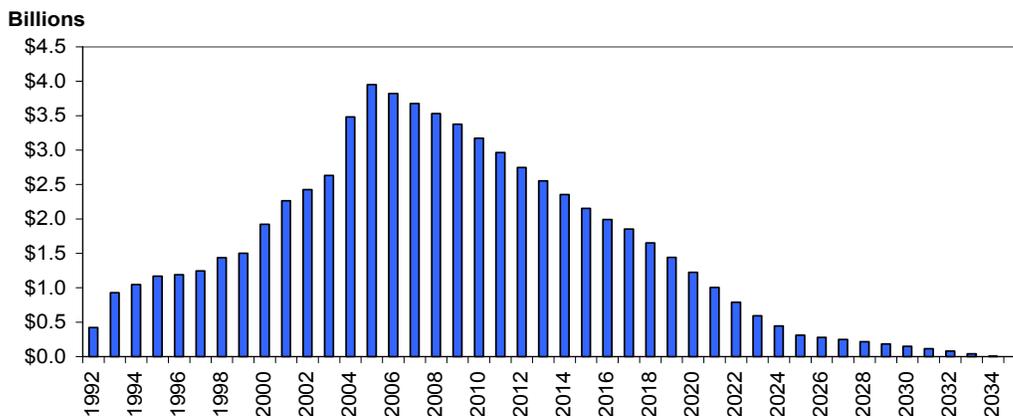
The next section examines the current and recent past debt financing trends, prior to presenting the results of the affordability analysis.

V. CURRENT DEBT PROFILE

DEBT OUTSTANDING

To better understand the State's debt picture and thereby determine the prudent debt levels that should be maintained in succeeding years, this examination of the total debt composition of the State is based on data as of June 30, 2005.³⁸ The Kansas fiscal year runs from July 1 to June 30. Data are reported as of the end of the particular fiscal year. As of the end of FY 2005, the principal debt for all state agencies is \$4.0 billion.

Figure 1: Total Debt Outstanding (in billions), FY 1992 to FY 2034



Source: Kansas Division of Budget Spreadsheets as of June 30, 2005—assuming no new debt.

Kansas debt increased almost five times in a 10-year span from \$424 million in FY 1992 to \$2.4 billion in FY 2002 (Figure 1). Within this period, the highest increase occurred from 1992 to 1993 when debt outstanding increased by 118 percent. Contributing to this increase was a series of debt issuances, particularly highway revenue bond issues of KDOT which included \$250 million in March of 1992, \$125 million in September of the same year, as well as \$250 million and \$147 million both in May of 1993. These issuances occurred following the first major highway program adopted by the legislature in 1989. The next highest increase, at 32 percent, from approximately \$2.6 billion to \$3.5 billion, occurred from 2003-2004, in order to meet the financing needs of the 1999 Legislature's new Comprehensive Transportation Plan. Both surges in total debt outstanding within the 15-year time period correspond to the timelines of the two large transportation programs. Another large increase occurred in FY 2000, subsequent to the 1999 legislation.

More debt is authorized, but not yet issued. As of June 30, 2005, the KDFA has received the authorization to issue \$635 million in debt pending decisions by particular departments and officials on the timing and amounts.³⁹ This listing of debt authorized

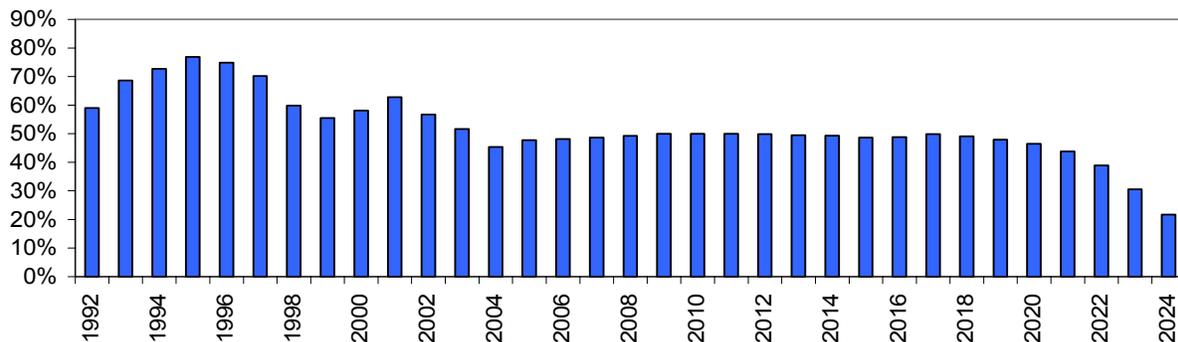
³⁸ Kansas Division of the Budget spreadsheets as of June 30, 2005. For a summary, see Appendix 3 and 4.

³⁹ Based on data provided by KDFA. As of June 30, 2004 the amount was \$631 million as specified in the FY 2006

but not issued includes \$249 million for various university projects, \$81 for a variety of agency projects (including \$27 million for additional capitol building renovations), \$52 million for the water pollution revolving loan fund, \$33 million for the beginning of the transportation revolving loan program for local governments, and \$10 million in an authorized incentive program for Goodyear. Moreover, KDFA has legislative authorization to issue \$150 million in State General Fund appropriation bonds for continued financing of KDOT’s Comprehensive Transportation Program. The additional bonds for KDOT are expected to be issued in 2007.⁴⁰ Under certain specified conditions, KDFA can issue \$60 million of bonds for KDOT to offset shortfalls in Federal funding.

Of the areas of debt included in this debt affordability evaluation, significant focus is placed on KDOT, which issues the largest amounts of bonds for capital improvement projects in Kansas, in response to the two multi-year transportation plans. KDOT total debt outstanding (Figure 2) fluctuations partly result from annual bond redemptions that have occurred. Federal tax law permits the advance refunding of previously issued bonds. This process is undertaken if the new refunding bond issue has a lower rate of interest than the old refunded debt.

Figure 2: Total KDOT Debt Outstanding as a Percent of Total State Debt Outstanding, FY 1992 to FY 2024



Source: Kansas Division of Budget Spreadsheets as of June 30, 2005—assuming no new debt.

In issuing debt secured by a dedicated revenue source, such as the KDOT bonds that are secured by revenues from the State Highway Fund (SHF), the bond market requires special provisions to ensure revenue streams will support debt. These conditions are often memorialized as bond covenants — legal documents that specify the terms under which the revenues will be secured, and include conditions for repayment and legal authority to issue such bonds. These documents are summarized in the bond market prospectus termed the Official Statement, required to be provided to all investors in those debt securities.

Governor’s Budget Report, Volume 1, and available:

http://da.state.ks.us/budget/publications/FY2006/FY2006_GBR—Volume_1.pdf

⁴⁰ Kansas Development Finance Authority, 2004 Audit. <http://www.kdfa.org/admin/UPLOADS/fs04scan.pdf>.

KDOT-issued revenue bonds are legally required to be supported by revenues at least 300 percent of the amount of the annual debt service requirements. KDOT revenues include all tax receipts deposited, all sales tax and compensating use tax required to be transferred or credited, vehicle registration and certificates of title fees required to be transferred or credited, and all other moneys regardless of their origin transferred or credited to the SHF, except those moneys prohibited or restricted by Federal law or regulation from being used for bond service charges.⁴¹ Of the State-imposed 5.3 cent Sales Tax and Compensating Use Tax, .25 cents go directly to the SHF while 5.05 cents go to the State General Fund (SGF) before a subsequent percentage was expected under the original enabling legislation to be transferred to the SHF. Since FY 1997 however, the State legislature has progressively limited the allowed transfer from the SGF to the SHF. For FY 2003 to FY 2004, the Legislature reduced the transfer from 11 percent and 11.25 percent, respectively, to 0 for both years. The 2004 Legislature repealed the sales tax transfer provision for FY 2005 and thereafter,⁴² This Legislation (SB 384) extends indefinitely the 5.3 percent state Sales Tax and Compensating Use Tax scheduled to be reduced to 5.0 percent on July 1, 2006. The .25 cent deposit to the SHF will be increased to .38 cents in FY 2007; and, .65 cent in FY 2008 and thereafter.

As mentioned previously, KDOT executed three refunding transactions totaling more than \$398 million in November 2003 in order to “*create near term cash flow savings and mitigate the risk of funding shortfalls for the Comprehensive Transportation Plan.*”⁴³ The common plan included a combination of Highway Revenue Refunding tax-exempt, taxable and auction rate securities. KDOT debt service used in this report excludes netted option payments with respect to the Series 2002D bonds.

Figure 3: Debt Composition by Program (in millions), FY 1992 to FY 2010

| | 1992 | 1994 | 1996 | 1998 | 2000 | 2002 | 2004 | 2006 | 2008 | 2010 |
|---------------------------------|---------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| General Government | \$43.9 | \$49.8 | \$58.2 | \$53.7 | \$104.8 | \$200.1 | \$760.1 | \$734.9 | \$687.4 | \$628.0 |
| Human Services | \$0.0 | \$8.0 | \$7.1 | \$6.6 | \$6.0 | \$1.7 | \$85.9 | \$78.5 | \$72.3 | \$65.6 |
| Pooled Loan Programs | \$5.1 | \$71.2 | \$74.8 | \$209.4 | \$375.8 | \$462.2 | \$570.2 | \$621.8 | \$566.4 | \$504.2 |
| Education | \$52.0 | \$59.0 | \$74.2 | \$227.7 | \$234.3 | \$244.4 | \$343.4 | \$425.8 | \$366.4 | \$305.7 |
| Public Safety | \$69.6 | \$96.2 | \$85.1 | \$80.3 | \$84.7 | \$124.5 | \$115.1 | \$95.0 | \$78.3 | \$64.4 |
| Agriculture & Natural Resources | \$3.4 | \$2.5 | \$0.4 | \$0.2 | \$0.0 | \$17.6 | \$27.9 | \$25.9 | \$23.7 | \$21.3 |
| Transportation | \$250.0 | \$760.9 | \$890.2 | \$859.8 | \$1,116.1 | \$1,378.1 | \$1,580.5 | \$1,842.2 | \$1,738.9 | \$1,586.0 |
| Total | \$424.0 | \$1,047.6 | \$1,189.9 | \$1,437.7 | \$1,921.6 | \$2,428.6 | \$3,483.0 | \$3,824.2 | \$3,533.4 | \$3,175.2 |

Source: Kansas Division of Budget spreadsheets as of June 30, 2005—assuming no new debt.

State debt is issued for a variety of state programs. Accordingly, principal amounts owed and debt service (principal and interest) paid are divided by programs pursuant to the categories used by the Division of Budget—with the exception of the

⁴¹ Kansas Department of Transportation, Series 2003C Highway Revenue Refunding Bonds Official Statement. November 21, 2003, p. 25.

⁴² Kansas Department of Transportation, Series 2004C Adjustable Tender Highway Revenue Bonds Official Statement. November 15, 2004, p. 48.

⁴³ Kansas Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2003, p. 77.

pooled loan programs which are characterized separately from Human Services in this report due to their volume. The State's programs include the following:

- *General Government* functions include overall policy guidance to state government, the performance of general administrative services to all state agencies, collection and distribution of state revenues and implementation of regulatory functions.⁴⁴ All of these functions require equipment and facilities to transact business which may be financed through public debt. Also included are "skill" program bonds ("IMPACT" bonds), an economic incentive program, where the debt service repayments come from State withholding tax revenues – both the employer and employee.
- *Human Services* debt consists of bonds issued for the Department of Social and Rehabilitation Services; Kansas Department of Human Resources; and, in part, the Kansas Department of Health and Environment (e.g. Vital Statistics). These agencies provide a variety of assistance programs to Kansas such as welfare assistance; medical services; unemployment insurance benefits; care and counseling for veterans, the elderly, developmentally disabled and mentally ill; and preventative health services through local health departments.
- The *Pooled Loan Programs* refer to the pooled loan programs of the Kansas Department of Health & Environment (KDHE) established for the purpose of local water supply and water pollution control projects. The debt service repayment for these bonds is from program participant loan repayments and Federal grants. KDHE is a segment of Human Services. Due to their volume, the pooled loan program bonds are listed in this report separately from the way the State typically characterizes them as a part of Human Services.
- *Education* includes expenditures for the support of primary, secondary and post-secondary education and is comprised of the Board of Regents and the various academic institutions under its jurisdiction. Generally, debt service repayment is from user fees.
- *Public Safety* includes functions that preserve the safety and security of Kansas citizens. Agencies in this function include the Department of Corrections, the Juvenile Justice Authority, the State Fire Marshal and other agencies that ensure the safety of Kansas citizens. The debt service payments vary, some from the State General Fund, and others from user fees and other services.

⁴⁴ The State of Kansas Budget, 2001.

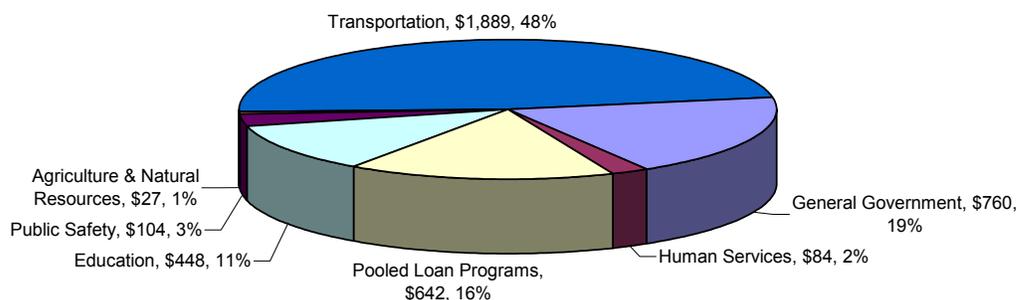
- *Agricultural and Natural Resource* agencies promote, protect, improve and restore natural resources in the State. This division includes the Department of Agriculture, the Department of Wildlife and Parks, the Water Office, the Department of Health and Environment, the Animal Health Department, Kansas State Fair, and Kansas Wheat Commission.
- The *Transportation* program is responsible for maintaining and improving the state highway system of more than 10,000 miles, among other statewide transportation duties. As the only agency under the Transportation program, KDOT issues debt to finance highway and other transportation projects.

As illustrated in Figure 3, construction of roads and bridges clearly constitute a large share of the State's total debt. Transportation constitutes the largest portion of the State's total debt outstanding from 1992 to 2006. Excluding Transportation, General Government constitutes the majority of the State's outstanding debt from 2004 to 2010. This is not surprising when considering that KPERS debt, including the recent \$500 million bond issue, comprises a majority of General Government debt. General Government also consists of bonds issued for the Department of Administration (such as the "blanket" financing program for various agencies), Kansas Department of Commerce & Housing, and the Kansas Insurance Department.

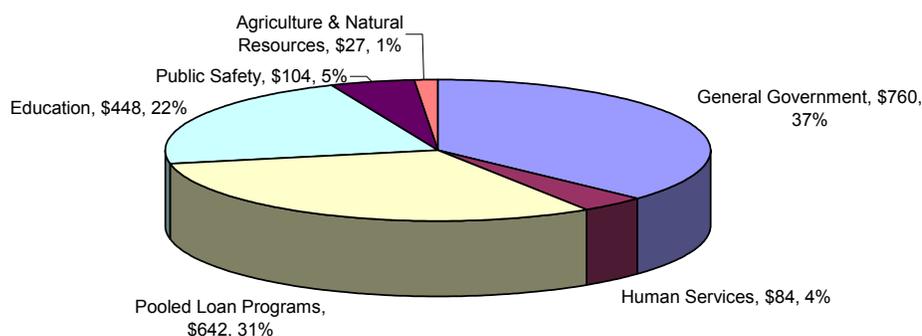
In summary, total state debt increases from \$424 million in FY 1992 to a scheduled \$3.2 billion in FY 2010, assuming no new debt is issued after June 30, 2005. Transportation debt comprised the largest share (59 percent) of total FY 1992 debt. In FY 2005, as reported by Figure 4A, transportation remains the largest program. As the only agency under the Transportation program, KDOT had \$1.9 billion in bonds outstanding as of June 30, 2005, accounting for 48 percent of the state's total outstanding debt. When Transportation is excluded (Figure 4B), General Government possesses the highest principal debt level of any function as of June 30, 2005. However, the amount of General Government debt is only 19.2 percent of the State's total outstanding debt, and is over \$1 billion less than outstanding Transportation debt as of June 30, 2005 (Figure 4A).

Figure 4: Outstanding Debt by Program for FY 2005 (in millions)

A. Including Transportation



B. Excluding Transportation



Source: Kansas Division of Budget spreadsheets as of June 30, 2005—assuming no new debt.

Other programs such as Education constitute a lesser percentage of the State’s total outstanding debt. For FY 2005, K DFA-issued *Education* debt amounts to \$448 million, accounting for 11 percent of the State’s total outstanding debt. Excluding Transportation debt from the computation however, increases Education as a percent of total state debt to 22 percent. *General Government* debt outstanding as of June 30, 2005 amounts to \$760 million or 19 percent of total state debt. When Transportation is removed from the total figures, General Government debt accounts for approximately 37 percent of the remaining outstanding debt in FY 2005. *Public Safety* has \$104 million debt outstanding as of the end of FY 2005 and accounts for 3 percent of the total state debt outstanding. When Transportation figures are not included, Public Safety comprises 5 percent of the remaining debt. At FY 2005 end, *Agriculture and Natural Resources* has \$27 million outstanding debt constituting 1 percent of the State’s total outstanding debt regardless of whether Transportation is included in the computations. *Human Services* has \$84 million outstanding debt at the end of FY 2005, comprising 2 percent of the State’s debt. Excluding Transportation, Human Services comprises 4.0 percent of the State’s total outstanding debt. Finally, the *Pooled Loan Programs* has outstanding debt of \$642 million as of June 30, 2005. This program constitutes 16 percent of the State’s total outstanding debt; however the percentage increases to 31

percent of the State's total debt outstanding when Transportation is excluded from the computation.

DEBT SERVICE

Debt Service is the annual cost of the State's bonded debt, comprising both interest and principal payments. Since funds allocated for debt service are unavailable for use elsewhere in the State budget for essential state programs and services, debt service has a significant impact on the operating budget of the State. Data are reported as of the end of the particular fiscal year, with information current as of June 30, 2005.

The Kansas Constitution⁴⁵ specifically refers to debt service only in relation to General Obligation debt: *"...every law shall provide for levying an annual tax sufficient to pay the annual interest of such debt, and the principal thereof, when it shall become due; and shall specifically appropriate the proceeds of such taxes to the payment of such principal and interest; and such appropriation shall not be repealed nor the taxes postponed or diminished, until the interest and principal of such debt shall have been wholly paid."* However, although in practice the State does not issue General Obligation bonds, the Legislature has authority to approve, through statutes,⁴⁶ not only the issuance of specific purpose revenue bonds and other forms of long-term obligations, but also the payments of the related debt service. For example, interest and principal payments of KDOT bond issuances are paid from revenues collected in the State Highway Fund. Payments of annual debt service fall under the Constitutional mandate that budgeted expenditures are limited by available funds, subsumed under the annual budget process, and require the approval of the Legislature and the Governor.

KDFA issued special obligation bonds have debt service payments backed by various revenue streams, and certain private activity bonds (i.e. IMPACT bonds) backed solely by a particular designated revenue stream.⁴⁷ Investments in IMPACT bonds are paid out from the dedication of the state withholding taxes from new jobs created.⁴⁸ Like IMPACT bonds, STAR bonds are used for special bond projects of regional and statewide importance. In 2003, the Legislature amended tax increment financing (TIF) laws to provide statewide authority for STAR bonds. The related debt service is paid solely from local sales taxes except for the portion already earmarked for other uses by election of voters prior to the effective date of the act. The STAR bond authority will sunset on July 1, 2007.⁴⁹ Special obligation bonds and private activity bonds are not guaranteed by KDFA and are not included in the State's balance sheet.

Lacking the full faith and credit assurance of General Obligation bonds, revenue bond debt service payments largely depend on appropriations made by the Legislature

⁴⁵ Kansas Constitution, Article 11 Section 6.

⁴⁶ Kansas Statute 75-4262 and 46-903.

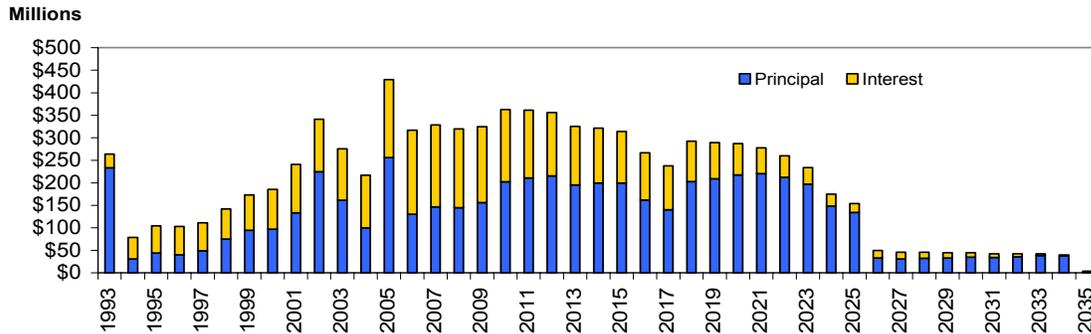
⁴⁷ Kansas Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2002.

⁴⁸ <http://www.bcccbii.com/impact.html>, accessed 8/26/2003.

⁴⁹ Kansas Legislative Research Department, "STAR Bond Authority," Kansas Legislator Briefing Book 2005.

for such purposes.⁵⁰ In the event that specified revenue streams for a revenue bond do not yield enough to cover the annual interest payment and redemption of a principal amount, if any, and the Legislature has not appropriated sufficient funds for such purpose, the State may be deemed in default and the related bond security (i.e. bond-financed facility) may be liquidated.

Figure 5: Total Annual Debt Service, FY 1993 to FY 2035



Source: Kansas Division of Budget spreadsheets as of June 30, 2005—assuming no new debt.

With a historical trend of increasing debt from FY 1992 to FY 2005, the expectation would be to find debt service also steadily increasing over the same time period. However, debt service has had a slightly different progression.⁵¹ In FY 1993, Kansas total debt service was \$264 million (Figure 5). In FY 1994, it plunged to approximately \$79 million, constituting a decrease of 70 percent. Not reflected in this data series are the increases in payments that occurred in 1998 and 2003 primarily due to the State’s redemption of approximately \$269 million and \$733 million, respectively, of bond principal as part of refunding activities.⁵²

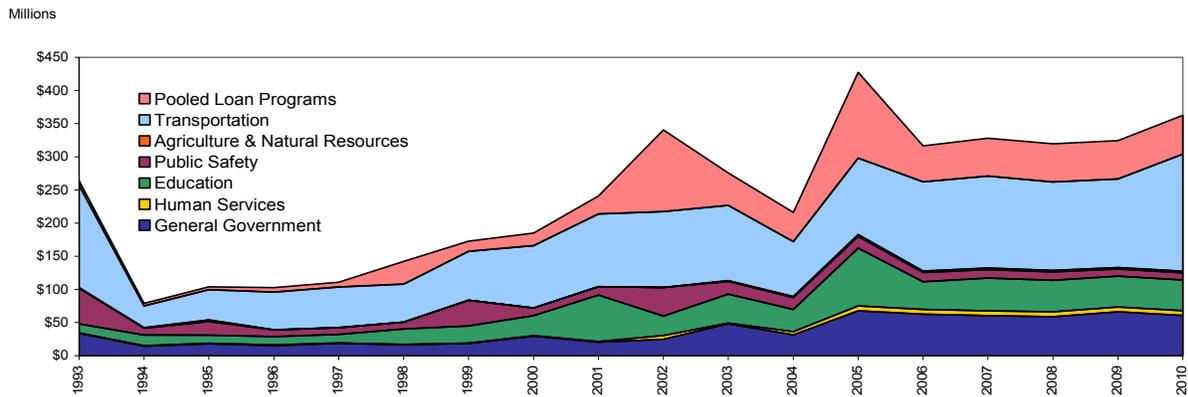
Due to the State’s annual bond redemptions, there is no definite pattern for the State’s annual debt service payments from 1992 to 2035. However, annual debt service is expected to gradually decline until existing debt is fully extinguished in fiscal year 2035. It should be noted that the historical trend of debt service has generally been increasing. Also, debt authorized after 2005 are not reflected in the data listed above. These factors point to the need for the State to proceed with care in issuing new debt that will require sustained levels of debt service.

⁵⁰ Kansas Development Finance Authority, Series 2002C Lease Revenue Bonds, Official Statement, February 21, 2002, p. 14.

⁵¹ Kansas Division of the Budget spreadsheets as of June 30, 2005. For a summary of debt services, see Appendix 1 and 5.

⁵² The time series may include other refunding activity.

