Approved: 1-31-07
Date

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 8:30 A.M. on January 19, 2007 in Room 123-S of the Capitol.

All members were present except:
Laura Kelley- excused
David Wysong- unexcused
Susan Wagle- excused

Committee staff present:
Amy Deckard, Kansas Legislative Research Department
Kathie Sparks, Kansas Legislative Research Department
Jackie Lunn, Committee Assistant

Conferees appearing before the committee:
Dr. Bart Hildreth, Wichita State University
Alan Conroy, Legislative Research

Others attending:
See attached list.

SB 78-Employment security law, definitions; eliminating the waiting week relating to unemployment compensation and shared work compensation

SB 83-Employment security law; contribution rates

Chairperson Brownlee announced to the Committee that the STAR Bond bill would not be ready for next week; therefore, the agenda had been changed and the Committee would hearing **SB 78** and **SB 83** on Tuesday instead. The Department of Commerce will appear before the Committee on Wednesday and Thursday with the tourism initiative. The Department of Labor and the Division of Workers Compensation will report on Friday.

Next, Chairperson Brownlee introduced Dr. Bart Hildreth with Wichita State University to give his testimony on Kansas Debt. Dr. Hildreth presented written testimony, *State of Kansas 2005 Debt Affordability Report*, (Attachment 1) and *Comments by W. Bartley Hildreth.* (Attachment 2). Dr. Hildreth gave a brief review of the *State of Kansas 2005 Debt Affordability Report* and took questions from the Committee members. Dr. Hildreth stated the report was not in response to any request but that his service on the board of the Kansas Development Finance Authority (KDFA) helped him see the need for a comprehensive analysis of State debt.

He stated the purpose of debt affordability analysis is:

- To provide 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.

He stated the study gives all the details as of June 30, 2005, with projections based on the debt authorized but unissued at that time.

Dr. Hildreth highlighted the following points in his review:

- 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 revenue streams 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+ by the independent credit rating firm of Standard & Poor's. State governments with higher bond ratings pay lower interest costs, while governments with lower bond ratings pay higher interest rates.

• Kansas principal debt increased almost five times in a 10-year span, from $424 million in 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 the Kansas Department of Transportation (KDOT).

• At the end of FY 2005 , the total amount of debt for all state agencies was $4.0 billion. Half of this was for KDOT. Another major segment was for a pooled loan program for local government clean water and waste water treatment improvements that are repaid by those local entities. Then was also money borrowed for KPERS.

• Calculations on six credit ratios for assessing debt affordability revealed that Kansas has racked up a growth rate of 7.5 to 13.5 percent per year. The seventh measure showed a tighter debt coverage ratio for KDOT debt.

• Kansas has higher than national averages in terms of debt per capita and debt as a percent of personal income.

• Each of the four states surrounding Kansas has a lower ranking of net tax-supported debt per capita as a percent of personal income than Kansas.

• A state's debt burden is a significant factor in assessing a state's long-term financial health

Upon the conclusion of Dr. Hildreth's review Senator Brownlee introduced Alan Conroy, Legislative Research, to review the *Indebtedness of the State of Kansas FY 1997-FY 2007.* (Attachment 3)
During the review there were questions and answers.

Upon the conclusion of the review and questions and answers, Chairperson Brownlee adjourned the meeting at 9:35 a.m. with the next meeting scheduled for January 23rd at 8:30 a.m. in room 123S.

Senate Commerce Committee
Guest List
Date: January 19, 2007

Paul Johnson	Ks Catholic Conference
Nick Lehman	KDFA
Jim MacMurray	KDFA
Dan Korber	Kansas, Inc
Chad Giles	KTLA
Derek Hein	Hein Law Firm
Reed N. Davis	KDOT
ALAN COBB	Americans for Prosperity

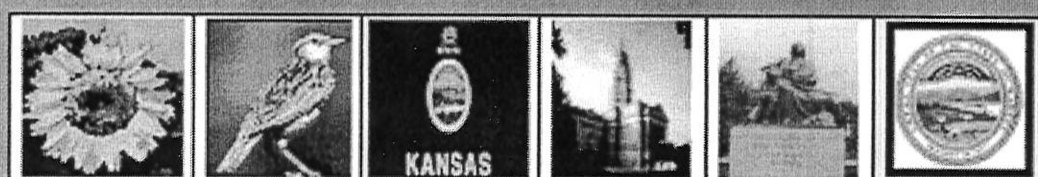
kpfc Kansas Public Finance Center
Hugo Wall School of Urban and Public Affairs
Wichita State University

State of Kansas
2005 Debt Affordability Report

September 1, 2005

Project Leader:

Dr. W. Bartley Hildreth
Regents Distinguished Professor of Public Finance
Director, Kansas Public Finance Center
Hugo Wall School of Public and Urban Affairs
and the W. Frank Barton School of Business
Wichita State University, Wichita, KS 67260-0155
316-978-6332
bart.hildreth@wichita.edu



Senate Commerce Committee
January 19, 2007
Attachment 1-1

Senate Commerce
Jan. 19, 2007
1-1

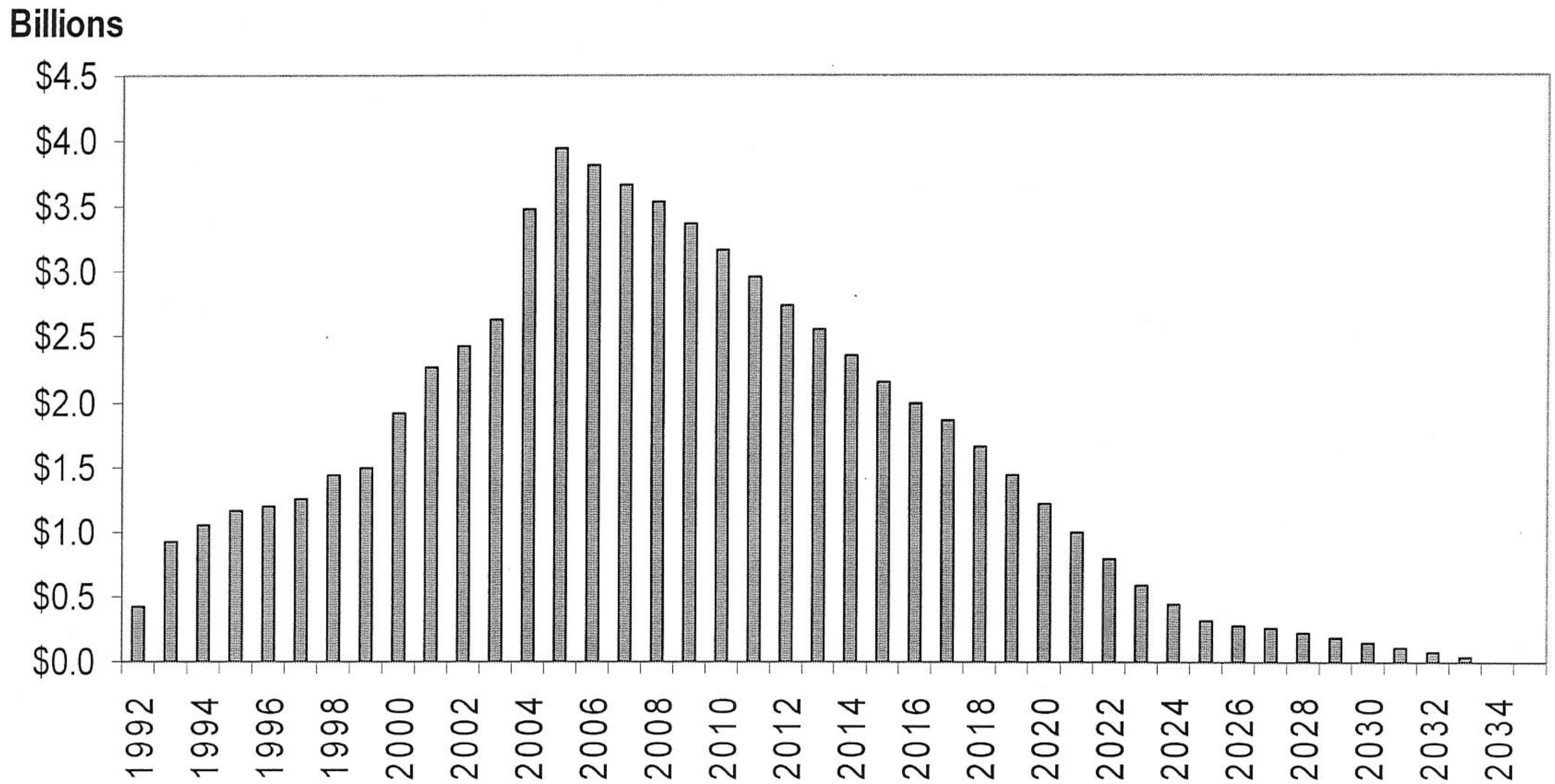
1-2

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.

