T-LINK

Financial Overview

Prepared for:

Special Committee on New Comprehensive Transportation Plan on November 12, 2008

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Presented to T-LINK on October 14, 2008

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Working draft for T-LINK meeting on November 19, 2008.

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(Supplement is current as of November 12, 2008)

Part 1:

CTP Background Information

CTP Historical Funding Summary

(Unless noted otherwise, amounts in millions)

	As Passed in 1999			As Updated/Amended		
State Motor Fuel Tax Increases						
FY 2000, cents per gallon increase		2			2	
FY 2002, cents per gallon increase		1			1	
FY 2003, cents per gallon increase					2	<-- Added thru Amendment
FY 2004, cents per gallon increase		1			1	
Average annual incremental revenue						
State Highway Fund		$ 46			$ 70	
Special City & County Highway Fund		$ 15			$ 14	
Avg. annual incremental revenue- life of CTP:		**$ 61**			**$ 84**	
Sales Tax Transfer	Statutory		Capped Amt	Statutory		Effective
FY 2000	7.27%		6.20%	7.27%		4.40%
FY 2001	7.27%		6.09%	7.27%		3.59%
FY 2002	9.50%			9.50%		6.48%
FY 2003	11.00%			0.00%	<--Transfer Ended in 2003	
FY 2004	11.25%			0.00%		
FY 2005	12.00%			0.00%		
Avg. annual incremental revenue- life of CTP:		**$ 86**			**($70)**	
Direct Sales Tax Deposit						
FY 2007, increase from **.25** cents to				.38 cents		
FY 2008, increase to				.65 cents		
Resulting avg. annual incremental revenue- life of CTP:					**$ 28**	
Funding for KHP (began 2004), avg annual increment					**($18)**	
(Note: Actual annual Transfer is approx. $30M. $18M reflects avg annual affect thru life of CTP.)						
Bond Proceeds						
State Highway Fund - new authority	$ 995			$ 1,272		
Less: incremental SHF debt service	($345)			($283)		
State General Fund back bonds	-			$ 210		
Net	$ 650			$ 1,199		
Avg. annual incremental revenue:		**$ 65**			**$ 120**	
Interest earnings, avg. annual incremental revenue:		**$ 19**			**$ 30**	
Total Avg Annual Revenue Increases from CTP:		**$ 231**			**$ 174**	
		(Note: Amounts shown on average annual increase basis)				
Total CTP Incremental Revenue- 10 years		***$ 2,310***			***$ 1,739***	

How KDOT Dollars Spent During CTP (avg annual expenditures)

(Unless noted otherwise, amounts in millions)

Routine Maintenance	$	124
Substantial Maintenance	$	162
	$	*286*
Major Modifications/Priority Bridge	$	407
System Enhancements	$	91
	$	*498*
Modes	$	22
Special City & County Highway Fund	$	152
Local Federal Aid Projects	$	80
Other Local Projects (Ed, GI)	$	44
	$	*276*
Management & Buildings	$	59
Transfers to Other State Agencies	$	81
Debt Service	$	113
Total Average Annual Expenditure Amt- CTP:	***$***	***1,335***

Other Notes

1) Consumer price inflationary growth over 10 year period 2.6%
2) Growth in construction costs over life of CTP 5.3%
3) Due to lower than expected incremental revenue generated by CTP, KDOT engaged in a series of cash flow policies to ensure the completion of the CTP projects:
   (a) Secondary lettings of certain projects will be let in years beyond CTP.
   (b) Certain funds were shifted from Substantial Maintenance activities into new construction
   (c) Debt service was restructured resulting in larger debt service payments post-CTP.
4) FY 2009 Transfers to Other State Agencies Include:
   (a) Division of Revenue: Division of Vehicles ($42.8M in FY 2009)
   (b) Kansas Highway Patrol: Motor Carrier Section ($20.4M in FY 2009)
   (c) State General Fund:
      (i) KHP- $32.5M in FY 2009 (Scheduled to sunset FY 2009)
      (ii) Kansas Affordable Airfare Fund- $5M in FY 2009 (Scheduled to sunset FY 2011)
   (d) Other misc transfers of smaller size

Part 2:

Hypothetical GAP Scenarios

T-LINK- 5 Hypothetical "New Program" Structure Cost Estimates

(Note: Amounts shown on average annual increase basis)

Consumer price inflationary growth over 10 year period	2.6%
Growth in construction costs over life of CTP	5.3%

Average Estimated Annual Funding Gaps

(Unless noted otherwise, amounts in millions)

	5 Year	10 Year	
Scenario 1, No Action to Funding			
Assumed construction inflation (as shown above)	5.3%	5.3%	
Resulting percent of pavement in good condition	**To be determined by highway modal sub-team**		
Resulting percent of bridges in good condition			
Scenario 2, Roads & Bridges Maintained in Current "Target" Condition	$ 28	($32)	**<-- Excess Available**
(Essentially a Preservation Only Program)			
Scenario 3, Transition, modest funding increases	(73)	(147)	
Includes Modest Increases in Addition to Current Level of Preservation:			
(a) Modernization- 7 miles of shoulders			
(b) Capacity- 4 miles of Rural 2-lane to 4-lane & 1 mile of Low Cost Urban Lane			
(c) Modes Remain the Same, No new Interchanges			
Scenario 4, CTP Level of Production	(300)	(407)	
Includes Modest Increases to Modes:			
(a) Transit- $2M			
(b) Aviation- $1M			
(c) Short Line Rail- $1M			
Scenario 5, 150% of CTP Level of Production	(431)	(557)	
Includes Modest Increases to Modes:			
(a) Transit- $2M			
(b) Aviation- $1M			
(c) Short Line Rail- $1M			

Part 3:

Funding Menu and Local Consultation Funding Survey Results

T-LINK Financial Overview- FUNDING MENU (Working Document as of 10.14.08)

(Unless noted otherwise, revenue amounts in millions)

	Description	Supplemental Documentation Page #	Variable Unit	Resulting Net Annual Incremental Revenue
A	Increase Car Registration Fee	1	$10	$ 27
B	Increase Truck Registration Fee	2	$10	2
C	Dedicate a portion of Gaming	7	10%	11
D	Change Motor Fuels Gallon Tax		$0.01	19
E	Add Sales Tax to Motor Fuels ($4/gallon)	8	0.10%	8
F	Increase level of sales tax deposit to SHF		0.10	47
G	Add a surcharge to KTA tolls	18	10%	8
H	Gross Bond Proceeds	19	$100M issue (net spread 5 yrs)	12
I	Bond capacity under current revenues	24	3.5X Debt Service Coverage	305
J	Broaden Sales Tax Base	25	1% reduction in exemptions	41
K	$27.45B (07 appraised value) of land exempt from prop tax	27	10% reduction in exemptions	TBD
L	Real-Estate Transfer Fee to Total Indebtedness	28	0.01%	2
M	Local MFT Option	29	.01 per 1,000 DVMT	280K
N	Include Local Contribution per year (TRF as an option)	32	N/A	10
O	Jet Fuel Tax- Remove Exemption from Interstate Commerce	38	5.30%	11
P	Aviation Fuel Tax	38	5.30%	2
Q	Aviation Gas Excise per gallon- DRAFT FORM	38	$0.01	90K
R	Jet Fuel Excise per gallon- DRAFT FORM	38	$0.01	410K
S	Aircraft Registration (4,000 planes registered)	38	$60	240K
T	Sales Tax on Re-Sale of Private Aircraft			TBD
U	Per ton Tax for Rail	39	$0.01	2.7
W	Per ton Tax for Highways	39	$0.01	5.3
V	Reallocation of railroad corporate taxes	40	10% of corp. income tax	0.55
X	Reallocation of over-the-road shippers corporate taxes	40	10% of corp. income tax	0.75
Y	KHP Speeding Ticket Surcharge	41	$20 per ticket	1.6
Z	Surcharge on rental cars (currently 3.5%)		0.10%	100K
AA	Sales tax generated on bicycle sales	42	5.30%	3
	Other White Paper Discussions			
a	Replicate the CTP Revenues	43		
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*Topic is of interest to the T-LINK Finance Sub-Committee

T-Link Local Consult- Statewide Funding Survey Results

Funding Source	**TOTAL**		Ulysses		Hays		Abilene		Topeka		Olathe		Hutch		Pittsburg		Wichita	
	Raw	%	Raw	%	Raw	%	Raw	%	Raw	%	Raw	%	Raw	%	Raw	%	Raw	%
Gaming Fees	304	57%	25	58%	30	65%	37	80%	37	50%	54	49%	38	66%	40	63%	43	61%
Vehicle Reg. Fees	237	44%	29	67%	15	33%	30	65%	33	45%	63	57%	23	40%	16	25%	28	40%
Truck Reg. Fees	229	43%	26	60%	23	50%	29	63%	28	38%	54	49%	21	36%	22	34%	26	37%
Dev. Fees	201	38%	11	26%	16	35%	28	61%	29	39%	49	45%	16	28%	18	28%	34	49%
MFT	201	38%	23	53%	18	39%	28	61%	25	34%	36	33%	32	55%	10	16%	29	41%
Sales Tax Gas	189	35%	16	37%	16	35%	27	59%	22	30%	39	35%	27	47%	15	23%	27	39%
Toll Roads	187	35%	12	28%	13	28%	20	43%	26	35%	54	49%	20	34%	21	33%	21	30%
State Sales Tax	185	35%	20	47%	21	46%	25	54%	9	12%	30	27%	26	45%	26	41%	28	40%
Tax Vehicle Weight	169	32%	14	33%	23	50%	24	52%	21	28%	29	26%	20	34%	19	30%	19	27%
TDD	161	30%	13	30%	8	17%	23	50%	16	22%	50	45%	7	12%	19	30%	25	36%
Bonding	123	23%	3	7%	8	17%	15	33%	12	16%	23	21%	13	22%	28	44%	21	30%
Partnerships	118	22%	5	12%	11	24%	15	33%	17	23%	40	36%	12	21%	4	6%	14	20%
Tax Miles Driven	109	20%	12	28%	6	13%	18	39%	11	15%	38	35%	8	14%	6	9%	10	14%
Sales Tax Vehicles	96	18%	12	28%	6	13%	15	33%	18	24%	19	17%	6	10%	5	8%	15	21%
KTA Surcharge	61	11%	3	7%	5	11%	5	11%	7	9%	13	12%	12	21%	4	6%	12	17%
Local Match	55	10%	2	5%	2	4%	13	28%	10	14%	2	2%	8	14%	3	5%	15	21%
Property Tax	48	9%	1	2%	1	2%	2	4%	8	11%	20	18%	9	16%	6	9%	1	1%
Borrow Fed Aid	21	4%	3	7%	1	2%	3	7%	4	5%	4	4%	1	2%	4	6%	1	1%
Total Responses	535		43		46		70		74		110		58		64		70	

highlighted cells indicate top 5 choices

Part 4:

Supplemental Documentation

Car Registration Fee

The T-LINK calculator reflects that a $10 increase in car registration fees produces $27 million in average annual new revenues. The base average contemplates that the surcharge, discussed below, continues past the current sunset date.

Division of Vehicles Modernization Surcharge

2008 Senate Substitute for House Bill 2542 as passed by both Chambers and signed by the Governor provides for the imposition of a $4 surcharge in conjunction with annual vehicle registration. The surcharge becomes effective January 1, 2009 and sunsets on January 1, 2013, thus providing four calendar years of collection spread over five fiscal years. The Department of Revenue estimated a collection of $10.2 million per calendar year but did not provide for any growth in subsequent years. A more reasonable assumption would be a growth in the registration fees of slightly less than 2% annually.
Assuming that the surcharge was continued past the current sunset and the total amount deposited to the State Highway Fund, the surcharge would provide approximately $88.8 million dollars between January 1, 2013 and June 30, 2020 or approximately 11.8 million per fiscal year.

Truck Registration Fee

The T-LINK calculator reflects that a $10 increase in truck registration fees produces $2 million in average annual new revenues. Provided below is a listing of truck classifications, approximate number of vehicles registered by class, and the associated registration fee.

Vehicle Registration Fees on Trucks

Trucks in Kansas are registered under five different classifications. The registration fee is based on the classification of the truck and the gross operating weight of the truck or tractor/trailer combination.

The five classifications are:
Regular Truck – Trucks not classified otherwise.
Local Trucks – Trucks which operate wholly within the corporate limits of a city or village or within a radius of 25 miles beyond the corporate limits.
Farm Truck – Trucks which are owned and operated by a person engaged in farming and which are used to transport agricultural products produced by such owner or commodities purchased by such owner for use on the farm.
6,000 Miles Truck – Trucks operated for less than 6,000 miles per year.
Custom Harvesting -- Trucks engaged in farm custom harvesting operations.

In addition, trucks which are primarily used in interstate commerce are prorated among the state in which they operate based on the percentage of miles driven in the respective state. Interstate trucks are shown below with an estimated number of full vehicle registrations.

Trucks	**Number**	**Fee**
Regular - 12M or less (pick-ups)	630,288	$40.00
Regular - 16M or less	9,040	$102.00
Regular - 20M	5,954	$132.00
Regular - 24M	7,119	$197.00
Regular - 26M	0	$312.00
Regular - 30M	6,367	$312.00
Regular - 36M	2,301	$375.00
Regular - 42M	973	$475.00
Regular - 48M	1,015	$605.00
Regular - 54M	2,844	$805.00
Regular - 60M	636	$1,010.00
Regular - 66M	469	$1,210.00
Regular - 74M	208	$1,535.00

Regular - 80M	1,019	$1,735.00
Regular - 85.5M	1,434	$1,935.00
Local - 16M	424	$62.00
Local - 20M	188	$102.00
Local - 24M	608	$132.00
Local - 30M	664	$177.00
Local - 36M	368	$215.00
Local - 42M	154	$245.00
Local - 48M	257	$315.00
Local - 54M	1,132	$415.00
Local - 60M	200	$410.00
Local - 66M	330	$580.00
Local - 74M	313	$760.00
Local - 80M	261	$890.00
Local 85.5M	149	$1,010.00
Farm - 16M	35,743	$37.00
Farm - 20M	9768	$42.00
Farm - 24M	13,357	$52.00
Farm - 30M	3,929	$72.00
Farm - 54M	17,232	$75.00
Farm - 60M	516	$190.00
Farm - 66M	558	$370.00
Farm - 85.5M	6,213	$610.00
6,000 Mile - 16M	66	$62.00
6,000 Mile - 20M	36	$102.00
6,000 Mile - 24M	139	$102.00
6,000 Mile - 30M	159	$177.00
6,000 Mile - 36M	105	$215.00
6,000 Mile - 42M	71	$245.00
6,000 Mile - 48M	87	$315.00
6,000 Mile - 54M	254	$415.00
6,000 Mile - 60M	66	$480.00
6,000 Mile - 66M	52	$580.00
6,000 Mile - 74M	44	$760.00
6,000 Mile - 80M	88	$890.00
6,000 Mile - 85.5M	150	$1,010.00
Custom Harvest - 16M	9	$62.00
Custom Harvest - 20M	7	$102.00
Custom Harvest - 24M	12	$132.00
Custom Harvest - 30M	3	$177.00

Custom Harvest - 36M	3	$215.00
Custom Harvest - 42M	1	$245.00
Custom Harvest - 48M	0	$315.00
Custom Harvest t - 54M	12	$415.00
Custom Harvest - 60M	0	$480.00
Custom Harvest - 66M	1	$580.00
Custom Harvest - 74M	0	$760.00
Custom Harvest - 80M	0	$890.00
Custom Harvest 85.5M	1	$1,010.00
Trucks registered in Multiple States: Full unit equivalents	24,523	$1,835.00

Change in Iowa Truck Registration Fees

1. Special Trucks (Farm Use)

Amended Code Section 321.121 to increase for special trucks registered for up to 18 tons.

Tons:	Old:	New:
5 - 6	$80	$100
6 - 7	100	125
7 - 8	120	155
8 - 9	135	170
9 - 10	150	190
10 - 11	165	205
11 - 12	180	225
12 - 13	195	245
13 - 14	210	265
14 - 15	225	280
15 - 16	240	295
16 - 17	255	305
17 - 18	270	315

2. Business Trade Pickups (Commercial or Ag purpose)

Business trade is a new definition. There was no distinction between business trade and non-business trade. This rate established beginning with new Model Year 2010 purchases.

