

MEMO



DATE: February 16, 2012

TO: House Taxation Committee

FROM: Kansas Department of Transportation

RE: KDOT response to questions posed following testimony on HB 2747

On February 15, 2012, the Kansas Department of Transportation (KDOT) presented information regarding the impact of HB 2747 to the Transportation Works for Kansas (T-WORKS) Program. Following the presentations, committee members posed several questions. Several of the questions that were posed involved similar themes. Questions that address the topics of the concerns that were expressed during the meetings are shown below with KDOT's response.

Q The committee requests an overview of the projects that are programmed under T-WORKS, their economic impact, and the number of jobs associated with the projects.

A A table has been created for each region in Kansas (see attachment A, pages 1-9) that provides a short summary of the project, the estimated construction cost, the economic impact and the scheduled let year. To estimate the number of jobs created or sustained under T-WORKS, in 2010 KDOT used Federal Highway Administration (FHWA) job multipliers indicating that \$1 million in highway spending creates or sustains 9.5 construction jobs and 28 total construction, supplier and other industry jobs.

Economic case studies (see attachment B) of past KDOT projects help to understand job growth and economic outputs associated with construction projects. KDOT conducted a study to measure the long term impacts to communities. The study measured job growth and economic output after the improvement was made. The methodology used in these case studies was developed by FHWA. The results are in the attached table; \$6.1B in economic value and the addition of 50,000+ jobs. Not all of this output happened because of the roads but the improvements played a huge part. These communities were organized and committed to economic development, and they used the new highways to help attract companies.

Q The committee requested information regarding KDOT issued bonds and the debt service of those bonds.

A KDOT currently has annual debt service in the amount of \$185 Million (please see attachment C). While there is no bond covenant requirements tied to the agency's ending balance, our bond covenants do require 3 times coverage; however bond rating agencies want to see 4 times coverage of revenue to debt service. Currently, KDOT is expected to maintain

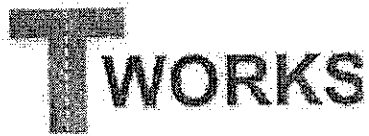
\$740 Million in revenues to maintain the 4x coverage. These revenues do not include any federal funds, which are not factored into the bond rating agencies determinations of our ability to pay out bonds. KDOT has included a comparison of KDOT's debt as compared to that of other states (attachment D).

Q The committee has requested information about the affects of the T-WORKS program if projects are delayed under HB 2747.

A With the passage of HB 2747, projects with let dates after FY 2014 would be delayed 2 years consistent with the delay in funding. The final T-WORKS expansion project would be let in 2021 rather than 2019. The delay will result in increased costs for all projects. The inflation costs of delaying the projects would be \$114 million for projects through FY 2019, based on the inflation projections that T-WORKS was based on. Uncertainty with inflation rates, federal funding and demand for other state needs grows in the out years as well.

KDOT would also have to accelerate bonding to cover payouts in FY 2014 and FY 2015 of projects that are already under contract.

Attachments



NORTHEAST Modernization & Expansion Projects

Type	Selected Project Description	Miles	Construction Cost Estimate (in millions)	Economic Impact (in millions)	Let Year
E	<p>I-70 and K-7 in Wyandotte County – Interchange Improvements.</p> <p>This project has an excellent economic impact including helping support continued growth at the Legends. It will address the most congested movements within the existing interchange and replaces some deteriorated I-70 pavement. KTA will contribute funds for construction commensurate with the improvements gained to their maintenance responsibilities.</p>	2	\$34	\$1,123	2013
E	<p>I-35 Interchange at Homestead Lane between Edgerton and Gardner</p> <p>This project is critical to handle truck traffic from the area and opens it up for new development. This fast-track project is expected to be completed by 2013. Johnson County will provide \$35 million towards construction of the local network connecting the interchange to the new intermodal facility.</p>	-	\$21	\$629	2012
E	<p>I-435/I-35/K-10 and Lackman Road – part of the project known as the Gateway Project (Yellow). First phase – improve ramps/add lanes on I-35 from 119th to I-435.</p> <p>This is the first phase of the Gateway Project, which provides immediate and significant improvements to one of the biggest bottlenecks in the state. This project has a tremendous economic benefit for a relatively low cost. It is expected to be complete by Fall 2012.</p>	2	\$14	\$1,055	2012
E	<p>I-435/I-35/K-10 and Lackman Road – 2nd phase of the Gateway project (Orange). Builds 2-lane flyovers from I-435 to I-35, adds auxiliary lanes to just north of 95th street. Improves interchange and K-10 from Ridgeview to I-35.</p> <p>While the most expensive project in T-WORKS, there's regional support for this project because people worry this growing bottleneck threatens traffic flow and economic activity. Full build out of the Gateway is \$600 million; this second phase at \$249 million should provide acceptable traffic operations for the next 20-25 years. Olathe and Lenexa have agreed to consider phasing and sequencing concepts that may prolong adverse impacts to the local street connections but would reduce the total cost of the project. This is a design build project.</p>	4	\$249	\$1,375	2016
E	<p>South Lawrence Trafficway (SLT) in Douglas County—construct 4-lane freeway from US-59 to K10</p> <p>The SLT received strong regional support and is viewed as an important regional connector linking Topeka, Lawrence and Johnson County. This project has the highest economic impact in the T-WORKS program. KDOT will explore tolling approaches to help finance the project with the goal being to provide non-tolled local access. KDOT will work with the Kansas Turnpike Authority, Lawrence and Douglas County to evaluate the tolling approaches and determine if it is feasible. It's estimated tolling could provide about \$50 million towards construction of the project. If tolling revenue becomes available, additional improvements like the 15th Street Interchange may be made.</p>	6	\$150	\$3,710	2014

E= Expansion Project M= Modernization Project PE= Preliminary Engineering Work Only Project announced in Feb. 2011

*For projects that will not be available for construction until 2014 or later, KDOT has not determined the specific let year yet.