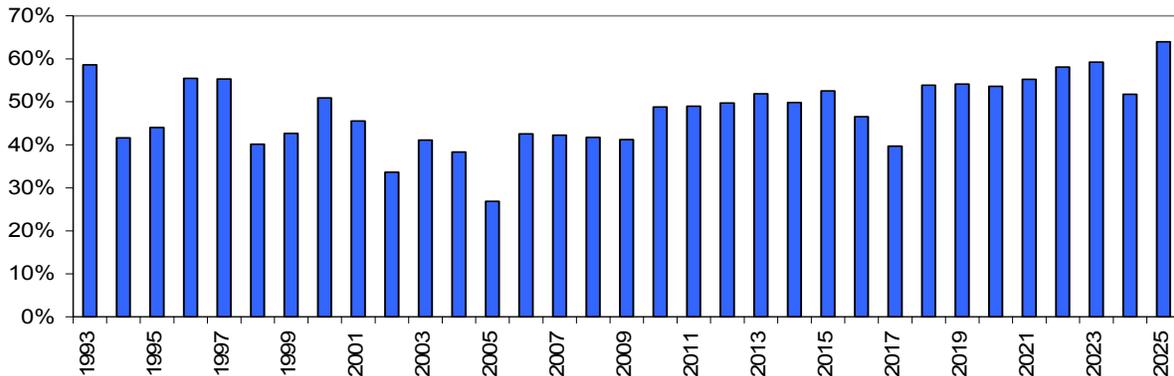
Figure 6: Annual Debt Service by Program, FY 1993 to FY 2010



Source: Kansas Division of Budget spreadsheets as of June 30, 2005—assuming no new debt.

Figure 6 shows the impact of the 1999 Transportation Plan which increased the State’s level of total outstanding debt. Transportation remains the most heavily debt-financed program of the State for the term of the existing KDOT bonds.

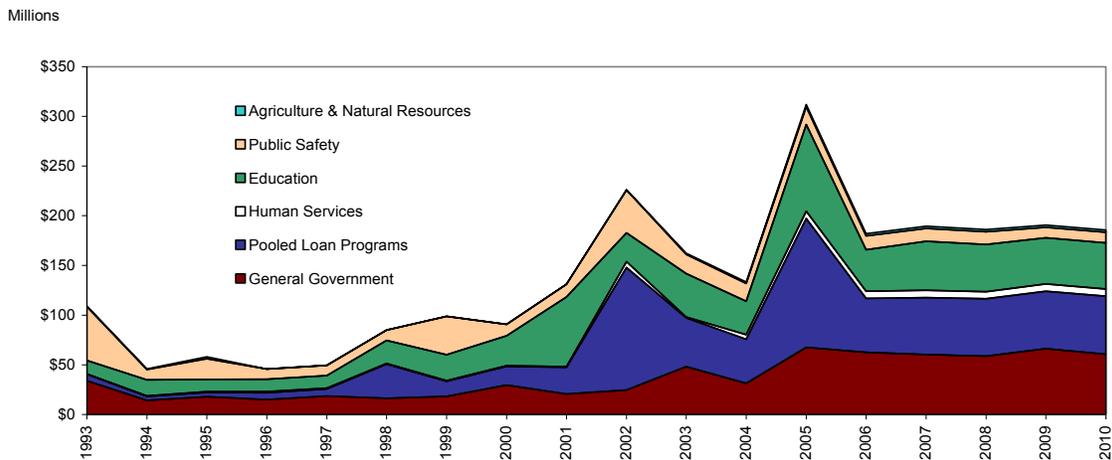
Figure 7: KDOT Debt Service as a Percent of State Debt Service, FY 1993 to FY 2025



Source: Kansas Division of Budget spreadsheets as of June 30, 2005—assuming no new debt.

Only once between FY 1993 and FY 2005 does KDOT debt service as a percent of the State’s total debt service sink below 30 percent, as shown in Figure 7. This demonstrates the overall influence that KDOT has on the indebtedness of the State of Kansas. In FY 1994, the State’s total debt service was \$79 million, falling 70 percent from the previous year. KDOT debt service in the same year was \$33 million, a decrease of 79 percent. A Transportation bond redemption of \$136 million in the previous fiscal year accounted for the large plunge for FY 1994.

Figure 8: Annual Debt Service by Program excluding Transportation, FY 1993 to FY 2010



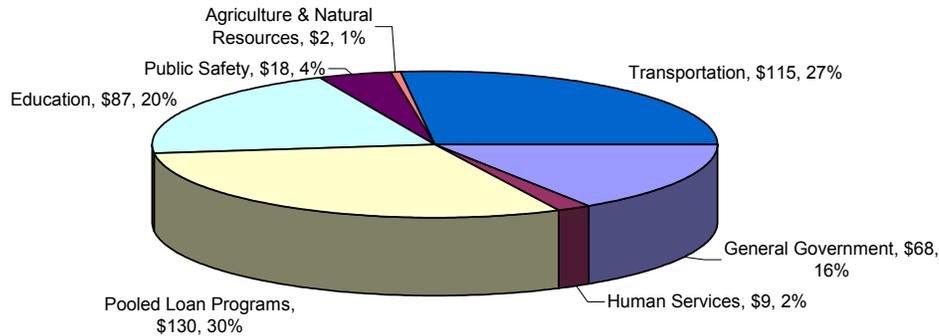
Source: Kansas Division of Budget spreadsheets as of June 30, 2005—assuming no new debt.

Excluding Transportation from debt service computations, Figure 8 shows a historical trend from 1992 to 2005 also of increasing cumulative debt service in other state programs, particularly in the pooled loan programs, which increased by more than 4 times in FY 2002 from the previous fiscal year. This is mainly due to the redemption of Kansas Department of Health and Environment revenue bonds in the amount of \$102 million used for the Water Pollution Control Revolving Fund and the Public Water Supply Revolving Fund. Again, in FY 2005, there were large redemptions related to refinancing of bonds by the revolving loan fund.

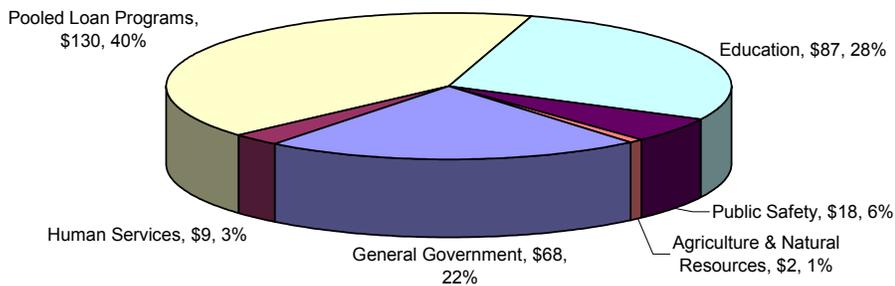
Figure 9 reports the debt service composition for FY 2005, both with and without KDOT debt. Transportation is supplanted this year by the pooled loan programs due to refinancing of the loan program debt. After these two programs, education is the third largest in terms of debt service paid. General government has a lower debt service slice in FY 2005 than its share of total outstanding debt (see Figure 4) would suggest. Similarly, transportation has pushed its debt service obligations into the future.

Figure 9: Debt Service by Program for FY 2005 (in millions)

A. Including Transportation



B. Excluding Transportation



Source: Kansas Division of Budget spreadsheets as of June 30, 2005—assuming no new debt.

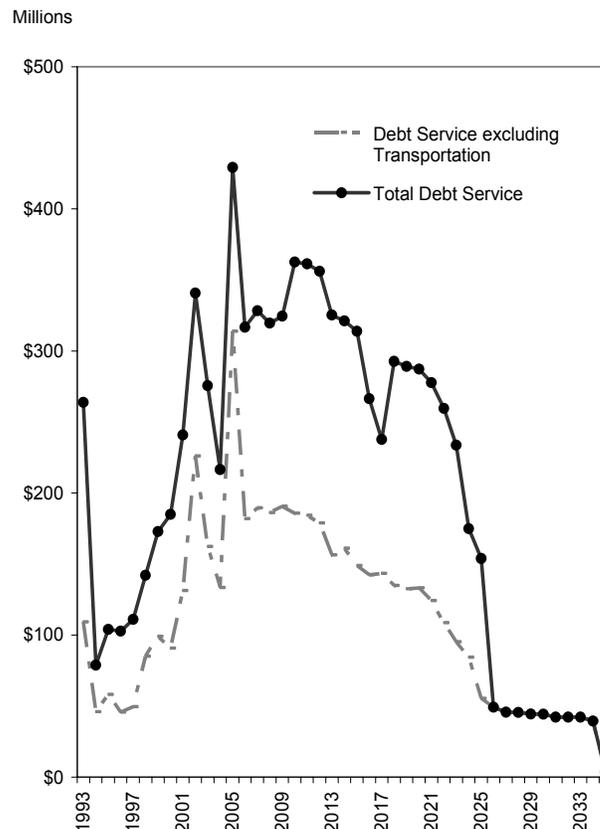
The KPERS bond issue of \$500 million issued by KDFA in FY 2003 caused General Government debt service to double from FY 2004 to FY 2005, although its share of total state debt changed slightly due to variations in other programs. A significant increase in debt service is shown for the Pooled Loan Programs in FY 2005. Debt service for the Pooled Loan Programs is almost three times higher in FY 2005 than the previous fiscal year due to large bond refunding transactions.

Figure 10: Impact of Transportation on Total State Debt

10A: Outstanding Debt Comparison (in billion \$)



10B: Debt Service Comparison (in million \$)



Source: Kansas Division of Budget Spreadsheets as of June 30, 2005 - - assuming no new debt; No debt service details were available for FY 1992.

Figure 10 shows the significant impact of Transportation debt on the State's debt levels as of June 30, 2005. Without Transportation debt, the State's overall debt level and debt service level would be significantly lower. These levels assume, of course, that no new debt is issued after June 30, 2005. New debt issuance will increase debt and debt service.

In November 2003, KDOT executed three refunding transactions; and, in FY 2004, additional KDOT bonds were issued in the amount of \$197 million for the CTP. Another \$347 million in CTP bonds were issued by KDOT in early FY 2005.⁵³ Not included in the above figures are the additional KDOT bonds authorized by the 2004 Legislature. The 2004 Legislature authorized K DFA to issue one or more series of revenue bonds in the amount of \$150 million plus the cost of the bond issuance. Payment of the related debt service will be from State General Fund appropriations.⁵⁴

⁵³ http://da.state.ks.us/budget/publications/FY2006/FY2006_GBR--Volume_1.pdf The FY 2006 Governor's Budget Report, Volume 1.

⁵⁴ <http://www.kslegislature.org/cgi-bin/billtrack/index.cgi> (plus HJ 1823 and SJ 1893), accessed 4/22/04.

Since the implementation of the second Comprehensive Transportation Plan, several refunding bond issuances have occurred (Figure 11). As stated previously, the Legislature adopted in 1999 a new Comprehensive Transportation Plan that included \$12.9 billion in spending. This new program relied on an initial \$995 million in bonds, new motor fuels taxes and increased sales tax transfers from the General Fund to the Highway Fund. As originally planned, this revenue stream along with projected federal funding would finance the Comprehensive Transportation Plan from FY 2000 to FY 2009.⁵⁵ In 2001, budgetary problems forced a reconfiguration of the Transportation Plan financing. The Legislature authorized an additional \$277 millions in bonds as offset for a reduction of sales tax transfers from the General Fund (GF) to the Highway Fund.

Figure 11: KDOT Refunding Bonds, FY 1998 to FY 2004

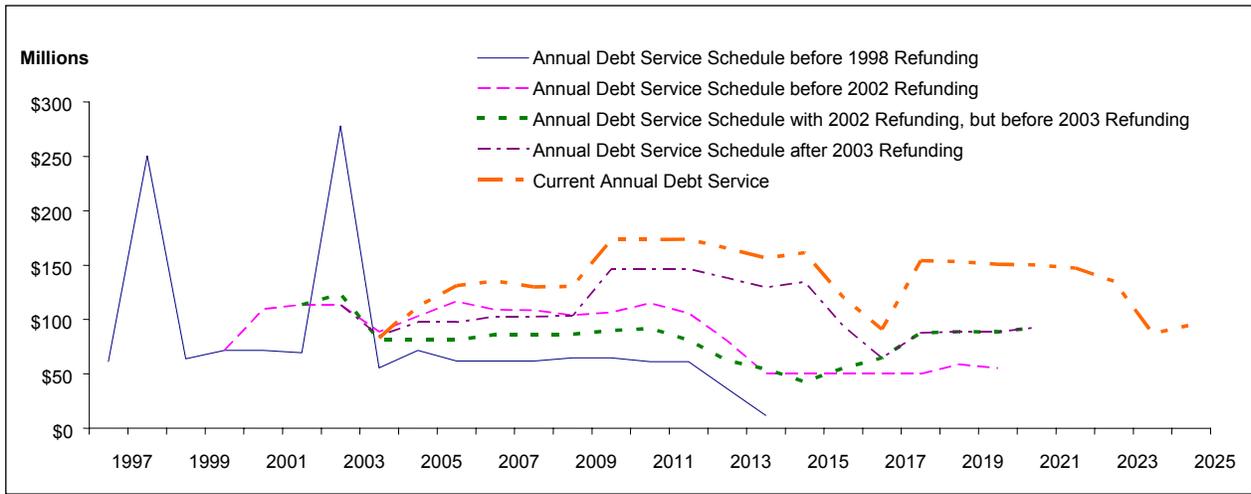
| KDOT Refunding Bonds | Amount |
|--|------------------------|
| Highway Revenue Refunding Bonds Series 1998 | \$189,195,000 |
| Highway Revenue Refunding Bonds Series 2002A | \$199,600,000 |
| Highway Revenue Refunding Bonds Series 2002B & C | \$320,005,000 |
| Highway Revenue Refunding Bonds Series 2002D | \$88,110,000 |
| Highway Revenue Refunding Bonds Series 2003A | \$164,275,000 |
| Highway Revenue Refunding Bonds Series 2003B | \$83,915,000 |
| Highway Revenue Refunding Bonds Series 2003C-1 & C-2 | \$150,275,000 |
| Highway Revenue Refunding Bonds Series 2004 A | \$250,000,000 |
| TOTAL REFUNDING BONDS ISSUED SINCE FY 1998 | \$1,445,375,000 |

Source: Kansas Division of Budget spreadsheets as of June 30, 2005, and Kansas Department of Transportation.

The FY 2002 refunding bonds extended the debt service payout period 6 years into the future and the FY 2003 refunding bonds extended that payout period an additional year to FY 2021. The FY 2003 debt service level more than doubled the expected debt service prior to the 1998 refunding. Had the FY 2002 refunding not occurred, succeeding debt service levels would have been at higher levels. As Figure 12 shows, current annual debt service obligations rise significantly in later years.

⁵⁵ The State of Kansas Budget, 2001.

Figure 12: KDOT Refunding Trend Debt Service FY 1997 to FY 2024



Source: Kansas Division of Budget Spreadsheets as of June 30, 2005 — assuming no additional debt; Kansas Department of Transportation, Official Statement for Highway Refunding Bonds, Series 2003.

VI. KANSAS DEBT AFFORDABILITY

Debt affordability depends upon the amount of debt and the availability of funds to repay the principal and interest when due. Therefore, measuring the State of Kansas' debt affordability depends on the level of debt, its repayment schedule, and the amount and structure of projected debt. Credit analysts use such data in a series of common financial ratios to gauge the debt affordability of state governments. Accordingly, such ratios are employed to estimate the affordability of the debt of the State of Kansas.

Traditionally, debt measures focus on all debt supported by tax revenues and is known as tax-supported debt. Despite consensus on the use of the concept of tax-supported debt, credit analysts differ in the precise calculations. Credit rating agencies such as Moody's, Standard & Poor's, and Fitch have different interpretations of self-supporting or partially self-supporting debt instruments.⁵⁶ Nonetheless, the affordability measures used by these credit rating agencies not only indicate how they evaluate the credit quality of states but also establish a basis for comparison of Kansas' performance with other states.

In addition to the comparative ratios provided by the credit rating agencies, this section uses the results from the Kansas Debt Affordability Model. This model generates a time series of Kansas ratios using data provided by the State as supplemented by other sources. Variations in results can reflect different estimates of population, per capita income, state finances, the time period covered, and the debt issues included. Despite such differences, the goal is to estimate debt affordability according to seven common debt burden ratios.

The Kansas Debt Affordability Model⁵⁷ is a spreadsheet that is based upon the history and current debt as of June 30, 2005.⁵⁸ To this series is added projected debt issuance. One estimate of future debt is the existing amount of legally authorized but unissued debt.⁵⁹ It is assumed that since this debt has gained legislative authorization it is likely to be issued soon. A second estimate should reflect new capital improvement projects the State might be planning in the foreseeable future. Such information, unfortunately, is not publicly available since the State of Kansas does not prepare and publish a multi-year capital improvement plan like many other states. Thus, without knowing the State's capital needs and debt financing plans, this report only assumes that all authorized but unissued debt will be issued immediately. Each of these bond issues are structured using simple rules.⁶⁰ While each debt issuance may have a unique repayment source, and despite the credit rating agency approach of aggregating

⁵⁶ Moody's rating system uses Aaa, Aa, A, Baa, Ba, B, Caa, Ca, and C in addition to using numerical modifiers of 1, 2, or 3. Alternatively, Standard & Poor's and Fitch use AAA, AA, A, BBB, BB, B, CCC, CC, and C in their systems. Standard and Poor's also uses a plus (+) or minus (-) sign to show relative standing within the major rating categories. The Aaa/AAA rating is the highest credit quality and it descends to the lowest credit quality. Sources: <http://www.moodys.com>, <http://www2.standardandpoors.com>, and <http://www.fitchrating.com>, accessed 9-16-05.

⁵⁷ See Appendix 6.

⁵⁸ Kansas Division of the Budget Spreadsheets as of June 30, 2005.

⁵⁹ Provided by the Kansas Development Finance Authority.

⁶⁰ See Appendix 7.

debt into the tax-supported debt category, KDOT debt is separately identified because this highlights the impact of transportation debt on total state debt.

DEBT PER CAPITA

As the first debt affordability measure used in this analysis, **debt per capita** indicates the degree of debt burden on the population. Debt per capita is the amount of state debt divided by the state's population resulting in a dollar amount of debt per person. This measure follows the philosophy that all taxes are ultimately paid by the citizens of the state. However, this measure has a weakness as it assumes that all people have equal ability to contribute to state revenues. Nonetheless, it is an indicator used by the credit rating agencies.

Moody's publishes an annual analysis of State debt medians, using as measures debt per capita and debt as a percentage of personal income. Moody's places emphasis on debt burden in determining its credit quality ratings.⁶¹ Kansas maintains an issuer rating, or a General Obligation equivalent rating, from Moody's because the State does not issue General Obligation debt backed by the full faith and credit of the State.

Based on the State Debt Median Reports of Moody's,⁶² Kansas ranked 18th highest of Net Tax-Supported Debt Per Capita in 2001 (Figure 13). The following year, the State climbed one notch higher at \$824, exceeding the average of all states by 1.73 percent. This rate increased to \$860 in 2003 and to \$963 in 2004. In all four years Kansas exceeded the national median amount by an average of 43 percent. Debt per capita levels for the surrounding states of Oklahoma, Missouri, Colorado and Nebraska all have a ranking below Kansas. This is not surprising considering that a large segment of Kansas debt is mainly due to the Comprehensive Highway Program and is associated with the Transportation Department. Kansas ranks in the top four states in terms of public road miles, in the number of bridges, in miles of rail lines, and eighteenth in the number of airports.⁶³ In comparison to other states, Kansas is at the higher end of the debt per capita scale. Only two Triple-A states have debt per capita higher than Kansas – Delaware and Maryland.⁶⁴ Moody's uses "net" debt amounts for its Median Report, and adds contingent debt and university non-enterprise debt to arrive at a "gross" debt level. Moody's calculates Kansas net tax-supported as including KDOT and the non-KDOT bonds contained in the Kansas Division of the Budget Spreadsheets, plus capital leases.⁶⁵

⁶¹ Moody's Special Comment , May 2002, p. 1.

⁶² Moody's Special Comment, June 23, 2004, and earlier reports on file with the Kansas Public Finance Center.

⁶³ Hildreth and Flentje, "State Initiatives in Transportation Investment."

⁶⁴ Triple-A states in 2005 are as follows: Delaware, Georgia, Maryland, Missouri, South Carolina, Utah, Virginia.

⁶⁵ Moody's Investors Services, Analysis of (State of) Kansas, (June 2001).

Figure 13: Net Tax-Supported Debt per Capita, Years 2001 to 2004

| 2001 | | | | 2002 | | | |
|-----------|----------------|--------------|------------|-----------|----------------|--------------|--------------|
| Rank | State | Amount | Rating | Rank | State | Amount | Rating |
| 1 | Connecticut | \$3,037 | Aa2 | 1 | Massachusetts | \$3,267 | Aa2 |
| 2 | Hawaii | \$2,987 | Aa3 | 2 | Connecticut | \$3,240 | Aa2 |
| 3 | Massachusetts | \$2,957 | Aa2 | 3 | Hawaii | \$2,936 | Aa3 |
| 4 | New York | \$2,020 | A2 | 4 | New Jersey | \$2,066 | Aa2 |
| 5 | New Jersey | \$1,935 | Aa1 | 5 | New York | \$2,045 | A2 |
| 6 | Delaware | \$1,616 | Aaa | 6 | Delaware | \$1,650 | Aaa |
| 7 | Rhode Island | \$1,497 | Aa3 | 7 | Rhode Island | \$1,552 | Aa3 |
| 8 | Washington | \$1,316 | Aa1 | 8 | Washington | \$1,383 | Aa1 |
| 9 | Kentucky | \$999 | Aa2** | 9 | Kentucky | \$1,046 | Aa2** |
| 10 | Mississippi | \$918 | Aa3 | 10 | Mississippi | \$996 | Aa3 |
| 11 | Florida | \$883 | Aa2 | 11 | Florida | \$959 | Aa2 |
| 12 | West Virginia | \$878 | Aa3 | 12 | Illinois | \$908 | Aa2 |
| 13 | Wisconsin | \$859 | Aa3 | 13 | Maryland | \$879 | Aaa |
| 14 | New Mexico | \$843 | Aa1 | 14 | New Mexico | \$879 | Aa1 |
| 15 | Vermont | \$828 | Aa1 | 15 | West Virginia | \$867 | Aa3 |
| 16 | Maryland | \$819 | Aaa | 16 | Wisconsin | \$834 | Aa3 |
| 17 | Illinois | \$815 | Aa2 | 17 | Kansas | \$824 | Aa1** |
| 18 | Kansas | \$802 | NGO | 18 | Vermont | \$813 | Aa1 |
| 19 | California | \$733 | Aa2 | 19 | Georgia | \$804 | Aaa |
| 20 | Ohio | \$698 | Aa1 | 20 | California | \$795 | A1 |
| 21 | Georgia | \$679 | Aaa | 21 | Ohio | \$749 | Aa1 |
| 22 | Utah | \$637 | Aaa | 22 | Utah | \$708 | Aaa |
| 23 | Pennsylvania | \$603 | Aa2 | 23 | Pennsylvania | \$671 | Aa2 |
| 24 | Louisiana | \$565 | A2 | 24 | South Carolina | \$615 | Aaa |
| 25 | Minnesota | \$546 | Aaa | 25 | Minnesota | \$576 | Aaa |
| 26 | Virginia | \$537 | Aaa | 26 | Louisiana | \$570 | A2 |
| 27 | Alabama | \$506 | Aa3 | 27 | Virginia | \$566 | Aaa |
| 28 | Nevada | \$502 | Aa2 | 28 | Alabama | \$526 | Aa3 |
| 29 | Maine | \$487 | Aa2 | 29 | Nevada | \$524 | Aa2 |
| 30 | New Hampshire | \$463 | Aa2 | 30 | New Hampshire | \$503 | Aa2 |
| 31 | Michigan | \$449 | Aaa | 31 | Arizona | \$495 | NGO |
| 32 | Oregon | \$417 | Aa2 | 32 | Maine | \$486 | Aa2 |
| 33 | South Carolina | \$398 | Aaa | 33 | Michigan | \$438 | Aaa |
| 34 | Arizona | \$382 | NGO | 34 | Oregon | \$437 | Aa2 |
| 35 | Montana | \$361 | Aa3 | 35 | Wyoming | \$388 | NGO |
| 36 | North Carolina | \$340 | Aaa | 36 | North Carolina | \$375 | Aaa |
| 37 | Oklahoma | \$320 | Aa3 | 37 | Montana | \$358 | Aa3 |
| 38 | Tennessee | \$308 | Aa1 | 38 | Missouri | \$347 | Aaa |
| 39 | South Dakota | \$291 | NGO | 39 | Oklahoma | \$297 | Aa3 |
| 40 | Missouri | \$288 | Aaa | 40 | Indiana | \$296 | Aa1** |
| 41 | Indiana | \$283 | Aa1** | 41 | Arkansas | \$268 | Aa2 |
| 42 | Arkansas | \$260 | Aa2 | 42 | Colorado | \$245 | NGO |
| 43 | Texas | \$251 | Aa1 | 43 | South Dakota | \$244 | NGO |
| 44 | Wyoming | \$250 | NGO | 44 | Texas | \$238 | Aa1 |
| 45 | North Dakota | \$207 | Aa3** | 45 | Tennessee | \$231 | Aa2 |
| 46 | Colorado | \$129 | NGO | 46 | North Dakota | \$216 | Aa3** |
| 47 | Alaska | \$127 | Aa2 | 47 | Iowa | \$166 | Aa1** |
| 48 | Iowa | \$89 | NGO | 48 | Alaska | \$112 | Aa2 |
| 49 | Idaho | \$78 | NGO | 49 | Idaho | \$86 | Aa3** |
| 50 | Nebraska | \$25 | NGO | 50 | Nebraska | \$34 | NGO |
| | MEAN: | \$820 | | | MEAN: | \$810 | |
| | MEDIAN: | \$541 | | | MEDIAN: | \$573 | |

