

MINUTES OF THE SENATE COMMERCE COMMITTEE.

The meeting was called to order by Chairperson Karin Brownlee at 8:30 a.m. on February 5, 2003 in Room 123-S of the Capitol.

All members were present except:

Committee staff present: April Holman, Legislative Research
Deb Hollon, Legislative Research
Norman Furse, Revisor of Statutes
Mitch Rice, Revisor of Statutes

Conferees appearing before the committee: Steve Weatherford, President, Kansas Development Finance Authority
Kim Qualls, Department of Commerce

Others attending: See attached list.

Chairperson Brownlee began the meeting by asking for bill introductions, as today is the last day for committees to request bills. Senator Brownlee requested introduction of a bill to grant Starbond authority to any location statewide. Senator Kerr moved to introduce the bill. Senator Jordan seconded. The motion carried.

Mike Murray, Director of Governmental Affairs with Sprint, requested introduction of a bill regarding broadband development throughout the state, where no tax dollars are involved. Sprint will deploy broadband in 48% of access lines by the end of 2004. Caller id and other features will be deregulated and not subject to the KCC. Senator Steineger moved to introduce the bill. Senator Emler seconded. The motion carried.

Bill Curtis from the Kansas Association of School Boards requested introduction of a bill on workers compensation. Senator Jordan moved to introduce the bill. Senator Brungardt seconded. The motion carried.

Paul Johnson with the Public Assistance Coalition requested introduction of a bill similar to HB 2467 from two years ago, which was an act concerning agriculture, enacting the agricultural opportunities and value-added partnerships act. Senator Kerr moved to introduce the bill. Senator Jordan seconded. The motion carried.

Chairperson Brownlee welcomed Steve Weatherford, President of the Kansas Development Finance Authority, to the committee. Mr. Weatherford spoke to the committee about Kansas' credit rating, in response to a letter from the past president of KDFFA, Jack Brier, which included an article published by Standard and Poor's. (Attachments 1 and 2) Kansas currently has an AA+ rating, which is the second highest. This reflects responsible financial management of Kansas' debt. However, Kansas has a "negative watch," though our rating is still very high. S & P is concerned about the financial dealings of the state, and the depletion of the "rainy days" fund.

KDFFA believes it is imperative to make a reasonable plan to replenish the reserves. If Kansas has a downgrade, highway bonds, the turnpike, and school district bonds would be affected, among other things. Increasing revenue and having an ending balance are the two most important things Kansas can do to retain its high credit rating.

Chairperson Brownlee welcomed Kim Qualls from the Department of Commerce, Division of Travel and Tourism, to the committee. Ms. Qualls briefed the committee on the progress of the Lewis and Clark bicentennial celebration, which will be held in the summer of 2004. (Attachment 3) Ms. Qualls provided

CONTINUATION SHEET

MINUTES OF THE SENATE COMMERCE COMMITTEE at 8:30 a.m. on February 5, 2003 in Room 123-S of the Capitol.

the committee with details of the specific planning her division is doing to prepare for the event. Events will be held in Atchison, Leavenworth, White Cloud, and Kansas City, Kansas. Heart of America: A Journey Fourth, a Lewis & Clark National Signature Event, will take place July 3-4, 2004. These events are expected to draw thousands of visitors to Kansas.

Senator Steineger moved to approve the minutes from January 23. Senator Emler seconded. The motion carried.

The meeting was adjourned at 8:30 a.m.

The next meeting is scheduled for February 6, 2003 at 8:30 a.m. in room 123-S.



KANSAS

KANSAS DEVELOPMENT FINANCE AUTHORITY

August 12, 2002

The Honorable Karin Brownlee
Kansas Senate
1232 South Lindenwood Drive
Olathe, Kansas 66062 2332

Dear Senator Brownlee:

Karin

As a result of the independent credit analysis of Kansas by Standard & Poor's Credit Rating Agency, I thought it advisable to send you a copy of their report.

