

MINUTES OF THE HOUSE COMMERCE AND LABOR COMMITTEE

The meeting was called to order by Chairman Don Dahl at 9:00 A.M. on January 17, 2006 in Room 241-N of the Capitol.

All members were present except:

John Grange- excused
Patricia Kilpatrick- excused

Committee staff present:

Jerry Ann Donaldson, Kansas Legislative Research Department
Norm Furse, Office of Revisor of Statutes
Rena Jefferies, Office of Revisor of Statutes
June Evans, Committee Secretary

Conferees appearing before the committee:

Dr. W. Bartley Hildreth, Regents Distinguished Professor of Public Finance Center, Wichita State University, Wichita, KS

Others attending:

See attached list.

The Chairman stated the meetings would start promptly at 9:00 a.m. out of courtesy to the speakers and members of the committee. The rules were distributed and the Chairman stated they were the same as last year. If there are any questions regarding the rules, bring them to the attention of the Chairman for clarification.

The Chairman asked if there were any bill introductions.

The Kansas Chamber of Commerce requested introduction of two bills: (1) Concerning how administrative law judges are picked and paid and (2) Claim closed in workers compensation.

The bill introductions were accepted.

The Chairman stated that bill introductions would be accepted all week.

The Chairman introduced the guest speaker, Dr. W. Bartley Hildreth, Wichita State University.

Dr. W. Bartley Hildreth, Regents Distinguished Professor of Public Finance, Wichita State University, briefed the committee on the 2005 Debt Affordability Report. The purpose of debt affordability analysis was: (1) to provide Kansas policy makers with information to set capital financing policies so that every bond issuance proposal is considered against total State debt affordability, (2) to safeguard the credit quality of the State's debt instruments, and (3) to ensure the sustainability of the State's financial position.

The total debt outstanding as of June 30, 2005 is \$4.0 billion. The outstanding debt has continued to increase since 1992. The total debt outstanding will decrease if there is no new debt. The Kansas Department of Transportation has incurred 48% of the outstanding debt. Excluding transportation, the general government's share of debt is 37%. Comparing Standard and Poor's total tax-supported debt per capita calculation with estimates to 2010, it is estimated the debt will increase until 2006, then it is estimated the debt will slightly decrease. Tax supported debt as a percent of personal income from 1992 to 2004 has increased.

Comparing Standard and Poor's total tax-supported debt as a percent of personal income calculations peak in 2006 with estimates declining in 2010.

The following are recommendations:

Adopt a set of debt policies to guide state debt issuance and management.

Prepare and publish a multi-year capital improvements plan as a way to manage capital asset construction and

CONTINUATION SHEET

MINUTES OF THE House Commerce and Labor Committee at 9:00 A.M. on January 17, 2006 in Room 241-N of the Capitol.

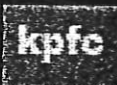
acquisition with scarce resources.

Monitor the State's debt using all the listed debt affordability ratios.

Prepare an annual debt affordability study prior to the legislative session.

Require every debt issuance proposal to be evaluated against its impact on future debt affordability (Attachment 1).

After discussion the meeting adjourned at 10:05 a.m. and the next meeting will be January 18, 2006.



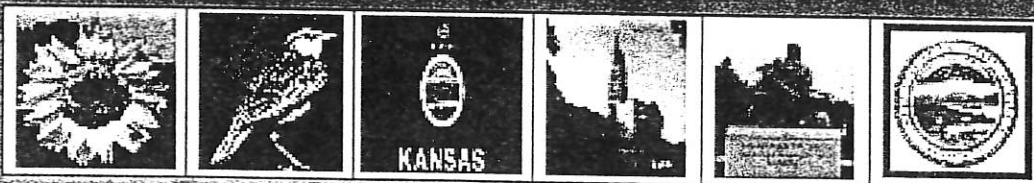
Kansas Public Finance Center
Hugo Wall School of Urban and Public Affairs
Wichita State University

State of Kansas 2005 Debt Affordability Report

September 1, 2005

Project Leader:

Dr. W. Bartley Hildreth
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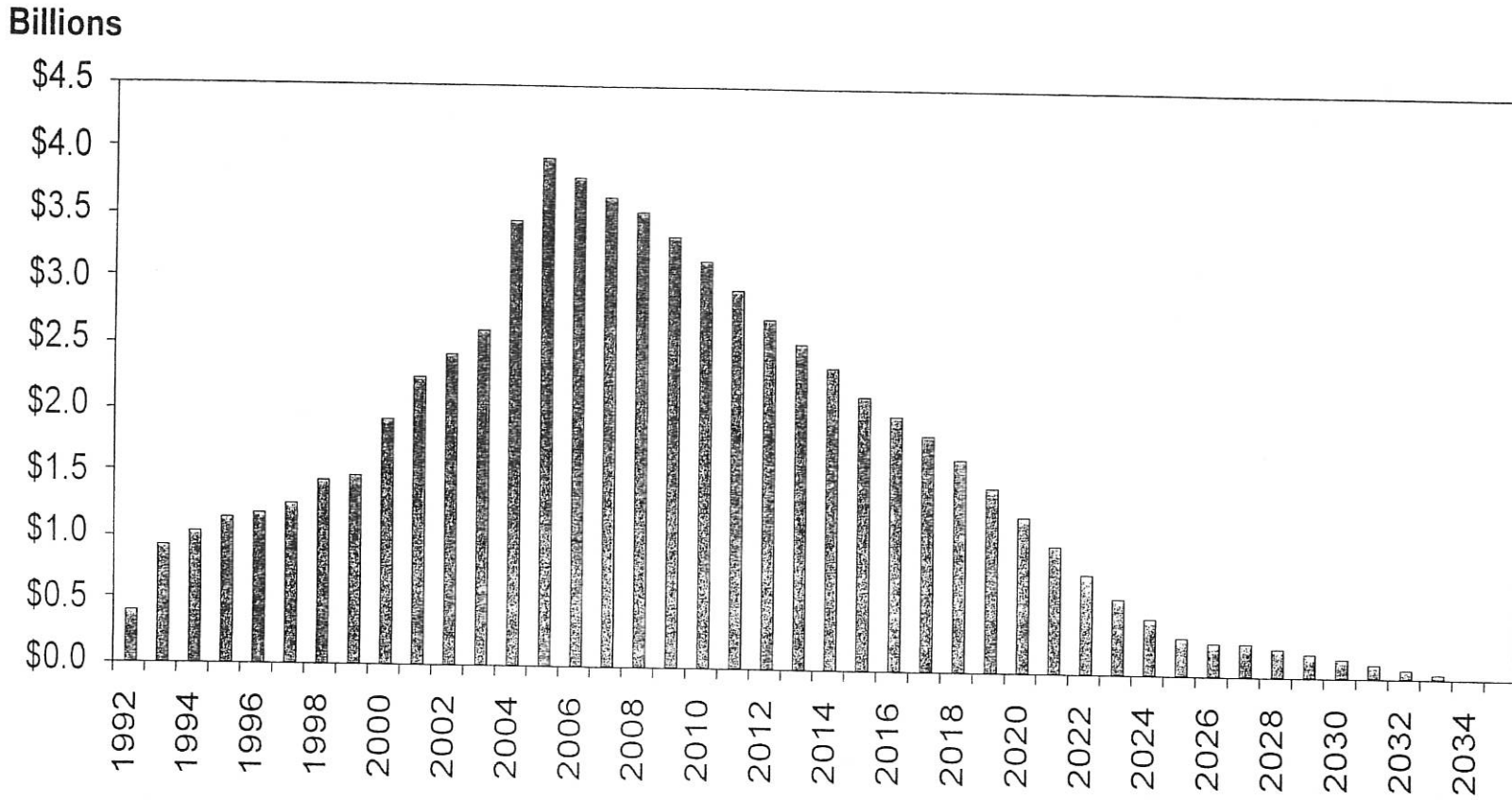


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Purpose of Debt Affordability Analysis

- To provide Kansas policy makers with information to set capital financing policies so that every bond issuance proposal is considered against total State debt affordability.
- To safeguard the credit quality of the State's debt instruments and to ensure the sustainability of the State's financial position.