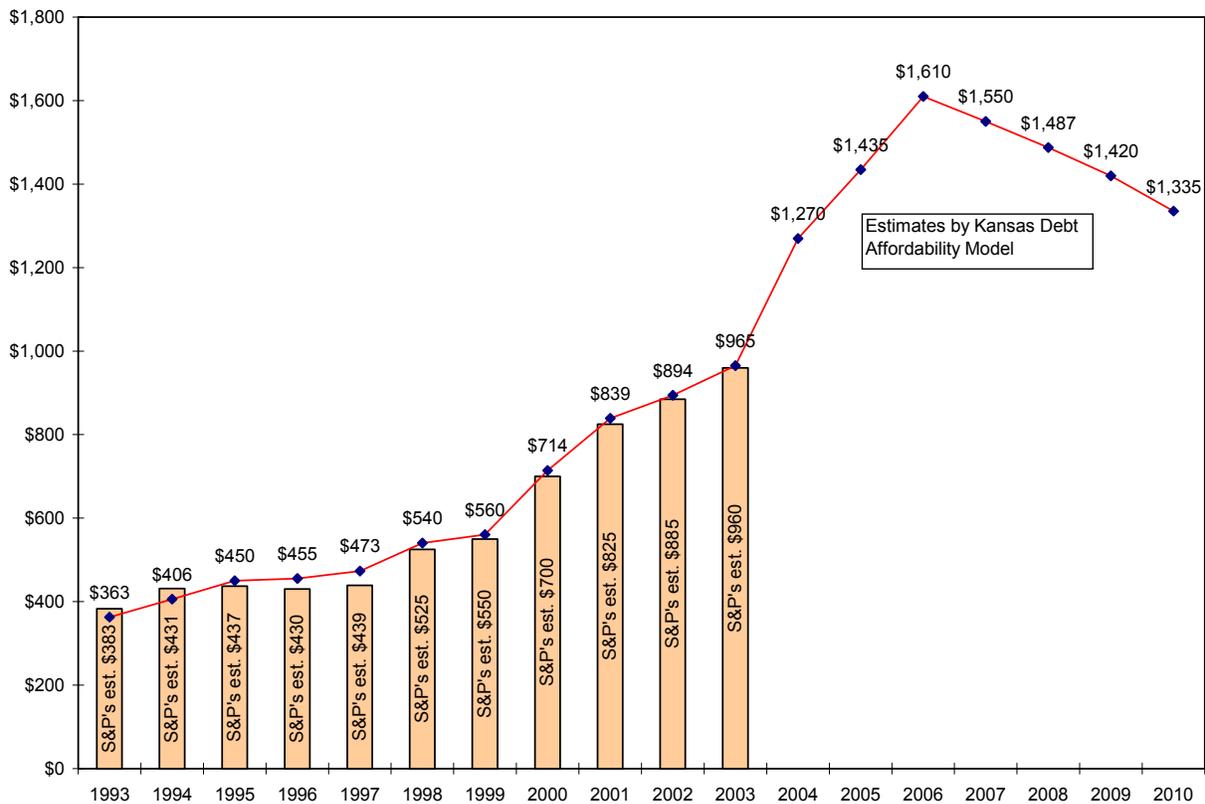
| 2003 | | | | 2004 | | | |
|------|----------------|--------------|--------------|------|----------------|--------------|--------------|
| Rank | State | Amount | Rating | Rank | State | Amount | Rating |
| 1 | Connecticut | \$3,440 | Aa3 | 1 | Connecticut | \$3,558 | Aa3 |
| 2 | Massachusetts | \$3,298 | Aa2 | 2 | Massachusetts | \$3,333 | Aa2 |
| 3 | Hawaii | \$3,111 | Aa3 | 3 | Hawaii | \$3,101 | Aa3 |
| 4 | New Jersey | \$2,110 | Aa2 | 4 | New York | \$2,420 | A2 |
| 5 | New York | \$2,095 | A2 | 5 | New Jersey | \$2,332 | Aa2 |
| 6 | Delaware | \$1,599 | Aaa | 6 | Illinois | \$1,943 | Aa3 |
| 7 | Rhode Island | \$1,508 | Aa3 | 7 | Delaware | \$1,800 | Aaa |
| 8 | Washington | \$1,507 | Aa2 | 8 | Washington | \$1,580 | Aa1 |
| 9 | Mississippi | \$1,207 | Aa3 | 9 | Rhode Island | \$1,307 | Aa3 |
| 10 | Kentucky | \$1,095 | Aa2** | 10 | Wisconsin | \$1,325 | Aa3 |
| 11 | Illinois | \$1,040 | Aa3 | 11 | Oregon | \$1,281 | Aa3 |
| 12 | Florida | \$985 | Aa2 | 12 | Mississippi | \$1,169 | Aa3 |
| 13 | Maryland | \$977 | Aaa | 13 | Kentucky | \$1,119 | Aa2** |
| 14 | Wisconsin | \$958 | Aa3 | 14 | Maryland | \$1,077 | Aaa |
| 15 | West Virginia | \$950 | Aa3 | 15 | California | \$1,060 | Baa1 |
| 16 | Vermont | \$861 | Aa1 | 16 | Florida | \$1,023 | Aa2 |
| 17 | Kansas | \$860 | Aa1** | 17 | Kansas | \$963 | Aa1** |
| 18 | New Mexico | \$844 | Aa1 | 18 | New Mexico | \$962 | Aa1 |
| 19 | California | \$810 | A2 | 19 | Alaska | \$962 | Aa2 |
| 20 | Georgia | \$802 | Aaa | 20 | West Virginia | \$859 | Aa3 |
| 21 | Ohio | \$750 | Aa1 | 21 | Utah | \$846 | Aaa |
| 22 | Pennsylvania | \$693 | Aa2 | 22 | Georgia | \$827 | Aaa |
| 23 | Utah | \$682 | Aaa | 23 | Ohio | \$806 | Aa1 |
| 24 | Louisiana | \$650 | A2 | 24 | Vermont | \$724 | Aa1 |
| 25 | Minnesota | \$625 | Aa1 | 25 | Pennsylvania | \$711 | Aa2 |
| 26 | South Carolina | \$587 | Aaa | 26 | Minnesota | \$691 | Aa1 |
| 27 | Virginia | \$546 | Aaa | 27 | Michigan | \$670 | Aa1 |
| 28 | Michigan | \$542 | Aaa | 28 | Louisiana | \$661 | A1 |
| 29 | Alabama | \$540 | Aa3 | 29 | South Carolina | \$599 | Aaa |
| 30 | Arizona | \$539 | NGO | 30 | Arizona | \$591 | NGO** |
| 31 | New Hampshire | \$485 | Aa2 | 31 | Nevada | \$590 | Aa2 |
| 32 | Maine | \$471 | Aa2 | 32 | North Carolina | \$556 | Aa1 |
| 33 | Oregon | \$454 | Aa3 | 33 | Virginia | \$546 | Aaa |
| 34 | North Carolina | \$429 | Aa1 | 34 | Alabama | \$505 | Aa3 |
| 35 | Nevada | \$413 | Aa2 | 35 | New Hampshire | \$495 | Aa2 |
| 36 | Missouri | \$368 | Aaa | 36 | Maine | \$492 | Aa2 |
| 37 | Montana | \$329 | Aa3 | 37 | Missouri | \$461 | Aaa |
| 38 | Arkansas | \$328 | Aa2 | 38 | Arkansas | \$420 | Aa2 |
| 39 | Oklahoma | \$302 | Aa3 | 39 | Indiana | \$361 | Aa1** |
| 40 | Indiana | \$300 | Aa1** | 40 | Oklahoma | \$315 | Aa3 |
| 41 | Colorado | \$295 | NGO | 41 | Montana | \$311 | Aa3 |
| 42 | Wyoming | \$256 | NGO | 42 | Colorado | \$307 | NGO** |
| 43 | Texas | \$246 | Aa1 | 43 | South Dakota | \$254 | NGO** |
| 44 | North Dakota | \$223 | Aa3** | 44 | Wyoming | \$250 | NGO** |
| 45 | Tennessee | \$222 | Aa2 | 45 | North Dakota | \$235 | Aa3 |
| 46 | South Dakota | \$190 | NGO | 46 | Texas | \$220 | Aa1 |
| 47 | Iowa | \$156 | Aa1** | 47 | Tennessee | \$220 | Aa2 |
| 48 | Alaska | \$94 | Aa2 | 48 | Iowa | \$139 | Aa1** |
| 49 | Idaho | \$83 | Aa3** | 49 | Idaho | \$83 | Aa3** |
| 50 | Nebraska | \$38 | NGO | 50 | Nebraska | \$43 | NGO** |
| | MEAN: | \$838 | | | MEAN: | \$944 | |
| | MEDIAN: | \$606 | | | MEDIAN: | \$701 | |

Source: Moody's Special Comment (June 23, 2004); their calculations.

Note: NGO (No General Obligation rating equivalent requested); ** Issuer Rating; +computed based on figures; population figures taken from the U.S. Census Bureau.

Standard & Poor's uses, as a rating measure, "total" tax-supported debt per capita, the computations of which are not available for comparison. The rating agency uses a set of low, moderate, and high benchmark ratios for *debt per capita*. Low amounts are those ratios less than \$1,000, moderate levels are \$1,000 to \$2,500, and high levels are higher than \$2,500. As calculated by Standard and Poor's (S&P) and shown as the vertical bars in Figure 14, Kansas' debt per capita figure in 2003 was \$960 (compared to Moody's net amount of \$860). While both of these amounts fall within the low ratio based on the Standard & Poor's benchmark, the state's total tax-supported debt per capita compound annual growth rate of 11.10 percent in just four years, from fiscal year end 2000 to 2003, is a rapid increase.

Figure 14: Comparing Standard and Poor's Total Tax-Supported Debt per Capita Calculations with Estimates to 2010



Source: Standard & Poor's (State Review: Kansas – November 2000, August 2002, November 2004) and Kansas Debt Affordability Model.

Figure 14 also shows the closeness of fit between the debt per capita estimates from the Kansas Debt Affordability Model for the same period (1993 to 2003) as the published calculations by Standard and Poor's. After that point, the estimates from the Kansas Debt Affordability Model reveal a rapid growth in debt per capita, reaching a peak in Fiscal Year 2006. At this point, Kansas nears the mid-point of the moderate level of debt, according to Standard and Poor's benchmark ratios.⁶⁶ The decline after that point only occurs because debt represented thereafter is the current debt

⁶⁶ Differences between these results and Moody's estimate for 2004 (shown in Figure 13) may reflect, in part, that Moody's amounts are computed prior to the end of the State's fiscal year.

outstanding and the amounts authorized as of June 30, 2005. Any new debt would increase the debt per capita line after FY 2006.

DEBT PER CAPITA AS A PERCENT OF PERSONAL INCOME PER CAPITA

A second indicator of debt affordability is **debt per capita as a percent of personal income per capita**. Debt as a percent of personal income per person is simply debt per capita divided by state personal income. This ratio is used to determine the capability of the state's populace to absorb the financial obligation associated with governmental debt and includes the "ability to pay" measure in assessing debt burden. The ability of governments to transform personal income into governmental revenues through taxation makes personal income a strong indicator of a governmental borrower's potential to repay debt obligations.⁶⁷

Figure 15 is based on Moody's State Median Reports for 2001 to 2004. The State of Kansas' FY 2001 Net Tax-Supported Debt as a percent of 1999 Personal Income is the 16th highest among the 50 states at 3.1 percent, which is above the 3.0 average of all states. The following year, although Kansas' Net Tax-Supported Debt as a percent of 2000 Personal Income decreased, the average of all states also decreased, which raised Kansas' rank one notch higher. In 2003, this ratio remained the same. The ratio increased to 3.3 percent in 2004, which is above the 3.1 percent average of all States in 2004. From 2001 to 2004, therefore, Kansas is well above the median for all states as a percent of personal income. Only one Triple A state – Delaware – had debt as a percent of personal income higher than Kansas in 2001 to 2003. Two Triple A states – Delaware and Utah – had debt as a percent of personal income higher than Kansas in 2004. These figures pose a challenge to improving the state's credit quality, especially when considering that most of the states with the highest tax-supported debt per capita as a percent of personal income are highly urbanized states on the East Coast. These states have larger economic bases and relatively higher capacities to incur public debt.

Net tax-supported debt per capita as a percent of personal income – like the net tax-supported debt per capita measure – shows Kansas at the higher end of the debt scale. The State's debt per capita exceeded the average in 2002, 2003, and 2004, while the debt per capita as a percent of personal income breached the average in 2001. This above-average debt as percent of personal income trend started about the same time the second Comprehensive Transportation Plan commenced in 1999.⁶⁸

⁶⁷ State of Florida, Debt Affordability Study, 1999.

⁶⁸ See Figure 18.

Figure 15: Net Tax-Supported Debt as a Percent of Personal Income, 2001 to 2004

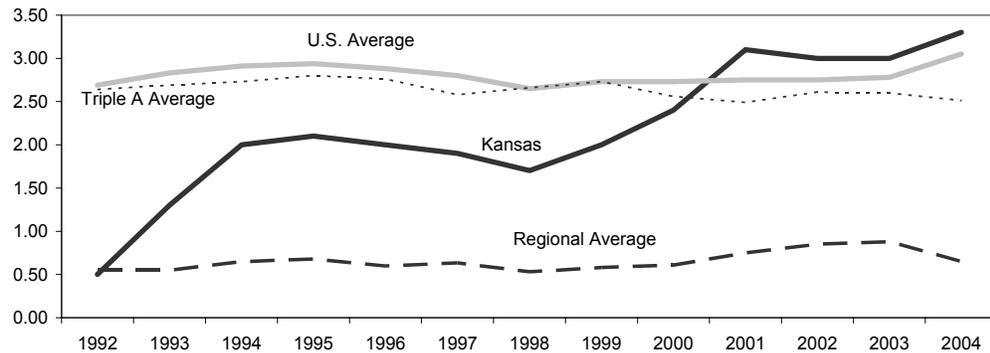
| 2001 | | | 2002 | | |
|-----------|----------------|-------------|-----------|----------------|-------------|
| Rank | State | Percent | Rank | State | Percent |
| 1 | Hawaii | 11.0% | 1 | Hawaii | 10.4% |
| 2 | Massachusetts | 8.5% | 2 | Massachusetts | 8.6% |
| 3 | Connecticut | 8.0% | 3 | Connecticut | 8.0% |
| 4 | New York | 6.2% | 4 | New York | 5.9% |
| 5 | New Jersey | 5.5% | 5 | New Jersey | 5.6% |
| 6 | Delaware | 5.5% | 6 | Delaware | 5.3% |
| 7 | Rhode Island | 5.3% | 7 | Rhode Island | 5.2% |
| 8 | Mississippi | 4.6% | 8 | Mississippi | 4.7% |
| 9 | Washington | 4.4% | 9 | Washington | 4.4% |
| 10 | Kentucky | 4.4% | 10 | Kentucky | 4.3% |
| 11 | West Virginia | 4.2% | 11 | New Mexico | 4.0% |
| 12 | New Mexico | 4.0% | 12 | West Virginia | 4.0% |
| 13 | Florida | 3.3% | 13 | Florida | 3.4% |
| 14 | Vermont | 3.3% | 14 | Vermont | 3.0% |
| 15 | Wisconsin | 3.2% | 15 | Kansas | 3.0% |
| 16 | Kansas | 3.1% | 16 | Utah | 3.0% |
| 17 | Utah | 2.8% | 17 | Wisconsin | 3.0% |
| 18 | Illinois | 2.7% | 18 | Georgia | 2.9% |
| 19 | Georgia | 2.6% | 19 | Illinois | 2.8% |
| 20 | Maryland | 2.6% | 20 | Ohio | 2.6% |
| 21 | Ohio | 2.6% | 21 | Maryland | 2.6% |
| 22 | Louisiana | 2.5% | 22 | South Carolina | 2.5% |
| 23 | California | 2.5% | 23 | California | 2.5% |
| 24 | Alabama | 2.2% | 24 | Louisiana | 2.4% |
| 25 | Pennsylvania | 2.2% | 25 | Pennsylvania | 2.3% |
| 26 | Maine | 2.0% | 26 | Alabama | 2.2% |
| 27 | Virginia | 1.9% | 27 | Arizona | 1.9% |
| 28 | Minnesota | 1.8% | 28 | Maine | 1.9% |
| 29 | Nevada | 1.8% | 29 | Virginia | 1.8% |
| 30 | South Carolina | 1.8% | 30 | Minnesota | 1.8% |
| 31 | Montana | 1.7% | 31 | Nevada | 1.7% |
| 32 | Arizona | 1.6% | 32 | Montana | 1.6% |
| 33 | Michigan | 1.6% | 33 | Oregon | 1.5% |
| 34 | Oregon | 1.6% | 34 | New Hampshire | 1.5% |
| 35 | New Hampshire | 1.5% | 35 | Michigan | 1.5% |
| 36 | Oklahoma | 1.4% | 36 | Wyoming | 1.4% |
| 37 | North Carolina | 1.4% | 37 | North Carolina | 1.4% |
| 38 | Tennessee | 1.2% | 38 | Missouri | 1.3% |
| 39 | Arkansas | 1.2% | 39 | Oklahoma | 1.3% |
| 40 | South Dakota | 1.2% | 40 | Arkansas | 1.2% |
| 41 | Missouri | 1.1% | 41 | Indiana | 1.1% |
| 42 | Indiana | 1.1% | 42 | South Dakota | 0.9% |
| 43 | Wyoming | 1.0% | 43 | Tennessee | 0.9% |
| 44 | Texas | 1.0% | 44 | North Dakota | 0.9% |
| 45 | North Dakota | 0.9% | 45 | Texas | 0.9% |
| 46 | Alaska | 0.4% | 46 | Colorado | 0.7% |
| 47 | Colorado | 0.4% | 47 | Iowa | 0.6% |
| 48 | Iowa | 0.4% | 48 | Alaska | 0.4% |
| 49 | Idaho | 0.3% | 49 | Idaho | 0.4% |
| 50 | Nebraska | 0.1% | 50 | Nebraska | 0.1% |
| | MEAN: | 3.0% | | MEAN: | 2.7% |
| | MEDIAN: | 2.1% | | MEDIAN: | 2.3% |

| 2003 | | | 2004 | | |
|-----------|----------------|-------------|-----------|----------------|-------------|
| Rank | State | Percent | Rank | State | Percent |
| 1 | Hawaii | 10.4% | 1 | Hawaii | 10.4% |
| 2 | Massachusetts | 8.4% | 2 | Massachusetts | 8.4% |
| 3 | Connecticut | 8.1% | 3 | Connecticut | 8.4% |
| 4 | New York | 5.8% | 4 | New York | 6.7% |
| 5 | New Jersey | 5.5% | 5 | New Jersey | 5.9% |
| 6 | Mississippi | 5.4% | 6 | Illinois | 5.8% |
| 7 | Delaware | 4.9% | 7 | Delaware | 5.6% |
| 8 | Rhode Island | 4.8% | 8 | Mississippi | 5.2% |
| 9 | Washington | 4.6% | 9 | Washington | 4.9% |
| 10 | Kentucky | 4.3% | 10 | Oregon | 4.5% |
| 11 | West Virginia | 4.0% | 11 | Wisconsin | 4.5% |
| 12 | New Mexico | 3.5% | 12 | Rhode Island | 4.4% |
| 13 | Florida | 3.3% | 13 | Kentucky | 4.4% |
| 14 | Wisconsin | 3.2% | 14 | New Mexico | 4.1% |
| 15 | Illinois | 3.1% | 15 | West Virginia | 3.6% |
| 16 | Kansas | 3.0% | 16 | Utah | 3.5% |
| 17 | Vermont | 2.9% | 17 | Florida | 3.5% |
| 18 | Utah | 2.8% | 18 | Kansas | 3.3% |
| 19 | Georgia | 2.8% | 19 | California | 3.2% |
| 20 | Maryland | 2.7% | 20 | Alaska | 3.0% |
| 21 | Louisiana | 2.6% | 21 | Maryland | 3.0% |
| 22 | Ohio | 2.6% | 22 | Georgia | 2.9% |
| 23 | California | 2.5% | 23 | Ohio | 2.7% |
| 24 | South Carolina | 2.3% | 24 | Louisiana | 2.6% |
| 25 | Pennsylvania | 2.2% | 25 | Vermont | 2.5% |
| 26 | Alabama | 2.1% | 26 | South Carolina | 2.4% |
| 27 | Arizona | 2.1% | 27 | Arizona | 2.3% |
| 28 | Minnesota | 1.8% | 28 | Pennsylvania | 2.2% |
| 29 | Michigan | 1.8% | 29 | Michigan | 2.2% |
| 30 | Maine | 1.7% | 30 | Minnesota | 2.0% |
| 31 | Virginia | 1.7% | 31 | North Carolina | 2.0% |
| 32 | Oregon | 1.6% | 32 | Nevada | 2.0% |
| 33 | North Carolina | 1.5% | 33 | Alabama | 2.0% |
| 34 | New Hampshire | 1.4% | 34 | Arkansas | 1.8% |
| 35 | Arkansas | 1.4% | 35 | Maine | 1.8% |
| 36 | Nevada | 1.4% | 36 | Virginia | 1.7% |
| 37 | Montana | 1.3% | 37 | Missouri | 1.6% |
| 38 | Missouri | 1.3% | 38 | New Hampshire | 1.5% |
| 39 | Oklahoma | 1.2% | 39 | Indiana | 1.3% |
| 40 | Indiana | 1.1% | 40 | Montana | 1.3% |
| 41 | Colorado | 0.9% | 41 | Oklahoma | 1.2% |
| 42 | Texas | 0.9% | 42 | South Dakota | 0.9% |
| 43 | Wyoming | 0.8% | 43 | Colorado | 0.9% |
| 44 | North Dakota | 0.8% | 44 | North Dakota | 0.9% |
| 45 | Tennessee | 0.8% | 45 | Wyoming | 0.8% |
| 46 | South Dakota | 0.7% | 46 | Tennessee | 0.8% |
| 47 | Iowa | 0.6% | 47 | Texas | 0.8% |
| 48 | Idaho | 0.3% | 48 | Iowa | .05% |
| 49 | Alaska | 0.3% | 49 | Idaho | 0.5% |
| 50 | Nebraska | 0.1% | 50 | Nebraska | 0.1% |
| | MEAN: | 2.7% | | MEAN: | 3.1% |
| | MEDIAN: | 2.2% | | MEDIAN: | 2.4% |

Source: Moody's Special Comment (April 2001, May 2002, July 2003).

Note: Personal Income figures were released by the U.S. Bureau of Economic Analysis. 2002 percentages are based on 2000 personal income figures, 2001 percentages are based on 1999 personal income; * Issuer rating; ** NGO (No GO rating equivalent requested).

Figure 16: Tax-Supported Debt as a Percent of Personal Income Years, 1992 to 2004



| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|------------------|------|------|------|------|------|-------|------|------|------|------|------|------|------|
| Kansas | 0.50 | 1.30 | 2.00 | 2.10 | 2.00 | 1.90 | 1.70 | 2.00 | 2.40 | 3.10 | 3.00 | 3.00 | 3.30 |
| U.S. Average* | 2.69 | 2.83 | 2.91 | 2.94 | 2.88 | 2.80 | 2.65 | 2.73 | 2.73 | 2.75 | 2.75 | 2.78 | 3.05 |
| Regional Average | 0.55 | 0.55 | 0.65 | 0.68 | 0.60 | 0.635 | 0.53 | 0.58 | 0.61 | 0.75 | 0.85 | 0.88 | 0.65 |
| Triple-A Average | 2.64 | 2.69 | 2.73 | 2.80 | 2.76 | 2.58 | 2.66 | 2.73 | 2.56 | 2.49 | 2.61 | 2.60 | 2.51 |

Source: Moody's Investors Service; * difference between reported U.S. average in Figure 18 and computed mean may be due to rounding off of numbers. Triple-A states vary by year.