New:
Business Trade Pickups Rate Schedule
<=3 tons

Years	Annual Cost
0 - 7	$ 150
8 - 9	120
10 - 11	100
Over 12	50

Tons	Annual Cost
3-4 tons	165
4 - 5 tons	180

Old:
<=3 tons

Years	Annual Cost
0 - 10	65
11 - 13	55
14 - 15	45
Over 15	35

Tons:

3 - 4	80
4 - 5	90

Dedicate a portion of Gaming

The T-LINK calculator reflects that a 10% allocation of gaming revenues produces $11 million in average annual new revenues. Provided below is an indication of the underlying revenue estimates as furnished by Legislative Research.

Gaming Revenues (PRELIMINARY)

The 2007 legislature expanded legal gaming in the State of Kansas and provided that revenues received by the State would be deposited in the "expanded lottery act revenue fund." Revenues credited to the fund are to be expended only for the following purposes:

1. Reduction of State debt
2. State infrastructure improvements and
3. Reduction of local ad valorem tax.

Estimates of revenues, as used by Legislative Research, anticipate that the state will receive the following amounts from two Raceways (Racinos) and four destination casinos:

FY 2009	$47.0 million
FY 2010	$67.4 million
FY 2011	$156.0 million
FY 2012	$167.5 million
FY 2013	$77.4 million

Note: The Racinos are expected to be operation during FY 2009 and the casinos have a 1-2 year construction period. There are competing locations in Sumner County and the lowest estimate is used.

These revenues could potentially be used to support highway projects in two approaches. The first would be to use the revenues to pay for specific projects or to provide a specified amount to pay for projects. For example, an amount necessary to fund a specific project could be transferred to the Highway Fund to pay for the specified project. Alternatively a specified amount per year could be transferred to the Highway Fund to pay for highway projects. A second approach would be to transfer a specified amount to the State Highway Fund to pay the debt service on bonds issued for highway projects.

Assuming $10 million annually from gaming and the money being used to support bonding, would provide for the ability to issue between $110 million and $140 million in bonds.

Chapter 110 of 2007 Session Laws (Senate Bill 66)
Section 37 There is hereby created the expanded lottery act revenues fund in the state treasury. All expenditures and transfers from such fund shall be made in accordance with appropriation acts. All moneys credited to such fund shall be expended or transferred only for the purposes of reduction of state debt, state infrastructure improvements and reduction of local ad valorem tax in the same manner as provided for allocation of amounts in the local ad valorem tax reduction fund.

Add Sales Tax to Motor Fuels

The T-LINK calculator indicates that for gasoline costing $4 per gallon in 2010 with a 3% annual increase in price thereafter, a .1% sales tax on motor fuels produces $8 million in average annual new revenues. Provided below is a discussion of variable rates on motor fuels.

Variable Rates on Motor Fuels

As of January 1, 2008, 15 states had some form of variable tax rate on motor fuels. The type of variable rate breaks down as follows:

Rate based on retail or wholesale price:

Sales Tax		6 States
California	Gasoline & Diesel	
Hawaii	Gasoline & Diesel (ethanol blends are exempt)	
Illinois	Gasoline & Diesel	
Indiana	Gasoline & Diesel	
Michigan	Gasoline & Diesel	
Virginia	Gasoline (local only)	
Sales Tax on a pegged or average price		2 States
Florida	Gasoline & Diesel	
Georgia	Gasoline & Diesel	
Wholesale price percent or cents per gallon on pegged price		4 States
West Virginia	Gasoline & Diesel	
Kentucky	Gasoline	
North Carolina	Gasoline	
Pennsylvania	Gasoline & Diesel	

Rate based on business activity:

Petroleum Business Tax		1 State
New York	Gasoline & Diesel	
Gross Receipts Earnings Tax		1 State
Connecticut	Gasoline	

Rate based on other criteria:

Variable based on budgeted work		1 State
Nebraska	Gasoline & Diesel	

Terminology on the tax is not always consistent across states. For ease of computation the tax is often based on a synthetic pump price such as the average price during a preceding period. When a synthetic price is used the tax can be expressed in either cents per gallon (cpg) or as a percent.

Sales Tax

The application of sales tax on motor fuels requires very little fundamental change in Kansas tax statutes. Based on whether the tax would be applied to gasoline and special fuels (diesel) or just gasoline only would affect the how the law is amended, but the basic intent would be to

remove the specific exemption for motor-vehicle fuel from the exempt sales listing and to avoid confusion specifically include motor-vehicle fuel in the list of taxable transactions in K.S.A. 79-3603 or in K.S.A. 79-3606(a).

K.S.A. 79-3606. Exempt sales. (emphasis added)

The following shall be exempt from the tax imposed by this act:

(a) All sales of motor-vehicle fuel or other articles upon which a sales or excise tax has been paid, not subject to refund, under the laws of this state except cigarettes as defined by K.S.A. 79-3301 and amendments thereto, cereal malt beverages and malt products as defined by K.S.A. 79-3817 and amendments thereto, including worth, liquid malt, malt syrup and malt extract, which is not subject to taxation under the provisions of K.S.A. 79-41a02 and amendments thereto, motor vehicles taxed pursuant to K.S.A. 79-5117, and amendments thereto, tires taxed pursuant to K.S.A. 65-3424d, and amendments thereto, dry cleaning and laundry services taxed pursuant to K.S.A. 65-34,150, and amendments thereto, and gross receipts from regulated sports contests taxed pursuant to the Kansas professional regulated sports act, and amendments thereto;

In summary, strike "of motor-vehicle fuel or other" in the above paragraph and after "except" insert "motor-vehicle fuel as defined in K.S.A. …" which will result in the sale of motor vehicle fuels being a sales taxable transaction.

Considerations in the imposition of the tax.

Motor fuel is currently taxed at the first point of distribution of the system and as such is not legally sold either in wholesale or retail transactions without the tax being included. The collection and verification of motor fuel sales would require the Department of Revenue to develop new procedures and processes depending upon the point at which the tax is applied. If the tax is applied at the first point of distribution the Department of Revenue would need to artificially create a retail or wholesale price for purposes of calculating the amount of sales tax unless the tax is computed on the actual wholesale price. If the tax is applied at the final sale, the tax could be calculated on either the actual retail price or on an artificial calculated/estimated retail price.

Sales Tax		
Applied	**Sales Price**	**Determined by**
First sale (distribution)	Wholesale	Actual
	Wholesale	Calculated/Estimated
	Retail	Calculated/Estimated
Retail Sale	Retail	Actual
	Retail	Calculated/Estimated

Care is required in drafting the law to maintain the current legal position on the imposition of the motor fuel on gasoline, namely that the incident of taxation is on the purchase of the motor fuel for consumption and the motor fuel and any sales tax is due from the consumer on motor fuel purchased for consumption.

A procedural/legal question will need to be addressed on whether the sales tax can or should be applied on either the federal or state motor fuel excise taxes.

Impact of Sales Tax on Gasoline:
The following table shows the amount of sales tax collected on estimated **FY 2008** sales of gasoline at an assumed average price of $2.50 and $3.00 per gallon with the amounts attributable to the federal and state MFT as well as the current statutory distribution...

Gasoline	Total Price	Federal MFT	State MFT	Net Price
Pump Price	**$2.50**	$0.184	$0.240	$2.076
Sales Tax				
KDOT	$ 20,978,750	$ 1,544,036	$ 2,013,960	$ 17,420,754
SGF	$150,078,750	$ 11,045,796	$ 14,407,560	$124,625,394
Total	$171,057,500	$ 12,589,832	$ 16,421,520	$142,046,148
Pump Price	**$3.00**	$0.184	$0.240	$2.576
Sales Tax				
KDOT	$ 25,174,500	$ 1,544,036	$ 2,013,960	$ 21,616,504
SGF	$180,094,500	$ 11,045,796	$ 14,407,560	$154,641,144
Total	$205,269,000	$ 12,589,832	$ 16,421,520	$176,257,648

As can be seen in the above table, if gasoline has an average pump price of $2.50, the State would collect approximately $171 million in sales tax on the pump price. Current law would divide this between the State General Fund and the State Highway Fund. If the sales tax was not applied to either the federal motor fuel tax or the state motor fuel tax, the total sales tax collected would decline to approximately $142 million dollars.

Impact of Sales Tax on Special Fuels (Diesel):
The imposition of sales tax on Special fuels (diesel) raises questions which are different from the imposition of the tax on gasoline. Currently, truckers are effectively taxed on diesel where they consume the fuel, not where they buy it. The diesel is sold with the state tax included but the taxes are settled through fillings under the International Fuel Tax Agreement (IFTA) and Kansas settles net accounts with other states based on the reported consumption of the fuel. Truckers pay or are rebated tax differences between the point of purchases and the reported point of consumption. Since sales tax is generally applied at the point of sale, the application of the sales tax on all diesel fuel purchased in Kansas, might affect the purchase decision of truckers who could choose to purchase the fuel in other states. An alternative would be to apply a sales tax equivalent at the wholesale level which could be handled within IFTA.
The following table shows the amount of sales tax collected on estimated **FY 2008** sales of special fuels (diesel) at an assumed average price of $4.00 and $4.50 per gallon with the amounts attributable to the federal and state motor fuel tax as well as the current statutory distribution for sales tax.

Diesel	Total Price	Federal MFT	State MFT	Net Price
Pump Price	**$4.00**	$0.184	$0.240	$3.576
Sales Tax				
KDOT	$ 12,649,000	$ 581,254	$ 758,940	$ 11,308,206
SGF	$ 90,489,000	$ 4,162,494	$ 5,429,340	$ 80,897,166
Total	$103,138,000	$ 4,744,348	$ 6,188,280	$ 92,205,372
Pump Price	**$4.50**	$0.184	$0.240	$4.076
Sales Tax				
KDOT	$ 14,230,125	$ 581,854	$ 758,940	$ 12,889,331
SGF	$101,800,125	$ 4,162,340	$ 5,429,340	$ 92,208,291
Total	$116,030,250	$ 4,744,348	$ 6,188,280	$105,097,622

The above table illustrates that if diesel has an average pump price of $4.00, the State would collect approximately $103 million in sales tax on the pump price. Current law would divide this between the State General Fund and the State Highway Fund. If the sales tax was not applied to either the federal motor fuel tax or the state motor fuel tax, the total sales tax collected would decline to approximately $92 million dollars.

Replacement of Motor Fuel Tax by Sales Tax

The imposition of sales tax on motor fuel could be substituted for a portion of the current motor fuel tax rate. If we assume that a penny of gas tax produces $14 million then we could reduce the motor fuel tax on gasoline between 13 and 14 cents per gallon and remain revenue neutral.

If the motor fuel tax on gasoline is replaced by sales tax, the amount of money currently distributed to cities and counties through the Special City & County Highway Fund would decrease. In order to hold the cities and counties harmless either a portion of the sales tax would need to be distributed through the Special City & County Highway Fund or the amount of motor fuel allocated to the fund would need to increase.

Selected alternatives

The following summarize a limited number of alternatives. In each case, the assumption is that the Special City & County Highway Fund is held harmless through an appropriate revenue allocation adjustment and that appropriate change in the sales tax statute captures all of the sales tax on motor fuels for the State Highway Fund. The assumption is also made that an appropriate collection mechanism is developed to capture at least 90% of the sales tax on Diesel (Special Fuel) sales. For illustration, a price per gallon of $2.50 and $4.00 for gasoline and diesel is assumed.

The State Highway Fund is currently projected to receive

	FY 2010	FY 2010-2019
Motor Fuel Tax	$ 448.4 million	$ 4,826.0 million
SC&CHF	$<150.8> million	$<1,623.0> million
	$ 297.6 million	$ 3,203.0 million

For illustration the following three scenarios are presented:

Apply the Sales Tax to Motor Fuel and leave the Current Motor Fuel Tax in place

	FY 2010	FY 2010-2019
Sales Tax Revenue	$ 274.2 million	$ 2,973.0 million
Motor Fuel Tax	$ 448.4 million	$ 4,826.0 million
SC&CHF	$<150.8> million	$<1,623.0> million
	$ 571.8 million	$ 6,176.0 million

Apply the Sales Tax to Motor Fuel and reduce the Current Motor Fuel Tax by 10 cents

	FY 2010	FY 2010-2019
Sales Tax Revenue	$ 264.7 million	$ 2,871.7 million
Motor Fuel Tax	$ 280.0 million	$ 2,867.5 million
SC&CHF	$<150.8> million	$<1,623.0> million
	$ 393.9 million	$ 4,116.2 million

Apply the Sales Tax to Motor Fuel and reduce the Current Motor Fuel Tax by 14 cents

	FY 2010	FY 2010-2019
Sales Tax Revenue	$ 260.9 million	$ 2,831.2 million
Motor Fuel Tax	$ 212.7 million	$ 2,083.8 million
SC&CHF	$<150.8> million	$<1,623.0> million
	$ 322.8 million	$ 3,292.0 million

Sales Tax Compared to Tax per Gallon

Gasoline: The price per gallon on Topeka on October 6th ranged from $2.91 upward including state and federal taxes. Excluding state tax the sales tax on a gallon of gasoline would be the equivalent to a gas tax rate of $0.15 per gallon. The price per gallon would need to increase to approximately $4.70 per gallon including state and federal taxes before the current sales tax would equal $0.24 per gallon.

Diesel: The price per gallon on Topeka on October 6th ranged from $3.74 upward including state and federal taxes. Excluding state tax, the sales tax on a gallon of diesel would be the equivalent to a tax rate of $0.19 per gallon. The price per gallon would need to increase to approximately $5.10 per gallon including state and federal taxes before the current sales tax would equal $0.26 per gallon.

If sales tax is not applied to the federal tax the current price for gasoline would provide sales tax at an equivalent of $0.14 per gallon and the current price for diesel would provide sales tax at an equivalent of $0.18 per gallon.

Gasoline Penny per Gallon Equivalent

Price per Gallon	State Tax	Net Price Per Gallon	Sales Tax Exclude State Tax	Sales Tax Exclude Federal Tax
$ 2.00	$ 0.24	$ 1.76	$ 0.09	$ 0.08
$ 2.10	$ 0.24	$ 1.86	$ 0.10	$ 0.09
$ 2.20	$ 0.24	$ 1.96	$ 0.10	$ 0.10
$ 2.30	$ 0.24	$ 2.06	$ 0.11	$ 0.10
$ 2.40	$ 0.24	$ 2.16	$ 0.12	$ 0.11
$ 2.50	$ 0.24	$ 2.26	$ 0.12	$ 0.11
$ 2.60	$ 0.24	$ 2.36	$ 0.13	$ 0.12
$ 2.70	$ 0.24	$ 2.46	$ 0.13	$ 0.12
$ 2.80	$ 0.24	$ 2.56	$ 0.14	$ 0.13
$ 2.90	$ 0.24	$ 2.66	$ 0.14	$ 0.13
$ 3.00	$ 0.24	$ 2.76	$ 0.15	$ 0.14
$ 3.10	$ 0.24	$ 2.86	$ 0.15	$ 0.14
$ 3.20	$ 0.24	$ 2.96	$ 0.16	$ 0.15
$ 3.30	$ 0.24	$ 3.06	$ 0.16	$ 0.15
$ 3.40	$ 0.24	$ 3.16	$ 0.17	$ 0.16
$ 3.50	$ 0.24	$ 3.26	$ 0.17	$ 0.16
$ 3.60	$ 0.24	$ 3.36	$ 0.18	$ 0.17
$ 3.70	$ 0.24	$ 3.46	$ 0.18	$ 0.17
$ 3.80	$ 0.24	$ 3.56	$ 0.19	$ 0.18
$ 3.90	$ 0.24	$ 3.66	$ 0.19	$ 0.19
$ 4.00	$ 0.24	$ 3.76	$ 0.20	$ 0.19
$ 4.10	$ 0.24	$ 3.86	$ 0.21	$ 0.20
$ 4.20	$ 0.24	$ 3.96	$ 0.21	$ 0.20
$ 4.30	$ 0.24	$ 4.06	$ 0.22	$ 0.21
$ 4.40	$ 0.24	$ 4.16	$ 0.22	$ 0.21
$ 4.50	$ 0.24	$ 4.26	$ 0.23	$ 0.22
$ 4.60	$ 0.24	$ 4.36	$ 0.23	$ 0.22
$ 4.70	$ 0.24	$ 4.46	$ 0.24	$ 0.23
$ 4.80	$ 0.24	$ 4.56	$ 0.24	$ 0.23
$ 4.90	$ 0.24	$ 4.66	$ 0.25	$ 0.24
$ 5.00	$ 0.24	$ 4.76	$ 0.25	$ 0.24
$ 5.10	$ 0.24	$ 4.86	$ 0.26	$ 0.25
$ 5.20	$ 0.24	$ 4.96	$ 0.26	$ 0.25