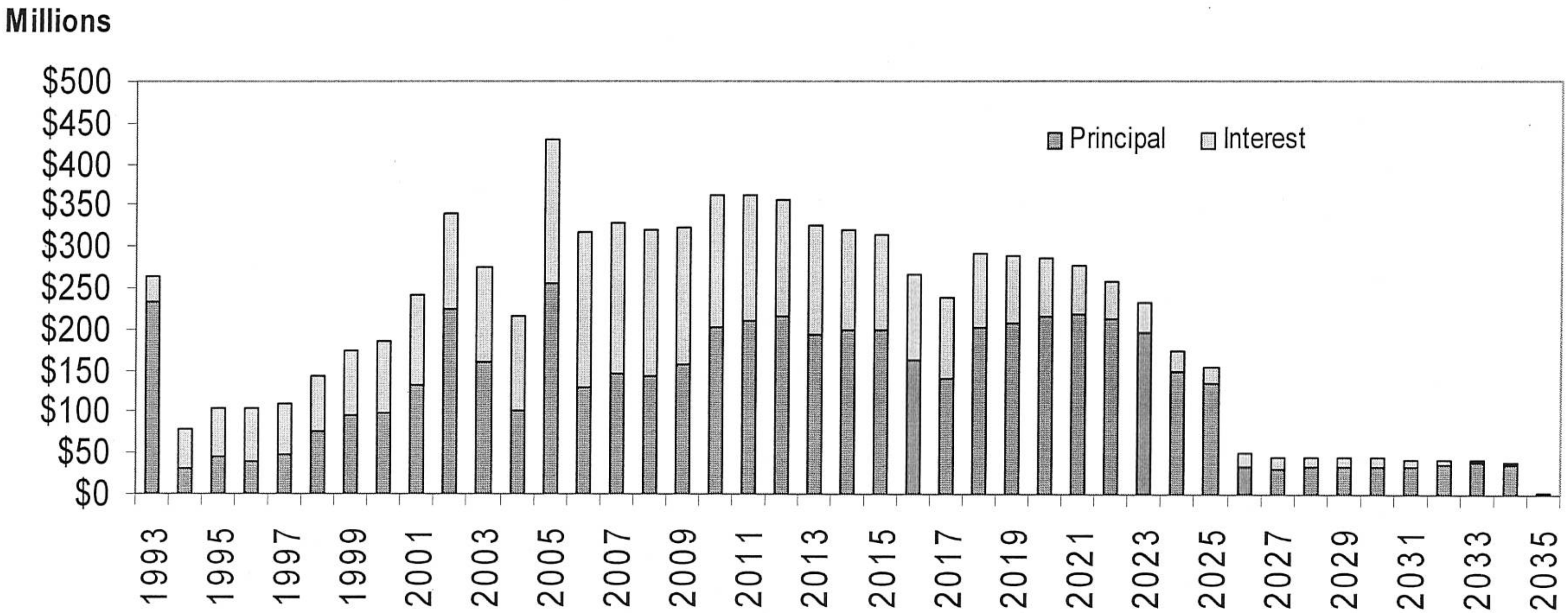
1-2

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



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

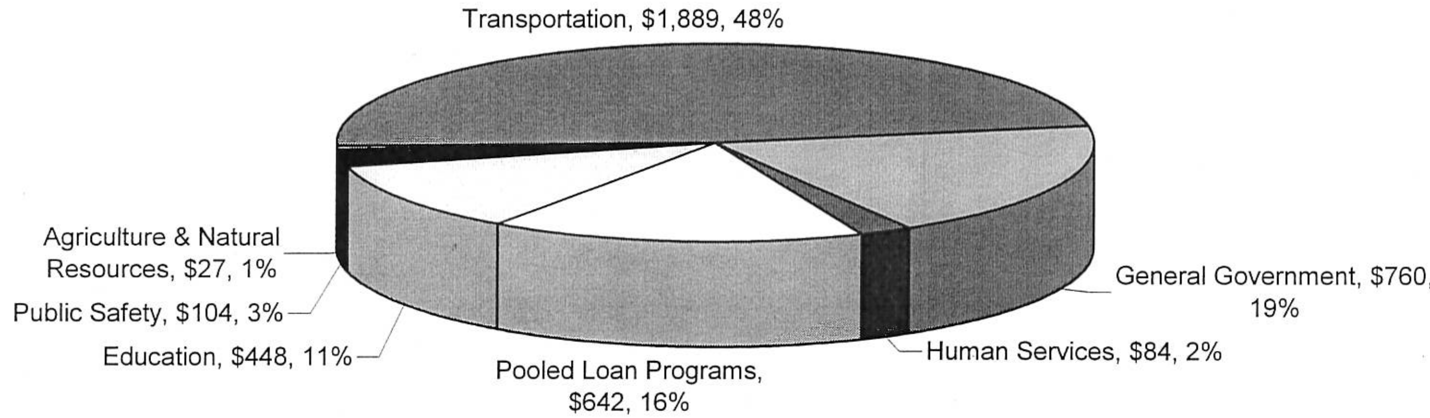
1-4

4-1