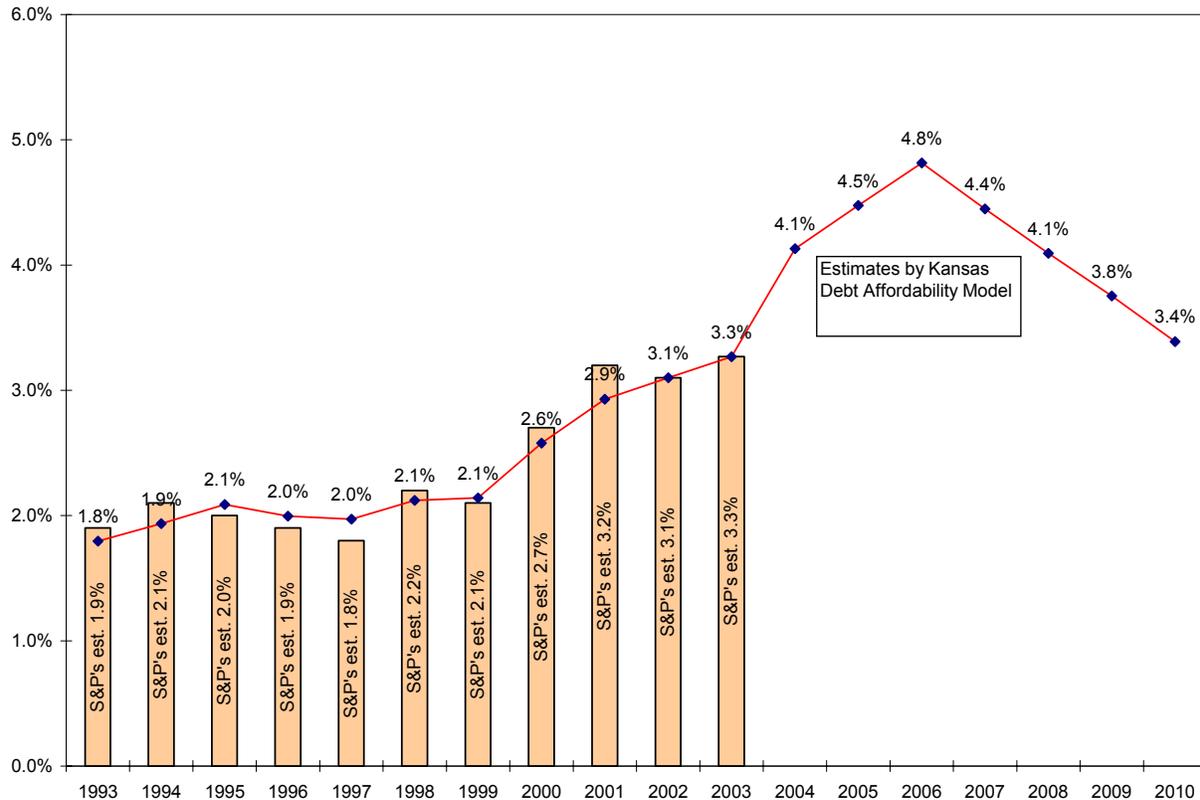
Figure 16 shows annual net tax-supported debt as a percent of personal income for Kansas and three comparison groupings: the U.S. average; the average of the four surrounding states; and, the average of states with the top credit rating. Since 2001, Kansas is the highest of all three groupings, reaching a peak of 3.3 percent in 2004, well above the U.S. average for all states of 3.05 percent, regional average of 0.65 percent, as well as the Triple-A average of 2.51 for the same year. The table also shows two surges of increase corresponding to the implementation timeline of the first major highway program in 1989 and the second Comprehensive Transportation Plan adopted in 1999. While Kansas consistently placed above the regional average since 1992, the state did not exceed the national average until 2001.

Compared to Kansas, the surrounding states of Oklahoma, Missouri, Colorado, and Nebraska all have a lower ranking of net tax-supported debt per capita as a percent of personal income. Based on these figures, the debt burden per individual citizen is higher in Kansas than in the surrounding states. One contributing factor is the State's population, which is among the lowest 20 states in the country. Population impacts a state's infrastructure needs. When consisting of a relatively small percentage of the state's land area, the population bears the heavier debt burden associated with higher infrastructure demands such as miles of roads and bridges. Moreover, the quality of services and infrastructure may differ substantially.

Kansas' higher debt burden is a significant factor in assessing the State's long-term financial health. The State has limited debt capacity in the future since Kansas citizens already pay a larger percentage of their personal incomes for state debt in comparison to other regional states. Carried to an extreme, if debt burden is a

significant factor in citizen decisions pertaining to choice of residence, citizens may decide to vote with their feet or decide to relocate to states associated with less debt. This could potentially worsen the State's financial dilemma. Furthermore, lack of prudent debt policies may lead to uncontrolled debt issuances.

Figure 17: Total Tax-Supported Debt as a Percent of Personal Income, FY 1993 to FY 2003



Source: Standard & Poor's (State Review: Kansas – November 2000, August 2002, November 2004) and Kansas Debt Affordability Model.

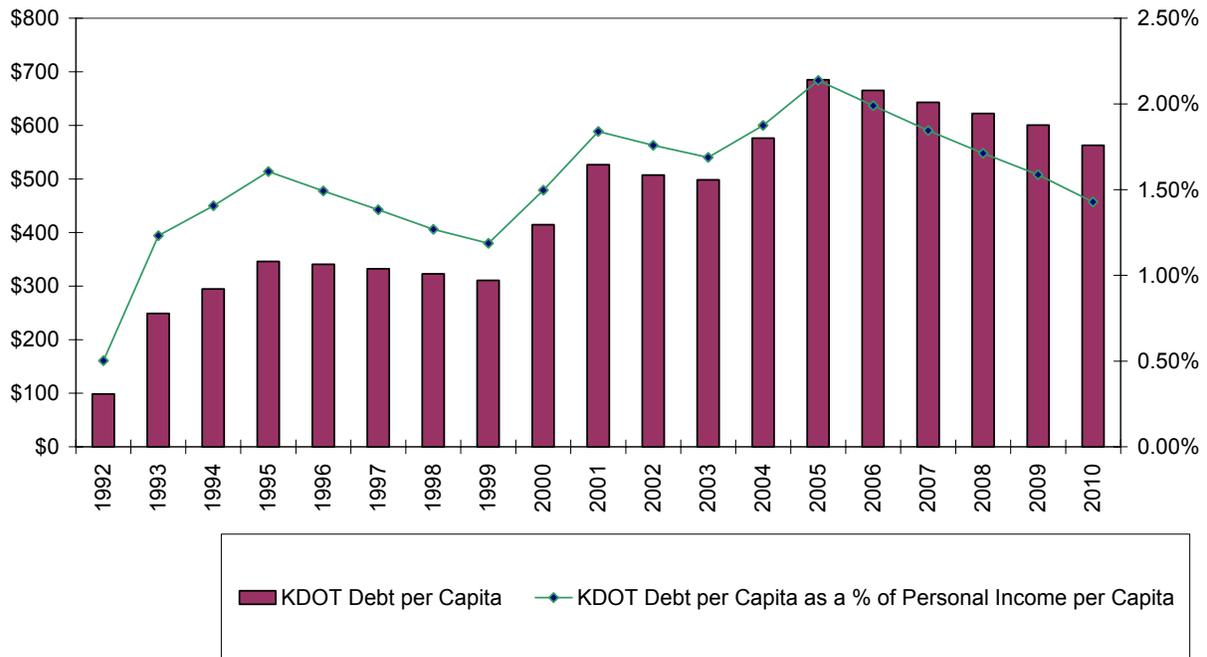
According to Standard & Poor's benchmark, the ratio for per capita debt to income is low at 0 to 3 percent, moderate at 3 to 6 percent, and high at more than 6 percent. Based on Figure 17, Kansas maintained a rate below the 3.0 percent level from 1993 to 2000, although at an increasing rate. Kansas breached the low range in 2001 at 3.2 percent, and the ratio increased to 3.3 percent by 2003. Estimates from the Kansas Debt Affordability Model are similar to the Standard & Poor's amounts, as shown on Figure 17. More recent estimates take Kansas closer to the top end of 'moderate' ratio range (at 4.8% in FY 2006), with the declining trend reflecting no new debt issued thereafter other than debt already authorized.

Since the State government's bond indebtedness is primarily with KDOT, it is reasonable to evaluate transportation debt affordability exclusive of other state programs. The definitive impact of the two KDOT Comprehensive Transportation Programs on KDOT debt levels are illustrated in Figure 19. KDOT debt climbed from \$99 per capita in 1992 to a peak of \$685 per person in FY 2005. Starting at \$415 in FY 2000, debt per capita surged to higher levels than previous years.

Also indicated in Figure 19 is the percentage of personal income devoted to paying for the two Transportation Programs. This trend reveals a similar impact, with KDOT debt representing a growing share of state personal income. While debt per capita stabilized in the late 1990s, as a percent of personal income there was a decline. Thereafter, KDOT debt increased significantly by both measures to implement the State's second comprehensive transportation program. KDOT has exhausted all of the debt issuing authority tied to the State Highway Fund, known as parity debt, so a decline in both measures starts in FY 2006. This is not to imply that there are not additional authorized transportation bond programs. In fact, the Kansas Debt Affordability Model includes three transportation programs supported by general state revenues so they are counted as general government debt. These three "non-KDOT" transportation bonds include \$150 million in highway revenue bonds, \$60 million in federal aid contingency debt, and \$33 million for a transportation revolving loan program for local governments. Given the success of the 1989 highway program and assuming similar success with the 1999 comprehensive transportation program, there is the possibility of another program, perhaps as early as 2009. That possibility is not represented in these estimates.

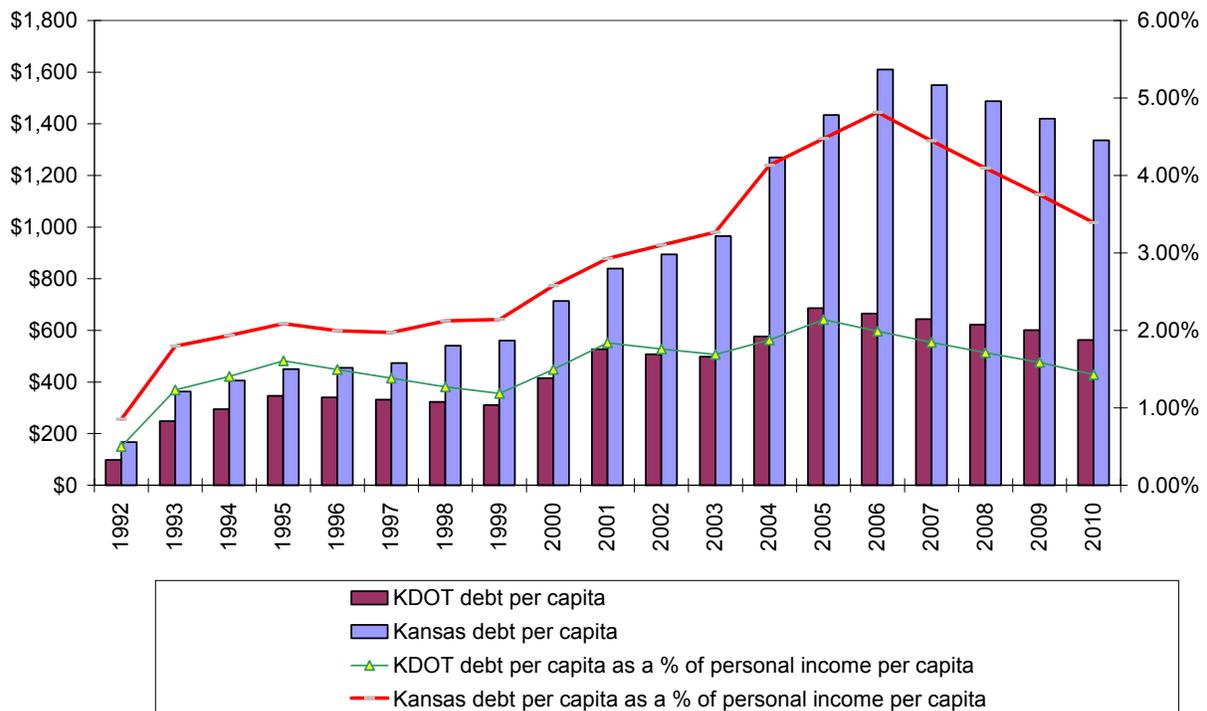
To place KDOT debt in the context of total state debt, Figure 20 shows the significant growth in non-KDOT debt using both measures — per capita and as a percentage of personal income. The non-KDOT growth spurt represents recent debt issued to enhance the Kansas Public Employees Retirement System and the projected debt issuances for the transportation revolving loan program and two types of transportation bonds to be supported by the General Fund instead of the Highway Revenue Fund (which defines the debt labeled here as "KDOT" bonds).

Figure 19: KDOT Debt per Capita and Debt per Capita as a Percent of Personal Income Per Capita, FY 1992 to FY 2010



Source: Kansas Debt Affordability Model.

Figure 20: Comparison of KDOT and Kansas Total Debt per Capita and Debt per Capita as a Percent of Personal Income, FY 1992 to FY 2010

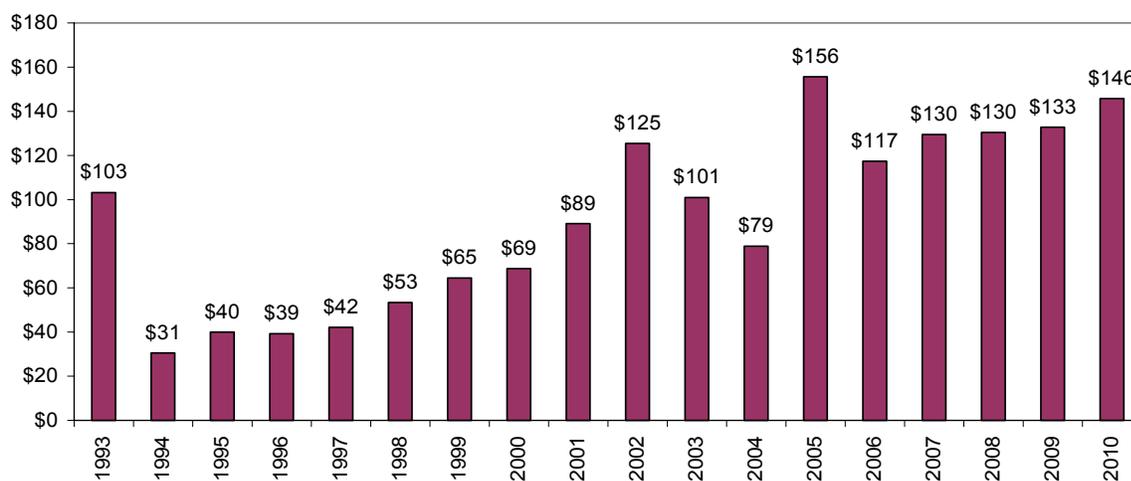


Source: Kansas Debt Affordability Model.

DEBT SERVICE PER CAPITA

Debt service comprises the annual expenditures on interest and principal payments of the State debt. As a component of the operating budget, debt service represents that portion of current resources that are unavailable for other expenditure purposes. A third indicator of debt affordability, **debt service per capita**, measures the annual amount of debt burden of each Kansas citizen, assuming that all taxes and therefore all debt are paid by citizens. Estimates of debt service affordability are solely based on computations from the Kansas Debt Affordability Model. Neither Moody's nor Standard & Poor's publish similar ratios that would allow state comparisons.

Figure 21: Debt Service per Capita, FY 1993 to FY 2010



Source: Kansas Debt Affordability Model.

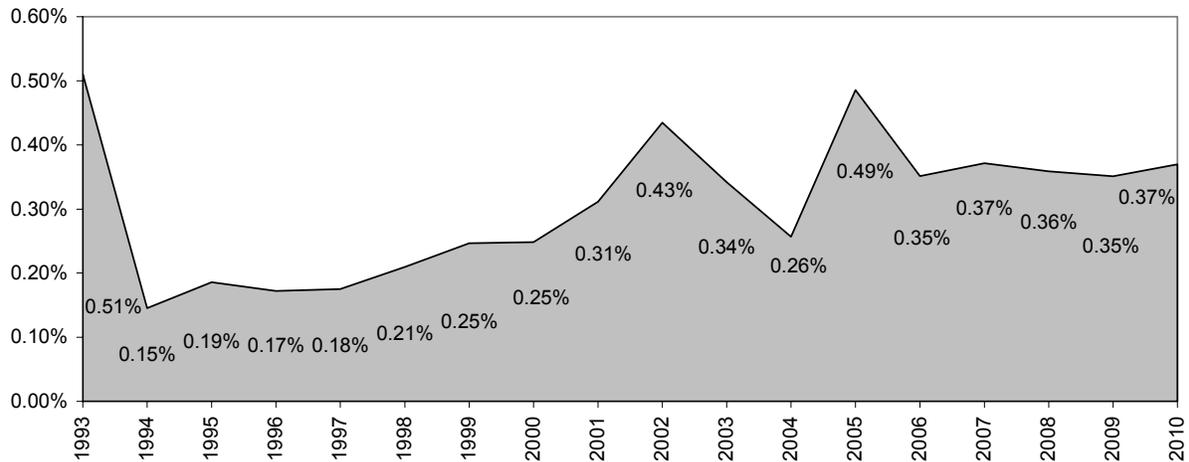
As shown in Figure 21, after starting with large bond redemptions related to refinancing, there was a steady rise in debt service per capita until FY 2002, after which a sharp decline occurred. The decline reflects KDOT bond refinancing. However, this graph only shows the levels of debt service payments and does not take into account the impact of any issued refinancing bonds which may not drive debt service payments up in any one year but which extend the payout period to future years, with the payout period defined as the time it takes to finish making the annual debt service payments on issued debt. Estimates shown in Figure 21 indicate that higher levels of debt service per capita resumed in FY 2005 and are projected to remain in that range given the debt already authorized.

DEBT SERVICE PER CAPITA AS A PERCENT OF PERSONAL INCOME

The fourth indicator of debt affordability used in this study is **debt service per capita as a percent of personal income per capita**. This measure is an extension of the previous measure and incorporates the “ability to pay” component into the evaluation of debt service. The amount Kansans pay for annual interest and principal redemptions on the State’s debt, to a large extent, has depended on the State’s level of investment in its transportation programs, but this is changing as the non-KDOT debt service increases. Figure 22 shows that the debt service per capita as a percent of

personal income per capita continually increased until FY 2000, prior to a sharp decline in FY 2004. The refinancing of KDOT bonds prompted this decrease, and in FY 2005 the figure is already higher than the FY 2002 level. From July 1, 1993 to June 30, 2005, Kansas residents experienced a 250 percent increase in the share of personal income devoted to state debt service. Little relief is expected over the planning period covered by the Kansas Debt Affordability Model.

Figure 22: Debt Service per Capita as a Percent of Personal Income per Capita FY 1993 to FY 2010



Source: Kansas Debt Affordability Model.

DEBT SERVICE AS A PERCENT OF GENERAL FUND REVENUES

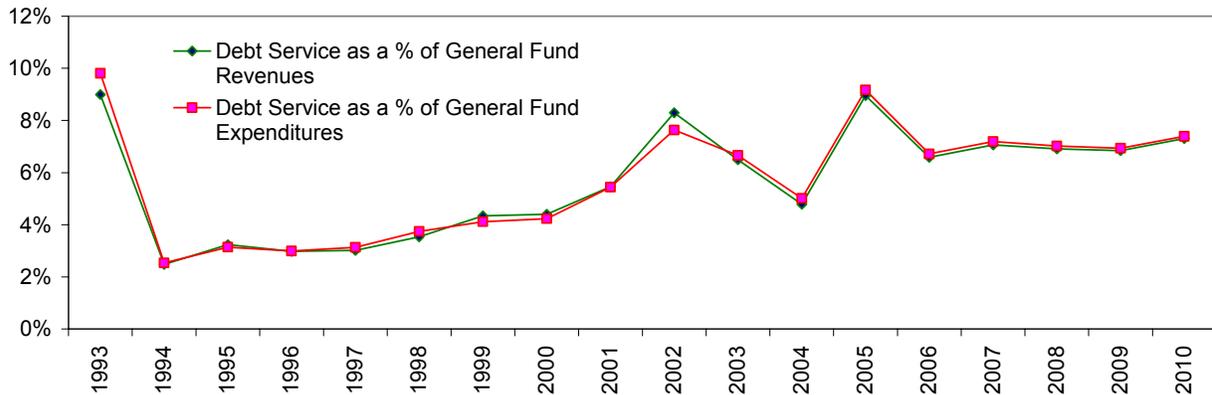
The fifth measure used in this study is **debt service as a percent of general fund revenues** which attempts to measure the percentage of the State's budget devoted to debt service. This measure explores the impact debt service has on the State's operating budget as though Kansas issues General Obligation rather than revenue bonds. This measure constitutes a hypothetical case for Kansas, although net-tax supported debt calculations make similar assumptions. Nonetheless, the 2004 legislature authorized K DFA to issue General Fund backed bonds in the amount of \$150 million for KDOT projects and \$60 million in federal aid contingency bonds.

A higher percentage of the budget devoted to debt service entails less financial flexibility for the State to respond to economic slowdowns, unexpected expenditures, or changes in budget priorities. Pressure on the State General Fund comes not only from the related debt service on long-term debt, but also the debt service on short-term obligations. For example, budget pressures on the 'cash-poor' General Fund have led state officials to 'borrow' from the 'cash-rich' State Highway Fund (SHF) which supports KDOT debt. In fact, the State's audited financial statements for FY 2004 reveals \$450 million in a short-term certificate of indebtedness of the General Fund that was subject to payment to the SHF no later than June 30, 2005.⁶⁹ Such actions may help the General Fund in the short-run deal with liquidity problems, but these inter-fund borrowings can reduce flexibility in both the General Fund and the SHF, as one has to

⁶⁹ State of Kansas, 2004 Comprehensive Annual Financial Report; <http://da.state.ks.us/ar/finrept/cafr04.pdf>

repay the bonds from scarce dollars while the other fund has less funds to use for the allocated program.

Figure 23: Debt Service as a Percent of General Fund Revenues and Expenditures, FY 1993 to FY 2010



Source: Kansas Debt Affordability Model.

Credit analysts and rating agencies consider the debt burden to be moderate when debt service as a percentage of revenue is 5 percent, with less than 5 percent constituting a low level. Fitch Ratings Service, a third credit rating agency, notes that the upper limit for total debt service as a percentage of revenue ratio is between 8 and 10 percent, and that the average of all states is closer to between 2 and 5 percent. In comparison, Moody's recently calculated this ratio at 4.41 percent for the 50 states.

Figure 23 reports all of the State's debt service as a percentage of General Fund revenues.⁷⁰ A high ratio would be expected since the revenues assigned to the State Highway Fund are not reflected in General Fund revenue totals. If, however, the General Fund had to support all of the debt, there would be a significant loss of flexibility for the General Fund to cover all other state programs.

An alternative approach is to remove KDOT debt since it is supported by the State Highway Fund. The same growing trend appears, but the ratios drop accordingly. As displayed in Figure 24, non-KDOT debt falls into the so-called 'low' range of debt service burden when measured as a percentage of General Fund revenues.

⁷⁰ State General Fund revenues and expenditures were obtained from the FY 2006 State Budget as updated by the Consensus Estimating Group, with forecasts for FY 2007 to 2010 based on the prior ten year compound annual growth rate of 3.31 percent for revenues and 3.54 percent for expenditures.