$ 5.30	$ 0.24	$ 5.06	$ 0.27	$ 0.26
$ 5.40	$ 0.24	$ 5.16	$ 0.27	$ 0.26
$ 5.50	$ 0.24	$ 5.26	$ 0.28	$ 0.27
$ 5.60	$ 0.24	$ 5.36	$ 0.29	$ 0.28
$ 5.70	$ 0.24	$ 5.46	$ 0.29	$ 0.28
$ 5.80	$ 0.24	$ 5.56	$ 0.30	$ 0.29
$ 5.90	$ 0.24	$ 5.66	$ 0.30	$ 0.29
$ 6.00	$ 0.24	$ 5.76	$ 0.31	$ 0.30

Diesel Penny per Gallon Equivalent

	Price per Gallon	State Tax	Net Price Per Gallon	Sales Tax Exclude State Tax	Sales Tax Exclude Federal Tax
Diesel	$ 2.00	$ 0.26	$ 1.74	$ 0.09	$ 0.08
Diesel	$ 2.10	$ 0.26	$ 1.84	$ 0.10	$ 0.09
Diesel	$ 2.20	$ 0.26	$ 1.94	$ 0.10	$ 0.09
Diesel	$ 2.30	$ 0.26	$ 2.04	$ 0.11	$ 0.10
Diesel	$ 2.40	$ 0.26	$ 2.14	$ 0.11	$ 0.10
Diesel	$ 2.50	$ 0.26	$ 2.24	$ 0.12	$ 0.11
Diesel	$ 2.60	$ 0.26	$ 2.34	$ 0.13	$ 0.11
Diesel	$ 2.70	$ 0.26	$ 2.44	$ 0.13	$ 0.12
Diesel	$ 2.80	$ 0.26	$ 2.54	$ 0.14	$ 0.12
Diesel	$ 2.90	$ 0.26	$ 2.64	$ 0.14	$ 0.13
Diesel	$ 3.00	$ 0.26	$ 2.74	$ 0.15	$ 0.13
Diesel	$ 3.10	$ 0.26	$ 2.84	$ 0.15	$ 0.14
Diesel	$ 3.20	$ 0.26	$ 2.94	$ 0.16	$ 0.14
Diesel	$ 3.30	$ 0.26	$ 3.04	$ 0.16	$ 0.15
Diesel	$ 3.40	$ 0.26	$ 3.14	$ 0.17	$ 0.15
Diesel	$ 3.50	$ 0.26	$ 3.24	$ 0.17	$ 0.16
Diesel	$ 3.60	$ 0.26	$ 3.34	$ 0.18	$ 0.17
Diesel	$ 3.70	$ 0.26	$ 3.44	$ 0.18	$ 0.17
Diesel	$ 3.80	$ 0.26	$ 3.54	$ 0.19	$ 0.18
Diesel	$ 3.90	$ 0.26	$ 3.64	$ 0.19	$ 0.18
Diesel	$ 4.00	$ 0.26	$ 3.74	$ 0.20	$ 0.19
Diesel	$ 4.10	$ 0.26	$ 3.84	$ 0.20	$ 0.19
Diesel	$ 4.20	$ 0.26	$ 3.94	$ 0.21	$ 0.20
Diesel	$ 4.30	$ 0.26	$ 4.04	$ 0.22	$ 0.20
Diesel	$ 4.40	$ 0.26	$ 4.14	$ 0.22	$ 0.21
Diesel	$ 4.50	$ 0.26	$ 4.24	$ 0.23	$ 0.21
Diesel	$ 4.60	$ 0.26	$ 4.34	$ 0.23	$ 0.22
Diesel	$ 4.70	$ 0.26	$ 4.44	$ 0.24	$ 0.22
Diesel	$ 4.80	$ 0.26	$ 4.54	$ 0.24	$ 0.23
Diesel	$ 4.90	$ 0.26	$ 4.64	$ 0.25	$ 0.23
Diesel	$ 5.00	$ 0.26	$ 4.74	$ 0.25	$ 0.24
Diesel	$ 5.10	$ 0.26	$ 4.84	$ 0.26	$ 0.24
Diesel	$ 5.20	$ 0.26	$ 4.94	$ 0.26	$ 0.25
Diesel	$ 5.30	$ 0.26	$ 5.04	$ 0.27	$ 0.26

Diesel	$ 5.40	$ 0.26	$ 5.14	$ 0.27	$ 0.26
Diesel	$ 5.50	$ 0.26	$ 5.24	$ 0.28	$ 0.27
Diesel	$ 5.60	$ 0.26	$ 5.34	$ 0.28	$ 0.27
Diesel	$ 5.70	$ 0.26	$ 5.44	$ 0.29	$ 0.28
Diesel	$ 5.80	$ 0.26	$ 5.54	$ 0.29	$ 0.28
Diesel	$ 5.90	$ 0.26	$ 5.64	$ 0.30	$ 0.29
Diesel	$ 6.00	$ 0.26	$ 5.74	$ 0.31	$ 0.29

Add a Surcharge to KTA Tolls

The T-LINK calculator reflects that a 10% surcharge on KTA tolls produces $8 million in average annual new revenues. Provided below is a summary of the KTA revenue and expenses. The inset box shows the calculations for a one cent surcharge.

A T-LINK member inquired if the KTA generates money that is not used on maintenance. The member also inquired as to the amount of money that could be raised by a KTA toll surcharge.

Kansas Turnpike Authority, Changes in Net Assets

	2007	2006
Operating revenues		
Tolls	$78,195,540	$ 75,745,880
Other operating revenues	4,714,533	4,250,517
Total operating revenues	82,910,073	79,996,397
Operating expenses		
Administration	6,548,399	6,281,659
Insurance	7,677,844	6,422,266
Toll collection	11,557,942	11,062,548
Patrol	5,442,957	5,241,421
Maintenance	8,986,183	7,814,559
Cost of improvements, major repairs and replacements	34,482,921	9,971,643
Total operating expenses	74,696,246	46,794,096
Operating income	8,213,827	33,202,301
Nonoperating revenues (expenses)		
Investment revenue	8,681,873	8,124,447
Interest on long-term debt	(11,411,830)	(11,878,320)
Net nonoperating revenues (expenses)	(2,729,957)	(3,753,873)
Increase in Net Assets	$ 5,483,870	$ 29,448,428

Kansas Turnpike Authority, Statistical Data

Toll Revenue (Gross)		
Passenger cars	46,564,740	45,388,097
Commercial vehicles	32,572,640	31,236,478
Discounts and adjustments	(941,840)	(878,695)
Total	78,195,540	75,745,880
Revenue Per Mile (cents)		
Passenger cars	4.089	3.988
Commercial vehicles	11.580	11.276
Discounts and adjustments	(0.001)	(0.001)

	Increase	Percent
Revenue by surcharge of (cents): 1.00		
Passenger cars	$11,387,806	24%
Commercial vehicles	2,812,836	9%
Discounts and adjustments	(169,007)	
Total	$14,031,635	

The data source is KTA financial statements, except for inset box that KDOT computed.
The KTA could earmark the Increase in Net Assets for future activities, including maintenance.
A toll study would determine the potential adverse impact on traffic due to the surcharge.

KANSAS
DEPARTMENT OF TRANSPORTATION

Debt Financing

Task Force White Paper October 6, 2008

Overview

The funding of a state transportation program can be carried out in two ways – a state can use revenues on a pay-as-you go basis (spend money only as it is available), or it can issue debt and repay the cost of infrastructure investment over time. Like many states, Kansas has done both for several years and has a well established debt program.

The decisions to issue debt, and if so how much and under what terms, are not simple ones and should be based on the following considerations:

- What is a prudent level of borrowing and associated annual debt service that balances the desire of a state to achieve its transportation goals while ensuring that both debt costs are minimized and that there are adequate future revenues to meet maintenance, operations, and emerging investment needs?
- How does bonding for transportation fit with a state's broader laws, goals, culture, and capacity for debt issuance?
- How do debt costs, which include issuance costs and interest, compare to the benefits of accelerated program delivery, which include avoided inflation costs, improved system performance, and economic development and productivity improvements?
- Are there urgent needs such as safety improvements and infrastructure to capitalize on development opportunities that could only be funded in a timely fashion through bonding?
- What principles should govern the types of programs, projects, and activities that are funded through debt financing? For example, many states limit the use of debt to capital projects that have a strong economic development benefit.
- What are the projections for: State Highway Fund (SHF) revenues, debt service, the debt service coverage ratios (i.e. revenues to debt service), and how would additional debt impact the coverage ratios.

This white paper provides background information and debt capacity projections to help stakeholders and decision makers answer these questions.

The Status of KDOT's Current Debt Program

Over the course of the last two Kansas transportation programs – the Comprehensive Highway Program (CHP) and the CTP (Comprehensive Transportation Program) KDOT was authorized to use debt to accelerate the completion of projects important to local partners and the state. Since 1999 (under the CTP), the SHF has issued about $1.3 billion of new money highway bonds and received proceeds from another $210 million in bonds backed and serviced by appropriations of the State General Fund. KDOT has also refunded debt (issued new lower interest rate bonds for retiring old higher interest rate bonds) to reduce interest costs and enhance its financing options. The CTP debt, the refunding bonds, and the remaining debt from the CHP will result in total SHF outstanding principal of about $1.7 billion by the end of 2009.

Figure 1.1: State Highway Fund CHP and CTP Bond Issues

(Figures in thousands)**CHP**		**CTP**	
Fiscal Year	**Amount**	**Fiscal Year**	**Amount**
1992	$250,000	2000	$325,000
1993	$375,000	2001	$350,000
1993 Net refunding over refunded	$11,355	2003 Net refunding over refunded	$36,450
		2004	$250,000
1994	$125,000	2004 Net refunded over refunding	$(1,290)
1995	$140,000	2005	$347,000
1998 Net refunded over refunding	$(4,295)	2008 Net refunding over refunded	$595
CHP refunding over refunded during CTP	$16,131	CHP refunding over refunded during CTP	$(16,131)
Total	$913,191	Total	$1,291,624
Repaid Principal*	$518,325	Repaid Principal*	$0
Remaining Balance*	**$394,866	Remaining Balance*	$1,291,624
Total Outstanding Debt*		$1,686,490	

*End of year 2009 **$46,670 issued during CHP, remaining $348,196 is due to refunding CHP bonds during the CTP

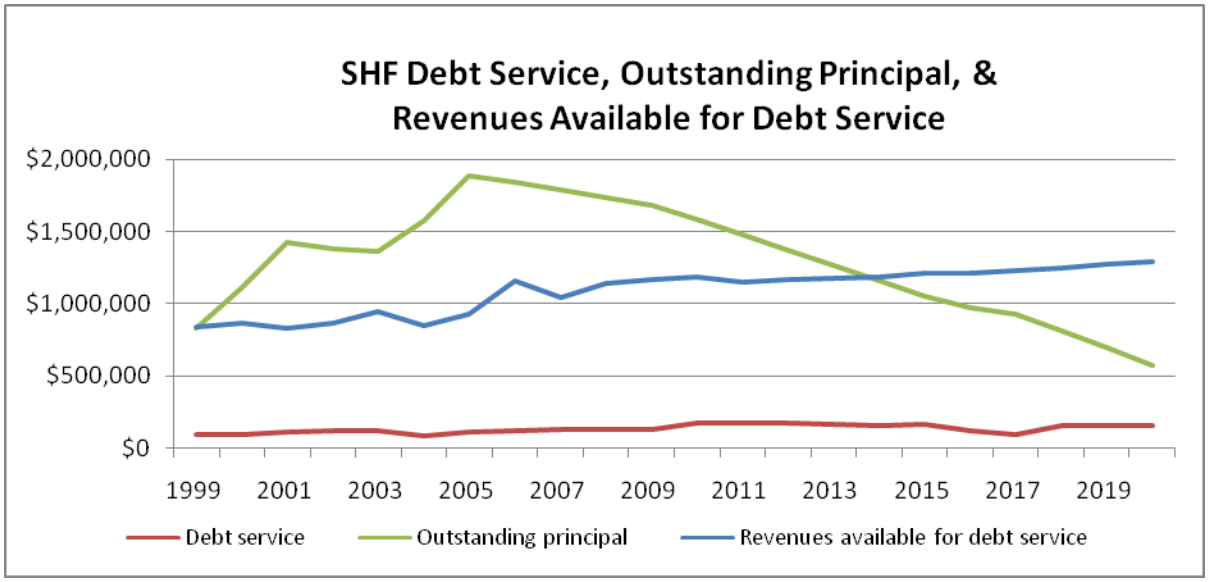
The SHF debt retains a high credit rating of; AAA, Aa2, and AA by Standard and Poor's, Moody's Investors Service, and Fitch Ratings respectively. According to the bond covenants, the SHF must maintain revenues that are at least three times (3X) the debt service, but KDOT has historically maintained coverage of at least four and one-half times (4.5X).

What are credit ratings and what do they mean?

Credit ratings are an assessment of the anticipated risk associated with a specific debt issuance as determined by one or more of the three bond rating companies recognized by the finance industry (Standard and Poor's, Moody's Investors Service, and Fitch Ratings). The ratings are based on a variety of factors, including credit history of the issuer, outstanding debt, the strength and reliability of pledged revenue streams, coverage ratios, other debt terms (known as bond covenants), and the use of credit enhancements such as bond insurance and loan guarantees. Credit ratings have a direct impact on interest rates – the higher the credit rating the lower the interest rate. They also affect the aftermarket value of the bonds.

As identified in Figure 1.2, the maximum aggregated SHF indebtedness was $1.89 billion at December 31, 2004. Figure 1.2 also indicates that the SHF annual debt service since 1999 has averaged $110 million. This is about 12 percent of the annual revenues available to KDOT for operations and construction. Looking ahead, annual debt service requirements from existing debt will climb to about $170 million for a few years, and then gradually decline until 2025, when all outstanding debt will be retired. The ratio of debt service to revenues will rise to 14 percent through 2012, and then fall gradually as revenues increase and debt service declines.

Figure 1.2: SHF Total Debt, Debt Service, and KDOT Revenues: 1999-2020



KDOT actively manages a diversified debt portfolio and, by using a mix of prudent bond approaches, is able to keep average annual cost of interest and fees in the low four percent (4.0%) range. The following two transactions illustrate the savings achievable with prudent debt management:

- During the winter of 2000 KDOT issued $200 million in Variable Rate Demand Obligations at a time when a traditional fixed interest rate would have been 5.27 percent (5.27%). The variable rate has fluctuated between 0.55 percent (.55%) and 4.13 percent (4.13%), with a present value savings of about $35 million in interest through April, 2008.
- During the winter of 2002 KDOT issued $320 million in variable rate debt and simultaneously entered into swap contracts when traditional fixed interest rate would have been 4.55 percent (4.55%). By using the swap approach, KDOT was able to save an estimated $14 million in interest through April, 2008.

KDOT also follows an Investment Management Policy, for the management of its investment portfolio. The Department earned in excess of $260 million in interest between the start of the CTP on July 1, 1999 and June 30, 2007. To date, this interest income has in turn covered more than half of the cost of KDOT's debt that is backed by the revenues of the State Highway Fund.

Transportation Debt Programs In Other States

It is important to note that not all states use debt to fund their transportation programs and those that do have varying circumstances and system characteristics that make direct comparison difficult. That said, a 2006 Transportation Research Board Debt Synthesis Study provides the most current comprehensive information on state DOT debt programs. While the information in the study is slightly dated (2004), a review of the underlying data leads to a few findings that can help define "reasonable" parameters for a state DOT debt program:

- As shown in Figure 1.3, nearly half of the states have over $1 billion in transportation debt, 9 states have more than $2 billion, and only 9 states have $100 million or less.
- Four states in addition to Kansas have annual debt service to revenue ratios of 10 to 15 percent (10% to 15%), and 12 states have ratios that exceed fifteen percent (15%).
- Iowa and Nebraska do not use debt financing. Missouri, Colorado, and Oklahoma had annual debt service to total revenue ratios of 3X to 9X in 2004, but Missouri and Colorado have issued significant debt since then and now have ratios similar to Kansas.