Type	Selected Project Description	Miles	Construction Cost Estimate (in millions)	Economic Impact (in millions)	Let Year
E	US-69 Improvements: I-435/Quivira to 119th in Johnson County This project was announced in February and was let to construction in May 2011. US-69 is Overland Park's top priority. Overland Park will contribute \$8 million towards construction and \$4 million for project development.	3	\$104	\$779	2011
E	US-24 in Shawnee County— upgrade to 4-lane expressway from Countryside Road east to the existing 4-lane and add Menoken interchange While this project was not identified as a top priority during Local Consult discussions, the bridge at this location needs to be replaced. Since traffic counts support additional lanes at this location, it makes sense to combine the bridge and expressway into one project. Also, there has been public discussions and interest in adding the Mencken interchange.	2	\$47	\$13	2013
E	K-18 – 4-lane from Wildcat Creek Road to Seth Child Road in Riley County This project was announced in February 2011. The region supports K-18 improvements due to the National Bio and Agro-Defense Facility and growth at Ft. Riley. They view investment in the corridor as an opportunity to further develop an agrosience industry. Consequently Manhattan and Riley County will each contribute \$1.5 million (\$3 million total) toward the construction of the project. This project was let in April 2011.	6***	\$22	\$121	2011
M	K-31 in Osage County – reconstruct 2-lane highway, add shoulders and remove hills The only modernization project selected in the Northeast. The project was selected, in part, to help support economic growth in Osage County. Traffic is increasing and there's considerable local interest in the project. This was the only modernization project to receive regional support at Local Consult meeting.	7	\$14	N/A	2014
PE	I-70 Polk Quincy Viaduct, Topeka— continue work to complete design plans While the Viaduct scored high in terms of safety, bridge condition and truck traffic, the regional input concluded that the project simply costs too much (\$145 million) and doesn't generate sufficient economic return (\$156 million) or congestion relief to be considered ahead of other projects in the region. Design work will be completed so this project could move forward when funding is available.				
PE	Centennial Bridge in Leavenworth Preliminary engineering study to replace the existing bridge as part of an improved corridor into Missouri to access KCI. KDOT will work in conjunction with the Kansas Turnpike Authority to explore tolling options as a funding component for a new bridge.				
	TOTAL	29	\$655	\$8,805	

E= Expansion Project M= Modernization Project PE= Preliminary Engineering Work Only Project announced in Feb. 2011
 No construction dollars available

NA: Modernization projects are not evaluated using economic impact analysis.

**Project serves Northeast and North Central regions so both will split the cost.

***Project serves both Northeast and North Central regions so the miles are split between regions.



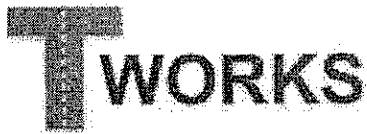
NORTH CENTRAL Modernization & Expansion Projects

Type	Selected Project Description	Miles	Construction Cost Estimate (in millions)	Economic Impact (in millions)	Let Year
E	I-135: new interchange at Mohawk Rd. in McPherson This project has strong regional support and will help open McPherson's industrial park to additional development. McPherson plans to improve their local road network to connect to the interchange and support the increased traffic.	-	\$13	\$94	2016
E	US-77 in Geary County - enhance capacity and safety by constructing intersection improvements and/or a 4-lane expressway This project is a good example of a practical improvement and designing to a budget. Building on the soon to be completed corridor study, KDOT will evaluate/prioritize improvements and then build as many improvements as the \$40 million will allow. This project helps address increased traffic into Ft. Riley from US-77.	7	\$40	\$34	2017
E	US-50: extend 4-lane 2 miles west from Emporia, add or extend 5 sets of passing lanes along the 67 mile corridor from Emporia to Hutchinson. This project is another good example of a practical improvement. KDOT will invest \$25 million to extend the 4-lane from Emporia west approximately 2 miles and add/extend as many passing lanes as possible within the budget. There's regional support for this project, although only a portion is contained in the North Central region. The 10 miles represents the total length of improving 5 sets of passing lanes the 4-lane extension at Emporia.	10	\$23	*N/A	2015
M	K-177: Evaluate options/prioritize and widen shoulders from Council Grove to I-70 This project is another example of a practical improvement and designing on a budget. KDOT will evaluate/prioritize locations to widen shoulders along this 21 mile corridor and then add as many miles of shoulders as possible for \$25 million. This highway was ranked as the top regional modernization project.	21	\$25	*N/A	2017
E	K-18: 4-lane freeway from Wildcat Creek to Seth Child Rd. in Riley County This project was announced in February 2011. The region supports K-18 improvements due to the National Bio and Agro-Defense Facility and growth at Ft. Riley. They view investment in the corridor as an opportunity to further develop an agro-science industry. Consequently Manhattan and Riley County will each contribute \$1.5 million (\$3 million total) toward the construction of the project. This project was let in April 2011.	6***	\$22	\$121	2011
TOTAL		41	\$123	\$249	

E= Expansion Project M= Modernization Project Project announced in Feb. 2011

NOTE: Passing lanes are generally 2 miles long.