The credit rating affects the amount of interest paid by the State on the bonds authorized by the Kansas legislature and issued by Kansas Development Finance Authority. The lower the credit rating, the higher the interest rate and the cost of borrowing.

If you have questions or comments, please feel free to contact me.

With every good wish.

Cordially,

A large, stylized handwritten signature in black ink, appearing to read "Jack H. Brier".

Jack H. Brier
President

Enclosure

Senate Commerce Committee

2-5-03
Attachment 2-1

Publication date: 08-Aug-2002
Reprinted from RatingsDirect

Distressed Budget Thorn in Kansas ICR, Deflated Finances Cited for Outlook Revision to Negative

Credit Analyst: James Breeding, Dallas (1) 214-871-1407; James Wiemken, Chicago (1) 312-233-7005

DALLAS (Standard & Poor's) Aug. 8, 2002--Standard & Poor's Ratings Services said revised its outlook on Kansas' issuer credit rating to negative from stable due to ongoing revenue shortfalls, which have drained the state's liquidity despite statutory provisions designed to limit such occurrences.

At the same time, Standard & Poor's Ratings Services said it affirmed its double-'A'-plus issuer credit rating on Kansas.

"The outlook revision to negative is a precursor to a possible rating downgrade if the state's budget remains under stress and actions are not taken to alleviate those pressures," said credit analyst James Breeding. "Appropriate actions could prove challenging as the state has relied on onetime measures to fund part of the shortfalls recent years. The state will face a change in administration during the current fiscal year and will remain under pressure to continue or increase its support for roads and schools."

Kansas' finances continue to be stressed by revenue shortfalls and growing entitlement expenditures. Without additional revenue sources, cuts in important state services like education and transportation could be necessary in the coming fiscal year. The state's general fund balance was expected to decline to about 4% of expenditures by the end of fiscal 2002; revised estimates, however, indicate that the general fund balance actually declined to below 1% at the end of the fiscal year.

State statutes require lawmakers to pass each annual budget with measures to restore the state's balances to a level equal to 7.5% of budgeted expenditures. Ideally, these statutes are in place to help ensure that Kansas' liquidity position will not become dangerously low; the 2002 revenue shortfall, however, has been severe enough to cause the Kansas Legislature to reduce the cash balance requirement to 5.0% from 7.5% for the fiscal 2003 budget. The 2002-2003 budget was passed using preliminary figures and met the state's legal requirement at that time. Revised estimates since the last legislative session, however, indicate the reserve level began lower than expected

"Standard & Poor's Ratings Services considers Kansas' relatively diverse economic base, conservative fiscal management that had been able to maintain financial stability through revenue shortfalls but has recently encountered significant challenges, very low debt burden, and history of good liquidity strengths that have enabled the state to maintain its high investment-grade rating," added Mr. Breeding.

Kansas' economic growth has slowed since 1999 from its rapid levels in the mid- to late 1990s, although gross state product continues to increase.

Although the Kansas Constitution allows for the issuance of general obligation debt under certain circumstances, the state has not exercised this ability since 1919. Instead, debt issuance consists of highway bonds issued by the Kansas Department of Transportation and lease revenue bonds and certificates of participation issued through the Kansas Development Finance Authority. Kansas has one of the lowest per capita debt ratios in the nation.

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STATE OF KANSAS CREDIT RATING

A primary goal of any government is to minimize the cost of its debt. A key resource and subsidy provided by the federal government to the states is the use of tax-exempt borrowing to finance infrastructure improvements. The tax-exempt feature enables state and local governments to go to the capital markets and borrow funds on significantly more favorable terms than those prevailing in the capital markets.

The lowest interest rates, and associated lowest borrowing costs are awarded to those debt issues with the highest credit quality. In order to determine the credit quality of any given issue, the capital markets rely to a great extent on the ratings assigned to the issue by a ratings agency. Currently there are three major rating agencies:

- Standard & Poor's
- Moody's Investors Service
- Fitch Ratings

Kansas Development Finance Authority ("K DFA") serves as the State's financial services corporation, and in this role, has developed a strong working relationship with the ratings agencies. K DFA presently carries an Issuer's Credit Rating on behalf of the State of Kansas of a "AA+" issued by Standard & Poor's (S&P).