Figure 1.3: Summary of State DOT Debt Programs (2004)

Total Outstanding Debt	Number of States	Annual Debt Service/ Annual Revenues Ratio	Number of States
$0 to $99M	9	0% (No Debt)	7
$100M to $499M	12	1% to 4.9%	14
$500M to $999M	7	5% to 9.9%	17
$1,000M to $2,499M	14 (KS)	10% to 14.9%	5 (KS)
Greater than $2,500M	9	Greater than 15%	8

Source: FHWA Federal Highway Statistics and data provided to the TRB Debt Synthesis Study Team by FHWA; state figures include District of

Future KDOT Debt Options and Considerations

As part of the Long Range Transportation Plan development process, KDOT and its stakeholders evaluated KDOT's current and projected situation with respect to total debt, annual debt service levels, and their relationship to expected future KDOT revenues. This evaluation led to the following conclusions and recommendations:

- KDOT's current total debt and annual debt service levels, while not low in comparison to other states, are well within a reasonable range;
- KDOT's use of debt over the life of the CTP took advantage of a unique set of circumstances (interest rates were low and construction inflation rates were high), which made the use of debt a sound business decision, this relationship continues to exist;
- KDOT should consider the continued use of bonding; and
- The current Kansas approach to authorizing KDOT debt – where the legislature occasionally provides the Department with additional one-time debt authority – limits KDOT's flexibility to react timely to market conditions and inflation.

SHF Debt Service Coverage Ratio

Although the bond covenants prescribe at least a 3X debt service coverage ratio, the credit rating agencies desire that some cushion be available in the ratio to absorb possible downturns in revenues. Public Financial Management (PFM), the financial advisor retained by KDOT since 1991, suggests that a cushion of .5X is appropriate for the SHF coverage ratio (combined 3.5X). PFM also indicates that so long as the form and substance of the revenue pledge remains identical to that of current SHF debt, it is probable that credit rating on new SHF debt would be AA provided the coverage ratio provided by state revenues is at least 3.5X with additional coverage provided by the pledge of Federal reimbursements. PFM advises that the rating agencies will view the SHF credit more favorably when additional debt is supported by additional revenues. The following table reflects alternative coverage ratios and incremental debt that could be issued at the specified coverage.

Figure 1.4: Coverage Ratio, Debt Service as Percent of Revenue, and Additional Debt Capacity

Without Federal Reimbursements [1]					
Coverage ratio	4.50	4.25	4.00	3.75	3.50
Debt Service as percent of revenues	22%	24%	25%	27%	29%
Maximum Additional Debt Capacity over the five year 2010-2014	411	550	706	882	1,084
With Federal Reimbursements [1, 2]					
Maximum Additional Debt Capacity over the five year 2010-2014	978	1,150	1,343	1,562	1,813

1 Assumes interest rate of 5% on additional debt.

2 Assumes defeasance of $31 million of CHP debt after September 1, 2009 and a 40% discount of federal reimbursements.

Conclusions

In lieu of authorizing a specific amount of bonds for a program, KDOT's ability to use debt could be improved by creating some flexibility within very specific parameters. Options include establishing a ceiling on maximum outstanding principal or creating a floor for the minimum debt service coverage. The later parameter indicates that projected revenues are sufficient to support significantly more debt.

Bond covenants for debt issued under the CHP preclude KDOT from considering federal reimbursements as revenues in its debt service coverage calculations. Once the remaining CHP debt is repaid or defeased (retired by placing money into escrow), KDOT could include the federal reimbursements for coverage purposes. Due to long-term predictability considerations rating agencies are likely to significantly discount those federal reimbursements.

KDOT Contact: Bruce Burditt, Office of Financial & Investment Mgt. (785) 296-7216 or Burditt@ksdot.org

Broaden States Tax Base

Though several new revenue options may be explored, it is also relevant to examine the option of broadening existing sources, such as expanding the States tax base. Effectively this could be accomplished by removing sales tax exemptions on certain goods and services. By achieving a greater tax base, the State could potentially experience a significant increase in revenues.
State sales tax collections through May of fiscal year 2008 amounted to $ 1,791 million, while projected sales tax exemptions for fiscal year 2008 totaled $4,072 million according to the Kansas Department of Revenue Office of Policy and Research. Over half of these exemptions, in the amount of $2,172 million, were categorized as exemptions on "property which becomes an ingredient or component part of property or services produced or manufactured for ultimate sale at retail" (i.e. the sale of goods or inputs at the wholesale level). The second largest categorical exemption amounting to $320 million in FY 2008 includes "property or services purchased by [the] State of Kansas, political subdivision[s], nonprofit hospital[s] or blood/donor bank[s]." Several other exemptions exist in the State of Kansas and the ten largest of these categories, by FY 2008 projected sales tax value, are found in Table 1 below.
Though several other categorical exemptions exist, there are two problems that may arise pending their removal. These possible pitfalls include the pyramiding effect of taxation and the movement of certain business to other states (dependent upon the type of exemptions removed). For example, if the sales tax exemptions on wholesale goods were removed while sales tax at the point of retail sale remained in place, these goods would effectively be taxed twice. Also, if exemptions on certain industries (i.e. exemptions for non-profit organizations) were removed, incentive may be created that would prompt businesses to move their operations elsewhere. It is important to take these two issues into consideration when evaluating the plausibility of removing any existing state sales tax exemption.

SEE TABLE ON NEXT PAGE

Statute	Description of Exemption	FY 2008 (MM)
3606 (m)	Property which becomes an ingredient or component part of property or services produced or manufactured for ultimate sale at retail.	$ 2,172.085
3606 (b)	Property or services purchased by state of Kansas, political subdivisions, nonprofit hospitals or blood/donor banks.	$ 319.696
3606 (n)	Property consumed in the production, manufacturing, processing, mining, drilling, refining or compounding of property; or irrigation of crops for ultimate sale at retail.	$ 284.988
3606 (a)	Motor fuels and items taxed by sales or excise tax	$ 224.659
3603 (p)	Labor services of installing or applying property in original construction of a building or facility or the construction, reconstruction, restoration, replacement or repair of a residence, bridge or highway.	$ 175.661
3606 (o)	Sales of animals, fowl, aquatic plants, and animals used in agriculture or aquaculture, for production of food for human consumption, the production of animal, dairy, poultry, or aquatic products, fiber or fur or the production of offspring.	$ 160.402
3606 (d)	Property or services purchased by contractor for building or repair of buildings for nonprofit hospital, elementary or secondary schools or nonprofit educational institutions, and for state correctional institutions.	$ 114.930
3606 (kk)	Machinery and equipment used directly and primarily in the manufacture, assemblage, processing, finishing, storing, warehousing or distributing of property for resale by the plant or facility.	$ 111.893
3606 (w)	Sales of natural gas, electricity, heat and water delivered through mains, lines or pipes to residential premises for noncommercial use, for agricultural use (to include propane gas), for use in serving oil and any property exempt from property taxation.	$ 104.580
3606 (p)	Sales for prescription drugs.	$ 69.978

Exempt Real Property

Exempt Real Property 2007
(Appraised Value)

Real Property Exempt	$23,954,884,891
Economic Development Exempt	619,975,826
Industrial Rev Bonds Exempt Property	2,875,092,674
Total	$27,449,953,391

Surcharge on Real Estate (Mortgage Registration)

The Kansas Statutes reference the mortgage registration laws that set out the procedures and guidelines for receiving and filling a mortgage for real property. The register of deeds receives a registration fee of .26% of the principal debt or obligation being secured. A 1 basis point surcharge would raise $2 million.

Year 2005	$21,845,444,445	0.01%	$2,184,544

Local Motor Fuel Tax Option

(In dollars)

An estimate of the annual dollars of motor fuel tax collected per 1,000 Daily Vehicle Miles of travel per penny of motor fuel is $280.

The table below represents the annual revenue per one cent of local motor fuel option tax collected. Please note the collection of such a tax would require a major rewrite of procedures and statute for the State of Kansas.

Co. Number	County	Daily Vehicle Miles CY 2007	Annual Revenue per 1 cent of tax
1	Allen	401,534	112,717
2	Anderson	279,547	78,473
3	Atchison	365,386	102,570
4	Barber	174,388	48,954
5	Barton	692,827	194,488
6	Bourbon	437,966	122,944
7	Brown	395,437	111,006
8	Butler	1,530,549	429,650
9	Chase	198,214	55,642
10	Chautauqua	118,115	33,157
11	Cherokee	742,157	208,336
12	Cheyenne	106,012	29,759
13	Clark	122,353	34,346
14	Clay	205,579	57,709
15	Cloud	331,539	93,068
16	Coffey	273,056	76,651
17	Comanche	65,912	18,503
18	Cowley	845,497	237,345
19	Crawford	840,919	236,060
20	Decatur	126,722	35,573
21	Dickinson	402,746	113,057
22	Doniphan	284,204	79,781
23	Douglas	2,054,998	576,872
24	Edwards	152,737	42,876
25	Elk	85,522	24,007
26	Ellis	563,813	158,272
27	Ellsworth	239,761	67,305
28	Finney	801,658	225,039

29	Ford	820,182	230,239
30	Franklin	550,045	154,407
31	Geary	436,402	122,505
32	Gove	67,032	18,817
33	Graham	117,743	33,052
34	Grant	230,431	64,686
35	Gray	303,584	85,221
36	Greeley	79,245	22,245
37	Greenwood	330,742	92,845
38	Hamilton	133,695	37,530
39	Harper	202,045	56,717
40	Harvey	656,234	184,216
41	Haskell	233,122	65,441
42	Hodgeman	103,466	29,045
43	Jackson	453,467	127,296
44	Jefferson	530,595	148,947
45	Jewell	134,018	37,621
46	Johnson	10,147,976	2,848,703
47	Kearny	184,624	51,827
47	Kingman	362,722	101,822
49	Kiowa	204,234	57,332
50	Labette	560,820	157,431
51	Lane	80,534	22,607
52	Leavenworth	1,191,685	334,526
53	Lincoln	121,824	34,198
54	Linn	326,843	91,750
55	Logan	126,436	35,493
56	Lyon	572,184	160,621
57	Marion	444,441	124,762
58	Marshall	329,651	92,538
59	McPherson	665,002	186,677
60	Meade	217,333	61,009
61	Miami	1,126,721	316,289
62	Mitchell	214,278	60,151
63	Montgomery	1,004,691	282,033
64	Morris	183,017	51,376
65	Morton	120,349	33,784
66	Nemaha	246,804	69,282
67	Neosho	483,668	135,774
68	Ness	155,779	43,730
69	Norton	177,859	49,928

70	Osage	474,741	133,268
71	Osborne	123,532	34,677
72	Ottawa	285,574	80,165
73	Pawnee	224,800	63,105
74	Phillips	191,687	53,810
75	Pottawatomie	573,491	160,988
76	Pratt	372,447	104,552
77	Rawlins	110,546	31,032
78	Reno	1,439,305	404,036
79	Republic	242,304	68,019
80	Rice	320,366	89,932
81	Riley	1,144,721	321,342
82	Rooks	189,669	53,243
83	Rush	160,249	44,985
84	Russell	199,750	56,073
85	Saline	1,018,128	285,805
86	Scott	211,025	59,238
87	Sedgwick	10,287,115	2,887,762
88	Seward	532,903	149,595
89	Shawnee	3,267,316	917,189
90	Sheridan	122,946	34,513
91	Sherman	116,833	32,797
92	Smith	141,679	39,772
93	Stafford	229,918	64,542
94	Stanton	116,349	32,661
95	Stevens	241,604	67,822
96	Sumner	611,271	171,594
97	Thomas	216,613	60,807
98	Trego	86,537	24,292
99	Wabaunsee	141,679	39,772
100	Wallace	73,829	20,725
101	Washington	212,842	59,748
102	Wichita	115,934	32,545
103	Wilson	334,483	93,895
104	Woodson	141,316	39,670
105	Wyandotte	2,377,485	667,399

TOPIC: TRANSPORTATION REVOLVING FUND

Executive Summary

The Transportation Revolving Fund (TRF) was created during the 1999 Legislative session (K.S.A. 75-5063 through K.S.A 75-5069) for the purpose of providing affordable financing to local governmental entities in Kansas. The program was initially funded by a $25 million equity contribution from the State Highway Fund. Further funding for this program was created by leveraging this contribution and issuing bonds through the Kansas Development Finance Authority.

The TRF operates as a financing mechanism, with the Kansas Department of Transportation (KDOT) acting as the intermediary. Using funds available in the TRF, the KDOT makes loans to local governmental units, or private entities contracted with local governmental units, for qualified projects. In return, the borrower makes a pledge of repayment through an identifiable revenue source, historically a General Obligation (G.O.) pledge. A G.O. pledge promises the full faith and credit of the borrower and enables them to levy taxes as necessary to cover debt service. The payments made to KDOT on TRF loans are then used to service the TRF's outstanding debt.

Projects that qualify for TRF loans may consist of any bridge, culvert, highway, road, or street and may or may not be part of the state highway system. This allows for a broad array of projects to qualify for loans. However, aviation, railroad, and public transportation are not eligible for such loans. Additionally, KDOT imposes a $6 million ceiling on the loan amount to any single borrower in any fiscal year. This diversifies KDOTs loan portfolio, preventing any one borrower from consuming that fiscal years loan capacity.

Borrowers eligible for loans from the TRF are able to finance projects at lower costs than they likely could on their own. The strong credit quality of KDOT has enabled it to issue low-cost tax-exempt debt. These low costs are passed on to the borrower through loan rates set at 80% of

the 90-day Bond Buyer index. By providing low-cost financing to localities, projects are capable of getting underway.

TOPIC: TRANSPORTATION REVOLVING FUND

Draft of 05/05/08

Introduced during the 1999 Legislative session (K.S.A. 75-5063 through K.S.A. 75-5069), the Transportation Revolving Fund (TRF) was created for the purpose of providing flexible and affordable funding to the local governmental units of Kansas. The TRF operates as a basic state Infrastructure Bank, using its available fund balance to make loans to qualified borrowers[1] for eligible transportation projects. Upon its inception, an initial $25 million equity contribution was authorized by the secretary and transferred from the State Highway Fund. In addition to this contribution, authority was given to the Kansas Development Finance Authority to issue bonds, leveraging the equity for added funding of the program.

Eligibility

Eligibility for loans from the TRF is quite broad. Any governmental unit[2], or private enterprise[3] contracted with a public authority, is eligible to borrow from the TRF. Such parameters enable a large number of localities to get projects underway sooner while also opening the door to public-private partnerships.

Projects that are eligible for these funds are broad in scope; however the scale is generally limited. The TRF provides financing for the construction, reconstruction, resurfacing, restoration, rehabilitation or replacement of any bridge, culvert, highway, road, street, or combination thereof. This enables localities to finance streets and rural roads that may be either on or off the state highway system. However, omitted from such eligibility are aviation, railroad, and public transportation projects. This limitation can slow the implementation of larger time-sensitive projects that would be economically beneficial to the state of Kansas. Also,

[1] Qualified Borrower: "any governmental unit or private enterprise which is authorized to construct, operate or own a qualified project."

[2] Governmental Unit: "any town, district, county, commission, agency, authority, board or instrumentality that is responsible for the construction, ownership or operation of a qualified project."

[3] Private Enterprise: "a private person or entity that has entered into a contract with a public authority to design, finance, construct and/or operate a qualified project that is within the jurisdiction of such public authority."

projects must fall below the $6 million ceiling that the KDOT imposes on any single loan during a fiscal year. The ceiling serves to diversify the KDOT's loan portfolio and provide a fair allocation of the fiscal years loan capacity across applicants.

Mechanics

The TRF follows the basic dynamics of State Infrastructure Banks with the KDOT acting as the banker. By leveraging the $25 million initial equity contribution, the KDOT may borrow at least $100 million, further adding to the lending capacity of program. As the flow chart in Appendix A indicates, the TRF lends money to qualified borrowers. In return, these entities pledge repayment of interest and principle to the TRF following an amortization schedule established at the time of the loan (historically a G.O. pledge has been required of localities).

Revenues for the repayment of loans from the TRF may be from the existing revenue streams of the local governmental unit or from revenues created by the added economic value of the completed project. Historically, a G.O. pledge has been used and enables borrowers to levy property taxes, allowing them to capture any economic value added by the project being funded. It is however, possible that a borrower may qualify for a TRF loan by identifying a specific revenue source which will be used for debt service. In such a case it has been recommended by special counsel that bond insurance or a letter of credit be acquired by the borrower. A letter of credit as used in this context is a contractual promise by a commercial bank to pay money for the benefit of the Transportation Revolving Fund under specified terms and conditions. If the letter of credit is exercised then the commercial bank will seek recourse against the party that defaulted in paying its obligations timely and completely.