NA: Modernization projects are not evaluated using economic impact analysis
 * For projects that will not be available for construction until 2014 or later, KDOT is continuing to develop specific project schedules and will announce those schedules later this year.
 **Project serves Northeast and North Central regions so both will split the cost.
 ***Project serves both Northeast and North Central regions so the miles are split between regions



NORTHWEST

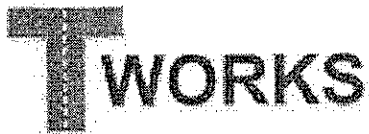
Modernization & Expansion Projects

Type	Selected Project Description	Miles	Construction Cost Estimate (in millions)/Jobs (based on FHWA estimates)	Economic Impact (in millions)	Let Year
M	US-281: reconstruct, widen shoulders from Russell to K-18 in Russell County This project was a top priority at the Local Consult meeting. Northwest Kansans cited safety issues associated with the narrow shoulders of the roadway as their major concern.	15	\$33	N/A	2018
M	K-27: reconstruct, straighten curves 7 mi. north of Greeley Co. line to 2 miles south of US-40 in Wallace County The sharp curves south of Sharon Springs were the major safety concerns associated with this project. While participants at local consult would like to see the entire corridor modernized, they understand cost constraints and rated this section as a top priority.	5	\$9	N/A	2015
M	K-383: improve alignment, widen shoulders from US-36 northeast to US-183 in Phillips/Norton counties Safety is the major concern associated with this stretch of road. Local Consult participants stated that emergency medical services are not able to travel as fast as they need to due to the alignment and that police don't monitor traffic because there is no safe place to pull over, which is why it's a top priority for the region. This route is also used for trucks hauling oversized loads, which is why wider shoulders are needed.	26	\$53	N/A	2018
TOTAL		46	\$95		

E= Expansion Project
M= Modernization Project
PE= Preliminary Engineering Work Only

For more information about T-WORKS projects and programs, please visit our website at www.ksdot.org/tworks

N/A: Modernization projects are not evaluated using economic impact analysis



SOUTH CENTRAL Modernization & Expansion Projects

Type	Selected Project Description	Miles	Construction Cost Estimate (in millions)	Economic Impact (in millions)	Let Year
E	I-135: reconstruct interchange at 36th Street in Newton The interchange improvements provide significant economic benefits to the region by opening access to the new industrial area and accommodating increasing over-length trucks associated with the wind turbine development. Design work is already underway.	-	\$10	\$220	2014
E	I-235: US-54 (Kellogg) Interchange: construct I-235 southbound flyover and US-54 eastbound flyover This project helps improve east-west connections in Wichita and is one of Wichita's two top priorities. The existing interchange is an old design and safety issues grow with increasing traffic. There is good regional support for this project and Wichita supports reconstructing only a portion of the interchange to address the most pressing operational and safety concerns. Sedgwick County will contribute \$11.6 million towards construction of this project.	2	\$116	\$88	2016
E	US-50: 4-lane freeway, new interchange from 1 mile west of Anderson Rd to Old Main in Newton KDOT has already begun design work and buying right-of-way for this project due to the development along the corridor. This is one of the region's top priorities.	1	\$30	\$11	2012
E	US-50: reconstruct to 4 lane with interchanges K-61 east to Airport/Yoder Rd. in Reno County This project was announced in February. It will support traffic associated with industrial park area, including the Siemens Wind Turbine plant. It will be let to construction in June 2011.	3	\$32	\$133	2011
E	US-54 reconstruct 4-lane with Webb Rd. interchange from Cypress to Wiedemann in Sedgwick County This is one of Wichita's two top priorities. It extends the 4-lane of US-54 which is critical to addressing growing congestion and supports economic development in the region. The economic impacts associated with this project are strong when compared to the cost. Wichita will provide \$15.6 million toward construction and \$63 million for project development to be utilized on this project and the one listed below.	1	\$67	\$260	2014
E	US-54: reconstruct 4-lane with Greenwich interchange from Wiedemann to 127th Street in Sedgwick County This is one of Wichita's priorities and is considered phase II of the project listed above. It extends the 4-lane of US-54 which is critical to addressing growing congestion and supports economic development in the region. The economic impacts associated with this project are strong when compared to the cost. Wichita will provide \$15.6 million toward construction and \$63 million for project development to be utilized on this project and the one listed above.	1	\$95	\$366	2019

E= Expansion Project M= Modernization Project PE= Preliminary Engineering Work Only Project announced in Feb. 2011

Type	Selected Project Description	Miles	Construction Cost Estimate (in millions)/Jobs (based on FHWA estimates)	Economic Impact (in millions)	Let Year
E	US-54: Upgrade to 4-lane expressway through the Byron Walker Nature Preserve in Kingman County. KDOT has selected this as project as an expressway rather than adding less expensive passing lanes to be consistent with the vision of the corridor. In addition to the engineering design being complete and right-of-way having been purchased for this section of US-54, environmental permits have been issued to construct improvements through the Byron Walker Nature Preserve. By constructing the improvements now, it eliminates the risk of the permits lapsing.	8	\$30	\$9	2012
E	K-96: construct new 2-lane on 4-lane right of way from Hutchinson to Sterling. Advocates were quick to suggest that the smaller scope of building 2-lanes on 4-lane right-of-way would be acceptable, and at that scope this was the most highly supported project in the region. KDOT has completed a conceptual study of the corridor and rates the project as having an engineering priority due to the curves and deteriorated pavement on the existing highway. Many in the region see this as the first step in completing the long advocated for Northwest Passage.	15	\$63	\$118	2017
E	US-54: 4-lane expressway from 5 miles east of Pratt to 1 mile east of Cairo Significant investment has been made in this corridor through previous transportation programs. During local consult participants stressed the importance to "finish what it (KDOT) had started." Design work is already underway.	5	\$34	\$6	2013
PE	Northwest Bypass in Wichita from Goddard east and northeast to K-96. State will assist with the purchasing of right-of-way. The State of Kansas agrees to provide two dollars for every one dollar of funds contributed by Sedgewick County, City of Goddard and City of Maize, but not to exceed a maximum of \$1,350,000 per year for five years (FY2011- FY2015, for a total of \$6,750,000). A substantial amount of design work and right-of-way acquisition was done on this proposed bypass during the Comprehensive Transportation Plan but those funds have all been expended and there are still right-of-way tracts to be acquired.				
		TOTAL	36	\$477	\$892

E= Expansion Project M= Modernization Project PE= Preliminary Engineering Work Only Project announced in Feb. 2011
 No construction dollars available