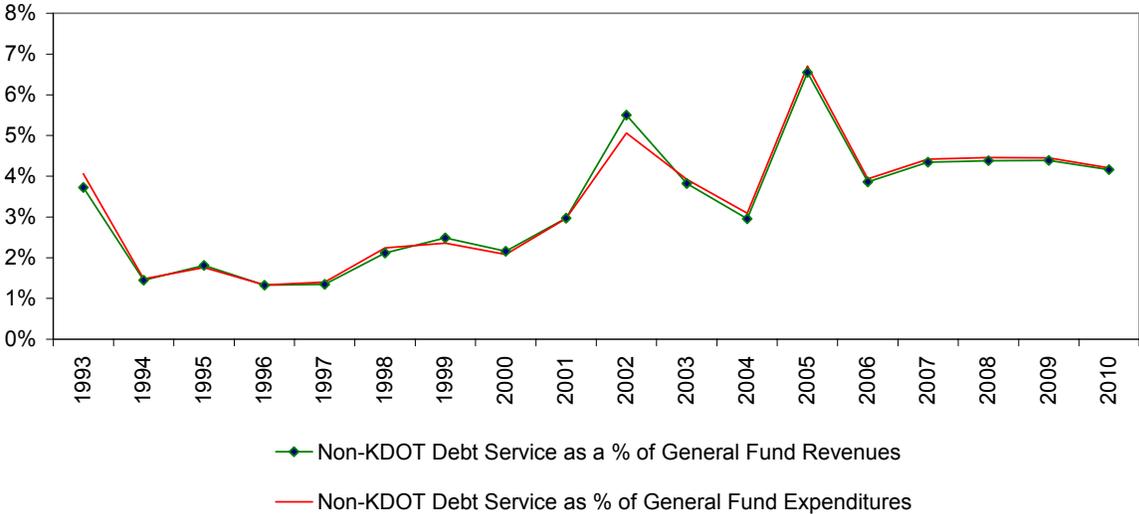
DEBT SERVICE AS A PERCENT OF GENERAL FUND EXPENDITURES

Measuring **debt service as a percentage of general fund expenditures** assesses the relative burden of debt service on state finances. Debt service is an expenditure that will not go away or cannot be deferred. Thus, this measure explores the impact debt service has on the State’s operating budget as though Kansas issues General Obligation bonds instead of revenue bonds. While the General Fund may not have the legal obligation to pay for a portion of the current State debt, in a worse case scenario in which the State cannot practically pay any of its debt through earmarked revenues, the bond market may expect the State to pay bond investors from the General Fund. Refusing this last recourse could yield significant market repercussions such as the State being “frozen out” of the debt market on the basis of “unwillingness to pay” even though the State may not have the legal duty to pay the revenue bond debt.

Debt service as a percentage of General Fund expenditures gives an immediate indication of whether the State can afford more debt without giving up something in terms of other government programs and services. As illustrated in Figure 23, the State’s total debt service as a percent of General Fund expenditures approaches 7.5 percent at the end of the planning period from a low of 2.5 percent in FY 2004. Comparing the revenue and expenditure trend lines for all state debt reveals the balanced budget rule that dominates state budget policy.

Again, by removing KDOT debt service from the calculation (as done in Figure 24), the ratio of debt service to General Fund expenditures falls to a lower ratio. The General Fund revenue and expenditure ratio trends show the balanced budget rule.

Figure 24: Non-KDOT Debt Service as a Percent of General Fund Revenues and Expenditures, FY 1993 to FY 2010

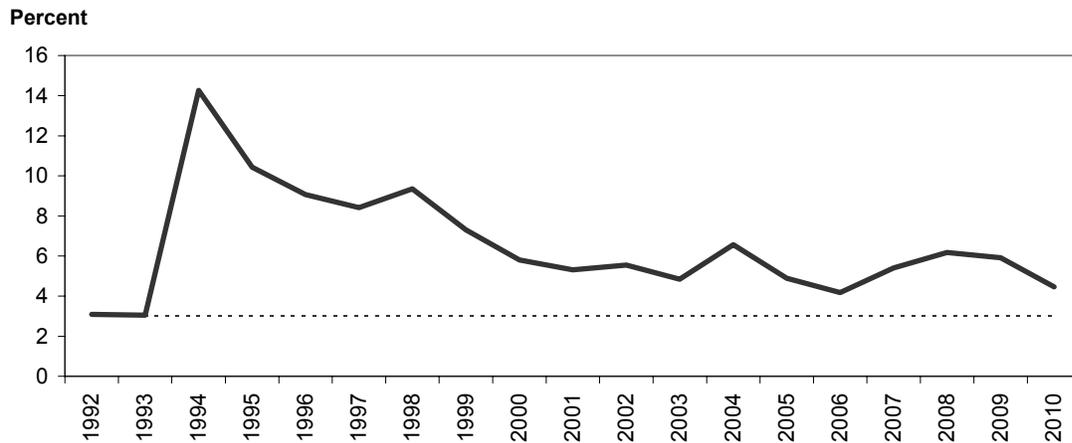


Source: Kansas Debt Affordability Model.

DEBT SERVICE COVERAGE

The last affordability measure used in this study is KDOT **debt service coverage**. KDOT bond covenants established a minimum of 300 percent or 3.0 coverage ratio which is determined by dividing total revenues – less any Federal and local reimbursement moneys received – by total debt service.⁷¹ Figure 25 reports a decline in the debt coverage ratio from a high point in FY 1994 to levels now reflecting the fact that all the KDOT-authorized bonds have been issued.

Figure 25: KDOT Debt Service Coverage, FY 1992 to FY 2010



Source: Kansas Debt Affordability Model.

⁷¹ State Highway Fund revenues amounts were obtained from the Official Statements prepared in conjunction with Series 1994A and 2004C bonds, with 2010 revenues assumed to be the same amount as in 2009.

VII. DEBT POLICY SUGGESTIONS

Kansas does not have a formal set of debt policies but relies on “rules-of-thumb” or practices commonly used over a period of time and on unconsolidated debt policies. However, debt should be the result of careful planning.

The first part of this section reviews the types of debt policies and related practices that can enhance a state’s approach to debt management. Then, state approaches to debt affordability are presented as frameworks to consider.

BEST PRACTICES

Central to best practice planning is thinking through the goals of debt issuance, and developing guidelines to follow in debt issuance and management. Many debt policy statements include most of the following elements:⁷²

- Capital improvement program. *Ensure that debt-supported projects fit within multiyear plan.*
- Citizen participation. *Address participation by citizens in the debt planning process.*
- Project life. *Tie debt to economic life of a project.*
- Legal limits. *Isolate any legal restrictions.*
- Use of short-term debt. *Specify conditions for use of debt of one year or less.*
- Use of variable-rate debt. *Address conditions when, and if, it is appropriate to use variable interest-rate obligations.*
- General obligation security. *Clarify when the full faith and credit can be extended.*
- Revenue security. *Identify when pledges of dedicated revenues can be made.*
- Interest rates. *Specify any limits on the use of variable rates instead of fixed rates.*
- Lease arrangements. *Clarify conditions for use of lease-purchase and other lease arrangements, including appropriation debt.*
- Conduit bonds. *Provide criteria for serving as conduit issuer.*
- Taxable bonds. *Identify any limits on the use of taxable debt.*
- Debt service constraints. *State the policy on structure options, such as level debt service or level principal.*
- Maturity. *State payout period in average length of maturity.*
- Redemption features. *Clarify the use of options.*
- Credit enhancement. *Establish criteria for use of bond insurance.*
- Liquidity providers. *Establish criteria for use of letter of credit and other liquidity providers.*
- Derivatives. *Specify conditions for use of derivative products.*
- Credit objective. *Maintain or improve the external credit rating.*
- Debt capacity. *Set the terms for internal debate on what is affordable.*
- Debt coordination. *Clarify any work with overlapping and underlying debt issuers to coordinate debt plans to temper joint debt appetite.*
- Competitive sales. *Give preference for competitive sales.*
- Negotiated sales. *Specify conditions under which negotiated sales can occur.*

⁷² W. Bartley Hildreth. *State & Local Government Debt Issuance and Management Service: Volume 1*, (Austin, TX: Sheshunoff Information Service, Inc., 2004).

- Winning price. *Evaluate and select winning bid based on “true interest cost.”*
- Use of financial advisor. *Specify conditions when independent financial advisors will be used to help with debt issuance.*
- Selection of outside professionals. *Provide criteria and method for selection of bond counsel, financial adviser, underwriter, trustee, and other professionals hired to assist in the transaction.*
- Refunding criteria. *Clarify criteria to be used in evaluating a proposal to re-issue debt.*
- Primary market disclosure. *Recognize the obligations under applicable securities laws, bond undertaking agreements, and market expectations.*
- Secondary market disclosure. *State the legal necessity of making event notices and the obligation to make continuing disclosure.*
- Investor relations. *Identify the contact person for investors.*
- Arbitrage compliance. *State the necessity to meet tax law regarding arbitrage rules.*
- Investment of proceeds. *Translate tax laws into spend-down policy.*
- Responsibility. *Assign responsibility for all elements of debt policy.*
- Adoption of debt policy. *Announce obligation to get legislative approval of debt policies.*
- Monitoring and revising policy. *Provide for ongoing review and revision, as necessary, of debt policy.*

Prudent debt policies promote sound credit quality and help gain political acceptance for debt activity. Such guidelines should fit within the government’s overall financial policies. Given their importance, the legislative body should formally adopt the comprehensive debt policy.

The credit rating agencies also disseminate information to investors and issuers outlining how they establish credit ratings. Standard & Poor’s, in particular, stated that best practices make a difference and proceeded to list what it considers best practices.⁷³

1. Establish or enhance rainy day/budget stabilization reserves. A formalized financial reserve policy is a consistent feature of most highly rated credits.
2. Establish regular economic and revenue reviews to identify potential budget problems early. Establish a formal mechanism to monitor economic trends and revenue performance at regular intervals.
3. Prioritize spending plans and establish contingency plans for operating budgets as a fallback financial strategy. What is done with surplus funds can be as important as how shortfalls are addressed.
4. Have a formalized capital improvement plan in order to assess future infrastructure requirements.
5. Establish a debt affordability model to evaluate future debt profile.
6. Develop a pay-as-you-go financing strategy as part of the operating and capital budget.

⁷³ Standard & Poor’s. “Top 10 Ways to Improve or Maintain A Municipal Credit Rating” (February 4, 2002).

7. Consider the affordability of actions or plans before they become part of the budget by analyzing revenue and spending as part of a multi-year financial plan.
8. Long-term planning for all liabilities of a government, including pension obligations and contingent liabilities, allows comprehensive assessment of future budgetary risks.
9. Establish and maintain effective management systems.
10. Have a well-defined and coordinated economic development strategy.

Fitch also specified best practices that have significant rating value for governments. Fitch calls for:⁷⁴

1. Fund balance reserve policy and working capital reserves
2. Multiyear financial forecasting
3. Quarterly financial reporting and monitoring
4. Contingency planning policies
5. Policies regarding nonrecurring revenue
6. Depreciation of general fixed assets
7. Debt affordability reviews and policies
8. Pay-as-you-go capital funding policies
9. Rapid debt retirement policies greater than 65 percent in 10 years
10. Five-year capital improvement plan integrating operating costs
11. Comprehensive Annual Financial Report Award from the Government Finance Officers Association (GFOA)
12. Budget presentation award from GFOA

Moody's Investor Service, in another perspective, identified the following potential signs of credit distress:⁷⁵

1. Declines or large swings in collection of economically sensitive taxes (e.g. sales and income tax collections)
2. Trend of operating losses; fund balance draw down
3. Declining financial margins
4. Deficit ending fund balance
5. Increasing reliance on operating transfers
6. Rising mandated or fixed cost as a percentage of budget
7. At or close to tax ceiling (no margin)
8. Increasing employee benefits
9. Pension deferrals or assumption changes
10. Decreasing capital project outlay
11. Self-insured with no corresponding reserves
12. Significant litigation or settlement
13. Sale of asset for operating revenue

⁷⁴ FitchRatings Public Finance. "Tax Supported Special Report: Local Government General Obligation Rating Guidelines" (May 23, 2000).

⁷⁵ Moody's Investors Service, Municipal Credit Research, Special Comment. "The Determinants of Credit Quality: A discussion of Moody's Methodology for Rating General Obligation, Lease-Backed and Revenue Bonds," (May 2002).

14. Interest earnings as a percentage of cash on hand
15. Current tax collections less than 95% of declining trend
16. Declining taxable values
17. Loss of major employer
18. Sharply increased debt obligations
19. Debt structure not consistent with useful life of financed asset

STATE DEBT CAPACITY APPROACHES

A review of other state government debt affordability reports finds confirmation that the debt ratios introduced earlier are employed in other states. States place targets and ceilings on some of the ratios. For example, several states set the target of debt service as a percent of revenues at 5 percent, with ceilings ranging from 6 to 8 percent. Another ratio used is the percent of debt paid in 10 years, coupled, for example, with a minimum ratio of 50 percent. Rapid debt repayment pushes up the debt service during the years that the debt is outstanding, but it preserves future debt capacity. At least one state requires that new debt authorizations will not be greater than redemptions. This policy requires tough tradeoffs yearly.

For comparison purposes, the following statements on debt management from other states are included to illustrate possible models for Kansas to follow in fashioning an ongoing systematic approach to debt affordability.

North Carolina



In the five years before 2003, North Carolina's total general fund supported debt grew seventy-five percent and annual debt service payments doubled. Still, the State had a relatively low debt burden. Moreover, it enjoyed Triple-A status by two of the three bond rating agencies, while losing its Triple-A rating from Moody's Investors Service in 2002.

Despite this outstanding bond reputation, North Carolina had no concrete plans for how much debt it should issue or what types of capital projects were most beneficial. To address this oversight, the elected State Treasurer prepared the state's first Debt Affordability Study in 2003. The study charted the State's past and projected state indebtedness and made recommendations for mapping a future course. The study provided a methodology for measuring, monitoring and managing that State's debt capacity.

The State Treasurer established a debt affordability advisory committee and a capital project advisory board to plan for North Carolina's future with a long-term perspective. He called for a high level, thoughtful and non-partisan discussion of North Carolina's infrastructure needs. The 2003 report suggested the need for debate on the

best way to finance the top-ranked capital needs. To the State Treasurer, implementing a best practices model for state capital planning was not only prudent given the trend of increasing the debt load, but was viewed as a way to send a positive signal to the credit rating agencies.

In response to these initiatives, the North Carolina General Assembly took the next step by enacting legislation in 2004 creating a Debt Affordability Advisory Committee to annual advise the Governor and the Legislature on the estimated debt capacity for the upcoming ten fiscal years. The State of North Carolina's third debt affordability study, and its first under the following statutory arrangement, was issued in February 2005.⁷⁶

§ 142-101. Debt Affordability Advisory Committee.

(a) Membership. – The Debt Affordability Advisory Committee is created in the Department of State Treasurer. The Committee shall consist of five ex officio members or their designees and four appointed members, as follows:

- (1) The State Treasurer.
- (2) The Secretary of Revenue.
- (3) The State Budget Officer.
- (4) The State Auditor.
- (5) The State Controller.
- (6) Two members of the public appointed by the President Pro Tempore of the Senate.

Commonwealth of Virginia⁷⁷



(A) *The following are debt policies embodied in the Commonwealth of Virginia Constitution:*

§9(b) of Article X of the Constitution permits the General Assembly to authorize general obligation debt for capital projects distinctly specified in the law authorizing the same. The debt must be authorized by the affirmative vote of a majority of the members elected to each house of the General Assembly, and the law authorizing the

⁷⁶ State of North Carolina, Debt Affordability Study (February 1, 2005); <http://www.treasurer.state.nc.us/NR/rdonlyres/EEF38729-4445-4B9D-8C45-71194E7CF198/0/DebtStudy13105FINAL.pdf>.

⁷⁷ Debt Capacity Advisory Committee, "Parameters of the Debt Capacity Model" December 22, 2000; Secretary of Finance, "An Assessment of Debt Management in Virginia," 1990; Code of Virginia, <http://leg1.state.va.us/cgi-bin/legp504.exe?000+cod+TOC>, accessed August 25, 2003; and, the most recent report is available at this address: http://www.trsvirginia.gov/documents/debt/DCARReport_2004.pdf.

debt cannot take effect until it has been submitted to the voters of the Commonwealth and approved by a majority of those voting thereon.

§9(c) of Article X of the Constitution permits the General Assembly to authorize debt secured by a pledge of net revenues derived from rates, fees or other charges and the full faith and credit of the Commonwealth for specific revenue-producing capital projects distinctly specified in the law authorizing the same. The debt must be authorized by the affirmative vote of two-thirds of the members elected to each house of the General Assembly. Before any such debt shall be authorized by the General Assembly, and again before it shall be incurred, the Governor shall certify in writing his opinion, based on reasonable engineering and economic estimates, that the anticipated net revenues to be pledged to the payments on such debt will be sufficient to meet such payments.

(B) The Code of Virginia contains the following selected debt policies:

The Governor may contract debts and issue obligations in evidence thereof upon the terms and conditions determined by the Governor to meet casual deficits in the revenue or in anticipation of the collection of revenues of the Commonwealth for the then current fiscal year within the amount of authorized appropriations, subject to the limitations and conditions of Article X, Section 9 (a) (2) of the Constitution of Virginia. The Governor may sell such obligations in a manner, either at public or private sale, and for a price as he determines to be in the best interests of the Commonwealth. (§ 2.2-4900. Authority of Governor to contract debts)

Notwithstanding any provision contained in any general or special law or in any charter of any county, city or town of the Commonwealth, any rating of bonds issued by a governmental instrumentality shall be provided by a bond rating agency approved by the State Treasurer.(§ 2.2-4902. Ratings of bonds issued by governmental instrumentalities.)

Prior to the Governor recommending any new tax-supported debt, which is defined as debt for which the debt service payments are expected to be made, in whole or in part, from appropriations of the Commonwealth, the Governor shall consider the maximum amount of debt recommended as prudent for the subject biennium by the Debt Capacity Advisory Committee created pursuant to § 2.2-2712. (§ 2.2-4903. Governor's consideration of tax-supported debt.)

The Committee shall have the power and duty to:

1. Annually review the size and condition of the Commonwealth's tax-supported debt and submit to the Governor and to the General Assembly an estimate of the maximum amount of new tax-supported debt that prudently may be authorized for the next biennium. The estimate shall be advisory and in no way bind the Governor or the General Assembly;
2. Annually review the amount and condition of bonds, notes, and other security obligations of the Commonwealth's agencies, institutions, boards, and authorities, for

which the (i) Commonwealth has a contingent or limited liability or (ii) General Assembly is permitted to replenish reserve funds if deficiencies occur, and submit to the Governor and the General Assembly an annual report with the Committee's recommendation to ensure the prudent use of such obligations. Such review shall be submitted on or before January 1 of each year; and

3. Conduct ongoing reviews of the amount and condition of bonds, notes, and other security obligations of the Commonwealth's agencies, institutions, boards, and authorities not secured by the full faith and credit of the Commonwealth or for which the General Assembly is not permitted to replenish reserve funds, and when appropriate, shall recommend limits on such additional obligations to the Governor and to the General Assembly. (§ 2.2-2713. Powers and duties of the Committee)

Before January 1 of each year, the Committee shall submit to the Governor and to the General Assembly the Committee's estimate of tax-supported debt that prudently may be authorized for the next fiscal year, together with a report explaining the basis for the estimate. In developing its annual estimate and in preparing its annual report, the Committee shall, at a minimum, consider:

- a. The amount of tax-supported debt that, during the next fiscal year and annually for the following nine fiscal years (i) will be outstanding and (ii) has been authorized but not yet issued;
- b. A projected schedule of affordable, state tax-supported debt authorizations for the next biennium. The assessment of the affordability of the projected authorizations shall include but not be limited to the considerations specified in this section;
- c. Projected debt-service requirements during the next fiscal year and annually for the following nine fiscal years based upon (i) existing outstanding debt, (ii) previously authorized but unissued debt, and (iii) projected bond authorizations;
- d. The criteria that recognized bond rating agencies use to judge the quality of issues of Commonwealth bonds;
- e. Any other factor that is relevant to (i) the ability of the Commonwealth to meet its projected debt service requirements for the next two fiscal years; (ii) the ability of the Commonwealth to support additional debt service in the upcoming biennium; (iii) the requirements of the statewide capital plan; and (iv) the interest rate to be borne by, the credit rating on, or any other factor affecting the marketability of such bonds; and the effect of authorizations of new tax-supported debt on each of the considerations of this section. (§ 2.2-2714. Estimated amount of prudent tax-supported debt; affordability considerations.)

State of Maryland⁷⁸



The State of Maryland Capital Debt Affordability Committee was authorized in 1978 (Chapter 43, Acts of 1978) due to a large increase in debt during the 1970s and the release of a two-year study on the state's debt by the Legislature's research entity. On a continuing basis, the Committee reviews the size and condition of the State tax-supported debt.... Annually, the Committee submits to the Governor and the General Assembly its estimate of the maximum amount of new general obligation debt that prudently may be authorized for the ensuing fiscal year. In making this estimate, the Committee considers:

- 1) The amount of general obligation debt that will be issued and outstanding during that next fiscal year;
- 2) The amount of general obligation debt that will be authorized but unissued during such fiscal year;
- 3) The capital program plan prepared by the Department of Budget and Management for the ensuing five fiscal years;
- 4) Projections of school construction and capital improvement needs prepared by the Interagency Committee on School Construction for the ensuing five fiscal years;
- 5) Projections of debt service requirements for the ensuing ten fiscal years;
- 6) Other factors relevant to the ability of the State to meet its projected debt service requirements for the ensuing five years;
- 7) Criteria established or used by recognized bond rating agencies in judging the quality of State bond issues;
- 8) Other factors relevant to the marketability of State bonds; and
- 9) The effect of additional debt authorizations on each of the factors enumerated above.

The Committee's estimate is advisory and not binding upon the Governor, the Board of Public Works, or the General Assembly. The Committee has four ex officio

⁷⁸ State of Maryland official website <http://www.state.md.us>; and, the most recent report is available at this address: http://www.treasurer.state.md.us/reports/2004_CDAC_Report.pdf.

members and one member appointed by the Governor. The State Treasurer is the chair (Code State Finance & Procurement Article, secs. 8-104 through 8-116).

The primary debt policy of the State of Maryland is found in its Constitution (Article 3, sec. 34):

- 1) No debt shall be hereafter contracted by the General Assembly unless such debt shall be authorized by a law providing for the collection of an annual tax or taxes sufficient to pay the interest on such debt as it falls due, and also to discharge the principal thereof within fifteen years from the time of contracting the same;
- 2) And the taxes laid for this purpose shall not be repealed or applied to any other object until the said debt and interest thereon shall be fully discharged. The annual tax or taxes required to be collected shall not be collected in the event that sufficient funds to pay the principal and interest on the debt are appropriated for this purpose in the annual State budget.
- 3) The credit of the State shall not in any manner be given, or loaned to, or in aid of any individual association or corporation;
- 4) Nor shall the General Assembly have the power to involve the State in the construction of works of internal improvement which shall involve the faith or credit of the State, except in aid of the construction of works of internal improvement in the counties of St. Mary's, Charles and Calvert, which have had no direct advantage from such works as have been heretofore aided by the State; and provided that such aid, advances or appropriations shall not exceed in the aggregate the sum of five hundred thousand dollars.
- 5) And they shall not use or appropriate the proceeds of the internal improvement companies, or of the State tax, now levied, or which may hereafter be levied, to pay off the public debt or to any other purpose until the interest and debt are fully paid or the sinking fund shall be equal to the amount of the outstanding debt;
- 6) But the General Assembly may authorize the Board of Public Works to direct the State Treasurer to borrow in the name of the State, in anticipation of the collection of taxes or other revenues, including proceeds from the sale of bonds, such sum or sums as may be necessary to meet temporary deficiencies in the treasury, to preserve the best interest of the State in the conduct of the various State institutions, departments, bureaus, and agencies during each fiscal year.
- 7) Subject to the approval of the Board of Public Works and as provided by law, the State Treasurer is authorized to make and sell

short-term notes, in the name of the State, in anticipation of the collection of taxes or other revenues, including proceeds from the sale of bonds to meet temporary deficiencies in the Treasury, but such notes must only be made to provide for appropriations already made by the General Assembly.

- 8) Any revenues anticipated for the purpose of short-term notes, made and sold under the authority of this section, must be so certain as to be readily estimable as to the time of receipt of the revenues and as to the amount of the revenues.
- 9) The General Assembly may contract debts to any amount that may be necessary for the defense of the State, and provided further that nothing in this section shall be construed to prohibit the raising of funds for the purpose of aiding or compensating in such manner or way as the General Assembly of the State shall deem proper, those citizens of the State who have served, with honor, their Country and State in time of War; provided, however, that such action of the General Assembly shall be effective only when submitted to and approved by a vote of the people of the State at the General Election next following the enactment of such legislation (*amended by Chapter 327, Acts of 1924, ratified Nov. 4, 1924; Chapter 234, Acts of 1959, ratified Nov. 8, 1960; Chapter 372, Acts of 1972, ratified Nov. 7, 1972; Chapter 551, Acts of 1976, ratified Nov. 2, 1976; Chapter 600, Acts of 1982, ratified Nov. 2, 1982*).

State of Washington⁷⁹



Delegation of Authority

The State of Washington Finance Committee was created by an act of the Washington State Legislature (Laws of 1921, ch. 7, sec. 4) codified as section 43.17.070 of the Revised Code of Washington (RCW). Bonds, notes or other evidences of indebtedness shall be issued by the state finance committee. RCW 39.42.020.

Three constitutional officers serve as members of the finance committee: The state treasurer, the lieutenant governor, and the governor. RCW 43.33.010. The state treasurer shall act as chairman of the committee, RCW 43.33.040, and

⁷⁹ Debt Issuance Policy, <http://tre.wa.gov/BondDebt/dipolicy.htm>, accessed September 29, 2003

shall provide administrative and clerical assistance as appropriate. RCW 43.33.030.