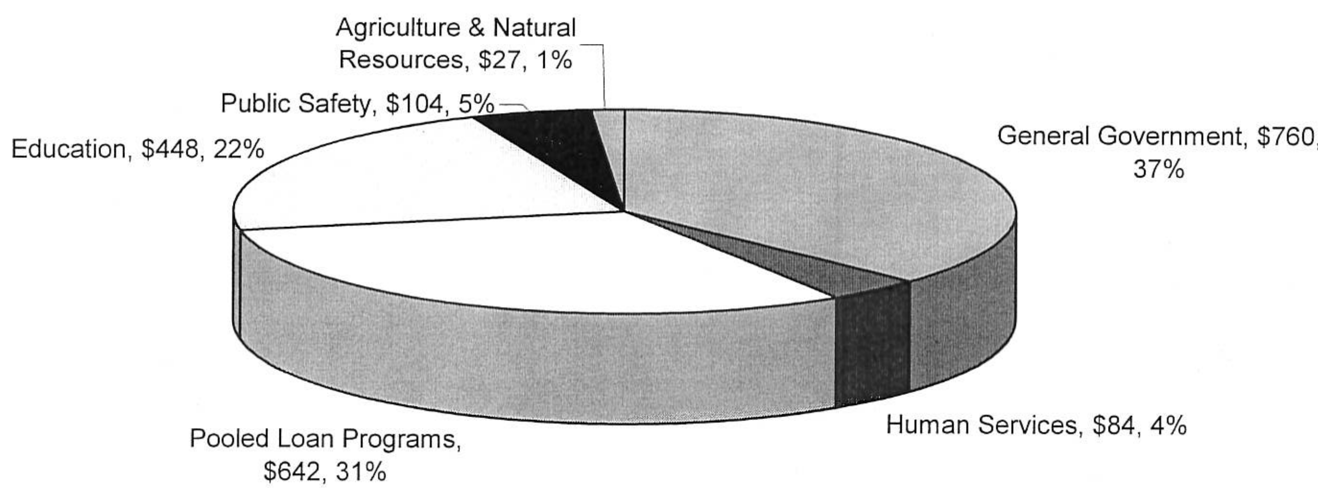
1-5

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

A. Including Transportation



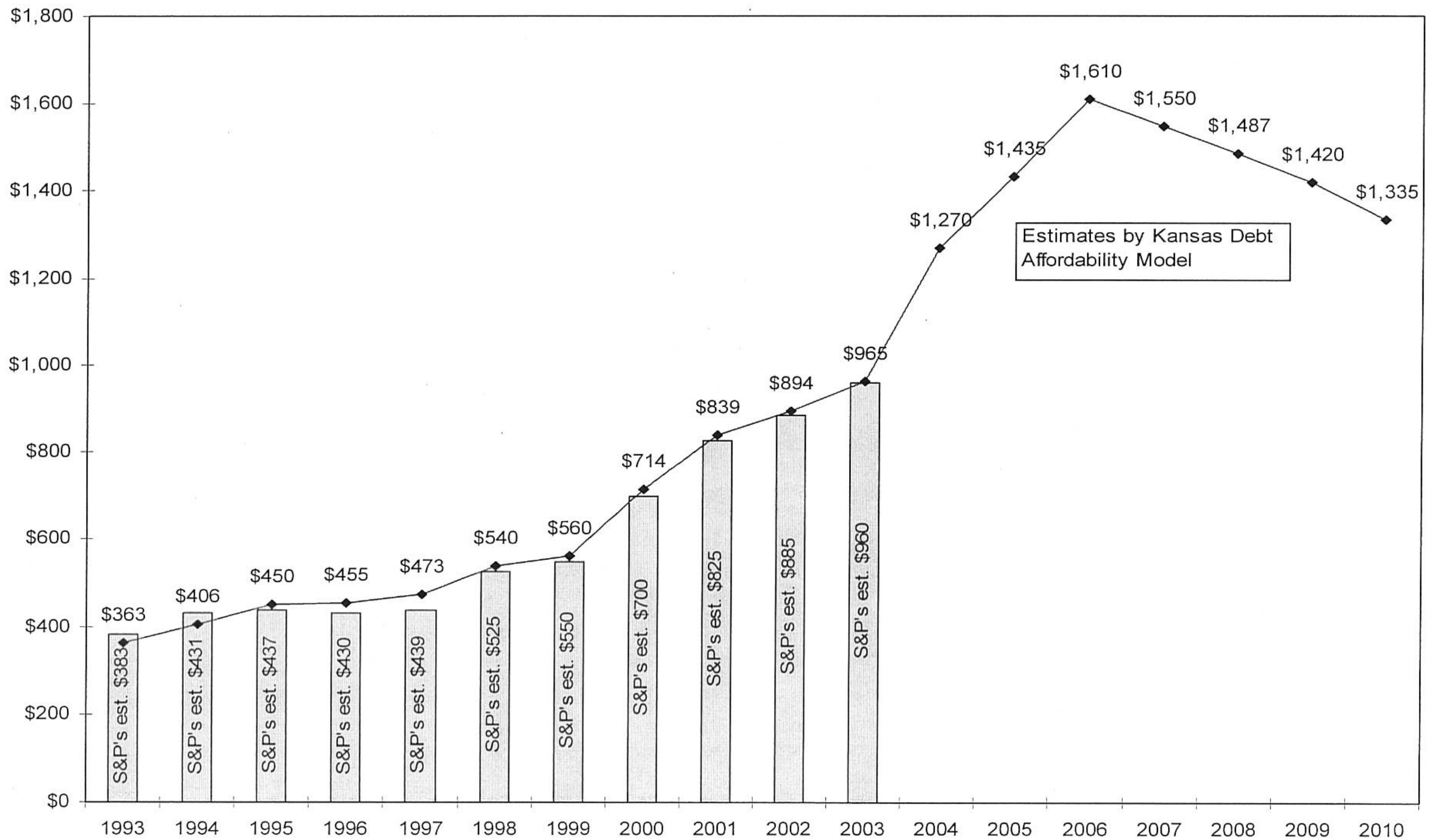
B. Excluding Transportation