TWORKS

SOUTHEAST Modernization & Expansion Projects

Type	Selected Project Description	Miles	Construction Cost Estimate (in millions)	Economic Impact (in millions)	Let Year
E	<p>US-400: add approximately 8 sets of passing lanes along the 90 mile corridor from Butler County to Cherokee County</p> <p>This project is a good example of practical improvements and designing to a budget. KDOT has identified likely locations for 8 sets of passing lanes costing \$30 million and will present these locations for public comment in the near future. If KDOT added passing lanes in every location where they are feasible, it would cost \$84 million. This project helps address increasing commercial traffic and is a regional priority. The 18 miles represents the total length of 8 sets of passing lanes.</p>	16	\$30	\$16	2015
E	<p>US-69: 4-lane upgradable expressway from Arma to Fort Scott in Crawford/Bourbon counties</p> <p>This project continues the improvement work on the US-69 corridor and is the next logical segment. Although some US-69 advocates would prefer a 4-lane freeway (at \$85M), the upgradable expressway fits the traffic needs of today while preserving the future freeway option by purchasing the right-of-way necessary for interchanges now. This is the right-sized project for today. Following the completion of this project, there will still be 6 miles remaining of 2-lane highway in the vicinity of Arma, on this Pittsburg to KC corridor. KDOT has recently begun a study to determine alternatives and costs to complete the remaining miles of the corridor, which may allow for more work to be done in the future.</p>	12	\$47	\$50	2017
E	<p>US-166/US-400: reconstruct interchange and 4-lanes from I-44 north about 3 miles in Cherokee County</p> <p>Although some US-69 and US-400 advocates would prefer the 4-lane be extended 8 miles to US-400 (at a cost of \$85M), this improvement serves today's need of better access to I-44 within the limited dollars available. Economic development potential for both US-69 and US-400 will be improved by providing better access to I-44. MoDOT has agreed to discuss their ability to fund a portion of the interchange improvements since a portion of this project is located in Missouri.</p>	3	\$38	\$40	2018
E	<p>US-75: construct 4-lane from Oklahoma to Caney in Montgomery County</p> <p>This project will provide a "better front door" to Kansas and Caney by extending the 4-lane roadway that comes out of Oklahoma. The benefits of this project are more from an engineering standpoint, which is why there is no estimated economic impact listed. ODOT has agreed to fund the portion of the project being constructed in Oklahoma.</p>	1	\$5	-	2017

E= Expansion Project M= Modernization Project

NOTE: Passing lanes are generally 2 miles long.

N/A: Modernization projects are not evaluated using economic impact analysis.

Type	Selected Project Description	Miles	Construction Cost Estimate (in millions)	Economic Impact (in millions)	Let Year
E	<p>US-169: KDOT will evaluate this 18 mile corridor from north of Coffeyville to US-400 in Montgomery County to determine the priority of various improvements along the corridor.</p> <p>This is a top regional priority. It's good example of practical improvement and designing to a budget to address growing traffic and improve safety. KDOT will evaluate/prioritize locations and make as many improvements as possible for \$10 million. If passing lanes and other safety improvements were constructed in every location where they are feasible, the project would have cost an estimated \$36 million.</p>	18	\$10	\$18	2017
M	<p>US-169: widen shoulders from Welda north to Garnett in Anderson County</p> <p>This is an important modernization project due to deteriorating pavement condition and increasing traffic on a two-lane highway with narrow shoulders. This work improves the last section of US-169 with narrow shoulders and is the most supported modernization project in the region.</p>	9	\$17	*N/A	2017
E	<p>K-68: Preliminary engineering work for 4-lane expressway/evaluate, prioritize and build interim improvements from US-169 to Louisburg in Miami County</p> <p>This project is another good example of practical improvements. Without a doubt, some improvements are needed along this growing corridor, but conditions don't yet support the construction of a 4-lane expressway. Instead, KDOT will commence preliminary engineering and through that process, will identify and construct the most immediately necessary improvements within that \$10 million budget.</p>	3	\$10	*N/A	2018
M	<p>K-7: Reconstruction from Columbus to Cherokee</p> <p>This modernization projects was selected because the pavement is deteriorated and shoulders are needed. This is one of the highest two-lane traffic volume routes in the state without shoulders. Some preliminary engineering work has been done on this project.</p>	11	\$34	*N/A	2016
TOTAL		70	\$191	\$124	

E= Expansion Project M= Modernization Project

NOTE: Passing lanes are generally 2 miles long.