This is the second highest rating S&P awards and places Kansas ahead of many of our peer states.

Kansas also has one of the lowest per capita outstanding bonded debt ratios in the country, and K DFA paper is consistently in demand in the market place at very favorable rates, meaning more dollars go to public improvements.

The principal foundation of any credit rating is the fundamental strength of the local economy. Generally, when the economy is growing, economic conditions are favorable to improving credit quality, and therefore credit ratings. Conversely, when the economy is stagnant or recessionary, credit quality and the accompanying rating is subject to downgrade. Currently the majority of states, including Kansas are experiencing difficult economic times. The ratings agencies accordingly are reviewing credit quality. In Kansas' case, this review has resulted in S&P putting Kansas on a "negative" credit watch.

Should Kansas fail to develop a plan to replenish its reserves it is likely that Kansas' credit rating will be downgraded. This could happen in incremental steps whereby Kansas' rating could drop from a AA+ to AA to AA- to A and so forth, or it could happen in more dramatic fashion declining from the AA+ to single A, depending on whether the appropriate remedial steps are taken to restore the ending balance reserves.

As discussed, because a higher credit rating equivalently corresponds to a lower borrowing cost, K DFA believes it is critical that a reasonable plan be devised to replenish the State's ending balance reserves in order to preserve our high rating.

Senate Commerce Committee
2-5-03
Attachment 2-1

\$100 Million AA for 20yrs.		\$100 Million @ A for 20yrs.	
DEBT SERVICE SCHEDULE		DEBT SERVICE SCHEDULE	
Date	Total P+I	Date	Total P+I
2/01/2004	7,497,721.27	2/01/2004	7,689,467.37
2/01/2005	7,496,705.50	2/01/2005	7,686,919.00
2/01/2006	7,497,330.50	2/01/2006	7,689,311.00
2/01/2007	7,497,318.50	2/01/2007	7,690,394.50
2/01/2008	7,498,968.50	2/01/2008	7,687,741.50
2/01/2009	7,496,517.00	2/01/2009	7,685,565.50
2/01/2010	7,495,347.00	2/01/2010	7,689,735.50
2/01/2011	7,498,136.50	2/01/2011	7,685,500.00
2/01/2012	7,500,160.50	2/01/2012	7,689,957.00
2/01/2013	7,498,710.50	2/01/2013	7,689,867.00
2/01/2014	7,495,179.50	2/01/2014	7,686,525.50
2/01/2015	7,498,754.50	2/01/2015	7,689,049.50
2/01/2016	7,499,179.50	2/01/2016	7,687,080.00
2/01/2017	7,495,629.50	2/01/2017	7,690,256.00
2/01/2018	7,497,797.50	2/01/2018	7,687,791.00
2/01/2019	7,494,973.50	2/01/2019	7,689,397.00
2/01/2020	7,496,323.50	2/01/2020	7,689,362.50
2/01/2021	7,495,531.50	2/01/2021	7,686,630.00
2/01/2022	7,496,466.50	2/01/2022	7,685,780.00
2/01/2023	7,497,724.50	2/01/2023	7,690,517.50
Total	149,944,475.77	Total	153,766,847.37

191,746.10
190,213.50
191,980.50
193,076.00
188,773.00
189,048.50
194,388.50
187,363.50
189,796.50
191,156.50
191,346.00
190,295.00
187,900.50
194,626.50
189,993.50
194,423.50
193,039.00
191,098.50
189,313.50
192,793.00
3,822,371.60

YIELD STATISTICS

Bond Year Dollars..... \$1,169,353.89
Average Life..... 11.694 Years
Average Coupon..... 4.2711173%