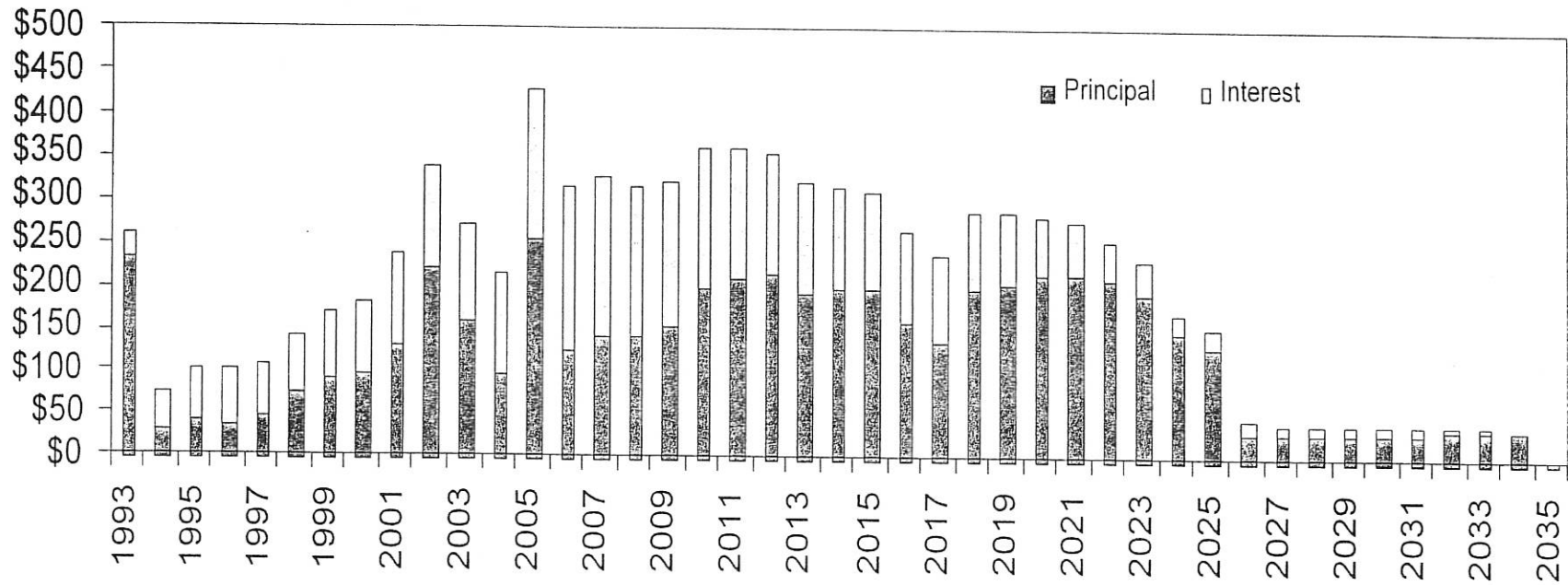
Figure 1: Total Debt Outstanding (in billions), FY 1992 to FY 2034