N/A: Modernization projects are not evaluated using economic impact analysis



SOUTHWEST

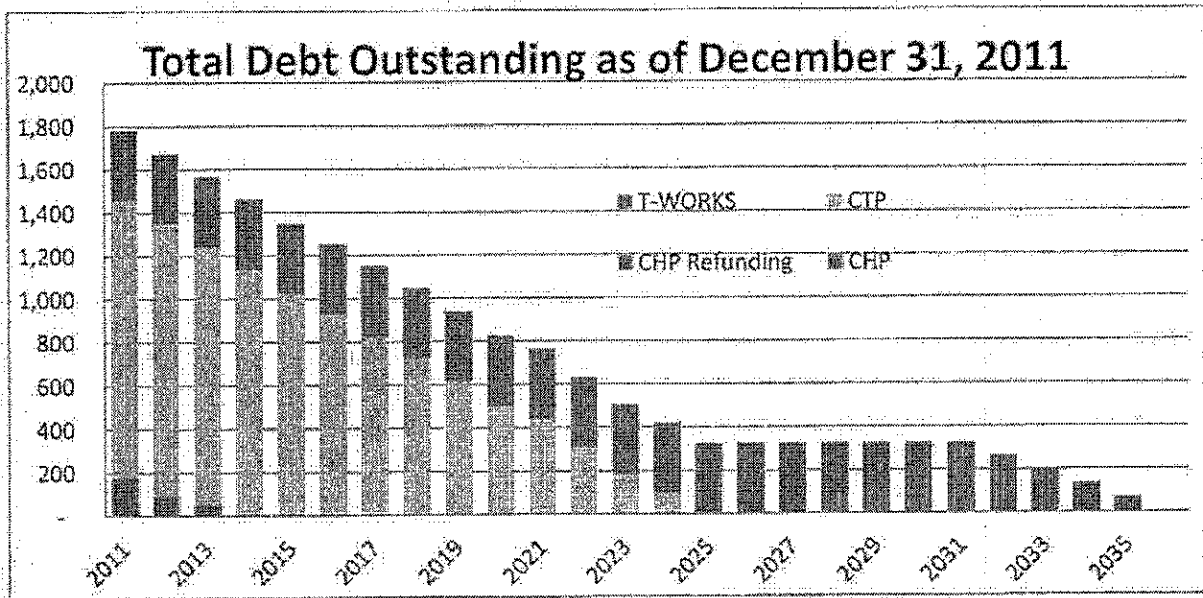
Modernization & Expansion Projects

Type	Selected Project Description	Miles	Construction Cost Estimate (in millions)	Economic Impact (in millions)	Let Year
E	<p>US-83: reconstruct, add passing lanes from 1 mile south of US-160/K-144 north 5 miles in Haskell County</p> <p>The poor pavement condition on this section of the corridor and the need to improve the US-160/K-144 intersection were the driving factors for its selection. It was a top priority project during Local Consult.</p>	5	\$19	\$26	2015
E	<p>US-50: construct 4-lane expressway from Cimarron to Dodge City</p> <p>The high truck traffic and poor pavement condition were among the factors Local Consult participants considered when they rated this project as their top priority.</p>	16	\$69	\$94	2018
E	<p>US-54: construct 4-lane expressway from Liberal northeast 10 miles in Seward County</p> <p>This project was also rated as a top priority due to high truck traffic. While there was some support for the passing lane approach, the majority of Local Consult participants said they prefer the 4-lane option even though that means fewer miles of improvement.</p>	10	\$59	\$96	2018
PE	<p>US-54: extension of 4-lane expressway from 10 miles northeast of Liberal to the Seward-Meade County Line</p> <p>Preliminary engineering work will begin on this section of road so that if funds become available it will be in a position to extend the 4-lane expressway, which could continue the project listed above.</p>				
PE	<p>US-83: Preservation work that includes looking for options for practical improvement type passing lanes from 4 miles north of US-160/K-144 to Garden City.</p> <p>KDOT is currently trying to identify whether a practical improvement approach will allow for passing lanes to be added to this stretch of roadway at the same time as planned preservation work is being done.</p>				
PE	<p>US-83: Preservation work that includes looking for options for practical improvement type passing lanes from Liberal to K-51</p> <p>KDOT is currently trying to identify whether a practical improvement approach will allow for passing lanes to be added to this stretch of roadway at the same time as planned preservation work is being done.</p>				
TOTAL		31	\$147	\$216	

E= Expansion Project
 PE= Preliminary Engineering Work Only
 No construction dollars available

Economic impacts: 5 Case Studies

Project	Project Cost	Jobs Added	Economic Value Added
Parsons - US-400 Bypass	\$27 M	1,400	\$56 M
Wichita - K-96 Bypass	\$103 M	24,000	\$1.6 B
WY County – 110 th St Interchange	\$50 M	5,700	\$186 M
Overland Park – Nail Ave Interchange	\$48 M	17,500	\$4.1 B
Hays – Commerce Pkwy Interchange	\$3.5 M	2,200	\$111 M
TOTAL	\$231 M	50,800	\$6.1 B