Net Interest Cost (NIC) 4.2711173%
True Interest Cost (TIC) 4.2171607%
Bond Yield for Arbitr 4.2171607%
All Inclusive Cost (AIC) 4.2171607%

IRS FORM 8038

Net Interest Cost..... 4.2711173%
Weighted Average Maturity 11.694 Years

YIELD STATISTICS

Bond Year Dollars..... \$1,179,308.89
Average Life..... 11.793 Years
Average Coupon..... 4.5591827%

Net Interest Cost (NIC) 4.5591827%
True Interest Cost (TIC) 4.5061601%
Bond Yield for Arbitr 4.5061601%
All Inclusive Cost (AIC) 4.5061601%

IRS FORM 8038

Net Interest Cost..... 4.5591827%
Weighted Average Maturity 11.793 Years

2-2

Kansas Department of Commerce & Housing
Testimony on Travel & Tourism Development Division Projects

Senate Committee on Commerce
February 5, 2003

My name is Kim Qualls and I am the marketing manager for the Division of Travel & Tourism within the Kansas Department of Commerce & Housing. Thank you for the opportunity to appear before you today to discuss the Department of Commerce & Housing's tourism marketing activities, and specifically those aimed at increasing awareness of Kansas' Lewis & Clark Bicentennial Commemoration activities.

Kansas Lewis & Clark Bicentennial Commemoration

The Kansas Department of Commerce & Housing Division of Travel & Tourism is working with the Kansas Lewis & Clark Bicentennial Commission in promoting the portion of Lewis & Clark's historic expedition in Kansas during the national commemoration taking place in 2004. Four communities, Atchison, Leavenworth, White Cloud and Kansas City, Kansas, will be the primary sites for Lewis & Clark events and attractions in Kansas. Heart of America: A Journey Fourth, a Lewis & Clark National Signature Event, will take place July 3-4, 2004. This national signature event coupled with Kansas' Lewis & Clark history events taking place June 22-July 11 will draw thousands of visitors to Kansas during 2004.

KDOC&H recognizes the importance of this historic event and the economic impact that it will generate for Kansas tourism. Plans are currently underway for the promotion of Lewis & Clark in Kansas. The following is a list of KDOC&H commitments to assist the Kansas Lewis & Clark Bicentennial Commission in the promotion of this historic commemoration next year.

- Targeted advertising investment for 2003 and 2004 for Lewis & Clark in Kansas, including national consumer publications and regional newspapers.
- Attraction Development Grant awarded in FY 2003 for the development of four permanent high-tech kiosks that will provide visitors with the Lewis & Clark history in Kansas. These kiosks will not only tell the story next year, but will enlighten visitors for years to come of the historic expedition that traveled through Kansas. These kiosks will be located in White Cloud, Atchison, Leavenworth, and Kansas City.
- Brochure fulfillment for Lewis & Clark information will be handled by the Department's contractual fulfillment center on a special project basis. All web site inquiries from the Lewis & Clark web site, www.lewisandclarkinkansas.com, will also be fulfilled by the fulfillment center.
- Our toll free phone number (1-800-2KANSAS) will be used on all Lewis & Clark promotional pieces for Kansas.
- *KANSAS!* Magazine will feature two Lewis & Clark special interest stories in late 2003 and early 2004. Lewis & Clark advertising will also be placed in specific *KANSAS!* magazine issues.
- KDOC&H's travel web site, www.travelKS.com, will include a special Lewis & Clark button, directed to a page on our web site providing general information, that will then link the user to the Lewis & Clark web site, www.lewisandclarkinkansas.com.
- We have produced Lewis & Clark press kits and will assist with the overall promotion to the media of Lewis & Clark in Kansas. Included in the press kit are press releases, a fact sheet, and a CD Rom containing Lewis & Clark related images in Kansas. In the fall of 2002, the Department had photography produced that was specific to Lewis & Clark. These are the images now being used in Lewis & Clark print materials, web site, press kit, etc.

