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Kansas Public Finance Center
Hugo Wall School of Urban and Public Affairs
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State of Kansas
2005 Debt Affordability Report

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Project Leader:

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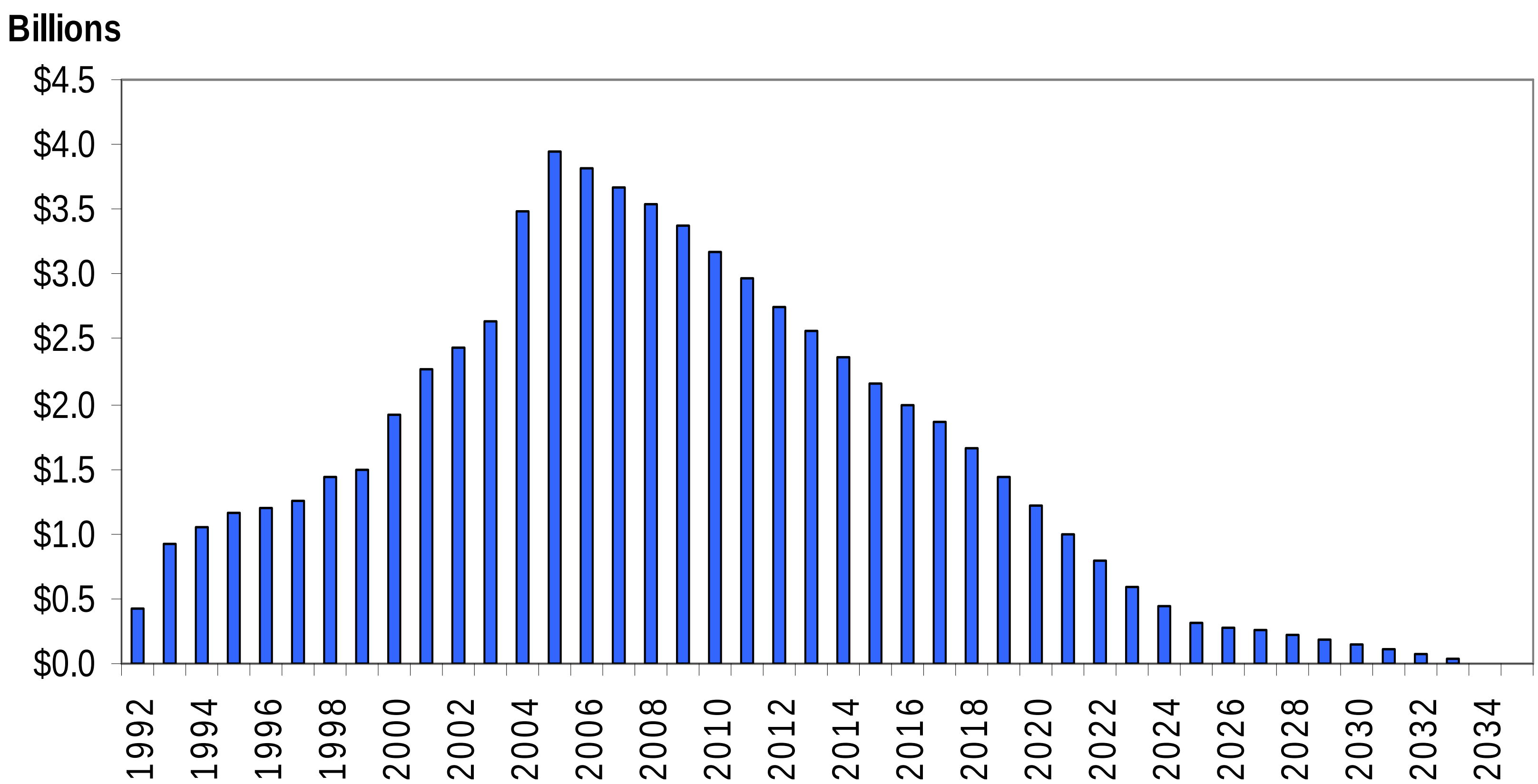
Purpose of Debt Affordability Analysis