2011 - State DOT Debt Survey

State	Fixed	Variable	Syn Fixed	Aggregate Debt	Weighted Average Cost		Weighted Average Life		Moody	Credit Ratings		State
					Fixed	Variable	Syn Fixed	Aggregate		S&P	Fitch	
Alaska	100.00%	0.00%	0.00%	262,330,000	4.32%	0.00%	0.00%	4.32%	7.45	-	-	Alaska
Arizona ¹	100.00%	0.00%	0.00%	2,874,195,000	4.43%	0.00%	0.00%	4.43%	8.73	-	-	Arizona ¹
California	100.00%	0.00%	0.00%	3,463,525,000	4.42%	0.00%	0.00%	4.42%	2.80	-	-	California
Colorado ⁹	100.00%	0.00%	0.00%	676,005,000	4.01%	0.00%	0.00%	4.01%	14.45	-	-	Colorado ⁹
Delaware ⁷	100.00%	0.00%	0.00%	1,110,140,000	4.23%	0.00%	0.00%	4.23%	6.97	-	-	Delaware ⁷
Florida ²	100.00%	0.00%	0.00%	4,620,525,000	4.63%	0.00%	0.00%	4.63%	12.44	-	-	Florida ²
Georgia	82.60%	17.20%	0.00%	1,538,020,238	4.12%	0.18%	0.00%	3.21%	6.66	9.70	-	Georgia
Hawaii	100.00%	0.00%	0.00%	337,420,000	4.94%	0.00%	0.00%	4.94%	7.08	-	-	Hawaii ⁵
Illinois ⁵	100.00%	0.00%	0.00%	3,143,070,563	4.78%	0.00%	0.00%	4.78%	8.60	-	-	Illinois ⁵
Indiana ¹²	100.00%	0.00%	0.00%	1,166,791,286	4.48%	0.00%	0.00%	4.48%	10.56	-	-	Indiana ¹²
Kansas ⁸	64.02%	0.03%	35.96%	1,697,235,000	3.60%	0.60%	3.95%	3.68%	11.77	2.67	5.57	Kansas ⁸
Kentucky ⁶	100.00%	0.00%	0.00%	1,663,030,000	4.16%	0.00%	0.00%	4.16%	8.50	-	-	Kentucky ⁶
Maryland ¹⁰	100.00%	0.00%	0.00%	1,561,840,000	3.85%	0.00%	0.00%	3.85%	6.23	-	-	Maryland ¹⁰
Michigan ¹⁰	100.00%	0.00%	0.00%	2,284,012,945	4.75%	0.00%	0.00%	4.75%	8.31	-	-	Michigan ¹⁰
Mississippi	100.00%	0.00%	0.00%	589,805,000	4.35%	0.00%	0.00%	4.35%	13.47	-	-	Mississippi
Missouri ³	98.16%	1.84%	0.00%	3,204,715,000	4.09%	0.35%	0.00%	3.67%	9.50	3.84	-	Missouri ³
Montana	100.00%	0.00%	0.00%	121,860,000	4.41%	0.00%	0.00%	4.41%	5.59	-	-	Montana
Nebraska	100.00%	0.00%	0.00%	911,975,000	4.30%	0.00%	0.00%	4.30%	6.51	-	-	Nebraska
North Dakota	100.00%	0.00%	0.00%	36,210,000	4.25%	0.00%	0.00%	4.25%	5.12	-	-	North Dakota
Oklahoma ¹²	100.00%	0.00%	0.00%	632,010,000	3.38%	0.00%	0.00%	3.38%	6.44	-	-	Oklahoma ¹²
Oregon	86.24%	11.76%	0.00%	2,255,055,000	5.07%	1.81%	0.00%	4.76%	14.30	11.95	-	Oregon
Pennsylvania ⁴	100.00%	0.00%	0.00%	917,569,000	3.74%	0.00%	0.00%	3.74%	13.02	-	-	Pennsylvania ⁴
Texas ¹¹	97.01%	2.99%	0.00%	11,113,935,000	4.11%	0.57%	0.00%	3.99%	16.17	18.13	-	Texas ¹¹
Utah	100.00%	0.00%	0.00%	3,367,800,000	2.66%	0.00%	0.00%	2.66%	6.83	-	-	Utah
Washington ⁹	100.00%	0.00%	0.00%	6,804,454,495	4.05%	0.00%	0.00%	4.05%	12.91	-	-	Washington ⁹
West Virginia ⁶	100.00%	0.00%	0.00%	420,255,000	4.10%	0.00%	0.00%	4.10%	5.55	-	-	West Virginia ⁶
Wisconsin	91.79%	8.21%	0.00%	1,784,838,000	4.18%	0.46%	0.00%	3.94%	8.09	6.94	-	Wisconsin
Average	97.31%	1.59%	1.33%	2,297,609,290	4.30%	0.13%	0.15%	4.14%	9.07	1.36	0.21	Average
Total				54,205,450,550								

Iowa, Nebraska, South Dakota, Tennessee, and Wyoming DOTs have no debt.

¹ Kansas information as of December 31, 2011.

² AZ DOT credit ratings: They Use Tax bond \$1,881 billion Moody's Aaa/S&P AA+/Fitch AA and GARYEE \$878 million Moody's Aa2/S&P AA+/Fitch AA

³ FL DOT credit ratings: Turnpike: \$3,095 billion Moody's Aa3/S&P AA+/Fitch AA and Right of Way: \$1,597 billion Moody's Aa1/S&P AA+/Fitch AA

⁴ MO DOT credit ratings: listed credit ratings are for senior debt obligations

⁵ PA DOT: A limited amount of "old debt" is excluded from calculation. It was issued several decades ago and remains active due to refinancing.

⁶ IL DOT has \$68,507,970 of zero-coupon (capital appreciation) bonds outstanding that will be retired by August 1, 2024 which are excluded in this calculation.

⁷ WV DOT credit ratings: GO \$305 million Moody's Aa1/S&P AA+/Fitch AA+ and GARYEE \$123 million Moody's Aa2/S&P AA+/Fitch N/A

⁸ DE DOT credit ratings: Revenue bonds \$1,062 billion Moody's Aa2/S&P AA+/Fitch AA+ and GARYEE \$47 million Moody's Aa2/S&P AA+/Fitch N/A

⁹ KY Transportation Cabinet Credit ratings: AI CO \$407 million Moody's Aa2/S&P AA+/Fitch AA+ and T&K \$1,256 billion Moody's Aa2/S&P AA+/Fitch AA-

¹⁰ CO DOT: One bond series is excluded from this survey because of information was not readily available. This series will be retired soon.

¹¹ TX DOT bonds: Credit ratings: Comprehensive Transportation Fund Moody's Aa2/S&P AA+/Fitch AA and State Turnpike Fund Moody's Aa2/S&P AA+/Fitch N/A

¹² MT DOT bonds: Credit ratings: State Highway Fund First Tier Revenue Bonds \$4,078 billion Moody's Aa1/S&P AA+/Fitch AA and TX Mobility Improvement GO Bonds \$7,035 billion Moody's Aa1/S&P AA+/Fitch AA

¹³ OK DOT bonds: Credit ratings: DOT issued \$228 million Moody's Aa3/S&P N/A/Fitch A+ and State issued \$404 million Moody's N/A/S&P AA+/Fitch AA

¹⁴ IN DOT bonds: Credit ratings: \$183 million Moody's Aa1/S&P AA+/Fitch AA+ and \$143 million Moody's Aa1/S&P AA+/Fitch WD

¹⁵ NA - Not applicable or not rated

WD - Withdrawn

MEMO



DATE: February 19, 2012
TO: The House Taxation Committee
FROM: The Kansas Department of Transportation
RE: Build America Bonds

Chairman Carlson and Committee members:

I have provided this memo following a question from the committee on February 16 about whether or not KDOT had any "interest only bonds".