The statutes creating the TRF authorize the Secretary to intercept the quarterly distributions from the Special City & County Highway Fund (SCCHF) if the borrower defaults on repayment of the debt. The application of this intercept feature has not been necessary. The proceeds from governmental units are then used to cover debt service on bonds issued by the TRF. Additionally, the Secretary is granted the right to transfer money from the State Highway Fund to the TRF in order to cover debt service on the outstanding TRF bonds if she deems necessary.

The cost of borrowing for local governmental units is reduced through the TRF. Some governmental units may lack available bonding capacity or may lack a credit rating. Accordingly, their issuance of debt would be at higher interest rates than the TRF incurs. The strong credit

quality of the KDOT enables the TRF to issue bonds at lower tax-exempt rate. The interest rate on TRF loans is set on the date of loan agreement and is equivalent to 80 percent of the 90-day average of the Bond-Buyer index. This rate is typically lower than what most localities could obtain through other sources of financing.

Applications for loans are reviewed and evaluated based upon the operational and/or safety enhancements, economic development enhancements, and cost effectiveness and financial feasibility of each project. If the project is considered "qualified" and sufficiently satisfies these measures, the application for loan is granted and loans are awarded on a first-in first-out basis.

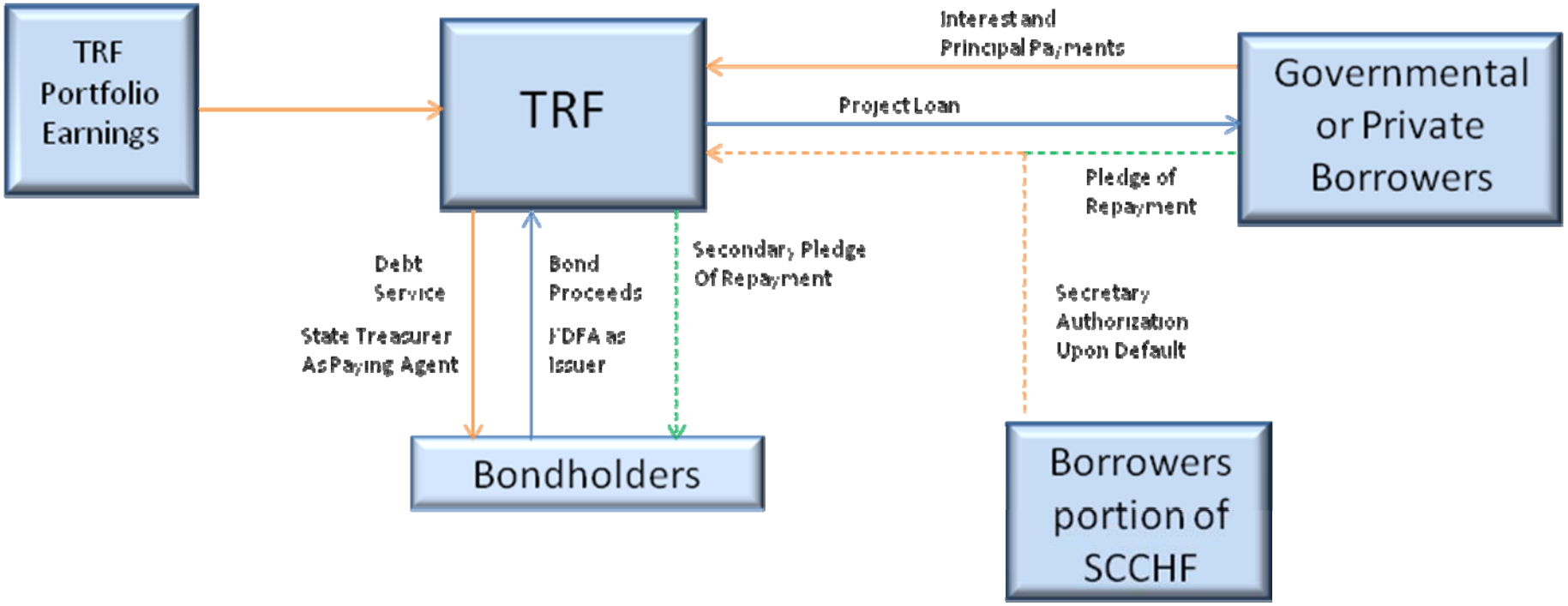
Overview

The TRF has provided financing to 49 different cities and counties in the state of Kansas. A graphic of loan approvals by district since the program's inception can be found in Appendix B. As you will observe, the program has approved $27.1, $21.8, $1.2, $20.2, $14.2, and $6.2 million in KDOT Districts one through six respectively since its inception. At the end of April 2008, the loans receivable by the TRF approximated $50.6 million. These loans have enabled localities to meet unanticipated transportation demands, such as those brought with the construction of an ethanol plant in Phillips County or the announcement of a troop build-up in Johnson County[4]. These examples are only a few that illustrate the success of the TRF in completing its initial objective, providing affordable funding to local governmental units in need.

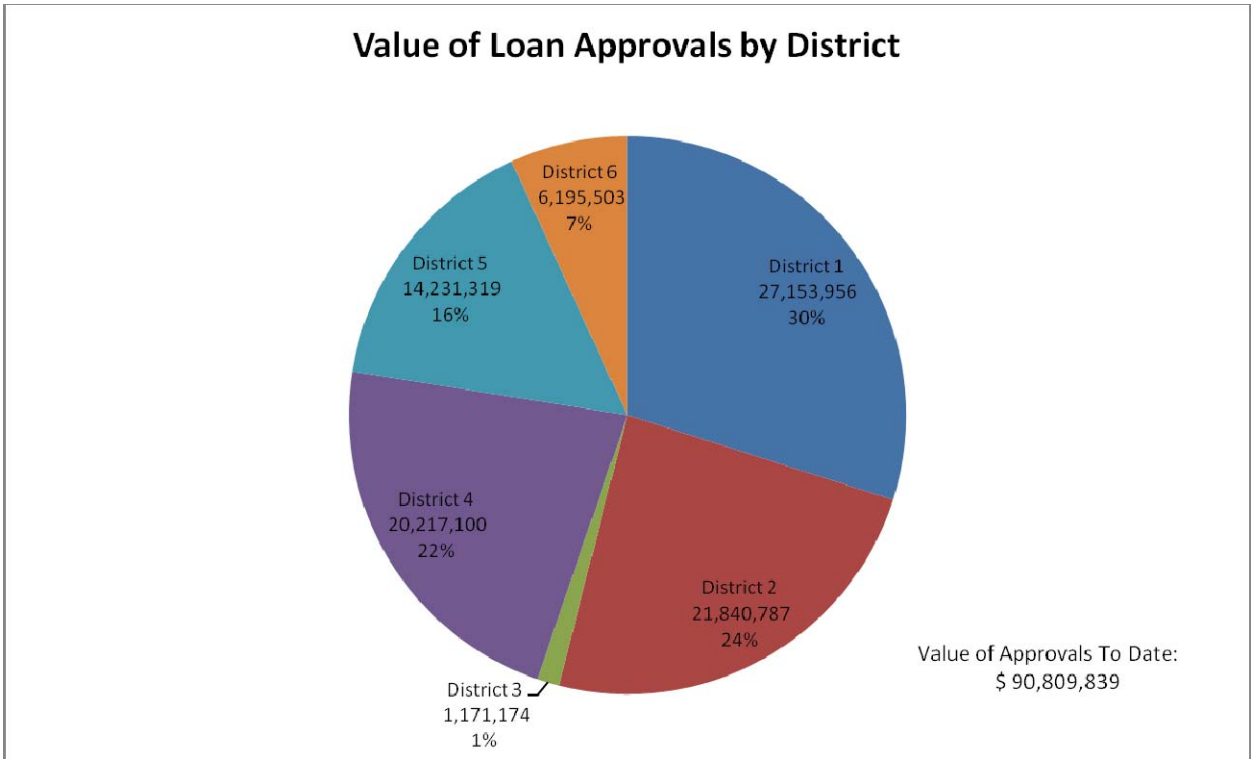
[4] Bruce Burditt – Work Paper

Appendix A

Transportation Revolving Fund Mechanics



Appendix B


Value of Loan Approvals by District
District 6
6,195,503
7%
District 5
14,231,319
16%
District 1
27,153,956
30%
District 4
20,217,100
22%
District 2
21,840,787
24%
District 3
1,171,174
1%
Value of Approvals To Date:
$ 90,809,839

Aviation Fuel and Registration Inquiries

Please note, there was more than a 20% decline in both aviation gas and jet fuel gas between 2006 and 2007.

	AV Gas
Gallons	9 Million
Price	$ 4.50
Tax Rate	5.3%
Total	$2M

	Jet Fuel
Gallons	41 Million
Price	$ 5.25
Tax Rate	5.3%
Total	$11M

	Aircraft Registration
Number	4,000
Fee	$ 60
Total	$ 240,000

Freight Ton Tax

A tax levied on freight per ton, based on the following information, could produce approximately the following revenues at a rate of 1 cent per ton.

Rail	$2.7 million
Truck	$5.3 million
Total	$8.0 million per year

2006 Truck/Rail Freight Tonnage

Rail	
Intrastate	85,527,474 tons
Originates or Terminates in Kansas	134,398,714 tons
Through	47,892,083 tons
Total	267,818,271 tons
Truck	
Intrastate	409,344 tons
Originates or Terminates in Kansas	72,040,003 tons
Through	456,182,449 tons
Total	528,631,796 tons

The bulk of the through rail freight is coal moving to the Eastern markets.

Rail and Motor-Carrier Taxes

Corporate Income Taxes

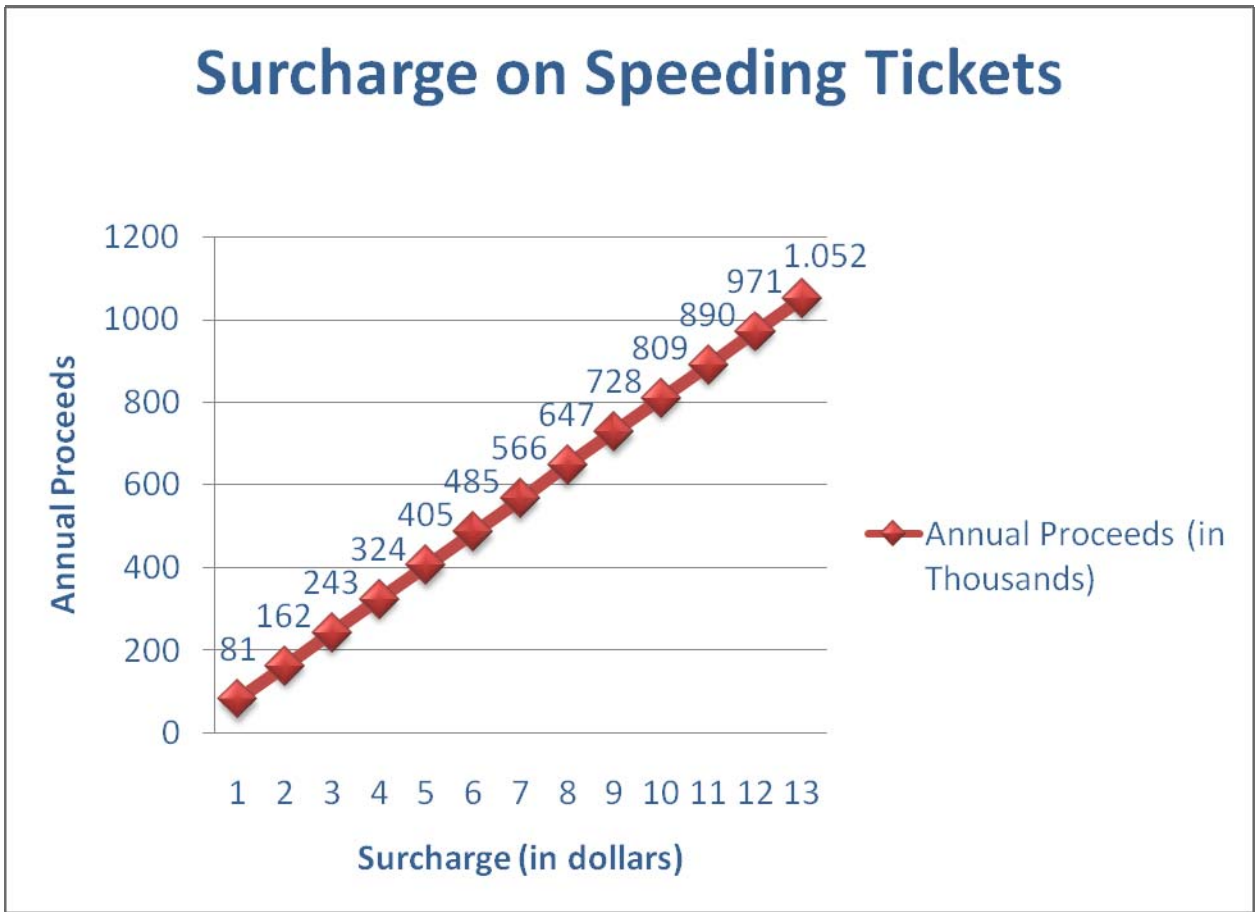
Total corporate income taxes collected in the state of Kansas for rail and motor-carriers during 2005 are as follows:

Railroads:	$ 5.5 million
Motor-Carriers:	$ 7.5 million
	$ 13 million

In an attempt to draw funding from sources which benefit most from the transportation system, a portion of these income taxes could be allocated to the system. If 10 percent of total corporate income taxes from these sectors were dedicated to such a cause, approximately $1.3 million in additional revenue could be realized annually.

Surcharge on Speeding Tickets

During the local T-Link consultation meetings, one funding source mentioned was a surcharge on speeding tickets. The Kansas Highway Patrol issued 80,906 speeding tickets during calendar year 2007. As the chart below indicates, if the Kansas Highway Patrol added a $1 - $13 surcharge per ticket and sent the funds to KDOT, the annual proceeds would range from approximately $81,000 to $1,052,000.



Sales Tax Generated on Bicycle Sales

The Kansas Department of Revenue (KDOR) does not track bike sales. Most bikes are sold as general merchandise at the major retailers. The table below represents a general estimate. It is estimated that the bike industry being a $6 billion industry, including retail value of bike, related parts and accessories, according to the National Sporting Goods Association. The KDOR assumes that Kansas is 1% of market. This would be $60 million for Kansas.

Sales Tax from Bikes

$	60,000,000	5.30%	$ 3,180,000

It is also estimated that $18.2 million bikes, all wheel sizes, were sold in 2007. Kansas sales would be approximately $182,000.

Replicate the CTP Revenues - Summary

The CTP provided increases in revenues from four sources – motor fuel taxes, registration fees, sales taxes and bonding. The amount of initial increase and subsequent modifications are summarized.

Motor Fuel (phased)	$ 950 million
SC&CHF	$< 200> million
Registration Fees	$ 137 million
Sales Tax	$ 2,000 million
Bond Sales	$ 1,482 million

Motor Fuel Taxes

The original legislation provided a phased four cent increase and in FY 2002 an additional two cent increases was added. Approximately $20 million per year from the increase was allocated to the Special City and County Highway Fund

FY 2000	2 cents
FY 2002	1 cent
FY 2003	2 cents (added in FY 2002)
FY 2004	1 cent

If the same increases were implemented beginning in FY 2010 it would provide, between FY 2010 and 2019 (10 years), approximately $950 million dollars. This amount would be reduced by any allocation to the Special City & County Highway Fund.

Registration Fees

The original CTP legislation did not provide for any increase in the registration fees. Subsequently in FY 2002 and increase in registration fees from $2 to $10 was implemented effective July 1, 2002. This was an unusual move because registration fees are collected throughout the year based on the first letter of the last name and the increase is normally applied on a calendar year basis. A similar increase would provide the following estimated increase in revenues.

Calendar year effective January 1, 2010	$137 million
Fiscal Year effective July 1, 2012	$103 million

Sales Tax

The original CTP provided an increase in sales tax transfers to the State Highway Fund beginning in FY 2002. The Sales Tax transfer was scheduled as follows:

FY 2000-01	7.628% capped at effective 6.32%, 1999 capped rate
FY 2002	9.50%
FY 2003	11.0%
FY 2004	11.25%
FY 2005 & thereafter	12.0%

(Note: Transfer was on sales tax only and excluded compensating tax)

The Sales Tax transfers were subsequently modified and then replaced by an increase in the direct sales and compensating tax deposit from an existing 0.25 cent ($0.0025) to 0.65 cent ($0.0065).

A similar increase of 0.40 cent would provide approximately $2 billion between FY 2010 to FY 2019.