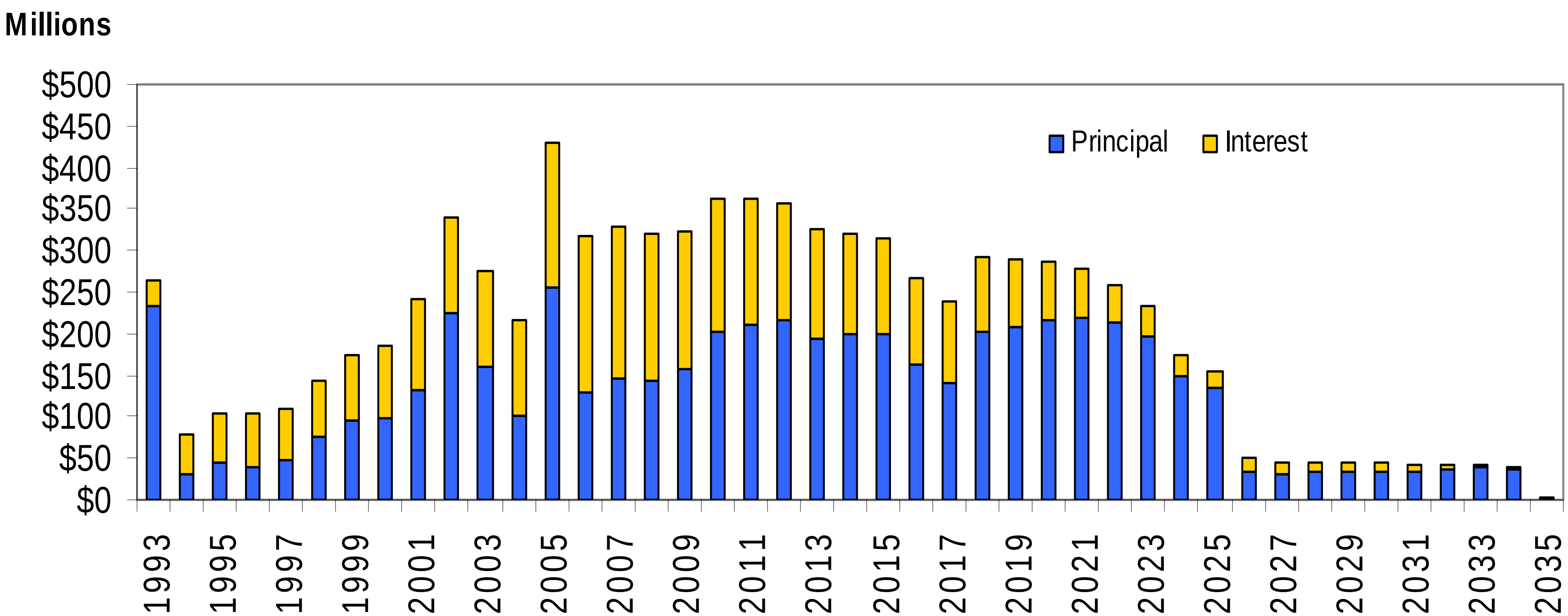
- To provide Kansas policy makers with information to set capital financing policies so that every bond issuance proposal is considered against total State debt affordability.
- To safeguard the credit quality of the State's debt instruments and to ensure the sustainability of the State's financial position.

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.

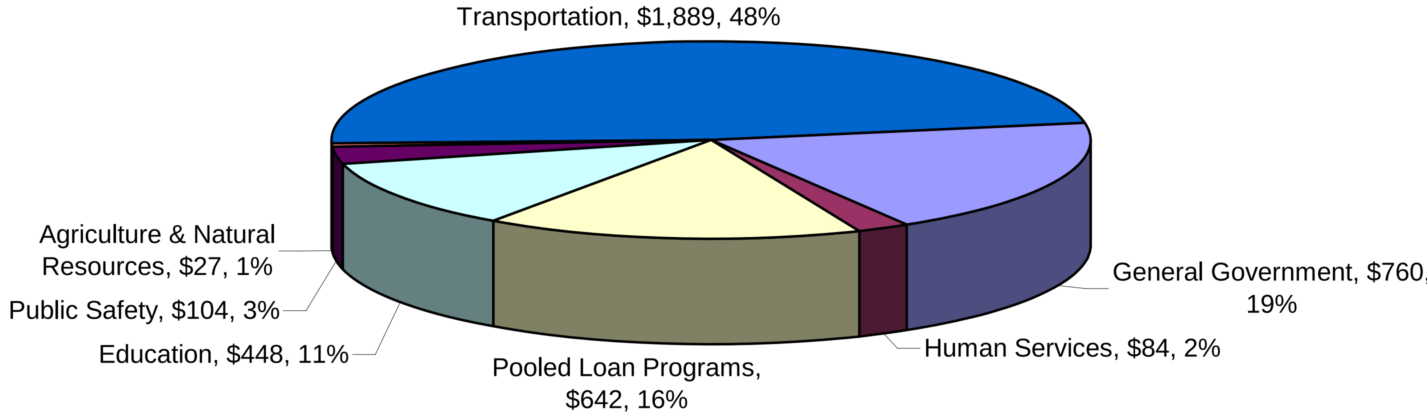
Figure 2: Total Annual Debt Service, FY 1993 to FY 2035