KDOT issued \$325 million of Build American Bonds (BABs) during the fall of 2010. The BABs include a 35% interest subsidy from the federal government. Periodically, during either an extremely low interest rates environment and/or when the yield curve is relatively flat, it is advantageous to extend the weighted average life of the bonds by repaying the principal late in the life of the bonds. The BABs were authorized to be a maximum of 25 years in duration. The maturities on those bonds average \$65 million per year in fiscal years 2032 through 2036. Accordingly, the SHF will pay interest only through fiscal year 2031. This technique is used selectively.

MOODY'S

INVESTORS SERVICE

Rating Update: MOODY'S REVISES KANSAS DEPARTMENT OF TRANSPORTATION'S HIGHWAY REVENUE BONDS' OUTLOOK TO NEGATIVE FROM STABLE; RATING AFFIRMED AT Aa1

Global Credit Research - 01 Jun 2011

NEGATIVE OUTLOOK APPLIES TO APPROXIMATELY \$1.8 BILLION OF OUTSTANDING DEBT

Kansas Department of Transportation
State
KS

Opinion

NEW YORK, Jun 1, 2011 -- Moody's Investors Service has revised the outlook for the Kansas Department of Transportation's (KDOT) approximately \$1.8 billion of outstanding highway revenue bonds to negative from stable, while affirming the rating assigned to the securities at Aa1.

RATING RATIONALE

The Aa1 rating reflects the strong debt service coverage by the pledged revenues, which include motor fuels tax collections, license and permit fees, a portion of state sales and use tax and federal reimbursements. The negative outlook reflects the fact that the state (with an issuer rating of Aa1, negative outlook) repeatedly has relied on State Highway Fund (SHF) resources in recent years to manage its general fund operating deficits. Withdrawals planned for fiscal 2012 indicate that SHF revenues are insufficiently insulated from general state needs for KDOT's bonds to achieve a rating higher than the state's. Such draws will exacerbate declines in the SHF's assets, limiting KDOT's flexibility and adding to potential pressure from sources such as increasing leverage, revenue shortfalls or liquidity needs related to variable-rate debt.

Strengths:

- Additional bonds test requiring three times coverage of debt service by pledged state-source revenues
- Rate covenant requiring funding of debt-service reserve if coverage falls below three times
- Constitutional dedication of primary SHF revenue sources
- Department's ability to limit capital expenditures in response to weakening revenues

Challenges:

- State legislative history of allocating SHF monies to general state operating needs
- Weakening of motor fuel tax revenues
- Statutory basis of pledged revenues
- Easing of additional bonds test requirements expected in coming years

DETAILED CREDIT DISCUSSION

HIGHWAY FUND HAS HISTORY OF USE FOR GENERAL FUND PURPOSES

State general fund pressures have affected the SHF repeatedly in recent years. The state's governor on May 28 signed budget legislation authorizing quarterly draws totaling \$205 million from the SHF to support the state general fund in fiscal 2012. This authorization extends the state's practice of using the SHF as a general operating reserve. In 2002, Kansas approved a \$94.6 million loan from the highway fund to the general fund and, in the next session, the legislature moved not only to defer repayment, but to borrow \$30.6 million more from the SHF for highway patrol costs. Both loans were to be repaid in four equal parts. The first two repayments were made, in June 2007 and June 2008, respectively. No payment was made in 2009. The state general fund also received SHF transfers in 2010 and 2011 of, respectively, \$143 million and \$149 million. The SHF transfers are in amounts consistent with the SHF resources not dedicated by the state constitution to roads and bridges.

NEW CAPITAL PROGRAM WAS AUTHORIZED IN 2010

The Kansas State Legislature in 2010 enacted a \$6.4 billion, 10-year program to improve its transportation system, primarily by maintaining current roads, bridges and other elements. Debt financing for the program was originally expected to consist of at least \$1.7 billion of highway revenue bonds, including the \$325 million of taxable Build America Bonds KDOT sold last summer. KDOT had \$291 million of unspent bond proceeds as of April 30 from that offering, which is expected to cover construction through the program's first two years. Significant annual new debt issuance is also anticipated in fiscal years 2013 through 2019.

PLEGGED REVENUES PROVIDED 4.2 TIMES COVERAGE OF 2010 DEBT SERVICE

Security for KDOT's highway bonds is a first lien on SHF revenues, which include motor-fuel taxes and vehicle-registration fees constitutionally dedicated to road and highway projects. The rating is supported by strong coverage from these sources, as well as the department's control over expenditures, which can be reduced in response to declining SHF revenue. Pledged fiscal 2010 receipts of \$729 million (excluding governmental transfers) were 4.2 times the year's debt service of \$174.4 million. Fiscal 2010 revenues cover current expected maximum annual debt service (MADS) by 3.8 times.

LEVERAGE CONSTRAINT WILL BE EASED BY 1999 RESOLUTION AMENDMENT

The 3.8 times coverage of projected MADS meets a test imposed by the resolution that, in 1992, established KDOT's highway revenue bond program. The 1992 resolution states that additional parity debt may only be issued if actual SHF state-source revenue covers resulting MADS by three times. The test is based on actual state-source receipts in any consecutive 12-month period in the 18 months prior to issuance. A 1999 amendment to the resolution allows federal aid revenues to be included in the calculation, once bonds sold before 1999 are no longer outstanding. Bonds issued prior to 1999 consist of Series 1998, which are scheduled to mature on September 1, 2013. Upon maturity of the 1998 bonds, KDOT will be able to increase its borrowing, diluting coverage from state-source revenues. KDOT has no plan to defease the 1998 bonds prior to maturity, but debt-issuance plans for coming years depend in part on the ability to increase leverage of state-source revenues. Legislation authorizing KDOT's current capital program caps debt service at 18% of projected SHF receipts and imposes a maturity limit of 20 years, with a special 25-year provision for the 2010 BABs issue.