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

Figure 2: Total Annual Debt Service, FY 1993 to FY 2035

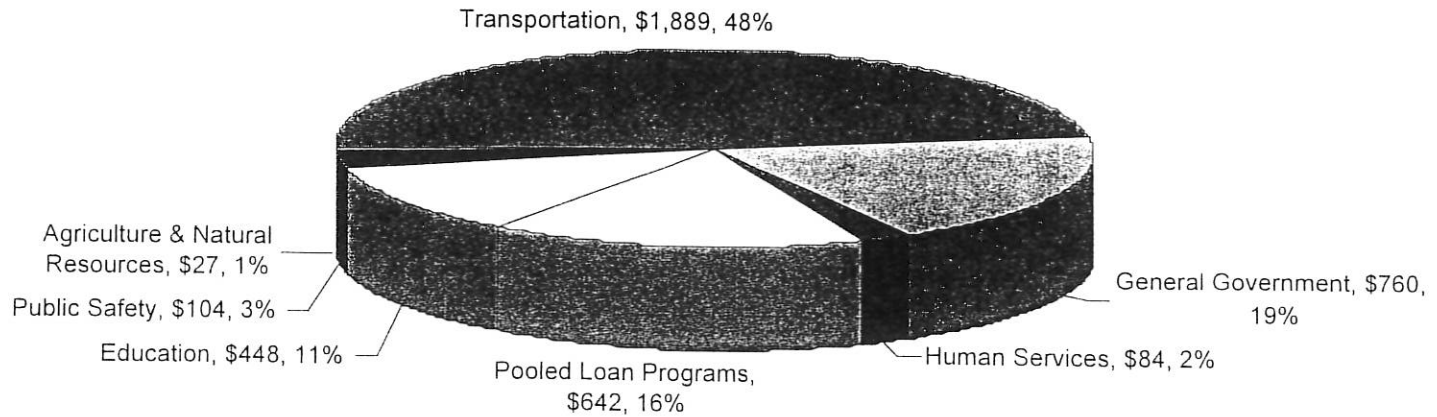
Millions



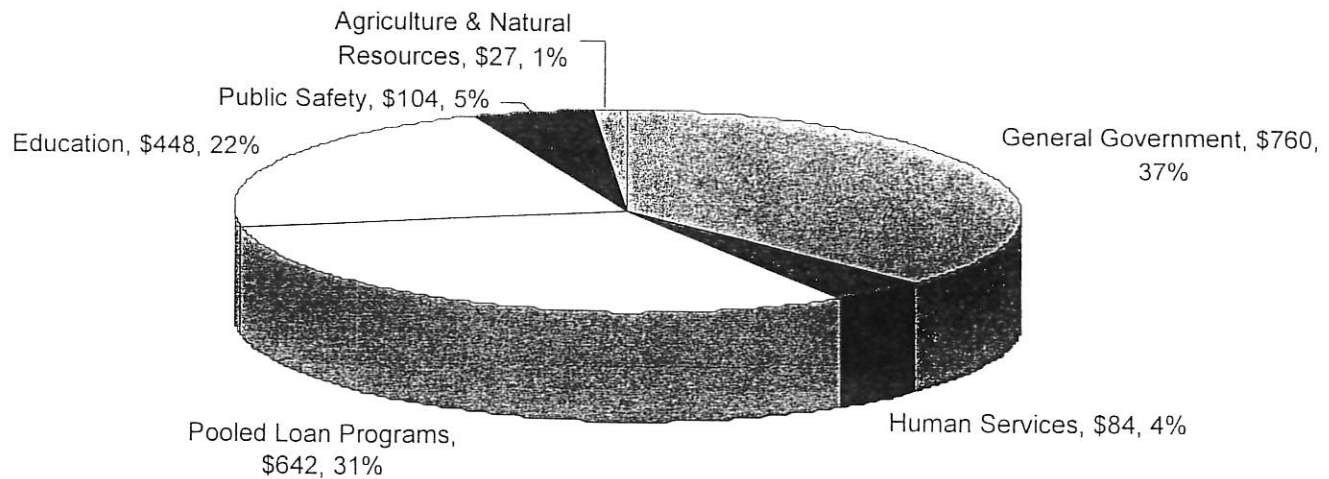
Source: Kansas Division of Budget spreadsheets as of June 30, 2005 – assuming no new debt.

