

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.

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-Employment security law, definitions; eliminating the waiting week relating to unemployment compensation and shared work compensation** and **SB 83-Employment security law; contribution rates** 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

CONTINUATION SHEET

MINUTES OF THE Senate Commerce Committee at 8:30 A.M. on January 19, 2007 in Room 123-S of the Capitol.

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.