Bond Sales

The original CTP legislation provided $995 million in bond sales. That was subsequently increased by $277 million in FY 2002. The legislature provided an additional $210 million in bond proceeds which were to be repaid from the State General Fund. The total of bond proceeds provided for the CTP summarizes as follows:

$1,272 million	repaid from the State Highway Fund
$ 210 million	repaid from the State General Fund

FY 2009 Transfers

The bulk of the transfers for FY 2009 are as follows:

Department of Revenue: Division of Vehicles $42.8 million
For the operation of the vehicle registration, driver's license and motor fuel tax collection activities of the Department of Revenue

Kansas Highway Patrol: Motor Carrier Section $20.4 million
For the operations of the Highway Patrol covering ports of entry and enforcement of the motor carrier laws

State General Fund: Kansas Highway Patrol $37.5 million
Less: Offset for Affordable Airfare Fund 5.0 million
Net $32.5 million
Transfers scheduled to end in FY 2009

Kansas Affordable Airfare Fund $5.0 million
Transfers began in FY 2007 and scheduled to end in FY 2011
No mechanism for providing an offset for FY 2010 & 2011 has been identified that I am aware of.

Bordering State Rates

Iowa	Gasoline	21 cents
	Diesel	22.5 cents
	Car Reg	Depends on empty weight and value of car
	Sales Tax	5% on sale of new and used cars
Missouri	Gasoline	17.6 cents
	Diesel	17.6 cents
	Car Reg	Depends on horsepower
	Sales Tax	4.225% on motor vehicle purchases
Nebraska	Gasoline	26.9 cents
	Diesel	26.9 cents
	Car Reg	$15 per car
	Sales Tax	5.5% on sale of new and used cars
Colorado	Gasoline	22 cents
	Diesel	20.5 cents
	Car Reg	TBD
	Sales Tax	10% of proceeds for sales/use tax goes to SHF
Oklahoma	Gasoline	16 cents
	Diesel	13 cents
	Car Reg	Registered on the basis of their yr of registration
	Sales Tax	TBD

Border State Transportation Funding, Excluding Federal Reimbursements
(Amounts in Millions)

	State	Sales & Use Taxes		Motor Fuel Taxes		Registration Fees		Bond Proceeds	Local Reimb. State Approp. & Other	Total
2008	MO	268,474	M-1	520,800	M-2	273,773	M-3	541,000	148,000	1,752,047
2007	IA	219,500	I-1	433,400	I-2	413,200	I-3	-	39,700	1,105,800
2008	NE	156,381	N-1	309,507	N-2	45,665	N-3	-	21,562	533,115
2007	CO	169,800	C-1	551,100	C-2	228,900	C-3	-	405,200	1,355,000
2008	KS	273,000	K-1	428,000	K-2	273,000	K-3	-		974,000

M-1 4.225% on motor vehicle purchases
M-2 17 cents/gallon
M-3 Depends on horsepower - $18 for less than 12 hp and $51 for over 72 hp
MO distributes sales/use tax & reg. fees 85, 5, and 10% to State, Counties & Cities respectively.
MO distributes Motor Fuel Taxes (MFT) 65, 15, and 20% to the State, Counties and Cities respectively.

I-1 5% on resale of cars
I-2 21 cents/gallon
I-3 Depends on empty weight and value, as car gets older the value decreases
IA distributes sales/use tax, MFT, & reg. fees 48, 32, 20% to the State, Counties, & Cities respectively.

N-1
N-2 Fixed rate is 12.5 cents, Variable is currently 13.5 cents
N-3 $15 per car, large trucks (i.e. semi-trucks) varies on weight
NE distributes sales/use tax & reg. fees 53 and 47% to the State and Counties/Cities respectively.
NE distribution of MFT: 2 cents of the fixed rate directly to counties & cities, the other 10.5 cents split, 53% goes to the state and 47% goes to counties and cities. The variable rate, 100% goes to the state.

C-1
C-2 22 cents/gallon
C-3
CO distributes sales/use tax, MFT, & reg. fees 60, 25 & 15% to the State, Counties, & Cities respectively.

K-1 5.3% state sales tax
K-2 24 cents/gallon gas and 26 cents/gallon diesel
K-3 $30 for most cars, large trucks vary
KS distributes MFT & reg. fees 66.37 & 33.63% to State Highway Fund (SHF) & Special City and County Highway Fund (SCCHF) respectively.
KS distributes sales/use tax 87.74 & 12.26 percent to the State General Fund and SHF respectively.

Loss of Purchasing Power on distributions for Special City & County Highway Fund and City Connecting Links

Based upon a small sample of a few of the basic construction material typically purchased by KDOT, between calendar year 2000 and 2007 the compounded annual cost increase for basic construction materials was 5.29%. Between fiscal year 2000 and 2007 the compounded annual increase in distributions to the Special City and County Highway Fund was .23%. The distributions rose from $151.4 to $153.9 million, an increase of $2.58 million. The 2007 distributions provide an estimated buying power based upon the 5.29% annual cost increase of only $103.5 million in 2000 dollars.

The rate at which cities are compensated for the maintenance of city connecting links has remained constant between 2000 and 2007 at $3,000 per lane mile. If, cities incurred annual cost increases similar to 5.29% experienced by KDOT, then the 2007 distributions per lane mile provide an estimated buying power of only $2,051 in 2000 dollars.

The term for bonds being used to finance road and bridge projects in the State of Kansas

Two key factors help determine the appropriate term for bonds issued to finance highway and bridge projects. The first is the economic life of the asset being financed and the second considers the impact of bond issue on available funds for both debt service and other construction and maintenance activities.

Review of the appropriate life of the bonds was done for the 1989 Comprehensive Highway Program, by bond rating agencies for the KDOT bond program and for the 1999 Comprehensive Transportation Program. Bridges have an estimated life of approximately 50 years and roads have a life of 20 to 40 years based on the materials used. This does not mean that the projects do not require maintenance work in the interim. Just as we would not go 40 years without painting our house or replacing some of the internal fixtures both highways and bridges require maintenance to maintain the serviceability of the structure.
The other factor concerns that availability of funds. The shorter the bond term, the more money which is repaid in the first five to ten years. For example consider the following bond issue.

Principle		$10,000,000	$10,000,000
Term		10 years	20 years
Interest Rate		5 percent	5 percent
Principal and Interest paid in the			
	Years 1 to 5	$ 6,475,229	$ 4,012,129
	Years 1 to 10	$12,950,458	$ 8,024,259

If a 10 year bond maturity is used and we are considering a 5 year program, then the incremental funds which are available for construction during the program is only 35% of the bonds issue. On the other hand if a 20 year term is used then 60% of the bond proceeds are available to increase construction.

Tax Credit Bonds

Tax Credit Bonds (TCBs), are specifically authorized in the tax code. TCBs cause bondholders to receive a credit applicable to their federal income tax liability in lien of interest payments. The three authorized categories of TCBs are qualified zone academy bonds, clean renewable energy bonds and gulf tax credit bonds. The Treasury Code would require amendment before bonds issued for transportation would enjoy the TCB benefits. The basic concept for these three bonds is the same. Conventional bond issuers pledge to repay the amount of principal borrowed at the end of a stated period and promise to pay interest in cash periodically until the principal is repaid. With TCBs the issuer still pledges to repay the amount of principal borrowed, in cash; however bondholders receive a credit against their federal income liability. The benefit to issuers of TCBs is that they have no interest costs and are responsible only for the repayment of principle. In essence, the issuer of TCBs is getting an interest free loan.

Legislation has been introduced to issue Tax Credit Bonds and private activity bonds for high-speed rail corridors. The Rail Infrastructure Development and Expansion Act for the 21st Century (RIDE-21) would allow the secretary for the Department of Transportation $12 billion of both TCBs and private activity bonds over 10 years. RIDE-21 has been introduced in previous sessions of Congress and has been unsuccessful.

Tax Increment Financing (TIF) Bonds

Tax Increment Financing bonds use increases in property and sales taxes revenue to pay for the bond financing used in the development. In order for TIF bonds to be used, the area considered for development must be substandard and "blighted". New legislation is required to establish a TIF area, at which time the plan for development and termination date of the TIF area are established. Once established, a base year for tax measure is agreed upon, and the excess tax revenue generated each year proceeding the base year is collected until the TIF area terminates, or the bonds funding the development are retired[5]. In Kansas, K.S.A 12-1770 et. seq. elucidates how incremental taxes are collected and the regulations on TIF bond issuance.

Transportation Development District

Transportation Development Districts (TDD) are entities that are created and responsible for the development, improvement, maintenance, or operation of transportation projects within an established development district[6]. These entities are granted the authority to increase sales tax "in increments of .10% and .25% not to exceed 1%"[7], and issue debt to finance the development of the district. Currently, K.S.A. 12-17, 141 et. seq., authorizes the use of TDDs in Kansas[8]. The creation of a TDD is initiated by the owners of a land area through a petition which includes all relevant details about the proposed project. . If the TDD plans to levy sales tax as a source of financing or debt service, a resolution stating its intent must be adopted and notice given at a public hearing[9]. When issuing TDD bonds, the term life of the bond is limited to twenty-two years, and the TDD sales tax levied to fund these bonds may be used "prior to, simultaneously with or subsequent to the issuance of such bonds." Upon maturity of the TDD bonds or subsequent refunding bonds, the taxes levied to fund the development are retired

[5] Source: http://www.nysedc.org/memcenter/TIF%20Paper.pdf
[6] Source: http://ded.mo.gov/BDT/Community%20Services/Local%20Finance%20Initiatives/Transportation%20Development%20District.aspx
[7] http://law.justia.com/kansas/codes/chapter12/statute_4059.html
[8] Bruce Burditt – Work Paper
[9] Ibid

Private Activity Bonds (PABs)

Draft

Private Activity Bonds (PABs) are tax-exempt bonds issued by a state or local government in which the proceeds are used to build qualified projects that are owned, leased or used by a private entity. The issuer must be a governmental agency that acts as a conduit. To be tax-exempt, 95% of the bond proceeds must be spent within 5 years of issuance. SAFETEA-LU amended the Internal Revenue Code to add highway and freight transfer facilities to the types of privately developed and operated projects for which PABs can be issued. It was the government's desire to increase private sector investment in transportation infrastructure by providing access to tax-exempt bonds. Providing developers with access to tax-exempt interest lowers the cost of the projects capital and enhances investment in such projects. In general, proceeds must be used for new constructions. The law limits the amount of PABs to $15 billion and authorizes the Secretary of Transportation to allocate this to qualified facilities. As of January 2008, $3.288 billion in PAB allocation had been approved and $2.231 billion is being reviewed for allocation.

Approved Allocations

Port of Miami Tunnel, Consortium Access Tunnel	$	900,000,000
Missouri DOT Safe & Sound Bridge Improvement Pr	$	700,000,000
Knik Arm Crossing, Alaksa	$	600,000,000
Virginia I-495 Capital Beltway HOT Lanes	$	800,000,000
TxDOT IH 635 (LBJ Freeway)	$	288,000,000
	$	3,288,000,000

Pending Applications

CernterPoint Intermodel Center, Crete, Illinois	$	505,000,000
CernterPoint Intermodel Center, Joliet, Illinois	$	1,135,422,000
RidgePoint Logistics Center, Will County, Illinois	$	591,000,000
	$	2,231,422,000

The type of qualified projects include:

- Any surface transportation project which receives Federal assistance under Title 23
- Any project for an international bridge of tunnel
- Any facility for the transfer of freight from truck to rail or rail to truck which receives Federal assistance under Title 23 or Title 49

A government conduit entity is required to issue PABs, but they are not a direct obligation of a state or local government. The state or local government does not generally pledge its credit for payment of the bonded debt. No tax money or revenue is pledged for the retirement of the bonds. The state or local government lends its name to the private activity to enable the project to get financed.

Missouri Safe and Sound Bridge Improvement Program

The Missouri Department of Transportation (MoDOT) is in the beginning of its Safe and Sound Bridge Improvement Program under a Design-Build-Finance-Maintain model. There are currently 10,240 bridges on the Missouri state highway system and 1,093 of them are in poor or serious condition. The intent of the Safe and Sound Project is to provide for the rehabilitation or replacement of at least 800 bridges. The contractor will rehabilitate or replace the bridges on or before December 31, 2012 and maintain them until the maintenance period of 25 years. The contractor will control the overall project management, design, construction, maintenance and finance. The contractor will have complete flexibility in determining whether the bridge will be a rehabilitation or replacement. The cost is estimated at $400 million to $600 million. The financing model would provide no payments by MoDOT during the 5-year construction period with equal payments starting for a minimum of 25 years. MoDOT is dedicating the existing federal bridge replacement funds to finance the program. As shown above, the Safe and Sound MoDOT has received approval from the US DOT for the use of $700 million in Private Activity Bonds as the primary financing source for the initial improvement phase. MoDOT stated that the PABs have the potential to save over $70 million on the project.
Also part of the Safe and Sound Project was the authority to use design-build. The MoDOT has legal authority to initiate three Design-Build projects. The first approved design-build bridge project was the new I-64 located in the city of St. Louis and St. Louis County. The project is part of the Statewide Transportation Improvement Program at a cost $535 million. The project will be funded primarily using Amendment 3 revenue and GARVEE bonds. The second project is the kcICON (Paseo Bridge). The $245 million project will be paid with $50 million in SAFETEA-LU money and the rest from Amendment 3 funds. MoDOT believes it will save $7.5 million a year through the faster process. The project is expected to be completed by October 31, 2011. The third project is the Safe and Sound Bridge Improvement Program. This provides for design, build, finance and maintain. The project will be funded by Private Activity Bonds.

Virginia Capital Beltway HOT Lanes

In December 2007 completed all agreements for Capital Beltway Hot Lanes with construction excepted to begin in the spring of 2008. Virginia will retain ownership and oversight of the HOT lanes to ensure the contractor meets all operational standards of the HOT lanes. The contractor will finance and build a 14-mile stretch of HOT lanes based on a fixed-price, fixed-time, design-build contract. The contractor will finance but $409 million and accept the financial risk if HOT lane use does not meet expectations. The contractor will manage and fund all operations and maintenance of the HOT lanes including major repairs and rehabilitation over the 80-year agreement. In November 2007, tax-exempt private activity bonds were authorized for the project by the U.S. Department of Transportation and Transportation Infrastructure Finance Investment Act (TIFIA) loan was also approved.

Port of Miami Tunnel Project (POMT)

The POMT Project is being developed as a Public-Private Partnership. It is contractual agreement between the Florida Department of Transportation (FDOT) and a private contractor. $900 million in Private Activity Bonds have been approved by the Secretary of Transportation. The project will transfer many of the responsibilities, risk, and/or rewards of ownership from the public sector to a private entity for a fixed period of time. The Public-Private Partnership structure will be a 35-year concession to a private entity or consortium for design-finance-

construction-operation-maintenance. FDOT will make regular availability payments for providing access to the Port of Miami Tunnel when the tunnel opens for traffic. The availability payments can be reduced if performance standards are missed and may be terminated if performance is substandard. At the end of the 35-year agreement the Port of Miami goes back to FDOT in a specified condition.

Special City and County Highway Fund (SCCHF)

The SCCHF receives funding from two sources. Kansas Statues provide that one-hundred percent of the Motor Carrier Property tax receipts flow to the fund. During FY 2008 such receipts were $29 million. Annually, through legislative actions, the actual transfer of Motor Carrier Property tax receipts into the SCCHF is reduced to approximately $10 million. Additionally, the fund receives a portion of the motor fuel tax receipts. In 1999 the combined receipts of the SCCHF were approximately $142 million.

The CTP increased the dollars of motor fuel taxes going into the SCCHF with the expectation that the fund would receive approximately $160 million annually. The actual receipts were slightly less than expected. Prior to the CTP the fund was receiving approximately 48.5% of net motor fuel tax receipts. Due to the increase in motor fuel tax rates during the CTP the average distribution to the SCCHF has approximated 35.65%.

Leasing Infrastructure and Toll Revenues

The leasing of existing public infrastructure has become a viable method of financing for public transportation agencies seeking immediate funds. The execution of lease agreements occurs when the public sector transfers the rights to operate and maintain a public asset to a private entity. While operating the asset, the private entity is eligible to receive all or a portion of the revenues generated from such asset (i.e. toll revenues). The length of the agreement may extend anywhere from a decade to 99 years, and the terms within the agreement vary between assets.