Figure 3: Outstanding Debt by Program for FY 2005 (in millions)

A. Including Transportation

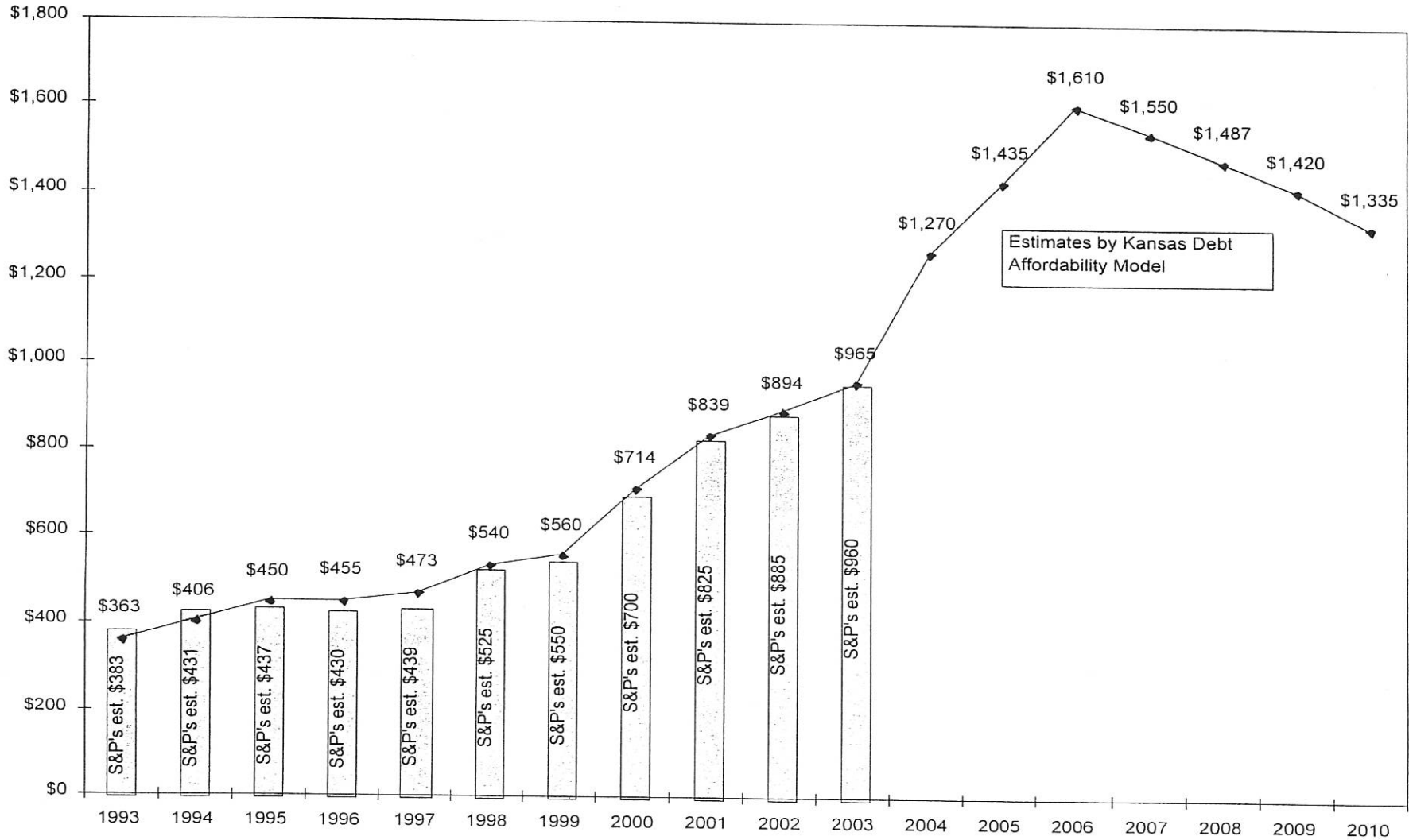


B. Excluding Transportation