INCREASED STATE SALES TAX REVENUES WILL SUPPORT FUTURE BORROWINGS

Increased sales and use tax revenue allocations will support KDOT's future borrowings. The state last year raised its sales and use tax rate to 6.3% from 5.3%. Based on statutorily determined allocations of this revenue, SHF sales tax receipts were expected to be bolstered modestly, by about \$21 million, in each of the three years through June 30, 2013. In fiscal 2014, the statute reduces the rate by 0.6 percentage point, but raises the SHF allocation, to 18.42% from 11.23%, generating recurring, additional revenue of \$175 million. The increased state sales tax allocation will help lift total state-source SHF revenues to a projected \$1.02 billion in fiscal 2015. Sales and use tax revenues are expected to account for a growing share of total SHF receipts. This continues a trend that began in 2004, when Kansas lawmakers passed legislation boosting the sales tax revenues deposited directly into the SHF. At the same time, provisions for sales tax transfers from the general fund to the highway fund were eliminated. The practice of making such transfers already had been suspended for fiscal 2003 and 2004 to provide fiscal relief to the state. Sales and use tax revenues directly deposited to the highway fund are more insulated from negotiations over the state's general fund budget. However, as was the case in the current budget session, the state has the ability to appropriate such resources for other uses once they have flowed into the SHF, because they are not constitutionally protected.

INCREASED SALES TAX REVENUE WILL HELP OFFSET MOTOR FUEL TAX REVENUE WEAKNESS

Growing sales tax allocations will help reduce KDOT's dependence on motor fuel taxes. These revenues (taxes on gasoline and diesel fuel) account for about 38% of state-source highway fund revenues now, and their share is projected to fall to 29% in fiscal 2015. Based on consumption trends, we expect fuel tax collections to be flat or declining in coming years, unless the state increases its tax rates (currently 24 cents per gallon for gasoline and 26 cents per gallon for diesel). Kansas in recent years has imposed modest increases in its motor fuels tax levies, but competition from neighboring states with low gasoline tax rates may deter further increases.

RESERVE ACCOUNT FUNDING PROVISIONS MITIGATE RISK OF REVENUE DETERIORATION

The 1992 bond resolution requires the state to provide the highway fund with revenues at least three times the principal and interest due in each fiscal year, excluding federal and local funds. Federal funds will be included in the calculation once the 1999 amendment becomes effective. KDOT must start funding a reserve account for each outstanding series, on a monthly basis over four years, if it fails to meet the coverage requirement. The reserves are to be funded at the lesser of MADS, 125% of average annual debt service or 10% of total issue proceeds. Once three times coverage of debt service by pledged revenues has been maintained over the course of two successive years, the debt service reserve requirement expires. These provisions establish a strong incentive for the state to maintain the statutorily based flow of revenues to the SHF and also provide a safeguard against revenue deterioration caused by economic factors.

KDOT HAS LARGE, BUT DIMINISHED, VARIABLE-RATE DEBT COMPONENT

KDOT has greatly lowered variable-rate debt exposure in the past two years, raising the fixed-rate portion to 64% of outstanding obligations, from 38%. The department eliminated its exposure to auction-rate securities, refunding Series 2003C in May of 2008 with variable-rate demand obligations (VRDOs) and converting Series 2004B to a fixed-rate mode in September of 2008. Five standby bond purchase agreements (SBPAs) provide liquidity for purchase of the VRDOs in the event of remarketing failures. We believe KDOT will continue to carefully monitor use of these agreements, which include two expiring in the next 12 months.

INTEREST RATE SWAP EXPOSURE IS ALSO RELATIVELY HIGH

KDOT is a party to seven interest-rate swap agreements intended to hedge against increases in variable-rate obligations. The swaps correspond to bonds with a principal amount of \$717 million, including a swap linked to the 2004 auction-rate securities that are now in fixed-rate mode. Total swap exposure is relatively high, at more than a third of outstanding debt. The most recent mark-to-market valuation of the swaps was negative \$48 million, compared with \$60 million at the time of our last review, in July of 2010. KDOT has posted \$19 million of collateral under these agreements in connection with swaps entered into with Goldman Sachs Bank USA (Aa3, negative outlook). This exposure is manageable, given KDOT's monitoring practices and the potential availability of the state's liquid resources (more than \$2 billion) in an emergency.

Outlook

The outlook for Kansas Department of Transportation highway revenue bonds is negative, based on the fiscal pressures of the state, which has frequently relied on KDOT resources to help close budget deficits.

What could move the rating – UP:

- Increase in coverage required by additional bonds test
- Closure of lien to parity debt issuance
- Track record of protecting state highway fund from use for general state purposes

What could move the rating – DOWN:

- Downgrade of the state; further use of SHF by state for general operating purposes

- Increased leverage based on 1999 resolution provisions incorporating federal resources into additional bonds test amount
- Declines in motor-fuel tax collections leading to lower-than-projected debt-service coverage
- Economic weakness eroding flow of sales tax revenues to state highway fund
- Liquidity stress related to swap and variable-rate debt exposure

The rating on the current issue was assigned by evaluating factors we believe are relevant to the credit profile of the issuer, such as i) the business risk and competitive position of the issuer versus others within its industry or sector, ii) the capital structure and financial risk of the issuer, iii) the projected performance of the issuer over the near to intermediate term, iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals, v) the nature of the dedicated revenue stream pledged to the bonds, vi) the debt service coverage provided by such revenue stream, vii) the legal structure that documents the revenue stream and the source of payment, and viii) and the issuer's management and governance structure related to payment. These attributes were compared against other issuers both within and outside of the Kansas Department of Transportation's core peer group. The Kansas Department of Transportation's highway revenue bond ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk.

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Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

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Analysts

Edward Hampton
Analyst
Public Finance Group
Moody's Investors Service

Kimberly Lyons
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service
250 Greenwich Street
New York, NY 10007
USA

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