Appointment of Legal Counsel

All debt issued by the finance committee will include a written opinion by legal counsel affirming that the state is authorized to issue the proposed debt, that the state has met all state constitutional and statutory requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. This approving opinion and other documents relating to the issuance of debt will be prepared by nationally recognized private counsel with extensive experience in public finance and tax issues. The counsel will be appointed by the attorney general to serve as special assistant attorneys general pursuant to chapter 43.10 RCW.

The attorney general will maintain a current roster of Washington State lawyers with extensive experience in municipal finance. The appointment of special assistant attorneys general for a particular sale of debt generally will be rotated among lawyers listed on the roster maintained by the attorney general. Compensation will be based on a fixed fee schedule and will vary based on the size of the debt issuance.

For any negotiated sale of state debt in which legal counsel is required to represent an underwriter, the appointment will be made by the lead underwriter. Unless otherwise justified, the appointment will be made from among nationally recognized law firms with significant local ownership or operations in Washington State.

Appointment of Fiscal Agent

In accordance with chapter 43.80 RCW, the finance committee will appoint a fiscal agent (or agents) to provide for the payment of debts incurred by the state and its subdivisions. The selection of a fiscal agent will be based on a competitive evaluation of proposals submitted in response to a regularly issued request for proposals.

The state treasurer will submit to the finance committee a recommendation for the appointment of a fiscal agent (or agents). The recommendation will be accompanied by an evaluation of options and a justification for the recommended course of action. Appointment of the fiscal agents will be made by a resolution duly adopted by the finance committee. The state treasurer will monitor the services rendered by the state's fiscal agent (or agents) to ensure prompt, efficient service to bond issuers and bondholders.

Issuance Policies

In accordance with the finance committee's responsibility to establish the method and manner of sale of state debt, all state debt will be issued subject to the following policies:

Conditions of Sale

Unless otherwise justified, the issuance and sale of all state bonds, notes, and other evidences of indebtedness will be subject to the following conditions:

1. the payment of debt will be assured by the full faith, credit, and taxing power of the state;
2. the payment of principal and interest on the debt will be in approximately equal dollar amounts from one year to the next;
3. the debt incurred will be limited to obligations with serial or term maturities; and,
4. the life of the debt incurred will be no greater than the projected life of the assets being financed.

The above conditions may not apply to some types of debt. Examples include, but are not limited to, debts secured by specific sources of revenue and those with maturities of one year or less.

Any recommendation submitted to the finance committee by the state treasurer will include an evaluation of the attendant costs and risks associated with the proposal. Costs to be evaluated include, but are not limited to, letters of credit, call options, underwriting or remarketing fees, legal representation, insurance, and administrative requirements. Risks to be evaluated include, but are not limited to, interest rate risk, counterparty risk, credit facility rollover or renewal risk, clearance risk, and tax law risk.

Methods of Sale

Presumption of Competitive Sale

Unless otherwise necessary to minimize the costs and risks of state borrowing, all fixed rate state debt will be sold by sealed competitive bid. Any competitive sale of state debt will require approval by the finance committee of two written resolutions. The first, "authorizing", resolution will provide for the issuance and sale of the debt, set forth the terms and conditions of the sale, and direct the state treasurer to make the necessary preparations for receiving competitive bids.

State debt issued by sealed competitive bid will be sold to the bidder proposing the lowest true interest cost to the state, provided the bid conforms to the official notice of sale issued in accordance with the authorizing resolution. The second, "performance," resolution will accept the winning bid and direct the state treasurer to take whatever actions are necessary to complete the issuance and delivery of the duly authorized debt.

Conditions of Negotiated Sale

When necessary to minimize the costs and risks of state borrowing, the finance committee will provide for the sale of state debt by negotiating the terms and conditions of sale, including prices, interest rates, credit facilities, underwriting or remarketing fees, and commissions. Examples of such sales include:

1. variable rate demand obligations;

2. an issue of debt so large that the number of potential bidders would be too limited to provide the state with truly competitive bids;
3. an issue of debt requiring the ability to react quickly to sudden changes in interest rates (e.g., refunding bonds);
4. an issue of debt requiring intensive marketing efforts to establish investor acceptance (e.g.: lease/purchase certificates of participation, proprietary or innovative financial products, certificates of indebtedness); and,
5. an issue of debt with specialized distribution requirements (e.g., bonds sold only to Washington residents).

Any negotiated sale of state debt will require approval by the finance committee of two written resolutions, except for variable rate financings which only require an authorizing resolution. The authorizing resolution will provide for the issuance and sale of the debt and permit the state treasurer to conduct negotiations. Documentation supporting the authorizing resolution will be provided to the finance committee and will include the goals and limitations of the proposed sale, as well as an explanation of the reasons why a negotiated sale is justified. The performance resolution will be a recommendation to approve a negotiated sale of state debt and will include the terms and conditions of the sale. Accompanying documentation will be provided by the state treasurer setting forth a justification of the recommended course of action consistent with the enabling resolution. If approved, the state treasurer will execute a purchase contract in accordance with the performance resolution.

Appointment of Underwriters

To provide for the negotiated issuance of state debt, the finance committee directs the state treasurer to appoint a pool of qualified underwriters. The appointments will be based on a competitive evaluation of objective criteria submitted in response to a regularly issued request for qualifications. Appointments to the pool will be effective for a specified period of time. Among underwriters appointed to the pool, the best qualified firms will be designated as lead underwriters.

Criteria to be used in the appointment of qualified underwriters will include:

1. demonstrated ability to manage a number of firms in a complex financial transaction;
2. demonstrated ability to structure an issue of debt efficiently and effectively;
3. demonstrated ability to sell state debt to institutional and retail investors;
4. demonstrated willingness to put capital at risk by bidding competitively or previously underwriting prior sales of Washington State debt;
5. quality and applicability of financing ideas;

6. experience and reputation of assigned personnel; and,
7. fees and expenses.

The state treasurer will monitor the performance of members of the pool and recommend changes in the membership of the pool as appropriate. Evaluations of firms will be available for review. Following approval of an enabling resolution, the state treasurer will appoint a lead underwriter (or remarketer(s) for variable rate obligations). Criteria to be used in the appointment will include:

1. experience and qualifications necessary for the specific issuance of state debt approved by the finance committee;
2. quality and applicability of the most recent financing proposals and advice submitted to the state treasurer; and,
3. competitiveness of bids submitted in response to the most recent competitive sale of state debt.

Additional underwriters will be appointed from the pool of qualified underwriters as appropriate, but no underwriter will be assured participation in any specific sale. The appointment of underwriters will be based on the size of the sale and the need to achieve a broad distribution of state debt among potential investors.

If a selling group is appropriate to a negotiated sale of state debt, preference will be given to selling group members with significant ownership or operations in Washington State.

Liquidity Facilities

In order to provide for the negotiated issuance of variable rate debt, the finance committee directs the state treasurer to appoint a bank(s) to provide a liquidity facility through a letter or line of credit. The credit enhancement is to ensure liquidity for variable rate bonds that are tendered for purchase and are not remarketed by the remarketing agent.

Criteria to be used in the appointment of a bank(s) to provide a liquidity facility include:

1. an objective evaluation of responses to a request for qualifications;
2. the short- and long-term credit ratings of the bank;
3. experience with providing liquidity facilities to municipal bond issuers;
4. competitiveness of fees submitted, interest charged on liquidity draws, maximum legal and administrative fees;
5. ability to agree to Washington State legal requirements; and,
6. number and amount of liquidity facilities currently outstanding in the market.

Pricing and Allocation of Negotiated Sales

The negotiation of terms and conditions will include, but not be limited to, prices, interest rates, underwriting or remarketing fees and commissions. Guidelines will be based on prevailing terms and conditions in the marketplace for comparable issuers, including yields from secondary market trading of previously issued Washington State debt.

If more than one underwriter is included in a negotiated sale of state debt, the state treasurer will determine general guidelines of the allocation of fees and underwriting responsibility among the underwriters, consistent with the objectives of the sale established by the authorizing resolution. Criteria to be used in determining the allocation of state debt will include, but not be limited to:

1. demonstrated performance in the sale of previous issues of state debt;
2. demonstrated commitment to the inclusion of underwriters who are women, people of color, people with disabilities, and others historically denied equal access to the financial marketplace; and,
3. demonstrated commitment to the inclusion of selling group members who have significant ownership or operations in Washington State.

Following the execution of a purchase contract for fixed rate obligations, the lead underwriter will:

1. provide for the fair allocation of state debt to underwriters and selling group members, consistent with the previously negotiated terms and conditions of allocation;
2. comply with all Municipal Securities Rulemaking Board regulations governing order priorities and allocations; and,
3. submit to the state treasurer a complete and timely account of all orders, allocations, and underwriting activities related to the sale of state debt under its management.

Refunding Savings Thresholds

In accordance with the Refunding Bond Act, chapter 39.53 RCW, the finance committee will refinance state debt to achieve true savings for the state as market opportunities arise. Unless otherwise justified, an “advance refunding” transaction will require a present value savings of five percent of the principal amount of the refunding debt being issued. Unless otherwise justified, a “current refunding” transaction will require graduated present value savings.

State of Florida⁸⁰



Fla. Stat. § 215.98 (2003)

§ 215.98. State debt fiscal responsibility

(1) It is the public policy of this state to encourage fiscal responsibility on matters pertaining to state debt. In an effort to finance essential capital projects for the benefit of residents at favorable interest rates, the state must continue to maintain its excellent credit standing with investors. Authorizations of state debt must take into account the ability of the state to meet its total debt service requirements in light of other demands on the state's fiscal resources. The Legislature declares that it is the policy of this state to exercise prudence in undertaking the authorization and issuance of debt. In order to implement this policy, the Legislature desires to authorize the issuance of additional state tax-supported debt only when such authorization would not cause the ratio of debt service to revenue available to pay debt service on tax-supported debt to exceed 6 percent. If the 6-percent target debt ratio will be exceeded, the authorization of such additional debt must be accompanied by a legislative statement of determination that such authorization and issuance is in the best interest of the state and should be implemented. The Legislature shall not authorize the issuance of additional state tax-supported debt if such authorization would cause the designated benchmark debt ratio of debt service to revenues available to pay debt service to exceed 7 percent unless the Legislature determines that such additional debt is necessary to address a critical state emergency.

(2) The Division of Bond Finance shall conduct a debt affordability analysis each year. Proposed capital projects that require funding by the issuance of additional state debt shall be evaluated on the basis of the analysis to assist the Governor and the Legislature in setting priorities among capital projects and related appropriations.

(a) The Division of Bond Finance shall annually prepare a debt affordability report, to be presented to the governing board of the Division of Bond Finance, the President of the Senate, the Speaker of the House of Representatives, and the chair of each appropriations committee by December 15 of each year, for purposes of providing a framework for the Legislature to evaluate and establish priorities for bills that propose the authorization of additional state debt during the next budget year.

(b) The report shall include, but not be limited to:

⁸⁰ Florida Statutes:

http://www.flsenate.gov/Statutes/index.cfm?App_mode=Display_Statute&URL=Ch0215/titl0215.htm&StatuteYear=2003&Title=%2D%3E2003%2D%3EChapter%20215. The most recent report is available at the following address: <http://www.sbafla.com/bond/pdf/publications/DARrpt04.pdf>.

1. A listing of state debt outstanding, other debt secured by state revenues, and other contingent debt.

2. An estimate of revenues available for the next 10 fiscal years to pay debt service, including general revenues plus any revenues specifically pledged to pay debt service.

3. An estimate of additional debt issuance for the next 10 fiscal years for the state's existing borrowing programs.

4. A schedule of the annual debt service requirements, including principal and interest allocation, on the outstanding state debt and an estimate of the annual debt service requirements on the debt included in subparagraph 3. for each of the next 10 fiscal years.

5. An overview of the state's general obligation credit rating.

6. Identification and calculation of pertinent debt ratios, including, but not limited to, debt service to revenues available to pay debt service, debt to personal income, and debt per capita for the state's net tax-supported debt.

7. The estimated debt capacity available over the next 10 fiscal years without the benchmark debt ratio of debt service to revenue exceeding 6 percent.

8. A comparison of the debt ratios prepared for subparagraph 6., with the comparable debt ratios for the 10 most populous states.

(c) The Division of Bond Finance shall prepare an update of the report set forth above upon completion of the revenue estimates prepared in connection with the legislative session.

(d) Any entity issuing debt secured by state revenues shall provide the information necessary to prepare the debt affordability report.

(3) Failure to comply with this section shall not affect the validity of any debt or the authorization of such debt.

HISTORY: s. 24, ch. 2001-56.

State of Oregon⁸¹



As a result of significant debt issuance in the mid-1990s, the Oregon Legislative Assembly concluded it needed to develop a comprehensive strategic debt planning process. As a result of a joint interim study, the State of Oregon established the State Debt Policy Advisory Commission in 1997 (Revised Statutes 286.550 - 286.555). In accordance with the statutes, the five-member commission is chaired by the State Treasurer and consists of a public member appointed by the Governor, an appointee from both the Senate and from the House of Representatives, and the Director of the Department of Administrative Services. The Commission is charged with advising the Governor and the Legislative Assembly regarding policies and actions that enhance and preserve the State's credit rating and maintain the future availability of low-cost capital financing. In carrying out this function, the Commission must prepare a report to the Governor and the Legislative Assembly by April 1 of even numbered years as to the available debt capacity of the State of Oregon. In addition, the Commission has committed to provide interim reports to each Legislative Assembly.

The State of Oregon uses three primary types of "financing" obligations: general obligation bonded debt, revenue program bonded debt, and certificate of participation obligations.

I. General Obligation Bonds

General Obligation (GO) debt is secured by the full faith and credit of the participating issuer, for our purposes, the State of Oregon. In the State's case, each GO bond program was created by a constitutional amendment passed by state voters. Therefore, the People of the State have unconditionally pledged to pay debt service, principal and interest payments, over the life of each GO issue. This means that barring the existence of other adequate repayment sources, all unrestricted public revenues must be used as needed to support debt service payments. This includes the levy of a statewide property tax if necessary. General authority to issue GO debt is provided under Article XI section 7.

II. Revenue Bonds

Unlike GO bonds, revenue program debt is not secured by the State's unlimited pledge to fund debt service with unrestricted public revenues or a statewide property tax. Rather, funds to pay debt service are provided by a specific and dedicated revenue stream, typically program revenues directly associated with the funded project(s). Further, revenue programs typically do not require a vote

⁸¹ State Debt Policy Advisory Commission, Debt Affordability Report, 2001; Report of the State Debt Advisory Commission, 2004, <http://www.ost.state.or.us/divisions/DMD/SDPAC/2004%20SDPAC%20Rpt.pdf>.

of the People, but must be authorized by the Legislative Assembly. The Legislative Assembly at all times holds the right to refer program approval to the People. Oregon Revised Statutes provide for a variety of revenue bond programs. These programs are each considered fully self-supporting, and have no general obligation backing from the State. However, this does not preclude the State from providing a funding stream were program revenues to become insufficient to support debt service payments.

Oregon Revised Statute (ORS) 286.555 directs the Commission to develop a six-year forecast of debt capacity targets. Rather than a specific limit, the Commission views capacity as a range of capacity targets that will show the State's debt position and available capacity. As required by ORS 286.555, the model projects available debt capacity over a period of six years. The model is based on a limitation on net tax-supported debt service as a percentage of general fund revenues. Because five percent is the dividing point between a "green/available" capacity level and a "yellow/cautionary" target level in the range of capacity targets proposed on page eighteen, the Commission has chosen to use this percentage limit as the capacity target for the model's assumptions. It must be affirmed that this five-percent target is not a strict capacity limitation, but rather reflects an approach into the yellow or cautionary zone within the target capacity range. The approach from one target level to the next would signal the need for a reevaluation of bonding priorities. The model first solves for "overall capacity" to pay debt service on net tax-supported debt issuance.

State of West Virginia⁸²



West Virginia's State Code 12-6B "provides for a mechanism by which necessary information may be provided to the Governor and the Legislature so that they may prudently manage the state's financial resources by attempting to keep the state within an average to low range of nationally recognized debt limits." In conjunction with Legislative Rule, Title 112 Series 9, State Code 12-6B created the Debt Capacity Advisory Division and provided for formal policies on debt capacity with excerpts as follows:

STATE CODE

§12-6B-2. *There is hereby created within the offices of the state treasurer a debt capacity advisory division.*

§12-6B-4. Powers and duties. The division shall perform the following functions and duties:

⁸² <http://www.wvtreasury.com/sites/money/debt/DebtCapacitypdf/Debt%20Cap%20FY2004.pdf>, pp 32-38, accessed July 13, 2005.

(a) Promulgate rules pursuant to article three, chapter twenty-nine-a of this code, for the management and conduct of its affairs;

(b) Annually review the size and condition of the state's tax-supported debt and submit to the governor and to the Legislature, on or before the first day of October of each year, an estimate of the maximum amount of new tax-supported debt that prudently may be authorized for the next fiscal year, together with a report explaining the basis for the estimate. The estimate shall be advisory and in no way restrict the governor or the Legislature. In preparing its annual review and estimate, the division shall, at a minimum, consider:

(1) The amount of net tax supported debt that, during the next fiscal year and annually for the following ten fiscal years: (A) will be outstanding; and (B) has been authorized but not yet issued;

(2) Projected debt service requirements during the next fiscal year and annually for the following ten fiscal years based upon: (A) existing outstanding debt; (B) previously authorized but unissued debt; and (C) projected bond authorizations;

(3) Any information available from the budget section of the department of administration in connection with anticipated capital expenditures projected for the next five fiscal years;

(4) The criteria that recognized bond rating agencies use to judge the quality of state bonds;

(5) Any other factor that the division finds as relevant to: (A) the ability of the state to meet its projected debt service requirements for the next fiscal year; (B) the ability of the state to meet its projected debt service requirement for the next five fiscal years; and (C) any other factor affecting the marketability of such bond; and

(6) The effect of authorizations of new tax-supported debt on each of the considerations of this subsection.

(c) Conduct ongoing review of the amount and condition of bonds, notes and other security obligations of the state's spending units:

(1) Not secured by the full faith and credit of the state or for which the Legislature is not obligated to replenish reserve funds or make necessary debt service payments;

(2) for which the state has a contingent or limited liability or for which the Legislature is permitted to replenish reserve funds or make necessary debt service payments if deficiencies occur. When appropriate, the division shall recommend limits on such additional obligations to the

governor and to the Legislature. Such recommendation is advisory and shall in no way restrict the governor, the Legislature or the spending unit.

(d) The treasurer may review all proposed offerings of debt, as defined in this article, submitted to the division of debt management, as provided in section six, article six-a of this chapter.

The division may also request any additional information which may be needed to issue an advisory opinion to the governor, the speaker of the House of Delegates and the president of the Senate as to the impact of the proposed offering on the state's net tax supported debt outstanding and any other criteria which the treasurer feels may be relevant to the marketability of said offering and its impact on the state's credit rating. Such advisory opinion shall in no way restrict the governor, the Legislature or the spending unit.

(e) Do all things necessary or convenient to effectuate the intent of this article and to carry out its powers and functions.

LEGISLATIVE RULE

§112-9-1. General.

1.1. Scope. – This rule implements the provisions of W. Va. Code §12-6B-1 et seq., which provides that the State Treasurer's Division of Debt Capacity is responsible for the gathering and reporting of information concerning the State's ability to meet its debt obligations, and to incur new debt, and for conducting an ongoing review of the amount and condition of bonds, notes, and other security obligations of the State's spending units.

1.2. Authority. – W. Va. Code §12- 6B-4.

1.3. Filing Date. – May 6, 1998

1.4. Effective Date. – May 7, 1998

1.5. General Purpose. – The purpose of this rule is to carry out the legislative intent, as stated in W. Va. Code §12- 6B-1, to provide necessary information to the Governor and the Legislature so that they may prudently manage the state's financial resources by attempting to keep the State within an average to low range of nationally recognized debt limits.

§112-9-3. Debt capacity and debt impact reporting.

3.1. Annual debt capacity report – The division with the cooperation and support of the Department of Administration, the Department of Tax and Revenue and the Bureau of Employment Programs shall issue an annual report, on or before October 1st of each year. The annual debt capacity report reviews the size and condition of the state's net tax supported debt and estimates the maximum

amount of net tax supported debt which should be authorized based upon ratios and guidelines established by the major bond rating agencies. The ratios and guidelines shall be consistently applied based upon the state's definitions.

3.2. Debt impact statement – The Treasurer shall prepare a debt impact statement, only at the request of any member of the Legislature of West Virginia, which shall at a minimum include the following:

- 3.2.1. Current net tax supported debt;
- 3.2.2. Current net tax supported debt as a percentage of personal income;
- 3.2.3. Current net tax supported debt per capita;
- 3.2.4. A list of assumptions derived from the House or Senate bill for which the debt impact statement is being prepared;
- 3.2.5. The recommendation of the Treasurer;
- 3.2.6. The total debt service as a percentage of revenue;
- 3.2.7. Current ratios and guidelines as established and/or reported by the major rating agencies; and
- 3.2.8. A comparison of West Virginia's ratio to other states with similar bond ratings.

3.3. Additional Information – The division may, pursuant to W. Va. Code §12-6B-4(d), require any additional information from any spending unit to carry out the provisions as outlined in W. Va. Code §12-6B-1 et seq.

3.4. Additional Reports and Advisory Opinions - The Treasurer may, as he or she considers necessary, issue advisory letters, notices and/or opinions on new debt issuance, the condition of the State's outstanding debt and any other factor which the Treasurer determines may directly or indirectly effect the State's credit rating.

State of California⁸³



The Strategic Debt Management Plan was developed by the Treasurer to provide a comprehensive approach to better match the timeframe for repaying debt for infrastructure projects to the useful life of assets being financed.... Implementation of the Plan is based on these three elements:

1. Shift level debt service payments for new bond issues and a short- term deferral of principal payments to facilitate the transition to level debt service;
2. Use targeted restructuring of existing debt to achieve significant one-time debt service savings and to facilitate the transition to level debt service; and
3. Implement recent legislation that allows the State to issue variable rate debt for a portion of the State's general obligation bond portfolio.

⁸³ State of California, Debt Affordability Report, 2002. The most recent report is available at this address: <http://www.treasurer.ca.gov/publications/2004dar.pdf>.

VIII. CONCLUSIONS AND RECOMMENDATIONS

Kansas has matured as a debt issuer. It can no longer present itself as a low debt state. Two comprehensive transportation programs have fueled the debt appetite of citizens and public officials. This study reveals the recent and projected debt profile of the State of Kansas debt using seven debt burden ratios. As summarized in Figure 26, Kansas has experienced a rapid and significant change in each ratio. These estimates do not take into account any new authorized debt.

Figure 26: Summary of Findings

| Debt Burden Ratio | Findings | Kansas' Compound Annual Growth Rate: FY 1996 to FY 2006 |
|--|---|--|
| 1. Debt per capita | Higher than national medians; Estimate of \$1,610 in FY 2006 | 13.47% |
| 2. Debt per capita as % of personal income | Higher than national medians, top ranked states, and the 4 surrounding states; Estimate of 4.8% in FY 2006 | 9.15% |
| 3. Debt service per capita | Peak of \$156 in FY 2005 compares to \$31 in FY 1994 | 12.51% |
| 4. Debt service per capita as % of personal income | Doubling since FY 1994 | 7.49% |
| 5. Debt service as % of General Fund revenues | Near top range of benchmark (within range if remove KDOT debt service) | 8.24% |
| 6. Debt service as % of General Fund expenditures | Near top range of benchmark (within range if remove KDOT debt service) | 8.44% |
| 7. Debt service coverage | Decline in coverage from State Highway Fund, but 4.5x in FY 2010 still above the 3x required coverage ratio | -7.45% |

Kansas debt fits within the range of benchmarks established by major rating agencies such as Moody's and Standard & Poor's. However, it is recommended that the State adopt a set of debt policies to guide state debt issuance and management. Adopting debt policies will ensure that the State's debt does not migrate above affordable levels. Debt policy standards, such as the examples in the prior section, will help the State retain a sound fiscal position in future years — one that is consistent with the benchmarks set by credit rating agencies.

The State's debt per capita and debt per capita as a percentage of personal income per capita levels should be reduced to the level of the benchmark averages set by Moody's and Standard & Poor's to safeguard the State's ratings.

Kansas debt is estimated to be approaching 5 percent of personal income. For comparison, the State of Maryland (a Triple-A state by the bond rating agencies) set its affordability standard at 3.2 percent. By forecasting the yearly amount of revenue

generated from that that percentage of the economy, Maryland determines the amount of debt that can be outstanding. Gaps can be filled with new debt.

Establishing lower levels of debt burden provides state leaders with an opportunity to link the issuance of new debt to the underlying economy, which supports such debt. All the debt affordability ratios used in this study are recommended for use by state policymakers to strictly monitor the State's debt levels during this period. Incurring additional debt at this point should be closely monitored and scrutinized. Every new debt authorization requires a budget trade-off.