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

1-5

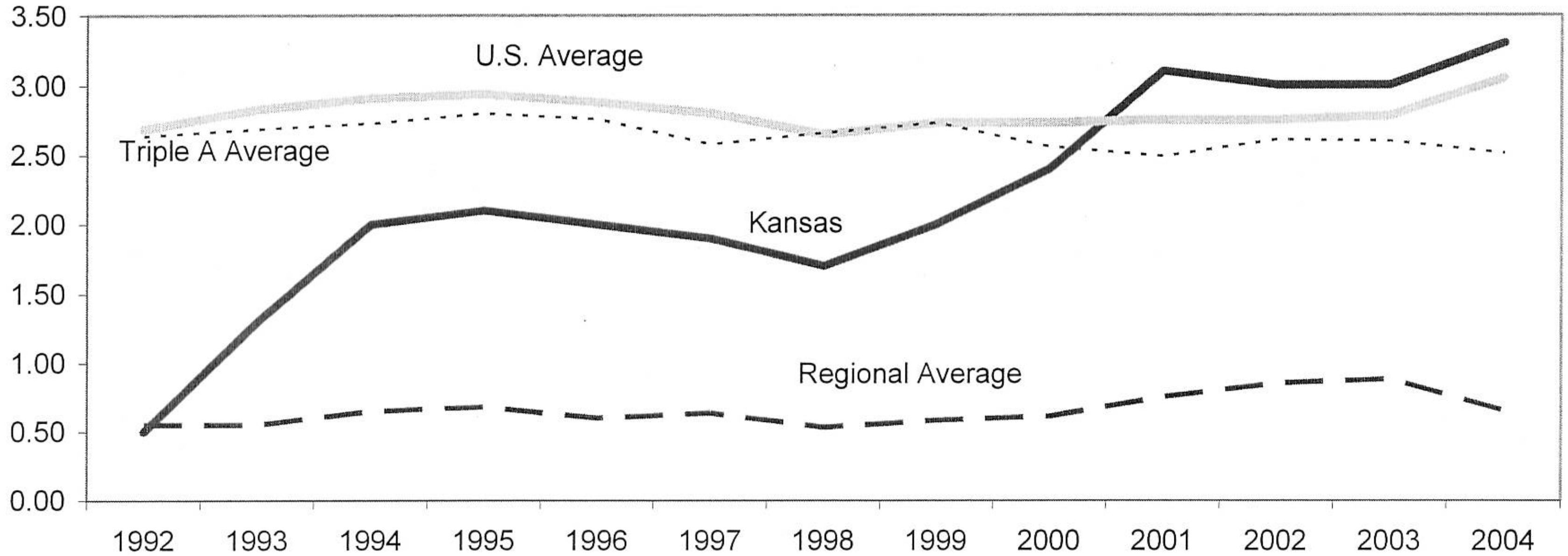
Figure 4: Comparing Standard and Poor's Total Tax-Supported Debt per Capita Calculations with Estimates to 2010