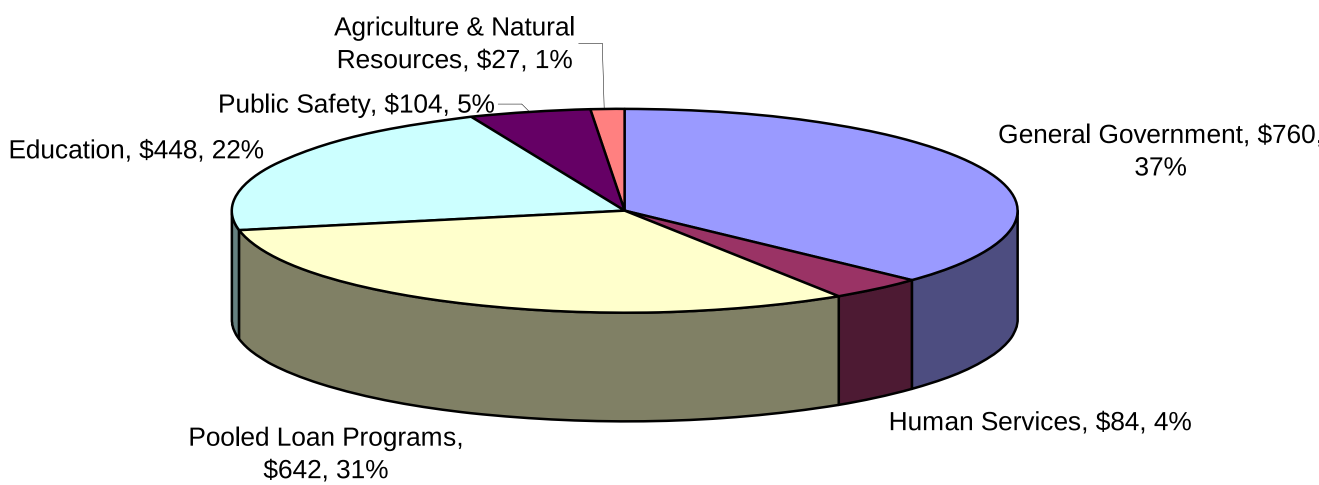
Source: Kansas Division of Budget spreadsheets as of June 30, 2005 – assuming no new debt.

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.