Lacking the full faith and credit assurance of General Obligation bonds, revenue bond debt service payments largely depend on appropriations made by the Legislature for such purposes.⁸⁴ In the event that specified revenue streams for a revenue bond do not yield enough to cover the annual interest payment and redemption of a principal amount, and the Legislature has not appropriated sufficient funds for such purpose, the State may be deemed in default and the related bond security (i.e. bond-financed facility) may be liquidated. Although these types of bonds appear to be most expedient debt issuance method, they may not be the most efficient way to borrow money due to higher interest rates associated with higher risk bonds. It is recommended that the State consider General Obligation debt as a more efficient form of borrowing for General Fund financed projects. Like Kansas, most states have to obtain voter approval for General Obligation bonds, with the majority of such proposals approved. The lesson is that voters can discriminate between good, solid proposals and those that have less value to the state. Kansas has no need to change its laws on this matter at this time, only plan ahead so that there is time to obtain voter approval, thereby borrowing at the historically lower rates attached to General Obligation debt.

Evaluating the affordability of future debt begins with quantifying and identifying debt currently outstanding. For the State of Kansas, debt outstanding levels are largely driven by transportation purposes although other areas are using debt at an increasing rate. This study takes into account debt issued and outstanding, and authorized, as of June 30, 2005. Due to the large amount of debt issued recently, a larger portion of debt service will be applied to interest than to the repayment of principal. For budgetary purposes, computing debt service more or less as a fixed percentage of existing outstanding debt makes forecasts easier but will not eliminate the risks involved in carrying a large bond outstanding balance over many years. The nature and level of non-recurring resources in the budget, such as the reliance on one-time measures to balance the budget, will determine the level of structural imbalance for future fiscal years, and will need to be evaluated against the pace of revenue growth for the State.

As a debt management tool, Kansas should prepare a multi-year capital improvements plan as a way to manage capital asset construction and acquisition with scarce resources. Nonetheless, in the immediate term, Kansas is in a relatively sound position with respect to outstanding debt and debt capacity. Issuing additional debt will not adversely impact the State's financial condition as long as it adheres to industry standards on debt ratios and capacity limitations. One way to advance this objective is

⁸⁴ Kansas Development Finance Authority, Series 2002C Lease Revenue Bonds, Official Statement. March, 2002: p. 12

to annually prepare a debt affordability study prior to the legislative sessions. This step is recommended. Utilizing debt capacity limits will ensure that the State is able to support its capital financing needs in the future. The seven debt capacity ratios should be used to integrate debt management practices with the budgeting process and to anchor a set of formal debt policies. Monitoring the debt ratios depends upon an authoritative central database of all debt service schedules with related details on all financing arrangements and professional advisor engagements.

Kansas should continue to rely upon Kansas Development Finance Authority as the core financing staff for state-supported programs. It is important to maintain an internal expert capability instead of relying upon outside advisors. For KDFA to be effective, it must be managed in a professional manner, providing independent, expert advice, and not serve as an advocate for particular financings. Involvement in direct services may dilute its focus. KDFA could serve as the setting for preparing the recommended annual debt affordability study. Accordingly, it is recommended that the State avoid creating any other state financing authorities unless they are subsidiaries of KFDA.

In summary, Kansas should extend its debt planning horizon to ensure an efficient and effective balancing of needs and resources.

APPENDICES

Appendix 1: Authorized but Unissued Debt as of June 30, 2005: Projected Year of Issuance

| YEAR ASSUMED TO BE ISSUED | DESCRIPTION | PRINCIPAL |
|---------------------------|---|---------------|
| 2006 | KDHR upgrade UC system | \$21,000,000 |
| 2006 | Capitol Renovations* | \$26,900,000 |
| 2006 | Emporia State University - Towers Res. Housing Renov* | \$7,745,000 |
| 2006 | KSU Greenhouse Lab* | \$1,700,000 |
| 2006 | KSU Horticulture Research Center* | \$1,500,000 |
| 2006 | KUMC Ambulatory* | \$42,000,000 |
| 2006 | KUMC Parking facilities #3 and #4*+ | \$19,060,000 |
| 2006 | DOA - Public Broadcasting System* | \$1,700,000 |
| 2006 | Water Polution Control State Revolving Loan Fund | \$52,000,000 |
| 2006 | Dept of Transportation Revolving Loan Fund | \$33,000,000 |
| 2006 | KSU - Parking garage – Manhattan | \$10,500,000 |
| 2006 | FHSU - Student residential life | \$5,445,000 |
| 2006 | KU Center for Health & Aging | \$5,240,000 |
| 2006 | University Research+ | \$5,170,000 |
| 2006 | KHP - Modernization of weight stations | \$1,400,000 |
| 2006 | Goodyear – incentives | \$10,000,000 |
| 2006 | SRS - State Hospital Projects+ | \$14,165,000 |
| 2006 | Comm on Vet Affairs (In conjunction w/ SRS bonds)+ | \$1,415,000 |
| 2006 | KSU - Housing (Dennison, Seaton, Salina #701) | \$4,700,000 |
| 2006 | KU Hashinger residence hall | \$800,000 |
| 2006 | Fort Hays Univ. Renovate Memorial Union* | \$6,500,000 |
| 2006 | KU Student Rec and Fitness Center* | \$6,200,000 |
| 2006 | Dept of Labor -complete renovation of agency hdqtrs* | \$3,800,000 |
| 2006 | University Research & Dev. KSU, Wichita State & Pittsburgh State* | \$5,000,000 |
| 2006 | KSU Housing (Jardine)*+ | \$63,140,000 |
| 2007 | KDOT Highway Revenue Bonds | \$150,000,000 |
| 2007 | KDOT Contingency | \$60,000,000 |
| 2007 | Adjutant General - construct classroom at PSU*+ | \$1,450,000 |
| 2007 | Pittsburgh State Univ. construct armory classroom*+ | \$4,030,000 |
| 2007 | Adjutant General - renovate armories* | \$3,000,000 |
| 2008 | KUCR (center for research - off campus) | \$60,000,000 |
| 2008 | Adjutant General - renovate armories* | \$6,000,000 |
| TOTAL | | \$634,560,000 |

SOURCE: Kansas Development Finance Authority

NOTES: Assumed issuance date based on best available information with the default as FY 2006; *Authorized in 2005, all others authorized earlier; +Authorized amounts rounded to nearest \$5,000 denomination by MUN-EASE software

Appendix 2: Other Obligations Not Included

In addition to the long-term debt covered in this report, taxpayers and users of certain services may have ultimate responsibility for additional public debt. The affordability of these additional obligations, however, is not covered in this report because it focuses exclusively on bond obligations of the State of Kansas with scheduled debt service.

With respect to the excluded obligations, the State of Kansas' audited financial statement for the fiscal year ended June 30, 2004 (specifically, the State's "Comprehensive Annual Financial Report") reports that the State has additional long-term obligations without scheduled debt service that includes \$235 million in claims and judgments and \$140 million in compensated absences. The largest item in claims and judgments is \$150 million in accrued liability of the Health Care Stabilization Fund which seeks to stabilize the availability of medical professional liability coverage for health care providers. Compensated absences are primary vacation and sick leave for services already rendered but are due to be paid in the future; therefore, the amount is an accrued long-term liability.

Moreover, the State's audit report shows that the State of Kansas is responsible for \$161 million (equal to 72 percent) of the Sales Tax Limited Obligation Bonds (STAR bonds) issued by the Unified Government of Wyandotte County/Kansas City for the Prairie Delaware Redevelopment District (better known as the site of the Kansas Speedway and related development). The State also has \$105 million in notes payable for various purposes including water supply obligations to the Federal government.

The following forms of public debt are not financial obligations of the State of Kansas, but rather are the long-term obligations with scheduled debt service of political subdivisions or other bodies created by the State of Kansas. Long-term obligations such as compensated absences and claims and judgments, however, are not included in the following amounts.

The Kansas Rural Water Finance Authority is a body created by the State of Kansas to enhance the ability of rural water districts and other public agencies in Kansas to finance capital improvements for water and wastewater systems, but its debt is not considered an obligation of the State of Kansas. According to data from the State Treasurer, the Kansas Rural Water Finance Authority has \$20.5 million in bonds outstanding as of June 30, 2004, representing a 6.44 percent annual rate of growth over ten years.

The Kansas Turnpike Authority has \$230 million of bonds outstanding as of June 30, 2004, according to the State Treasurer. KTA's rate of annual growth in debt for the last ten years is 3.55 percent. According to its audited annual report as of December 31, 2004, KTA reports \$273 million of bonds outstanding due to the issuance of \$51.3 million in bonds in November 2004 (and repaying \$8.7 million).

Kansas local governments – cities, counties, schools, and other issuers, excluding industrial revenue bonds – have \$7.6 billion in debt outstanding as of June

30, 2004, according to the State Treasurer. The ten-year annual rate of growth for local government debt is 7.74 percent.

Industrial revenue bonds (IRBs) are issued by local governments under tax rules governed by the U.S. Internal Revenue Code, but the ultimate obligor is the business entity not the local government or taxpayers. Because the local government issues the bonds on behalf of the business, accounting standards and state laws require the disclosure of this information. As of June 30, 2004, the State Treasurer reports that local governments have \$9.85 billion in IRBs outstanding. The ten-year annual growth rate for IRB bonds is 6.47 percent.

Sources:

State of Kansas' Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004, especially page 54. <http://www.da.state.ks.us/ar/finrept/cafr04.htm>.

State Treasurer's on-line data base: http://kst.state.ks.us/cgi-win/bi_state.kst.

Kansas Rural Water Finance Authority, Official Statement on the issuance of \$230,000 Revenue Refunding Bonds, Series A 2004, February 13, 2003.

Kansas Turnpike Authority, 2004 Financial Statement: <http://ksturnpike.com/04ANNREP/2004AR.pdf>.

Appendix 3: State Debt Outstanding as of June 30, 2005

| FISCAL YEAR END | Total Debt Outstanding | Debt Service | | |
|-----------------------|---------------------------|---------------|---------------|---------------|
| | | Principal | Interest | Total |
| 1992 | \$424,006,201 | | | |
| 1993 | \$927,617,145 | \$232,951,194 | \$30,850,661 | \$263,801,856 |
| 1994 | \$1,047,628,267 | \$30,926,361 | \$47,865,207 | \$78,791,568 |
| 1995 | \$1,170,636,326 | \$44,120,203 | \$59,905,680 | \$104,025,883 |
| 1996 | \$1,189,913,234 | \$40,178,722 | \$62,523,323 | \$102,702,045 |
| 1997 | \$1,246,971,445 | \$48,847,680 | \$62,098,771 | \$110,946,451 |
| 1998 | \$1,437,725,259 | \$75,150,435 | \$66,996,566 | \$142,147,002 |
| 1999 | \$1,501,107,146 | \$94,366,558 | \$78,395,543 | \$172,762,101 |
| 2000 | \$1,921,633,591 | \$97,018,380 | \$87,966,210 | \$184,984,590 |
| 2001 | \$2,266,515,679 | \$133,354,457 | \$107,521,208 | \$240,875,665 |
| 2002 | \$2,428,573,131 | \$224,600,012 | \$116,147,377 | \$340,747,388 |
| 2003 | \$2,633,651,406 | \$161,267,717 | \$114,329,237 | \$275,596,954 |
| 2004 | \$3,483,029,201 | \$99,838,586 | \$116,628,506 | \$216,467,092 |
| 2005 | \$3,954,290,167 | \$255,958,942 | \$173,172,403 | \$429,131,345 |
| 2006 | \$3,824,172,572 | \$130,198,813 | \$186,439,719 | \$316,638,532 |
| 2007 | \$3,677,831,815 | \$146,417,422 | \$181,869,245 | \$328,286,667 |
| 2008 | \$3,533,357,181 | \$144,546,328 | \$174,963,480 | \$319,509,808 |
| 2009 | \$3,377,499,953 | \$155,923,449 | \$168,485,510 | \$324,408,959 |
| 2010 | \$3,175,181,528 | \$202,378,648 | \$160,210,061 | \$362,588,710 |
| 2011 | \$2,964,588,695 | \$210,652,883 | \$150,657,108 | \$361,309,991 |
| 2012 | \$2,749,231,443 | \$215,372,915 | \$140,591,316 | \$355,964,230 |
| 2013 | \$2,554,420,311 | \$194,811,132 | \$130,460,809 | \$325,271,941 |
| 2014 | \$2,354,779,956 | \$199,640,355 | \$121,427,642 | \$321,067,997 |
| 2015 | \$2,155,385,792 | \$199,394,164 | \$114,431,108 | \$313,825,272 |
| 2016 | \$1,993,619,151 | \$161,766,641 | \$104,581,105 | \$266,347,746 |
| 2017 | \$1,853,582,117 | \$140,037,034 | \$97,679,053 | \$237,716,087 |
| 2018 | \$1,650,936,486 | \$202,645,631 | \$89,980,011 | \$292,625,642 |
| 2019 | \$1,441,962,025 | \$208,974,461 | \$80,135,653 | \$289,110,113 |
| 2020 | \$1,224,332,061 | \$217,629,964 | \$69,619,017 | \$287,248,982 |
| 2021 | \$1,004,061,260 | \$220,270,801 | \$57,413,791 | \$277,684,592 |
| 2022 | \$791,835,000 | \$212,226,260 | \$47,211,301 | \$259,437,561 |
| 2023 | \$594,865,000 | \$196,970,000 | \$36,710,846 | \$233,680,846 |
| 2024 | \$446,765,000 | \$148,100,000 | \$26,864,971 | \$174,964,971 |
| 2025 | \$312,720,000 | \$134,045,000 | \$19,757,011 | \$153,802,011 |
| 2026 | \$279,995,000 | \$32,725,000 | \$16,501,584 | \$49,226,584 |
| 2027 | \$249,170,000 | \$30,825,000 | \$14,816,573 | \$45,641,573 |
| 2028 | \$216,735,000 | \$32,435,000 | \$13,191,933 | \$45,626,933 |
| 2029 | \$183,875,000 | \$32,860,000 | \$11,504,517 | \$44,364,517 |
| 2030 | \$149,280,000 | \$34,595,000 | \$9,758,437 | \$44,353,437 |
| 2031 | \$114,970,000 | \$34,310,000 | \$7,916,757 | \$42,226,757 |
| 2032 | \$78,830,000 | \$36,140,000 | \$6,072,151 | \$42,212,151 |
| 2033 | \$40,755,000 | \$38,075,000 | \$4,128,613 | \$42,203,613 |
| 2034 | \$3,395,000 | \$37,360,000 | \$2,149,453 | \$39,509,453 |
| 2035 | | \$3,395,000 | \$132,748 | \$3,527,748 |

Source: Kansas Division of the Budget spreadsheets as of June 30, 2005.

Note: Calculations differences due to items such as new issues and capital accumulator bonds (issued at a discount and pay no periodic interest payments).

Appendix 4: Bonds Outstanding by Programs

| | General Government | Human Services | Pooled Loan Programs | Education | Public Safety | Agriculture & Natural Resources | Transportation (KDOT only) | Total | Total Less KDOT |
|------|--------------------|----------------|----------------------|---------------|---------------|---------------------------------|----------------------------|-----------------|-----------------|
| 1992 | \$43,918,099 | \$0 | \$5,063,000 | \$52,030,102 | \$69,620,000 | \$3,375,000 | \$250,000,000 | \$424,006,201 | \$174,006,201 |
| 1993 | \$49,715,352 | \$8,000,000 | \$71,200,000 | \$58,501,793 | \$100,895,000 | \$2,950,000 | \$636,355,000 | \$927,617,145 | \$291,262,145 |
| 1994 | \$49,787,777 | \$8,000,000 | \$71,200,000 | \$59,035,491 | \$96,225,000 | \$2,490,000 | \$760,890,000 | \$1,047,628,267 | \$286,738,267 |
| 1995 | \$43,038,272 | \$7,760,000 | \$70,605,000 | \$58,488,054 | \$90,290,000 | \$455,000 | \$900,000,000 | \$1,170,636,326 | \$270,636,326 |
| 1996 | \$58,212,563 | \$7,085,000 | \$74,755,000 | \$74,160,671 | \$85,090,000 | \$375,000 | \$890,235,000 | \$1,189,913,234 | \$299,678,234 |
| 1997 | \$55,358,162 | \$6,825,000 | \$110,755,000 | \$118,713,283 | \$79,625,000 | \$285,000 | \$875,410,000 | \$1,246,971,445 | \$371,561,445 |
| 1998 | \$53,734,646 | \$6,555,000 | \$209,435,000 | \$227,705,612 | \$80,340,000 | \$190,000 | \$859,765,000 | \$1,437,725,259 | \$577,960,259 |
| 1999 | \$102,494,018 | \$6,270,000 | \$244,760,000 | \$240,903,128 | \$74,645,000 | \$0 | \$832,035,000 | \$1,501,107,146 | \$669,072,146 |
| 2000 | \$104,826,465 | \$5,970,000 | \$375,820,000 | \$234,262,126 | \$84,665,000 | \$0 | \$1,116,090,000 | \$1,921,633,591 | \$805,543,591 |
| 2001 | \$113,516,109 | \$5,655,000 | \$367,865,000 | \$224,799,571 | \$131,535,000 | \$0 | \$1,423,145,000 | \$2,266,515,679 | \$843,370,679 |
| 2002 | \$200,050,256 | \$5,105,000 | \$458,840,000 | \$244,437,876 | \$124,520,000 | \$17,570,000 | \$1,378,050,000 | \$2,428,573,131 | \$1,050,523,131 |
| 2003 | \$235,665,590 | \$56,480,000 | \$536,805,000 | \$312,040,816 | \$115,000,000 | \$17,570,000 | \$1,360,090,000 | \$2,633,651,406 | \$1,273,561,406 |
| 2004 | \$760,085,284 | \$88,565,000 | \$567,490,000 | \$343,433,917 | \$115,075,000 | \$27,930,000 | \$1,580,450,000 | \$3,483,029,201 | \$1,902,579,201 |
| 2005 | \$760,171,901 | \$83,710,000 | \$642,325,000 | \$448,088,266 | \$104,075,000 | \$26,930,000 | \$1,888,990,000 | \$3,954,290,167 | \$2,065,300,167 |
| 2006 | \$734,904,088 | \$80,340,000 | \$619,985,000 | \$425,783,483 | \$95,045,000 | \$25,880,000 | \$1,842,235,000 | \$3,824,172,572 | \$1,981,937,572 |
| 2007 | \$710,822,666 | \$76,865,000 | \$593,485,000 | \$395,809,149 | \$86,835,000 | \$24,800,000 | \$1,789,215,000 | \$3,677,831,815 | \$1,888,616,815 |
| 2008 | \$687,362,338 | \$73,265,000 | \$565,470,000 | \$366,399,843 | \$78,295,000 | \$23,680,000 | \$1,738,885,000 | \$3,533,357,181 | \$1,794,472,181 |
| 2009 | \$655,539,889 | \$69,520,000 | \$535,785,000 | \$336,710,064 | \$71,525,000 | \$22,525,000 | \$1,685,895,000 | \$3,377,499,953 | \$1,691,604,953 |
| 2010 | \$627,977,241 | \$65,615,000 | \$504,200,000 | \$305,674,288 | \$64,435,000 | \$21,315,000 | \$1,585,965,000 | \$3,175,181,528 | \$1,589,216,528 |
| 2011 | \$600,309,358 | \$62,055,000 | \$470,320,000 | \$273,284,338 | \$57,480,000 | \$20,060,000 | \$1,481,080,000 | \$2,964,588,695 | \$1,483,508,695 |
| 2012 | \$576,131,443 | \$58,315,000 | \$434,165,000 | \$241,635,000 | \$49,125,000 | \$18,750,000 | \$1,371,110,000 | \$2,749,231,443 | \$1,378,121,443 |
| 2013 | \$551,350,311 | \$54,385,000 | \$400,590,000 | \$222,925,000 | \$44,065,000 | \$17,380,000 | \$1,263,725,000 | \$2,554,420,311 | \$1,290,695,311 |
| 2014 | \$526,049,956 | \$50,270,000 | \$358,695,000 | \$204,330,000 | \$38,995,000 | \$15,950,000 | \$1,160,490,000 | \$2,354,779,956 | \$1,194,289,956 |
| 2015 | \$503,825,792 | \$45,945,000 | \$319,475,000 | \$189,995,000 | \$33,725,000 | \$14,445,000 | \$1,047,975,000 | \$2,155,385,792 | \$1,107,410,792 |
| 2016 | \$480,809,151 | \$41,390,000 | \$281,465,000 | \$176,025,000 | \$28,185,000 | \$12,870,000 | \$972,875,000 | \$1,993,619,151 | \$1,020,744,151 |
| 2017 | \$456,892,117 | \$36,600,000 | \$240,280,000 | \$161,515,000 | \$22,350,000 | \$11,215,000 | \$924,730,000 | \$1,853,582,117 | \$928,852,117 |
| 2018 | \$431,951,486 | \$31,565,000 | \$205,495,000 | \$146,025,000 | \$16,215,000 | \$9,475,000 | \$810,210,000 | \$1,650,936,486 | \$840,726,486 |
| 2019 | \$405,927,025 | \$26,260,000 | \$170,055,000 | \$130,655,000 | \$10,155,000 | \$7,645,000 | \$691,265,000 | \$1,441,962,025 | \$750,697,025 |
| 2020 | \$380,202,061 | \$20,695,000 | \$128,800,000 | \$116,105,000 | \$3,800,000 | \$5,730,000 | \$569,000,000 | \$1,224,332,061 | \$655,332,061 |
| 2021 | \$352,951,260 | \$14,845,000 | \$93,135,000 | \$99,440,000 | | \$3,715,000 | \$439,975,000 | \$1,004,061,260 | \$564,086,260 |
| 2022 | \$326,575,000 | \$8,680,000 | \$61,850,000 | \$85,165,000 | | \$1,600,000 | \$307,965,000 | \$791,835,000 | \$483,870,000 |
| 2023 | \$304,885,000 | \$2,485,000 | \$34,530,000 | \$70,475,000 | | \$815,000 | \$181,675,000 | \$594,865,000 | \$413,190,000 |

| | General Government | Human Services | Pooled Loan Programs | Education | Public Safety | Agriculture & Natural Resources | Transportation (KDOT only) | Total | Total Less KDOT |
|------|--------------------|----------------|----------------------|--------------|---------------|---------------------------------|----------------------------|---------------|-----------------|
| 2024 | \$282,065,000 | | \$11,270,000 | \$56,430,000 | | | \$97,000,000 | \$446,765,000 | \$349,765,000 |
| 2025 | \$259,550,000 | | \$3,420,000 | \$49,750,000 | | | \$0 | \$312,720,000 | \$312,720,000 |
| 2026 | \$235,860,000 | | | \$44,135,000 | | | \$0 | \$279,995,000 | \$279,995,000 |
| 2027 | \$210,920,000 | | | \$38,250,000 | | | \$0 | \$249,170,000 | \$249,170,000 |
| 2028 | \$184,650,000 | | | \$32,085,000 | | | \$0 | \$216,735,000 | \$216,735,000 |
| 2029 | \$157,885,000 | | | \$25,990,000 | | | \$0 | \$183,875,000 | \$183,875,000 |
| 2030 | \$129,675,000 | | | \$19,605,000 | | | \$0 | \$149,280,000 | \$149,280,000 |
| 2031 | \$99,945,000 | | | \$15,025,000 | | | \$0 | \$114,970,000 | \$114,970,000 |
| 2032 | \$68,605,000 | | | \$10,225,000 | | | \$0 | \$78,830,000 | \$78,830,000 |
| 2033 | \$35,565,000 | | | \$5,190,000 | | | \$0 | \$40,755,000 | \$40,755,000 |
| 2034 | \$745,000 | | | \$2,650,000 | | | \$0 | \$3,395,000 | \$3,395,000 |

Source: Kansas Division of the Budget Spreadsheets as of June 30, 2005.