The 2004 *Kansas Getaway Guide* that will be completed in December 2003 will include a special feature presentation on Lewis & Clark in Kansas. The 2003 *Kansas Getaway Guide* also mentions Lewis & Clark in a feature article that discusses the new attractions and events that will take place in Kansas next year.

- The new 2003-2004 Kansas State Travel Map includes a special Lewis & Clark feature panel on the front and Lewis & Clark Trail indicators on the map itself. KDOC&H worked in conjunction with the Kansas Department of Transportation on the map, which is now being distributed.

Advertising & Fulfillment

The Department has completed tourism advertising placement in key target markets for both national and regional consumer publications and newspapers to cover both general travel and niche specific advertising. Ads are now being selected for each of these publications and will be placed accordingly. In addition, KDOC&H is coordinating cooperative ads with the tourism industry that focus on both general travel and targeted group tour advertising.

Advertising initiatives for FY 2003 include sponsorship of *Sunflower Journeys* television show that airs several times a week from January to May 2003 across Kansas. Commercials for *Sunflower Journeys* run on at least a dozen cable stations across Kansas, further enhancing the funds invested by KDOC&H. Also, KDOC&H is providing cooperative advertising opportunities in the 2003 Kansas Speedway Guide, allowing Kansas tourism partners to promote their tourism entity to the thousands of race fans that flock to the Kansas Speedway each year.

Group Tour Marketing

KDOC&H will be hosting the second annual Kansas FAM (familiarization) tour for targeted group tour operators in late April 2003. This FAM tour will travel across the state promoting Kansas as a travel destination for the group tour (motorcoach) market. Kansas' communities will again partner with the Department to provide complimentary lodging, attraction fees, and meals for the FAM participants. The FAM will end with a visit to the Kansas Sampler Festival, allowing the tour operators to learn even more about what Kansas has to offer as a travel destination at this annual tourism festival.

International Marketing

KDOC&H is a sponsor for the Go West Summit, an international conference that takes place in early February 2003. Kansas delegates will meet one-on-one with international tour operators at this conference to promote Kansas as a tourism destination for the international traveler. Then in May 2003, Kansas delegates will attend the Travel Industry Association of America's Pow Wow Conference, which again provides Kansas delegates with an opportunity to sell Kansas as a tourism destination to international tour operators.

Travel Information Centers

KDOC&H operates three Travel Information Centers at major interstate entrances to the state. Opening in late spring 2003, the Belle Plaine TIC is located south of Wichita on I-35 and is accessible to both north and southbound travelers. The previous Belle Plaine TIC burned to the ground last spring, but will soon reopen in a new state-of-the-art facility located on the original site. The Goodland TIC, located on I-70 just east of the Colorado border, opened in May 2002, and the Kansas City TIC, located on the grounds of the Kansas

Springway, off I-70 near Kansas City, opened in November 2002. Once the Belle Plaine TIC reopens in spring, Kansas will be home to three new state-of-the-art Travel Information Centers.

Kansas Getaway Guide & State Travel Map

The 2003 Kansas Getaway Guide, a 166-page full color publication, was completed in December 2002 and has been distributed to tourism outlets across Kansas. The guide highlights special-interest themed itineraries such as Natural Wonders, Dreaming Above the Clouds, An Inspired Journey, A Tradition of Growth, Green Grandeur, In the Fast Lane, and Hunting and Fishing. Also, you will find comprehensive information on calendar of events, attractions, accommodations, campgrounds, recreational areas, hunting lodges, bed & breakfasts, antiques, retail, motorsports, and golf courses too. New features for 2003 included expanded listings, two new editorial sections featuring golf and motorsports, and a feature article on the new attractions and events that are coming to Kansas in 2004.

The 2003-2004 Kansas Travel Map is completed and is currently being distributed to tourism outlets across the state. The map has been updated and includes new content for the tourism panels that focus on Kansas tourism niches, and a new look for the front that compliments the look of the 2003 *Kansas Getaway Guide* cover.