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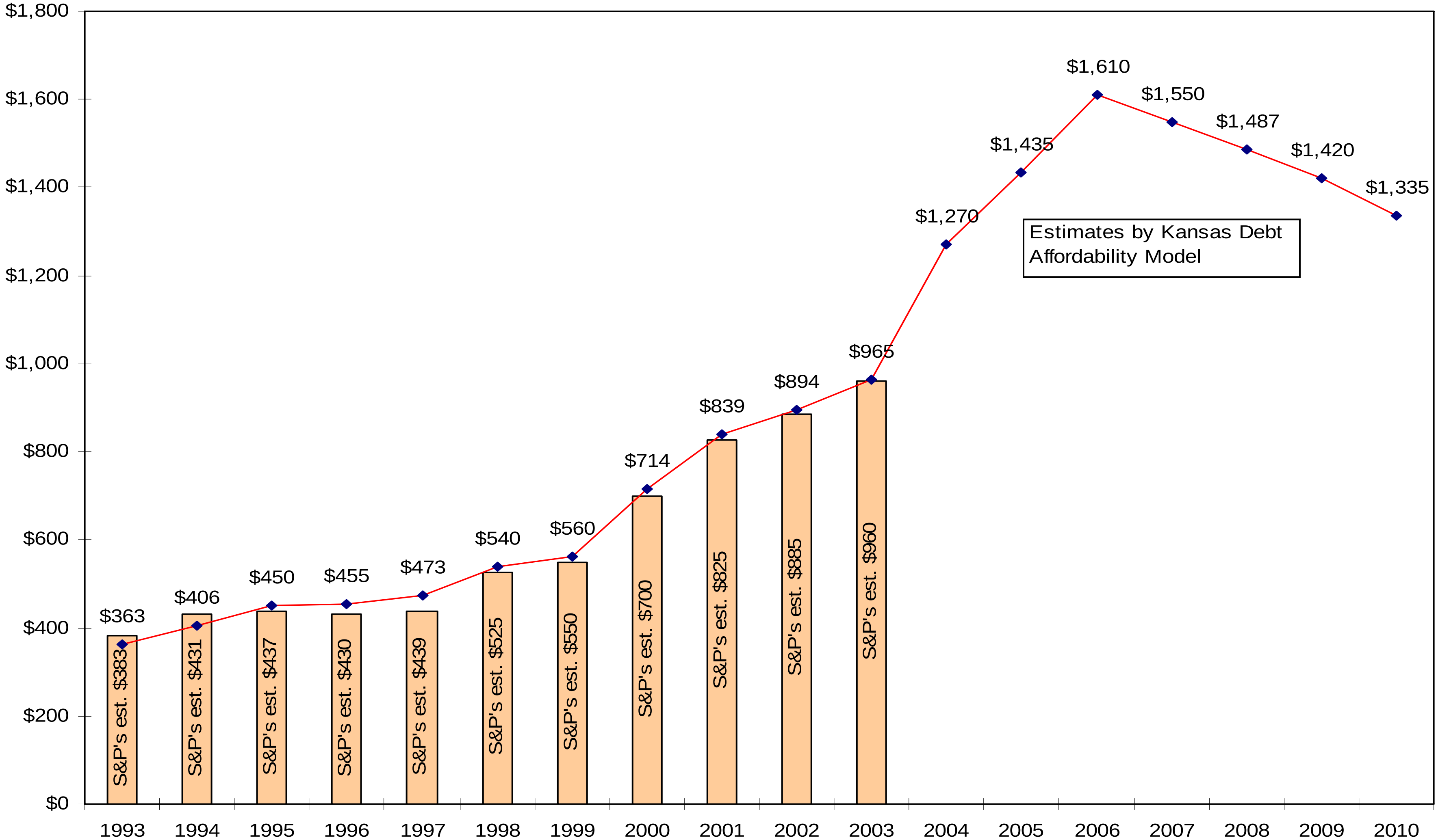
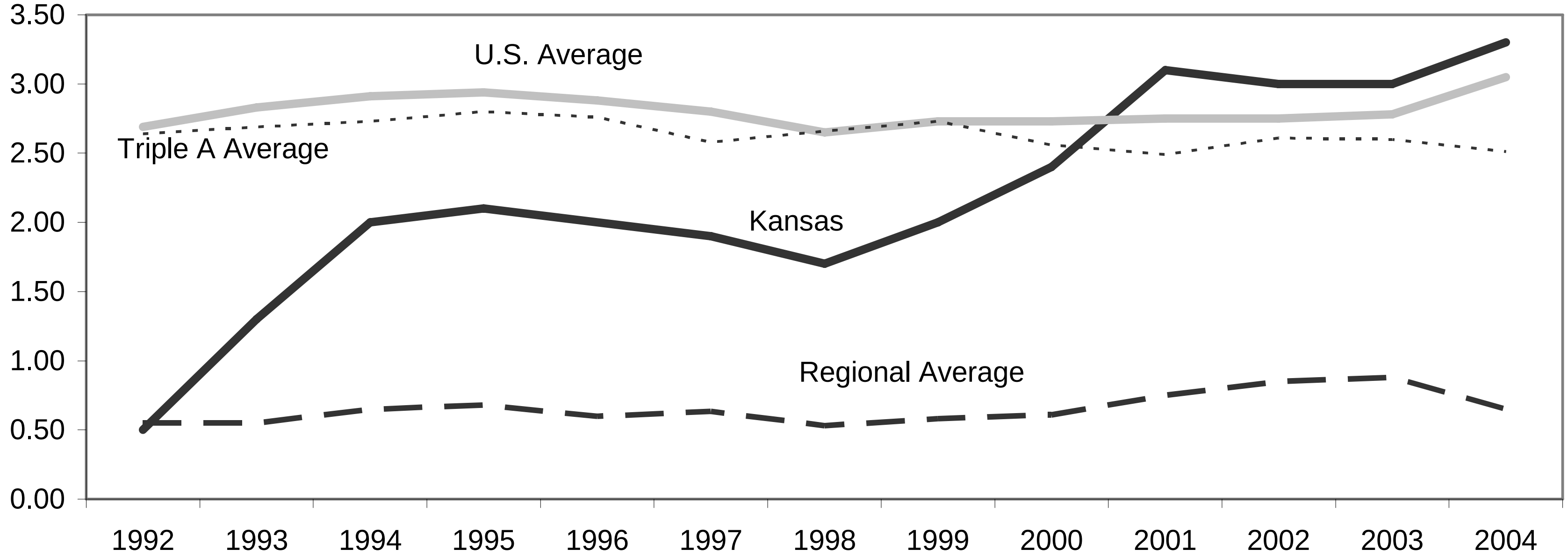
Figure 4: Comparing Standard and Poor's Total Tax-Supported Debt per Capita Calculations with Estimates to 2010



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.