The leasing of existing infrastructure has continued to grow in popularity with investors. Given that the design-build phase is complete, much of the risk associated with project construction/implementation has already been assumed by the public sector. Also, in many cases the leased asset has been in operation for a number of years, providing private investors with historical data on variables which impact the assets revenue generation (i.e. traffic flow on toll roads, operating costs, etc.).

Leasing Advantages for Public Sector

Several advantages exist for public agencies when entering into a lease agreement via public-private partnership (PPP). The primary advantage of leasing an asset to the private sector is the receipt of a large cash inflow upon signing. The contribution can be used to take on a multitude of issues requiring immediate attention. Eliminating budget deficits, retiring bonds, and funding new infrastructure are just a few examples of applications available for these funds.

This large cash flow presented by the leasing is in the short-run mutually beneficial to both taxpayers and the public agency. The execution of a lease agreement typically occurs when a state or an agency is experiencing a pressing need for immediate capital. Rather than boosting taxes or taking on additional debt, this large lump-sum payment provides capital to meet these urgent needs.

Additionally, leasing an asset to the private sector gains exposure to capital held by private entities and potentially more efficient management skills. Typically private firms have multiple options of acquiring capital that are not as readily available to or attainable by a public. They have the ability to raise equity or debt through access to both local and international financial markets. The broad sources of capital available to the private sector enable speedy implementation of new technology and maintenance required to retain the operational efficiency of the leased infrastructure.

Leasing Disadvantages for Public Sector

While the leasing of infrastructure appears to be a win-win, several inherent disadvantages exist. The most critical of these is the accurate valuation of the leased asset. This problem is more profound in long-term lease agreements as it is difficult to accurately project the value of long-term cash flows 75 to 99 years in the future. If not valued properly, the public entity may

be foregoing future cash flows generated by the asset that would possess greater value than does the immediate lump-sum payment.

The second downfall in entering a lease agreement with the private sector is concern for deteriorating quality standards in terms of maintaining the asset. As private firms typically strive for the objective of profit maximization, many opponents of leasing public infrastructure fear that the private sector will not uphold current standards of quality. This concern has led to agreements outlining in detail when and how the maintenance and improvements on the asset should occur.

A third concern that comes with the leasing of public toll roads is the likelihood of immediate toll hikes by the private partner. In order to avoid this occurrence, it has become popular for public entities to include a specific schedule of step increases in tolls and a maximum cap on the increases that occur beyond the included schedule. These limitations prevent the private sector from unfairly "milking" revenues from the asset.

Recent Lease Agreements

Chicago Skyway (Illinois): *7.8-mile long tolled bridge 48 years old at time of lease.*

Lease Term: 99 Years *Lease Value: $ 1,830 million* *Dated: January 2005*

MIG-Cintra partners to operate, maintain, and carry out capital improvements. Able to collect and retain all toll revenues. Agreement included specified step increases from Jan. 2005 through 2017 and thereafter, the maximum annual increase capped at the greater of 1) 2 percent 2) CPI, or 3) per capita nominal GDP growth.

Indiana Toll Road: *157-miles long and 50 years old at time of lease.*

Lease Term: 75 Years *Lease Value: $ 3,800 million* *Dated: June 6, 2006*

MIG-Cintra partners to operate and maintain for term of lease and provide $305 million worth of capital improvements. Able to collect and retain all toll revenues. Agreement includes a specified periodic schedule with maximum annual toll increases capped at the greater of 1) 2 percent 2) CPI, or 3) per capita nominal GDP growth. Prohibits state from building or improving any limited access highway within a 10-mile corridor on either side of the toll road.

Pocahontas Parkway (Virginia): *9-mile four-lane toll road, 4 years old at time of lease.*

Lease Term: 99 Years *Lease Value: $ 520 million* *Dated: June 2006*

Australia's Transurban Group to operate, maintain and possibly extend toll road. Provides for revenue sharing between Transurban and Virginia and includes a "termination for convenience" clause allowing Virginia to void contract at will. Periodic step increases included for years 2006 through 2016 and maximum annual increase capped at the greater of 1) 2.8 percent 2) CPI, or 3) per capita real GDP growth.

Although the leasing of public infrastructure to a private enterprise can be beneficial in the short run, if the public entity is willing to maximize the revenues in a manner consistent with the expectations of the private sector, the benefits diminish considerably.
Except for the table on the last page, the following was excerpted from a paper titled **Foundations of the Future Back-up Notes**, Enhancing the quality of academic facilities at Kansas universities, prepared by the Kansas Development Finance Authority on 01/30/07.

Background

Through the strong stewardship of the KTA management and staff, Kansas' toll road has developed into a strong asset that has significant untapped potential. The KTA, by statute, is an independent instrumentality and retains all excess revenue within KTA. Further, the KTA has pledged all of its revenue to bondholders pursuant to certain covenants of the Trust Indenture used in the issuance of its bonds. Thus the value of KTA is currently locked away from the State.

In February of 2006, the State of Indiana granted a 75-year concession for the Indiana Toll Road (ITR) to a private party for $3.85 billion. Given the similarities between KTA and ITR, a Wall Street investment banking firm has estimated a similar concession agreement for the KTA would potentially yield the State $2.5 to $3.4 billion. It is important to note that this concession agreement would involve a significant increase in toll rates for users of the turnpike and that the size of the increase in tolls is the most important factor in determining the value of the concession agreement. This suggests that the State has a significant asset that could be used to help fund a portion of the infrastructure backlog without raising taxes.

Toll Comparison

In order to give context on how KTA toll rates compare to other similar rural interstate toll roads, the following data is presented:

Rural Interstate Toll Roads	2005 Average Toll per Mile ($)	2014 Projected Average Toll per Mile ($)
Maine	N/A	N/A
New Hampshire	0.038	0.044
Kansas	***0.054***	***-------***
New York Thruway Authority	0.062	0.071
West Virginia	0.062	0.071
Oklahoma	0.066	0.076
Illinois (2004 miles)	0.068	0.078
Kansas proposed	***-------***	***0.079***
Ohio	0.073	0.085
Indiana	0.080	0.093
Florida	0.083	0.097
Pennsylvania	0.102	0.118
South Carolina	0.128	0.149
Average (excl. Kansas)	**0.076**	**0.088**

Source: International Bridge, Tunnel and Turnpike Association, 2006 Toll Information Report/Directory; Maine data unavailable since the state does not report annual miles traveled. 2014 Projected: Based on three 5% increases for all states except Kansas eight 5% increases (25% for surcharge)

Unlocking the Asset

Kansas Statutes Annotated, Chapter 68, Article 20, provides that "the authority (KTA) shall not be required to pay any taxes or assessments upon the income derived from any turnpike project…" Currently there is no statutory provision which would allow the State to use KTA as an asset that would generate revenue for any activities other than those of the KTA. Therefore, statutory changes would be required in order to implement a surcharge on users of the KTA to generate revenue for certain designated purposes of the State.

Since the State would be generating revenue from KTA by imposing a surcharge on KTA users and over and above KTA toll revenues, the State should examine whether the imposition of a surcharge violates the provisions of the KTA Bond Indentures. These Indentures, under sections captioned "Application of Monies in the Revenue Fund" and "No Liens", seemingly capture all the revenues of KTA for bond debt service. It may be necessary to defease the outstanding KTA bonds in order to unlock the value of the KTA, through the issuance of defeasance bonds in the approximate amount of $260 million.

Existing Bond Defeasance

The KTA has the following debt outstanding under its Master Trust Indenture dated June 15, 1985:

Series 1993	$5,180,000
Series 1998	$3,675,000
Series 2002	$82,120,000
Series 2003	$100,505,000
Series 2004	$51,335,000
Series 2006	$12,690,000
Total	**$255,505,000**

The structure of the outstanding debt calls for debt service of approximately $21 million per year through 2020 and tapers off after that point with a final maturity in fiscal year 2035. In order to refund and defease these bonds in their entirety, a mix of tax-exempt and taxable bonds would have to be issued. Taxable bonds have to be issued for the portion of existing bonds that have already been advance refunded once due to IRS regulations. This increases the economic cost of the refunding transaction. Summary data of the transaction:

	Existing Bonds	Refunding Bonds
Par Amount of Bonds	$255,505,000	$254,060,000
Tax Exempt %	100.0%	54.5%
Taxable %	0.0%	45.5%
Total Net Debt Service	$390,449,584	$409,576,180
Savings (Cost)	N/A	($19,126,596)
Net Present Value (Cost)	N/A	($10,408,903)

These results are estimates based on market condition in late January 2007. The new net debt service for KTA would increase by approximately $700,000 through fiscal year 2021 and approximately $500,000 from fiscal years 2022 to 2037.

Developing the Asset

The State enacts legislation that would implement a surcharge on KTA users. The surcharge would ramp up in 5% increments to a maximum of 25% over a seven year period. This 5% user surcharge increases would occur in the intervening years between KTA planned toll increases. KTA currently projects to increase tolls 5% every three years starting in 2007. During the ramp up of the surcharge, the average toll plus surcharge per mile for KTA would increase from $0.054/mile to $0.079/mile. The surcharge revenue would flow into the SGF and be used to finance a total of $300M infrastructure backlog projects on KBOR campuses. Actual KTA traffic volume may vary from projections used to compile this report.

Keeping KTA Whole

Two direct negative financial impacts may occur to KTA due to the implementation of the surcharge. First, if the existing KTA bonds are defeased to eliminate the existing covenants in the Bond Trust Indenture, the new debt service on the refunding bonds is likely to be higher than the existing debt service. Second, the surcharge will likely have a negative impact on traffic volume or traffic volume growth; although a traffic study is needed to more accurately gauge what this potential impact will be. In order to keep KTA financially whole as a consequence of these two potential effects, state general fund revenue could be used as a compensation payment to KTA. The size of the payment would be determined by two factors: First, KTA would be paid the difference between the debt service for their new bonds versus their old (before defeasance) bonds; and, Second, KTA would be compensated for any negative impact to traffic growth that the surcharge may cause. This impact would be measured through a traffic study conducted with the objective of projecting traffic levels with and without the proposed surcharge.

Debt that could be supported by a 25% surcharge on KTA tolls. Amounts are in millions.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Toll revenue	$ 85	$ 90	$ 96	$103	$109	$116	$124	$132	$135	$137	$146
Toll increases		5.0%			5.0%			5.0%			5.0%
Surcharge	5.0%		5.0%	5.0%		5.0%	5.0%				
Traffic increases	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	2.0%	2.0%	1.5%
Total revenue growth	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	2.0%	2.0%	6.5%
Avg. toll/mile (cents)	5.9	6.1	6.5	6.8	7.1	7.5	7.8	8.2	8.2	8.2	8.6
Debt issued		$ 40	$ 40	$ 40	$ 40	$ 40	$ 40	$ 40	$ -	$ 20	$ -
Surcharge revenue		$ 4	$ 8	$ 13	$ 13	$ 18	$ 23	$ 24	$ 24	$ 25	$ 25
Debt service		$ (3)	$ (5)	$ (8)	$ (10)	$ (13)	$ (16)	$ (18)	$ (18)	$ (20)	$ (20)
Surcharge surplus		$ 2	$ 3	$ 5	$ 3	$ 5	$ 7	$ 5	$ 6	$ 5	$ 6

Major assumptions:

1) 30-yr level debt service at 5.0% interest and avg. annual debt service of 6.5%.

2) 2% annual traffic growth LESS 0.5% for every 5% toll or surcharge increase.

Lottery Privatization

At the beginning of 2008 there were over a dozen states considering proposals to lease state lotteries. States are looking for ways to address budget shortfalls. Typically privatization involves a long-term agreement signed by the state and a private investor. The private investor operates the lottery while the state still owns the lottery and maintains a regulatory role. Lottery concession can be structured in many ways. States can receive a large upfront payment and place the payment into a trust fund. The interest from the trust fund can be used to finance education or social services. A proposal to the state of New York would grant the state a $45 billion upfront fee in return for all lottery revenues over the lease. The Indiana lottery discussed a proposal that would provide for a small upfront payment and a portion of the annual revenues. Investors would pay $1 to $2 billion upfront and an annual payment of $200 million over the life of the lease.

There are many variables in determining the value of lottery privatization. The length of the agreement, upfront or annual payments and revenue sharing provisions are all factors in determining the value of the privatization.

1-4% withholding from new jobs to fund projects

The Kansas Legislature has passed legislation (K.S.A. 2008 Supp. 74-50,136) to promote employment by encouraging product development and engineering leading to new manufactured products in Kansas. Bonds could be issued with a maximum duration of 20 years and repaid from withholding upon Kansas wages paid by the eligible business. If the revenue from the withholdings upon Kansas wages is insufficient to pay principal and interest on the bonds, the eligible business remains obligated to make such payments.

Topic: Commodities and Price Indexes

Draft 06/09/08

A commodity is a physical substance, such as food, grains, or metals that is bought and sold by investors typically through futures contracts. The price of a specific commodity is determined by supply and demand for such product which inherently leads to price appreciation/depreciation of the specific good. Price fluctuations of goods such as steel, cement, asphalt, and diesel impact the cost of construction to KDOT through bids submitted by contractors.

Steel: As a vital component of bridge construction, steel prices influence the construction costs of a new bridge. The correlation between steel prices and bridge construction costs indicates that as steel prices rise so does the cost of construction. One means of measuring price variation of steel is to view the components of the Producer Price Index (PPI) assembled by the Bureau of Labor Statistics. In examining the commodity grouping of Iron and Steel, a relative indication of price variation is apparent. The index was 223.0 and 245.8 for March and April, 2008 respectively. The percentage change of 10.22% in one month indicates a recent strong influx in prices when compared to the average monthly change of 1.39% over the past 12 months.

Concrete: Concrete is hard strong building material made by mixing a cementing material (i.e. Portland Cement) and a material aggregate such as sand and gravel with water to cause the cement to set and bind. In place of cement, asphalt may be used to produce asphalt concrete, traditionally known as simply "asphalt". By monitoring the price of these inputs, a general idea for the market price of concrete production may be attained.

Asphalt: As a reliable national price index of asphalt itself is difficult to find, monitoring its main ingredient, crude petroleum, provides a general indication of asphalt price movement. In recent months, the component of PPI for crude petroleum indicates a month-over-month increase of 17.49% and 4.45% for March and April respectively. Over the past 12 months the index has increased by a rate of 88.26%.

Cement: Examining the component of PPI for the cement index reveals declines of 0.85% and 0.19% in the months of March and April respectively. The index has, however, risen slightly over the past year, growing at a rate of 0.86%.

Mineral Aggregate: Mixed with cement in the production of concrete, the price of mineral aggregate effects the cost of concrete production. The price of such inputs can be monitored via the construction sand, gravel, and crushed stone component of the PPI. Over the past 12 month period, this price index has grown at a rate of 6.86%. More recently, the index has declined by a rate of 0.36% between the months of March and April.

Diesel: Diesel fuel is used in many areas of construction, particularly during the excavation of land and paving of roads/highways. The costs associated with operating equipment involved in such processes are highly dependent upon the price of Diesel fuel. The Diesel #2 commodity price index compiled by the Bureau of Labor Statistics reflects cost changes. In the months of March and April, the index increased by 23.96% and 2.73% from the

previous month and has increased by 53.40% over the past 12 months. This increase impacts both the cost of construction and routine maintenance activities of KDOT.
The prices of these commodities influences construction costs incurred by KDOT, however, since contractors perform the construction the timing and magnitude is dependent upon their decision as to when and how much of the commodity cost increases to “pass-on” via their construction bids. Accordingly, construction bids are the strongest indicator of cost increases incurred by the Department.

KANSAS
DEPARTMENT OF TRANSPORTATION

State Transportation Funding Initiatives

Task Force White Paper July 22, 2008

Overview

As documented by the recent report of the national Surface Transportation Policy and Revenues Study Commission, future national highway and transit investment needs over the next two decades will be two to four times higher than anticipated revenues, depending if you are trying to maintain current system performance or improve it. This large funding gap is echoed by state DOTs across the country that are struggling to improve their transportation systems in the face of aging infrastructure, growing congestion, high construction cost inflation, and reasonably flat revenues.

In response to their looming funding gaps, several states have pursued initiatives to provide additional revenue for transportation. While some of these efforts have succeeded and others have not, they all provide important lessons for states that are considering their own transportation funding initiatives. This white paper provides a brief summary of some of these initiatives to help inform Kansas stakeholders and decision-makers about options and considerations as they craft potential new transportation funding strategies for the state.