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

9-1

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

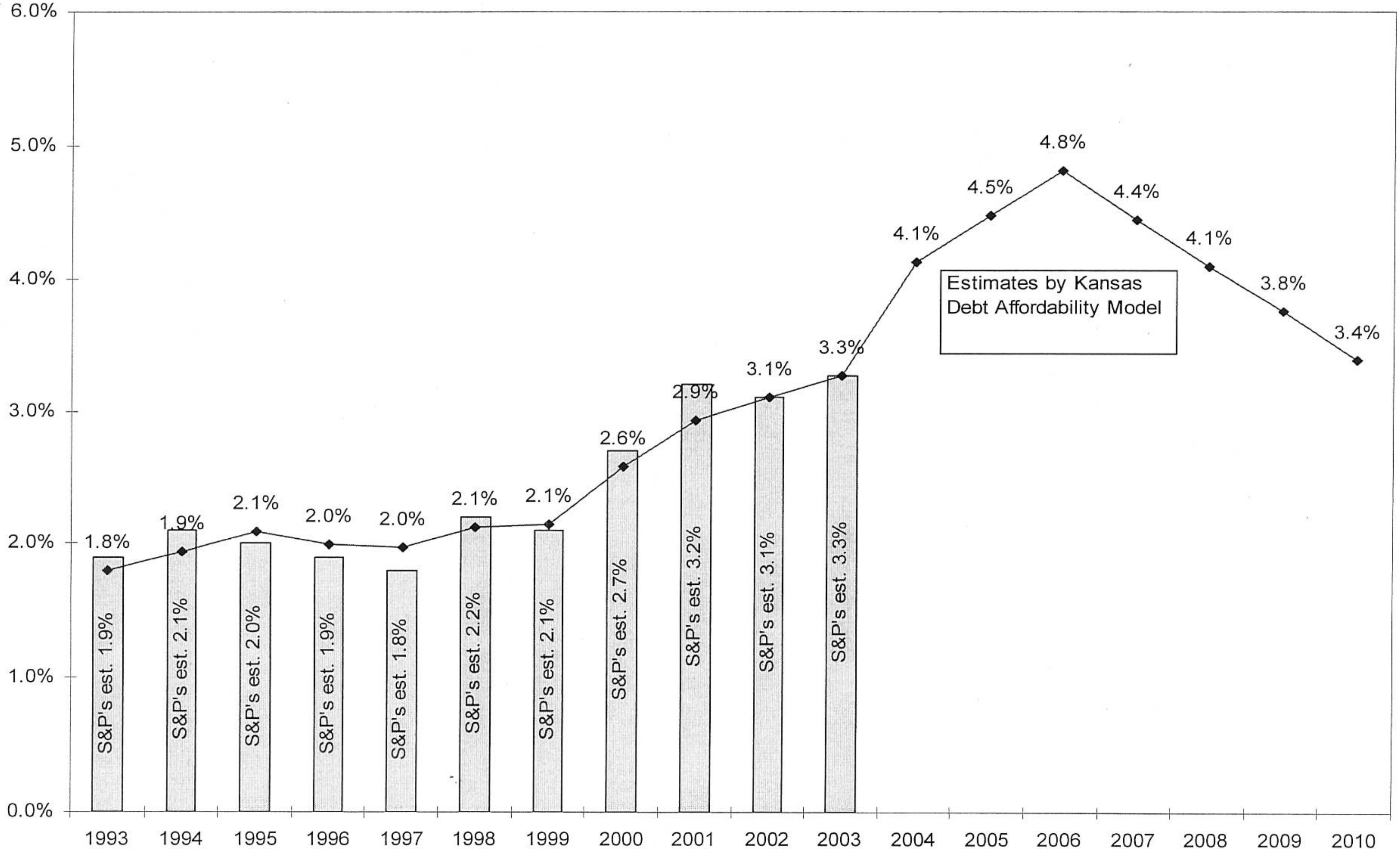
Source: Moody's Investors Service; Triple-A States vary by year.

7-1

1-3

kpfc

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.

8-1

1-9

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%

kpfc

1-10

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.

1-10

1-11

- 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.

1-11

Comments

By:
W. Bartley Hildreth
Regents Distinguished Professor of Public Finance
Director, Kansas Public Finance Center
Wichita State University*

Thank you for the opportunity to talk to you about State debt. Of course, these are my personal, professional views and are not the policy of Wichita State University or the Kansas Board of Regents.

These comments are based on the research I did that resulted in the "State of Kansas 2005 Debt Affordability Report."†

The report was not in response to any request. Instead, my service on the board of the Kansas Development Finance Authority (KDFA) from 1998 to 2003 helped me see the need for a comprehensive analysis of State debt.

The purpose of debt affordability analysis is:

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

My study gives all the details as of June 30, 2005, with projections based on the debt authorized but unissued at that time.