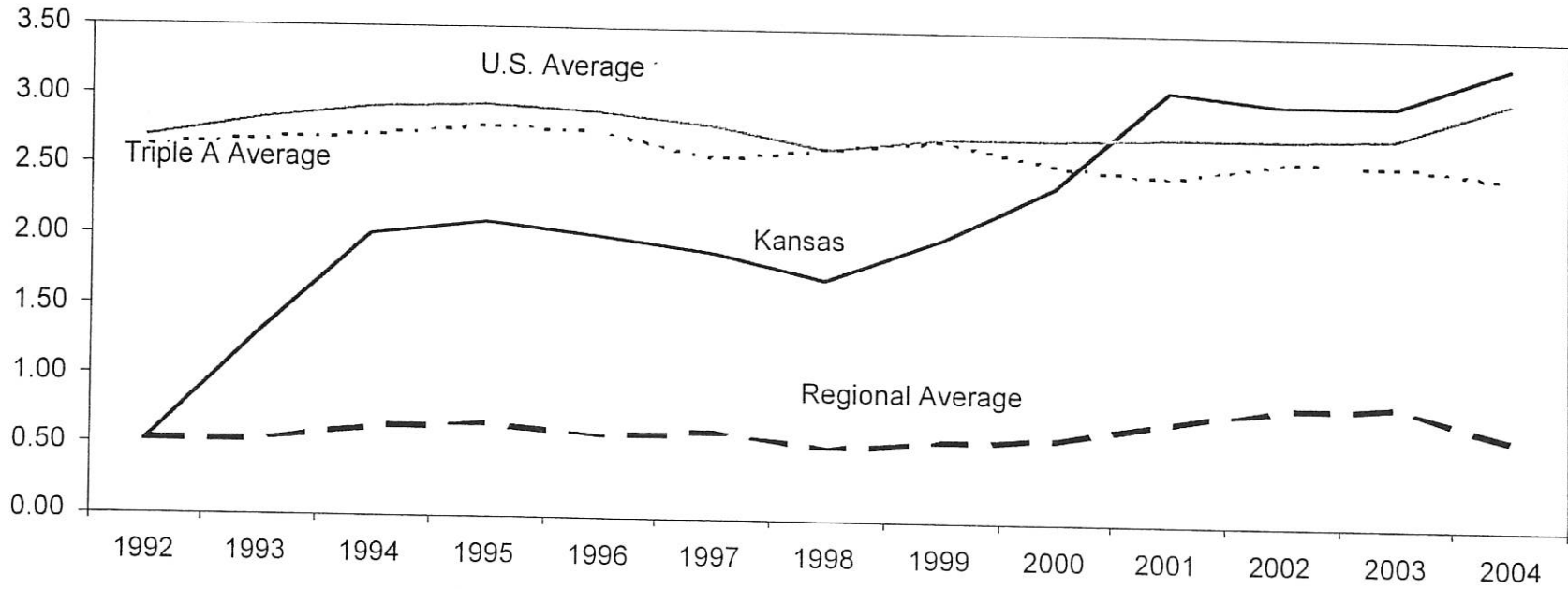
Source: Kansas Division of Budget spreadsheets as of June 30, 2005 assuming no new debt.

Figure 4: 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.