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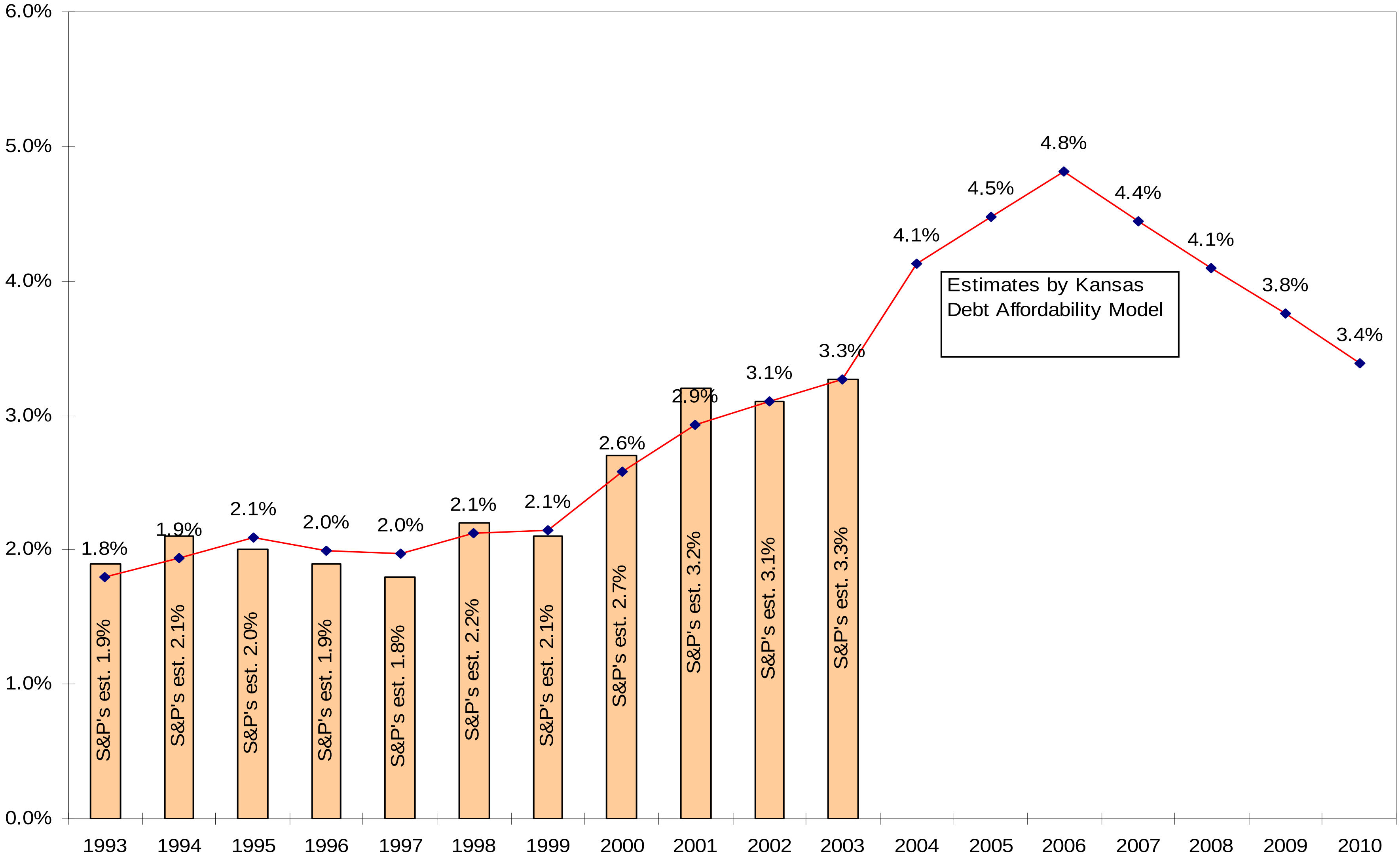
Figure 6: Comparing Standard & Poor's Total Tax-Supported Debt as a Percent of Personal Income Calculations with Estimates to 2010



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
- The complete report is available for download: http://hws.wichita.edu/KPF/reports_publications/