Several key points were highlighted by the Report:

- 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+ by the independent credit rating firm, Standard & Poor's. 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

* Email (bart.hildreth@wichita.edu) and phone (316-978-6332).
† The report is available at this web address: http://hws.wichita.edu/KPF/reports_publications/

outstanding within the 10-year period correspond to the time lines of two comprehensive transportation programs implemented by KDOT.
- At the end of FY 2005, the total amount of debt for all state agencies was $4.0 billion. Half of this was for KDOT. Another major segment was for a pooled loan program for local government clean water and waste water treatment improvements that are repaid by those local entities. Then there was the money borrowed to help KPERS.
- Calculations on six credit ratios for assessing debt affordability revealed that Kansas has racked up a growth rate of 7.5 to 13.5 percent per year. The seventh measure showed a tighter debt coverage ratio for KDOT debt.
- Kansas has higher than national averages in terms of debt per capita and debt as a percent of personal income.
- Each of the 4 states surrounding Kansas has a lower ranking of net tax-supported debt per capita as a percent of personal income than Kansas.
- A state's debt burden is a significant factor in assessing a state's long-term financial health.

I have not updated the report to reflect FY06 data. A quick look, however, reveals that the State issued more debt than I expected in FY06 with the major bond issues tied to KDOT (including highway revenue bonds, contingency bonds and the transportation revolving loan program), KDHE's clean water revolving loan program, and the renovations to this building.

Does the State of Kansas have too much debt? The answer depends on what you are comparing us to.
- If current debt is compared to our history, then we have much more debt than before we started on the first comprehensive highway plan.
- If current debt is compared to the benefits derived from the services aided by these capital investments, then I have to admit I do not know if we have too much debt.
- If current debt obligations are compared to the debt in other states, then we have moved out of the group of low-debt states. If the past 10-year trend is maintained, we will move further away from the low-debt category (see Table 1).

Can Kansas afford its debt? The short answer is YES. The capital markets would not have loaned us the money at such attractive rates if those investors did not think we were a good credit risk. We can afford more debt.

Should Kansas be prudent in its issuance and management of debt? Of course, the answer is YES. We have been prudent these past years, too. The major uses of debt have been to make extensive improvements to our transportation network, to improve local water and wastewater capacity, and to address a long-standing unfunded pension liability.

The study's recommendations included the following points:
- Adopt a set of debt policies to guide state debt issuance and management.

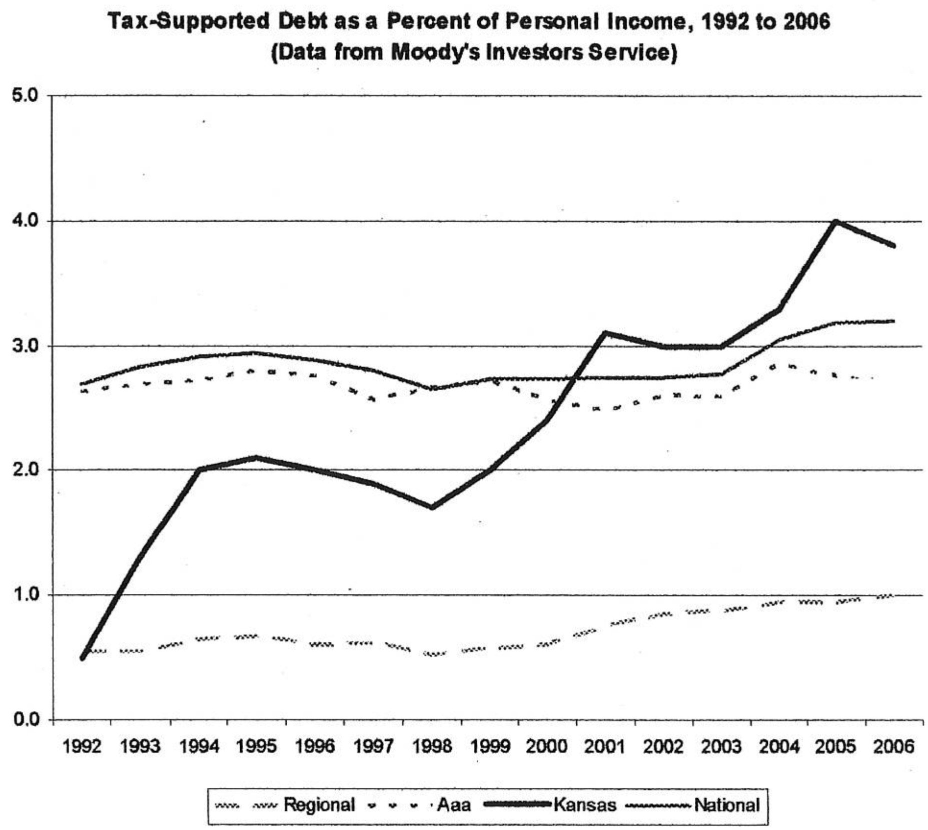
- Prepare and publish a multi-year capital improvements plan as a way to manage capital asset construction and acquisition with scarce resources.
- Monitor the State's debt using common debt affordability ratios.
- Prepare an annual debt affordability study prior to the legislative session.
- Require 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 the bond rating agencies.
- Use General Obligation bonds in addition to Revenue bonds to obtain the lowest cost of capital.
- Maintain KDFA as the central professional office for state-supported debt financing, and.
- Avoid creating any other financing authorities unless they are subsidiaries of KDFA.