Appendix 5: Annual Debt Service by Program as of June 30, 2005

| Fiscal Year | General Government | Human Services | Pooled Loan Programs | Education | Public Safety | Agriculture & Natural Resources | Transportation (KDOT Only) | Total | Total Less KDOT |
|-------------|--------------------|----------------|----------------------|--------------|---------------|---------------------------------|----------------------------|---------------|-----------------|
| 1992 | | | | | | | | | |
| 1993 | \$33,928,989 | \$279,586 | \$6,623,045 | \$13,627,393 | \$54,037,348 | \$711,905 | \$154,593,589 | \$263,801,856 | \$109,208,266 |
| 1994 | \$14,340,203 | \$479,290 | \$3,848,525 | \$16,234,343 | \$10,380,411 | \$707,534 | \$32,801,261 | \$78,791,568 | \$45,990,306 |
| 1995 | \$17,873,456 | \$719,290 | \$4,433,856 | \$12,317,220 | \$20,705,836 | \$2,164,692 | \$45,811,533 | \$104,025,883 | \$58,214,350 |
| 1996 | \$15,036,656 | \$1,128,049 | \$6,802,404 | \$12,437,260 | \$10,197,008 | \$109,683 | \$56,990,986 | \$102,702,045 | \$45,711,059 |
| 1997 | \$18,485,259 | \$686,268 | \$7,259,853 | \$12,762,554 | \$10,231,023 | \$113,668 | \$61,407,828 | \$110,946,451 | \$49,538,623 |
| 1998 | \$16,317,304 | \$682,228 | \$34,397,855 | \$23,188,630 | \$10,384,670 | \$112,076 | \$57,064,239 | \$142,147,002 | \$85,082,763 |
| 1999 | \$18,133,632 | \$682,648 | \$15,298,389 | \$25,978,494 | \$38,725,258 | \$196,840 | \$73,746,840 | \$172,762,101 | \$99,015,261 |
| 2000 | \$29,579,406 | \$682,258 | \$18,918,680 | \$29,914,243 | \$11,727,520 | \$0 | \$94,162,484 | \$184,984,590 | \$90,822,106 |
| 2001 | \$20,522,071 | \$681,058 | \$26,931,484 | \$70,100,061 | \$12,956,211 | \$0 | \$109,684,780 | \$240,875,665 | \$131,190,886 |
| 2002 | \$24,756,427 | \$5,829,209 | \$123,135,169 | \$29,054,125 | \$43,307,955 | \$0 | \$114,664,503 | \$340,747,388 | \$226,082,885 |
| 2003 | \$48,170,902 | \$886,438 | \$49,025,670 | \$43,766,883 | \$19,326,451 | \$1,105,514 | \$113,315,096 | \$275,596,954 | \$162,281,858 |
| 2004 | \$31,361,685 | \$4,822,126 | \$44,266,188 | \$33,611,838 | \$17,989,161 | \$1,400,913 | \$83,015,182 | \$216,467,092 | \$133,451,909 |
| 2005 | \$67,547,519 | \$8,912,706 | \$129,668,167 | \$87,399,272 | \$17,953,812 | \$2,247,905 | \$115,401,964 | \$429,131,345 | \$313,729,381 |
| 2006 | \$62,586,458 | \$7,277,495 | \$54,192,292 | \$41,683,666 | \$13,988,469 | \$2,250,044 | \$134,660,109 | \$316,638,532 | \$181,978,423 |
| 2007 | \$60,435,183 | \$7,270,680 | \$57,342,501 | \$49,471,882 | \$12,794,986 | \$2,247,251 | \$138,724,183 | \$328,286,667 | \$189,562,484 |
| 2008 | \$58,832,827 | \$7,271,859 | \$57,583,124 | \$47,496,134 | \$12,758,576 | \$2,248,884 | \$133,318,405 | \$319,509,808 | \$186,191,403 |
| 2009 | \$66,185,663 | \$7,272,078 | \$57,915,355 | \$46,444,172 | \$10,644,980 | \$2,240,821 | \$133,705,890 | \$324,408,959 | \$190,703,069 |
| 2010 | \$60,635,882 | \$7,274,130 | \$58,417,127 | \$46,441,303 | \$10,656,748 | \$2,251,861 | \$176,911,658 | \$362,588,710 | \$185,677,051 |
| 2011 | \$59,592,871 | \$6,772,843 | \$59,145,090 | \$46,348,344 | \$10,192,586 | \$2,249,854 | \$177,008,404 | \$361,309,991 | \$184,301,587 |
| 2012 | \$54,880,593 | \$6,774,678 | \$59,643,438 | \$44,113,261 | \$11,250,495 | \$2,250,469 | \$177,051,297 | \$355,964,230 | \$178,912,933 |
| 2013 | \$54,417,626 | \$6,780,603 | \$55,371,338 | \$30,056,262 | \$7,568,754 | \$2,253,819 | \$168,823,539 | \$325,271,941 | \$156,448,402 |
| 2014 | \$53,808,601 | \$6,773,041 | \$61,855,745 | \$29,054,992 | \$7,320,444 | \$2,250,219 | \$160,004,956 | \$321,067,997 | \$161,063,041 |
| 2015 | \$49,647,806 | \$6,772,941 | \$59,000,886 | \$23,999,448 | \$7,256,850 | \$2,252,469 | \$164,894,872 | \$313,825,272 | \$148,930,400 |
| 2016 | \$49,401,777 | \$6,778,653 | \$53,795,138 | \$22,937,259 | \$7,252,109 | \$2,246,094 | \$123,936,716 | \$266,347,746 | \$142,411,030 |
| 2017 | \$49,212,573 | \$6,778,798 | \$55,006,163 | \$22,799,234 | \$7,262,513 | \$2,249,238 | \$94,407,570 | \$237,716,087 | \$143,308,517 |
| 2018 | \$49,083,906 | \$6,777,085 | \$46,554,603 | \$23,044,743 | \$7,260,744 | \$2,253,463 | \$157,651,099 | \$292,625,642 | \$134,974,542 |
| 2019 | \$48,943,255 | \$6,787,016 | \$45,390,150 | \$22,257,041 | \$6,872,475 | \$2,255,588 | \$156,604,589 | \$289,110,113 | \$132,505,525 |
| 2020 | \$47,338,665 | \$6,771,984 | \$49,378,375 | \$20,600,665 | \$6,821,228 | \$2,247,925 | \$154,090,140 | \$287,248,982 | \$133,158,841 |
| 2021 | \$47,522,311 | \$6,768,953 | \$41,724,925 | \$21,986,644 | \$3,999,500 | \$2,251,425 | \$153,430,835 | \$277,684,592 | \$124,253,757 |
| 2022 | \$45,235,724 | \$6,783,821 | \$35,639,825 | \$18,758,067 | \$0 | \$2,251,169 | \$150,768,955 | \$259,437,561 | \$108,668,606 |
| 2023 | \$39,255,615 | \$6,499,006 | \$30,157,700 | \$18,466,383 | \$0 | \$852,019 | \$138,450,123 | \$233,680,846 | \$95,230,723 |

| Fiscal Year | General Government | Human Services | Pooled Loan Programs | Education | Public Safety | Agriculture & Natural Resources | Transportation (KDOT Only) | Total | Total Less KDOT |
|-------------|--------------------|----------------|----------------------|--------------|---------------|---------------------------------|----------------------------|---------------|-----------------|
| 2024 | \$39,253,533 | \$2,590,613 | \$24,613,800 | \$17,116,915 | \$0 | \$849,638 | \$90,540,472 | \$174,964,971 | \$84,424,498 |
| 2025 | \$37,755,211 | \$0 | \$8,371,238 | \$9,246,679 | \$0 | \$0 | \$98,428,884 | \$153,802,011 | \$55,373,127 |
| 2026 | \$37,743,587 | \$0 | \$3,578,175 | \$7,904,823 | \$0 | \$0 | \$0 | \$49,226,584 | \$49,226,584 |
| 2027 | \$37,744,480 | \$0 | \$0 | \$7,897,093 | \$0 | \$0 | \$0 | \$45,641,573 | \$45,641,573 |
| 2028 | \$37,728,811 | \$0 | \$0 | \$7,898,121 | \$0 | \$0 | \$0 | \$45,626,933 | \$45,626,933 |
| 2029 | \$36,821,954 | \$0 | \$0 | \$7,542,564 | \$0 | \$0 | \$0 | \$44,364,517 | \$44,364,517 |
| 2030 | \$36,805,779 | \$0 | \$0 | \$7,547,658 | \$0 | \$0 | \$0 | \$44,353,437 | \$44,353,437 |
| 2031 | \$36,785,499 | \$0 | \$0 | \$5,441,258 | \$0 | \$0 | \$0 | \$42,226,757 | \$42,226,757 |
| 2032 | \$36,771,899 | \$0 | \$0 | \$5,440,253 | \$0 | \$0 | \$0 | \$42,212,151 | \$42,212,151 |
| 2033 | \$36,760,123 | \$0 | \$0 | \$5,443,490 | \$0 | \$0 | \$0 | \$42,203,613 | \$42,203,613 |
| 2034 | \$36,735,586 | \$0 | \$0 | \$2,773,868 | \$0 | \$0 | \$0 | \$39,509,453 | \$39,509,453 |
| 2035 | \$758,336 | \$0 | \$0 | \$2,769,413 | \$0 | \$0 | \$0 | \$3,527,748 | \$3,527,748 |

Source: Kansas Division of the Budget spreadsheets as of June 30, 2005, and bond sizing by the Kansas Public Finance Center.

Appendix 6: Kansas Debt Affordability Model

| Fiscal Year Ended June 30 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Population | 2,532,384.00 | 2,556,549.00 | 2,580,507.00 | 2,601,021.00 | 2,614,546.00 | 2,635,284.00 | 2,660,581.00 | 2,678,344.00 | 2,691,756.00 |
| Per Capita Personal Income | \$19,672 | \$20,210 | \$20,970 | \$21,547 | \$22,818 | \$24,009 | \$25,466 | \$26,179 | \$27,688 |
| General Fund Revenue | \$2,465,800,000 | \$2,932,000,000 | \$3,175,700,000 | \$3,218,800,000 | \$3,448,300,000 | \$3,683,800,000 | \$4,023,700,000 | \$3,978,400,000 | \$4,203,100,000 |
| General Fund Expenditure | \$2,491,300,000 | \$2,690,400,000 | \$3,111,000,000 | \$3,309,800,000 | \$3,439,200,000 | \$3,538,100,000 | \$3,799,100,000 | \$4,196,200,000 | \$4,367,600,000 |
| <i>Annual Percent Change in Total Revenues</i> | | 18.91% | 8.31% | 1.36% | 7.13% | 6.83% | 9.23% | -1.13% | 5.65% |
| <i>Annual Percent Change in Total Expenditures</i> | | 7.99% | 15.63% | 6.39% | 3.91% | 2.88% | 7.38% | 10.45% | 4.08% |
| Projected Increase of Debt Outstanding at year end | | | | | | | | | |
| Total Debt Outstanding (included Projected Increase) | \$424,006,201 | \$927,617,145 | \$1,047,628,267 | \$1,170,636,326 | \$1,189,913,234 | \$1,246,971,445 | \$1,437,725,259 | \$1,501,107,146 | \$1,921,633,591 |
| Total Current and Projected Debt Outstanding excluding KDOT | \$174,006,201 | \$291,262,145 | \$286,738,267 | \$270,636,326 | \$299,678,234 | \$371,561,445 | \$577,960,259 | \$669,072,146 | \$805,543,591 |
| <i>Annual Percent Change in Total Debt Outstanding</i> | | 118.77% | 12.94% | 11.74% | 1.65% | 4.80% | 15.30% | 4.41% | 28.01% |
| Total Current and Projected Debt Service | | \$263,801,856 | \$78,791,568 | \$104,025,883 | \$102,702,045 | \$110,946,451 | \$142,147,002 | \$172,762,101 | \$184,984,590 |
| <i>Annual Percent Change In Debt Service</i> | | | -70.13% | 32.03% | -1.27% | 8.03% | 28.12% | 21.54% | 7.07% |
| <i>Debt per Capita</i> | \$167 | \$363 | \$406 | \$450 | \$455 | \$473 | \$540 | \$560 | \$714 |
| <i>Debt per Capita Excluding KDOT</i> | \$69 | \$114 | \$111 | \$104 | \$115 | \$141 | \$217 | \$250 | \$299 |
| <i>KDOT Debt per Capita</i> | \$99 | \$249 | \$295 | \$346 | \$340 | \$332 | \$323 | \$311 | \$415 |
| <i>Debt per Capita as a % of Personal Income per Capita</i> | 0.85% | 1.80% | 1.94% | 2.09% | 1.99% | 1.97% | 2.12% | 2.14% | 2.58% |
| <i>Debt per Capita Excluding KDOT as a % of Personal Income per Capita</i> | 0.35% | 0.56% | 0.53% | 0.48% | 0.50% | 0.59% | 0.85% | 0.95% | 1.08% |
| <i>KDOT Debt per Capita as a % of Personal Income per Capita</i> | 0.50% | 1.23% | 1.41% | 1.61% | 1.49% | 1.38% | 1.27% | 1.19% | 1.50% |
| <i>Debt Service per Capita</i> | | \$103 | \$31 | \$40 | \$39 | \$42 | \$53 | \$65 | \$69 |
| <i>Debt Service per Capita as a % of Personal income per Capita</i> | | 0.51% | 0.15% | 0.19% | 0.17% | 0.18% | 0.21% | 0.25% | 0.25% |
| <i>Debt service as % of General Fund Revenues</i> | | 9.00% | 2.48% | 3.23% | 2.98% | 3.01% | 3.53% | 4.34% | 4.40% |
| <i>Debt service as % of General Fund Expenditures</i> | | 9.81% | 2.53% | 3.14% | 2.99% | 3.14% | 3.74% | 4.12% | 4.24% |
| <i>Debt service excluding KDOT as a % of General Fund Revenues</i> | | 3.72% | 1.45% | 1.81% | 1.33% | 1.34% | 2.11% | 2.49% | 2.16% |
| <i>Debt service excluding KDOT as a % of General Fund Expenditures</i> | | 4.06% | 1.48% | 1.76% | 1.33% | 1.40% | 2.24% | 2.36% | 2.08% |
| <i>State Highway Fund Revenue</i> | | \$471,620,000 | \$467,848,000 | \$477,807,000 | \$516,771,000 | \$516,672,000 | \$533,790,000 | \$538,452,000 | \$546,426,000 |
| <i>KDOT Debt Service</i> | | \$154,593,589 | \$32,801,261 | \$45,811,533 | \$56,990,986 | \$61,407,828 | \$57,064,239 | \$73,746,840 | \$94,162,484 |
| <i>KDOT Debt Service as a % of State Highway Fund Revenue</i> | | 305.07% | 1426.31% | 1042.98% | 906.76% | 841.38% | 935.42% | 730.14% | 580.30% |

Source: Kansas Public Finance Center.

| Fiscal Year Ended June 30 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Population | 2,701,567.00 | 2,715,723.00 | 2,729,423.00 | 2,742,943.00 | 2,756,353.00 | 2,769,519.00 | 2,782,532.00 | 2,795,462.00 | 2,807,187.00 | 2,818,880.00 |
| Per Capita Personal Income | \$28,644 | \$28,854 | \$29,525 | \$30,736 | \$32,060 | \$33,430 | \$34,845 | \$36,334 | \$37,843 | \$39,413 |
| General Fund Revenue | \$4,415,000,000 | \$4,108,300,000 | \$4,245,600,000 | \$4,518,730,000 | \$4,793,780,000 | \$4,940,199,000 | \$5,103,937,842 | \$5,273,103,674 | \$5,447,876,369 | \$5,628,441,761 |
| General Fund Expenditure | \$4,429,600,000 | \$4,466,100,000 | \$4,137,500,000 | \$4,316,500,000 | \$4,680,300,000 | \$4,840,600,000 | \$5,012,156,826 | \$5,189,793,837 | \$5,373,726,523 | \$5,564,178,010 |
| <i>Annual Percent Change in Total Revenues</i> | 5.04% | -6.95% | 3.34% | 6.43% | 6.09% | 3.05% | 3.31% | 3.31% | 3.31% | 3.31% |
| <i>Annual Percent Change in Total Expenditures</i> | 1.42% | 0.82% | -7.36% | 4.33% | 8.43% | 3.42% | 3.54% | 3.54% | 3.54% | 3.54% |
| Projected Increase of Debt Outstanding at year end | | | | | | \$634,560,000 | \$624,810,000 | \$608,455,000 | \$589,430,000 | \$569,465,000 |
| Total Debt Outstanding (included Projected Increase) | \$2,266,515,679 | \$2,428,573,131 | \$2,633,651,406 | \$3,483,029,201 | \$3,954,290,167 | \$4,458,732,572 | \$4,312,391,815 | \$4,158,167,181 | \$3,985,954,953 | \$3,764,611,528 |
| Total Current and Projected Debt Outstanding excluding KDOT | \$843,370,679 | \$1,050,523,131 | \$1,273,561,406 | \$1,902,579,201 | \$2,065,300,167 | \$2,616,497,572 | \$2,523,176,815 | \$2,419,282,181 | \$2,300,059,953 | \$2,178,646,528 |
| <i>Annual Percent Change in Total Debt Outstanding</i> | 17.95% | 7.15% | 8.44% | 32.25% | 13.53% | 12.76% | -3.28% | -3.58% | -4.14% | -5.55% |
| Total Current and Projected Debt Service | \$240,875,665 | \$340,747,388 | \$275,596,954 | \$216,467,092 | \$429,131,345 | \$325,232,996 | \$360,349,917 | \$364,521,164 | \$372,842,036 | \$411,004,582 |
| <i>Annual Percent Change In Debt Service</i> | 30.21% | 41.46% | -19.12% | -21.46% | 98.24% | -24.21% | 10.80% | 1.16% | 2.28% | 10.24% |
| <i>Debt per Capita</i> | \$839 | \$894 | \$965 | \$1,270 | \$1,435 | \$1,610 | \$1,550 | \$1,487 | \$1,420 | \$1,335 |
| <i>Debt per Capita Excluding KDOT</i> | \$312 | \$387 | \$467 | \$694 | \$749 | \$945 | \$907 | \$865 | \$819 | \$773 |
| <i>KDOT Debt per Capita</i> | \$527 | \$507 | \$498 | \$576 | \$685 | \$665 | \$643 | \$622 | \$601 | \$563 |
| <i>Debt per Capita as a % of Personal Income per Capita</i> | 2.93% | 3.10% | 3.27% | 4.13% | 4.47% | 4.82% | 4.45% | 4.09% | 3.75% | 3.39% |
| <i>Debt per Capita Excluding KDOT as a % of Personal Income per Capita</i> | 1.09% | 1.34% | 1.58% | 2.26% | 2.34% | 2.83% | 2.60% | 2.38% | 2.17% | 1.96% |
| <i>KDOT Debt per Capita as a % of Personal Income per Capita</i> | 1.84% | 1.76% | 1.69% | 1.87% | 2.14% | 1.99% | 1.85% | 1.71% | 1.59% | 1.43% |
| <i>Debt Service per Capita</i> | \$89 | \$125 | \$101 | \$79 | \$156 | \$117 | \$130 | \$130 | \$133 | \$146 |
| <i>Debt Service per Capita as a % of Personal income per Capita</i> | 0.31% | 0.43% | 0.34% | 0.26% | 0.49% | 0.35% | 0.37% | 0.36% | 0.35% | 0.37% |
| <i>Debt service as % of General Fund Revenues</i> | 5.46% | 8.29% | 6.49% | 4.79% | 8.95% | 6.58% | 7.06% | 6.91% | 6.84% | 7.30% |
| <i>Debt service as % of General Fund Expenditures</i> | 5.44% | 7.63% | 6.66% | 5.01% | 9.17% | 6.72% | 7.19% | 7.02% | 6.94% | 7.39% |
| <i>Debt service excluding KDOT as a % of General Fund Revenues</i> | 2.97% | 5.50% | 3.82% | 2.95% | 6.54% | 3.86% | 4.34% | 4.38% | 4.39% | 4.16% |
| <i>Debt service excluding KDOT as a % of General Fund Expenditures</i> | 2.96% | 5.06% | 3.92% | 3.09% | 6.70% | 3.94% | 4.42% | 4.45% | 4.45% | 4.21% |
| <i>State Highway Fund Revenue</i> | \$581,859,000 | \$636,748,000 | \$549,664,000 | \$545,637,000 | \$564,167,000 | \$563,141,000 | \$749,978,000 | \$822,751,000 | \$789,945,000 | \$789,945,000 |
| <i>KDOT Debt Service</i> | \$109,684,780 | \$114,664,503 | \$113,315,096 | \$83,015,182 | \$115,401,964 | \$134,660,109 | \$138,724,183 | \$133,318,405 | \$133,705,890 | \$176,911,658 |
| <i>KDOT Debt Service as a % of State Highway Fund Revenue</i> | 530.48% | 555.31% | 485.08% | 657.27% | 488.87% | 418.19% | 540.63% | 617.13% | 590.81% | 446.52% |

Source: Kansas Public Finance Center.

Appendix 7 – Bond Sizing Assumptions

Bonds outstanding as of June 30, 2005 have repayment schedules that are aggregated and shown in earlier Appendix material based on the Kansas Division of the Budget Spreadsheets. To these amounts must be added new bond issues.

Appendix 1 contains the listing of all authorized but unissued bonds as of June 30, 2005. They are assumed to be issued in the near term. Based upon information from the Kansas Development Finance Authority staff, some of these bonds have expected issuance dates. For conservative forecasting purposes, all other bonds are assumed to be issued immediately. The assumed issuance year is also cited in Appendix 1.

To generate forecasted debt service obligations for these new bonds, the Kansas Debt Affordability Model estimates the repayment schedule using a series of bond sizing exercises.

All of the projected debt is structured using 20 year serial bonds with level debt service at an assumed interest rate of 4.91 percent, with no cost of issuance.

This bond sizing operation was performed using MUN-EASE software (sizing rule #7) made available by the City of Wichita. The program rounds off the principal amounts to the nearest \$5,000 denomination since municipal bonds are sold this way. The dated date (and delivery date) on each bond issue is the first day of the scheduled fiscal year (July 1) with the first interest payment due in six months (January 1) and the first principal payment due at the one year anniversary (July 1). Each coupon and the overall net interest cost (NIC) is 4.91 percent

The 4.91 percent rate is the five-year average interest rate of the weekly Bond Buyer 20-Bond Index as of June 27, 2005. The 20-Bond Index consists of 20 general obligation bonds that mature in 20 years with an average bond rating roughly equivalent to Moody's Investors Service Aa3 rating and Standard & Poor's AA-minus rating. Data were made available by Ehlers & Associates. The 20-Bond Index was used due to the 20 year maturity instead of the Bond Buyer Revenue Bond Index with 30 year maturity and lower equivalent ratings than enjoyed by the State of Kansas.

Appendix 8 presents the results of this bond sizing for all authorized but unissued bonds as of June 30, 2005.

Future iterations of this model can use different assumptions in an effort to fine-tune the results. As constructed, this modeling procedure permits a forecast of the various debt capacity ratios for the term of all bonds.

Appendix 8: Assumed Issuance of the Bonds Authorized as of June 30, 2005

| Fiscal Year End | Debt Outstanding | Debt Service | | |
|--------------------|------------------|--------------|------------|------------|
| | | Principal | Interest | Total |
| 2006 | 634,560,000 | 0 | 8,594,464 | 8,594,464 |
| 2007 | 624,810,000 | 9,750,000 | 22,313,250 | 32,063,250 |
| 2008 | 608,455,000 | 16,355,000 | 28,656,356 | 45,011,356 |
| 2009 | 589,430,000 | 19,025,000 | 29,408,077 | 48,433,077 |
| 2010 | 569,465,000 | 19,965,000 | 28,450,872 | 48,415,872 |
| 2011 | 548,480,000 | 20,985,000 | 27,445,550 | 48,430,550 |
| 2012 | 526,455,000 | 22,025,000 | 26,389,654 | 48,414,654 |
| 2013 | 503,320,000 | 23,135,000 | 25,280,976 | 48,415,976 |
| 2014 | 479,020,000 | 24,300,000 | 24,116,447 | 48,416,447 |
| 2015 | 453,485,000 | 25,535,000 | 22,892,998 | 48,427,998 |
| 2016 | 426,685,000 | 26,800,000 | 21,608,174 | 48,408,174 |
| 2017 | 398,495,000 | 28,190,000 | 20,258,169 | 48,448,169 |
| 2018 | 368,925,000 | 29,570,000 | 18,840,161 | 48,410,161 |
| 2019 | 337,855,000 | 31,070,000 | 17,351,449 | 48,421,449 |
| 2020 | 305,220,000 | 32,635,000 | 15,787,491 | 48,422,491 |
| 2021 | 270,960,000 | 34,260,000 | 14,145,219 | 48,405,219 |
| 2022 | 234,975,000 | 35,985,000 | 12,420,704 | 48,405,704 |
| 2023 | 197,155,000 | 37,820,000 | 10,608,792 | 48,428,792 |
| 2024 | 157,440,000 | 39,715,000 | 8,705,307 | 48,420,307 |
| 2025 | 115,710,000 | 41,730,000 | 6,705,833 | 48,435,833 |
| 2026 | 71,890,000 | 43,820,000 | 4,605,580 | 48,425,580 |
| 2027 | 25,870,000 | 46,020,000 | 2,400,008 | 48,420,008 |
| 2028 | 4,920,000 | 20,950,000 | 755,895 | 21,705,895 |
| 2029 | | 4,920,000 | 120,786 | 5,040,786 |

Source: Listing of Authorized but Unissued Bonds as of June 30, 2005, and bond sizing by Kansas Public Finance Center