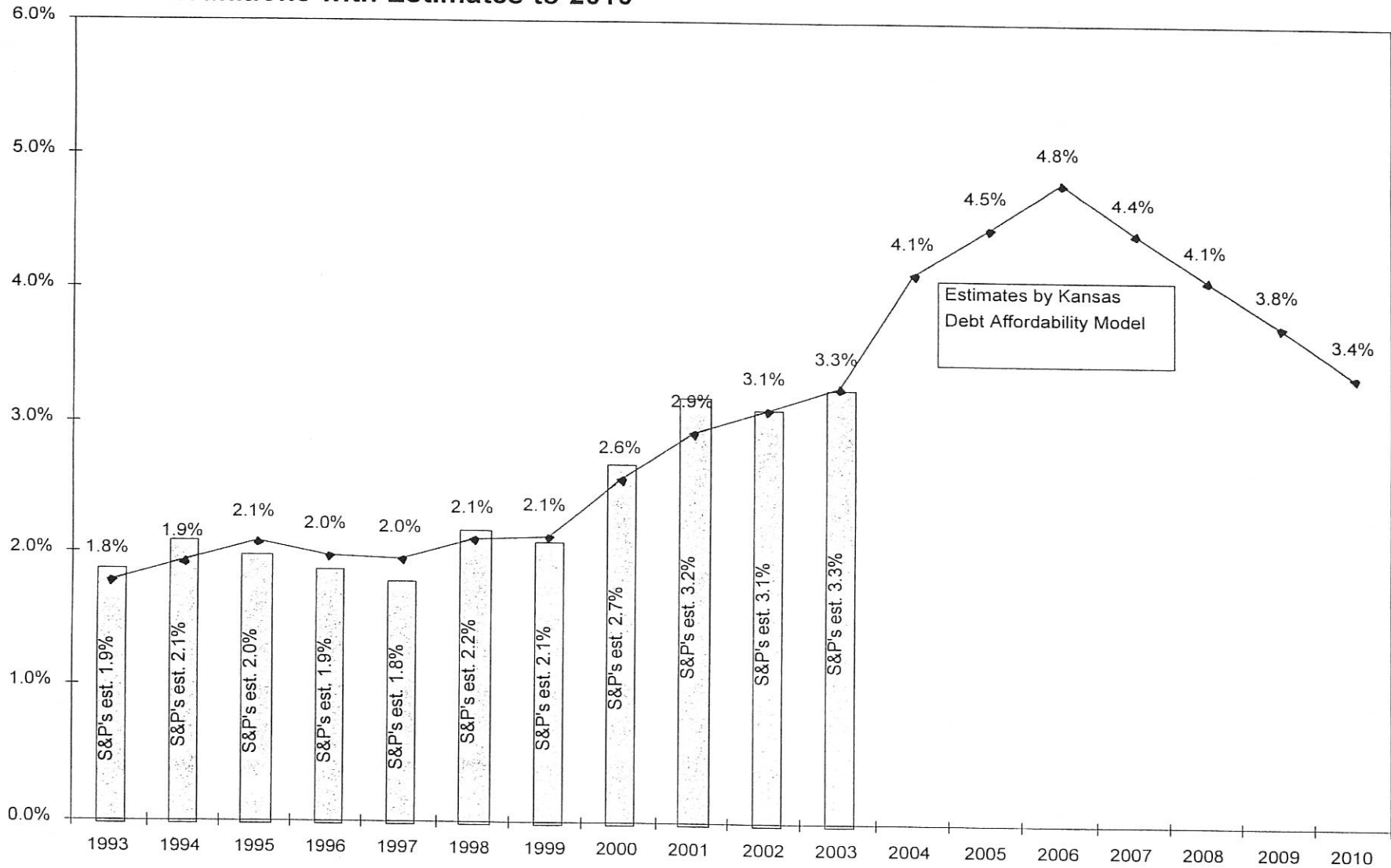
Figure 5: Tax-Supported Debt as a Percent of Personal Income, Years 1992 to 2004



	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	0.64	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; Triple-A States vary by year.

Figure 6: Comparing Standard & Poor's Total Tax-Supported Debt as a Percent of Personal Income Calculations with Estimates to 2010



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

Figure 7: 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%

Recommendations

- Adopt a set of debt policies to guide state debt issuance and management.
- Prepare and publish a multi-year capital improvements plan as a way to manage capital asset construction and acquisition with scarce resources.
- Monitor the State's debt using all the listed debt affordability ratios.
- Prepare an annual debt affordability study prior to the legislative session.
- Require every debt issuance proposal to be evaluated against its impact on future debt affordability.

- Reduce the State's level of debt per capita and debt per capita as a percentage of personal income to the level of the benchmark average set by Moody's and Standard and Poor's in order to safeguard the State's ratings.
- Use General Obligation bonds in addition to Revenue bonds to obtain the lowest cost of capital.
- Maintain the Kansas Development Finance Authority (KDFA) as the central professional office for state-supported debt financing.
- Avoid creating any other financing authorities unless they are subsidiaries of KDFA.

Conclusion

- By establishing affordable levels of debt burden, state leaders will be provided with the opportunity to link the issuance of new debt to the underlying economy, which supports such debt.
- Kansas should extend its debt planning horizon to ensure an efficient and effective balancing of needs and resources
- http://hws.wichita.edu/KPF/reports_publications/