If you are interesting in specific legislation to implement these recommendations, you might examine the approach taken in Florida (Section 215.98 on State Debt Fiscal Responsibility). Similar legislation for Kansas would have these features:

- Clarify the state's commitment to prudent debt policy (perhaps by adopting a target ratio of debt);
- Task KDFA with responsibility to prepare a yearly Debt Affordability Report by December 15;
- Require the Debt Affordability Report to:
    - Review existing state debt obligations, and the credit ratings;
    - Provide 10-year estimates of revenues, debt, debt service, and other relevant factors; and,
    - Compare past and estimated debt ratios (for the 10-year period) to comparable benchmarks (the Kansas target as well as national levels and in similar states.)
- Prepare updates as requested by Governor and Legislature;
- Give advise on prudent debt policy;
- Make the debt affordability model publicly available;
- Require any entity proposing state debt financing to provide information to KDFA for inclusion in its yearly Report, and for such debt advocates to address in their legislative testimony how their proposed debt would impact the Report's ratios; and,
- Include the caveat such words as: Failure to comply with this legislation shall NOT affect the validity of any debt or the authorization of such debt

In conclusion, 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 alike. This study highlights two key points:

- 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



2-4

Indebtedness of the State of Kansas*
FY 1997 - FY 2007

Fiscal Year	Bonds	Loans Outstanding Pooled Money Investment Board
FY 1997	1,152,418,451	22,990,547
FY 1998	1,160,485,487	20,702,751
FY 1999	1,320,116,565	15,958,280
FY 2000	1,427,911,190	11,113,248
FY 2001	1,781,202,105	8,375,230
FY 2002	2,506,059,479	6,775,233
FY 2003	2,334,940,984	5,700,380
FY 2004	2,519,100,301	3,314,541
FY 2005	3,713,838,876	4,861,506
FY 2006	3,830,183,786 **	727,995
FY 2007	3,951,759,149	2,875,000
Change FY 1997 to FY 2007	**$2,799,340,698**	
Percent Change	**242.9%**	

* Principal balance as of the end of the fiscal year.

** In addition, there is authorized but unissued debt of $272,856,607.

Source: *Comparison Report*, Kansas Division of the Budget.

Senate Commerce Committee
January 19, 2007
Attachment 3-1

Bonded Indebtedness of the State of Kansas -- Detail*
FY 1997 - FY 2007

Agency	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Change - FY 1997 to FY 2007
Department of Transportation	$ 875,410,000	$ 864,060,000	$ 832,035,000	$ 791,090,000	$ 1,073,145,000	$ 1,698,050,000	$ 1,330,645,000	$ 1,303,305,000	$ 1,888,990,000	$ 1,842,235,000	$ 1,821,705,000	$ 946,295,000
General Government(a	50,020,169	44,398,312	44,821,981	99,211,422	97,367,534	113,371,603	194,665,204	224,896,384	738,940,610	740,915,302	855,540,000	805,519,831
Human Resources(b	78,320,000	74,320,000	154,540,000	245,375,000	320,020,000	363,865,000	452,680,000	576,470,000	633,820,000	700,325,000	744,425,000	666,105,000
Regents	68,758,282	103,632,175	215,594,584	225,399,768	214,649,571	210,162,876	227,880,780	294,843,917	321,088,366	425,783,484	412,529,149	343,770,867
Public Safety(c	79,625,000	73,885,000	73,125,000	66,835,000	76,020,000	120,610,000	111,500,000	102,645,000	104,075,000	95,045,000	92,760,000	13,135,000
Agriculture and Natural Resources(d	285,000	190,000	-	-	-	-	17,570,000	16,940,000	26,925,000	25,880,000	24,800,000	24,515,000
TOTAL	**$ 1,152,418,451**	**$ 1,160,485,487**	**$ 1,320,116,565**	**$ 1,427,911,190**	**$ 1,781,202,105**	**$ 2,506,059,479**	**$ 2,334,940,984**	**$ 2,519,100,301**	**$ 3,713,838,976**	**$ 3,830,183,786**	**$ 3,951,759,149**	**$ 2,799,340,698**

* Principal balance as of the end of the fiscal year.

a) General Government -- Department of Administration (including capital outlay equipment financing); KPERS bonds; Department of Commerce; Insurance Department.

b) Human Resources -- Social and Rehabilitation Services; Department of Health and Environment (including local pollution control and water supply).

c) Public Safety -- Corrections; Adjutant General; Juvenile Justice Authority; Highway Patrol; Kansas Bureau of Investigation.

d) State Fair; Department of Wildkife and Parks.

Source: *Comparison Report*, Kansas Division of the Budget.