Recent State DOT Funding and Finance Initiatives

Nebraska

During the 2008 legislative session, Nebraska proposed imposing a five percent sale tax on motor fuels in an attempt to at least partially index motor fuels taxes (MFTs). The proposed initiative included the following program terms:

- The sales tax would be computed on the average wholesale price of gasoline;
- The average wholesale price would be adjusted twice a year based on the average price during the prior six months, but the increase or decrease would be capped at a maximum 25% change from the prior six month period; and
- Upon implementation, the MFT rate would initially be reduced by eight cents per gallon.

This mechanism would have raised $52 million in net, new revenues for transportation in Nebraska, a 10 to 15 percent increase over current MFT revenues. While the bill to enact this motor fuels sales tax was not enacted, the Legislation did implement changes to how the MFT is calculated, by reducing the variable rate tax component and creating a sales tax on motor fuels, but the result of the legislation is revenue neutral.

Wisconsin

In 1985, the Wisconsin Legislature instituted a methodology for changing the annual state motor fuel and special fuel tax rates to reflect changes in 1) the quantity of fuel consumption, and 2) the highway maintenance cost index. In 1991 the indexing methodology was amended to reflect changes in the quantity of fuel consumption and the Consumer Price Index (CPI). In 1997, the indexing formula eliminated the consumption factor, leaving the CPI as the sole basis for year-to-year changes to the state motor fuels tax rates.

In 2006, the Wisconsin Legislature abolished the annual indexing of state motor fuels tax rates due to political pressures resulting from 1) rising fuel costs, and 2) the fact that indexing had

caused Wisconsin's state gasoline tax to climb to 30.9 cents-per-gallon, one of the higher state rates in the country and 9 to 11 cents-per-gallon greater than the rates in neighboring states (Illinois, Iowa, Michigan, and Minnesota).

Idaho

In 2006, the Idaho Transportation Board recommended that the state issue Grant Anticipation Revenue Vehicle (GARVEE) bonds to accelerate the completion of selected congestion, mobility and safety projects (GARVEE debt is backed and serviced using future federal funding). The following are key developments associated with the program:

- Under the originally concept for the program, the state would issue GARVEE bonds totaling $998 million in five installments of roughly $200 million each;
- To date, two installments of GARVEE bonds have been issued, one for $200 million and one for $250 million;
- The interest rates Idaho has been paying on the GARVEE Bonds issued to date have been lower than the annual rate of construction cost inflation over the same period.

Idaho also proposed legislation that would impose a sales tax on the base price of all fuel at the distribution level as a means of introducing an indexing component to the state's funding sources. The mechanism, to be called a "highway preservation fuel tax," would be imposed on the gross purchase of motor fuels by a distributor in the state at seven percent of the purchase price (the tax would not be applied to the 18.4 cent per gallon federal MFT and 25 cents-per-gallon state MFT). The intent was to provide a practical indexing methodology for funding transportation. The legislation was not successful.

Wyoming

Wyoming proposed raising its MFT rates in both the 2007 and 2008 legislative sessions, but both initiatives were unsuccessful. In 2008, the Wyoming Legislatures provided an additional $200 million in general funds for highways, but only half of the increase is part of the Wyoming DOTs standard budget, the remainder is subject to an agency request and legislative appropriation.

Maryland

Maryland convened a special legislative session in October 2007 to address the need for funding to reduce the backlog of transportation projects. The resulting legislation increased available funding by about $450 million annually. The additional revenues are derived from the following new sources:

- A one percent increase in state sales tax (from five to six percent), with Maryland DOT receiving 6.5% of the six percent tax (effectively a rate for the DOT of .39%), that is expected to provide approximately $320 million in additional transportation funding annually.
- The sales tax on vehicles purchased was increased from five to six percent providing an additional $100 million annually.
- $30 million from the elimination of statutory revenue transfers-out.
- Indexing of MFT rates was proposed as part of the original funding legislation, but was subsequently dropped due to political opposition.

The package also included increased revolving bonding capacity to allow the Maryland DOT to leverage the new revenues. The new bonds carry a two times debt service coverage requirement and, as outstanding indebtedness is repaid, the Maryland dot can issue additional bonds.

Colorado

In 2007, the Governor of Colorado established a transportation panel to identify long-term programs and funding sources. The panel recommended new revenue sources totaling $1.5 billion annually, which included increases in vehicle registration fees, motor fuel taxes, increased sales and use taxes, and other new fees and taxes such as a daily "visitors fee" on car rentals and lodging. Due to provisions in the Colorado constitution, any state tax increase must be approved by a majority of the voters. As such, only the proposed registration fee and visitor fee increases would not require a public referendum. To date, none of these recommendations have been implemented

A proposal was introduced in 2008 that would allow voters to protect transportation funding by directing auto-related sales tax revenue specifically to transportation. A second proposal would widen portions of Interstate 70 using revenue generated from a five dollar toll to be paid by drivers at the base of the Eisenhower and Johnson tunnels on I-70. These bills received little support and never made it out of the general assembly.

Washington

Washington enacted significant transportation programs in both 2003 and again in 2005. The earlier program included 158 projects that were scheduled to be completed over 10 years. The incremental funding for the program included a five cents-per-gallon increase in MFT rates, a 15 percent increase in fees on the gross weight of heavy trucks, a 0.3 percent increase in sales tax on motor vehicles, a $20 annual license plate retention fee, and an increase in bonding authority by $2.6 billion. When the bonds are repaid, the five cents-per-gallon MFT rate increase is scheduled to expire.

The second program is a 16-year plan involving 270 projects and includes the following financial components:

- A 9.5 cents-per-gallon MFT tax increase phased in over four years (expected to raise a total of $5.5 billion over 10 years);

- A assortment of new or increased fees on passenger cars, light trucks, motor homes, identification cards, drivers license applications, agriculture permits, and hearing fees for driving under the influence hearings; and
- An additional $5.1 billion of bonding authority.

Washington DOTs success in achieving these revenue increases are directly attributed to the agency's effort to improve, track, and report its on-time, on-budget performance on projects and programs.

North Dakota

The North Dakota legislature passed a two-phase tax and fee increases in 2005 to improve and maintain their road and bridge system. The initial increase included the following elements:

- A two cents-per-gallon increase in gasoline and gasohol MFTS;
- A minimum increase of $13 in fees applied to car, truck, and motor home registrations; and
- An increase in registration fees for pick-ups to bring those fees in line with those on passenger vehicles.

The second increase will take place in FY 2010 and will include a three-cent per gallon MFT increase and a minimum increase of $25 in fees applied to car, truck, and motor home registrations registration. The total increase for this legislation is three cents-per-gallon. The first phase of increases is effective through June 30, 1999 and reverts back to the original amount. The second phase is effective starting July 1, 1999.

Iowa

Iowa passed legislation to increase revenues by $120 million annually from sources other than MFTs. The additional revenues are expected to be derived from increasing driver's license fees by fifty percent, raising various registration fees (including the creation of a minimum $50 fee), increasing the flat fee for trucks based upon weight and age, requiring new noncommercial and nonfarm pickup trucks purchased after January 1, 2009 to pay registration fees based upon the weight and value formula similar to personal vehicles, and increasing the trailer registration fees. As part of this legislation, a revenue study group will convene every five years to study any shortfall in transportation funding.

Missouri

In 2004, Missouri approved a $1.7 billion financing package of bonds to be repaid from a reallocation of existing sales tax on vehicle sales, which dedicated all of these funds to the Missouri DOT (the prior allocation had been 50 percent). With Missouri now nearing the end of this financing program, the 2008 Missouri Legislature is considering a one percent increase in the state sales tax rate from 4.225 to 5.225 percent and allocating the new revenues to transportation. The potential increase is expected to raise $600 million to $700 million annually and would be dedicated to rebuilding I-70 and I-44. Under the current proposal, the increase would sunset after 10 years.

Minnesota

In February 2008, Minnesota passed legislation to significant increase transportation. Although the measure was vetoed by the Governor (the Governor advocated using bonding instead of a

General Fund allocation), the veto was subsequently overturned by a bipartisan vote of the legislature. The resulting legislation included the following elements:

- Increasing appropriations for transportation from the state general fund by a total of $284 million over a two-year period;
- Authority to issue $1.8 billion in "trunk highway bonds;"
- Phase-in of a five cents-per-gallon increase in MFTs;
- An additional three and one-half cents-per-gallon MFT for repayment of the trunk highway bonds;
- Increases in a short term motor vehicle rental fee from three to five percent; and
- Authority for metropolitan counties to impose a metropolitan transportation sales tax of .25 percent.

Oklahoma

Oklahoma adopted legislation in 2006 which links a potential increase in Oklahoma DOT appropriation authority to the "target revenue increase" in overall state funds. The target was not achieved the first year and if the trend persists, the Oklahoma DOT will be forced to remove $260 million of projects. There is now a proposal under consideration by the Oklahoma Legislature that would remove the target revenue increase.

Legislation has also been proposed that would provide the Oklahoma DOT with a one-time special appropriation of $100 million for the exclusive purpose of repairing obsolete and damaged bridges in the state. Another bill would change the current allocation of motor vehicle collections and direct an additional five percent of the revenues to the Oklahoma DOT each year (29.84 percent or about $188 million currently goes to the state General Revenue Fund) until all of the revenues are dedicated to ODOT.

Findings and Conclusions

While every state faces unique challenges and considerations in trying to increase revenues for transportation, several findings and conclusions can be drawn from the experiences documented above:

- **Hybrid strategies** – Initiatives that raise the most funds tend to use multiple funding and financing mechanisms rather than straight MFT increases.

- **Indexing –** While many view indexing as a preferable, long term fix to ever-decreasing purchasing power and the challenge of gaining occasional tax increases, the Nebraska, Wisconsin, and Idaho experiences show that true indexing can be difficult to both achieve and maintain. The initiative in Idaho simply could not get over the political resistance to it. In the case of Nebraska, the imposition of a sales tax on motor fuels

(also known as indirect indexing) was approved, but structured in a way that it did not help address revenue shortfalls. As the Wisconsin case illustrates, even well established indexing programs may be subject to political whims, particularly if there is an economic downturn, a spike in fuel prices, or if indexing leads a state's fuel tax rates to greatly exceed the average rates in the region.

- **Type of Mechanisms** – Although the examples are all over the board with respect to how states raise additional funding for transportation, there does appear to be a bias against raising MFTS. Instead, states are leaning toward increasing registration fees and using various types of sales taxes to support new transportation funding packages.

- **Selling an Increase –** As the Washington State example shows, proving to the public and decision-makers that projects and programs can be delivered on-time and on-budget is frequently critical to a successful transportation funding initiative.

- **Bonding** – Several states are looking to leverage existing and/or new revenue streams through bonding.

- **Nothing is Guaranteed** – As the Oklahoma case illustrated, promised tied to overall increases in state revenues do not always pan out. The more funds can be dedicated, the better.

Part 5:

Financial Overview Supplement #1

Exempt Real Property Appraised Value

The exempt real property appraised valve in 2007 was $27B. Real estate is valued by an appraiser annually. Once the appraised value is set, the assessed value is a mathematical calculation. In Kansas, taxes are levied on a mill rate. A mill rate is defined as being $1 of tax for every $1,000 of assessed value on real and personal property.

Exempt Real Property 2007
(Appraised Value in dollars)

Appraised Value of Exempt Real Property	$ 27,449,953,391.00
Reduction in Exemption by 10%	10%
Increase in Taxable Appraised Property Value	$ 2,744,995,339.00
Business Assessment Rate of 25%	25%
New Assessed Value	$ 686,248,835.00
Mill Rate	0.001
New Revenue Per Mill	$ 686,249.00

*Appraised values are an estimate and are probably much larger due to the lack of appraisals.

Potential Revenue Generated by Removal of Selected Exemption

Description of Exemption or Exclusion	FY2008 ($ in Millions)
Taxes telephone and telegraph services except creation WATS and private data lines. Bundling of services added in 2001. Modified pre-paid calling cards - revolved phrase dealing with sold in minutes (no fiscal impact).	$ 1.397
Coin operated Laundry Services	$ 0.354
Attributable to veterans	$ -
Attributable to humanitarians	$ -
Attributable to nonprofit zoo.	$ -
Motor vehicles exchanged for corporate stock, corporate transfer to itself and immediate family member sales.	$ 0.202
Customized computer software and services for modifying software for single end use and billed as a separate invoiced item. In 2004, amended to tax only prewritten software. Custom software is exempt	$ 4.989
Sales of bingo cards, bingo faces and instant bingo tickets. Tax rate 2.5 on July 1, 2001 to June 30, 2002; exempt on July 1, 2002	$ 2.640
Motor fuels and items taxed by sales or excise tax	$ 224.659
Property or services purchases by State of Kansas, political subdivision, nonprofit hospital or blood /donor banks. In 2001, deleted sales of water to make purchases for water suppliers exempt.(Neutral Fiscal Note due to Clean Water Fee)	$ 319.696
Property or services purchased by contractor for building or repair of buildings for nonprofit hospital, elementary or secondary schools or nonprofit educational institutions, and for state correctional institution	$ 114.930
Property purchased by railroad or public utility for use in the movement of interstate commerce	$ 15.007
Lease or rental of films, records, tapes, etc. by motion picture exhibitors	$ 1.650
Meals served without charge to employees if duties include furnishing or sale of such meals or drinks	$ 3.656

Vehicles, trailers or aircraft purchased and delivered out of state to a nonresident	$ 14.916
Property which becomes an ingredient or component part of property or services produced or manufactured for ultimate sale at retail	$ 2,172.085
Property consumed in the production, manufacturing, processing, mining, drilling, refining or compounding of property; or irrigation of crops for ultimate sale at retail. In 2000, added provision to eliminate refunds from the Johnson County Water case save	$ 284.988
Sales of animals, fowl, aquatic plants, and animals used in agriculture or aquaculture, for production of food for human consumption, the production of animal, dairy, poultry, or aquatic products, fiber or fur or the production of offspring.	$ 160.402
Sales for prescription drugs	$ 67.978
Sales of farm or aquaculture machinery and equipment, parts and services for repair and replacement. In 2006, added work-site utility vehicle as exempt. To include precision farm equipment	$ 47.134
Sales of materials and services used in repairing, maintaining, etc., of railroad rolling stock used in interstate commerce	$ 0.905
Used mobile and manufactured homes	$ 4.284
Property or services purchased for constructing, reconstructing, enlarging or remodeling a business; sale and installation of machinery and equipment purchased for installation in such business. (Enterprise Zone Exemption)	$ 63.358
Lottery tickets and shares made as part of a lottery operated by the State of Kansas	$ 13.636
New mobile or manufactured homes to the extent of 40% of the gross receipts	$ 3.141
Medical supplies and equipment purchased by nonprofit skilled nursing home or intermediate nursing care home for providing medical services to residents	$ 1.006
Property purchased by nonprofit organization for nonsectarian comprehensive multidiscipline youth development programs and activities and sales of property by or on behalf of such organization	$ 2.538

Machinery and equipment used directly and primarily in the manufacture, assemblage, processing, finishing, storing, warehousing or distributing of property for resale by the plant or facility. In 2004, added exemption for building new facility in Riverton Ks (minimal impact)	$ 111.893
This is the impact from the changes made in 1998	$ 2.331
Seeds, tree seedlings, fertilizers, insecticides, etc., and services purchased and used for producing plants to prevent soil erosion on land devoted to agricultural use.	$ 0.924
Drill bits and explosives used in the exploration and production of oil or gas	$ 0.389
Property and services purchases by nonprofit zoo or on behalf of a zoo by an entity that is a 501(c)(3)	$ 0.583
Property and services purchased by a parent-teach association or organizations and all sales of tangible personal property by or on behalf of such association	$ 0.547
Machinery and equipment purchased by over-the-air free access radio or television station used directly and primarily for producing signal or the electricity essential for producing the signal.	$ 0.920
Property and services purchased by religious organizations and used exclusively for religious purposes	$ 16.764
Material handling equipment, racking systems & other related machinery & equipment used for the handling, movement or storage of tangible personal property in a warehouse or distribution facility; installation, repair, maintenance services, and replacement parts.	$ 6.059
Total	$ 3,665.959

** Source: Kansas Department of Revenue: Office of Policy and Research*

Updated through 2008 Legislative changes.

Use Gaming Revenues to Pay off Debt

The estimated average annual debt service on State Highway Fund (SHF) debt, as reflected in the T-LINK Calculator, is $167 million in fiscal years 2010 through 2014. The estimated debt service is slightly higher than such average in fiscal years 2010 through 2012 and slightly lower than such average in fiscal years 2013 and 2014.

The Financial Overview, dated and distributed to the T-LINK members on October 14 includes on page 7 the three permitted expenditures for the money deposited into the "expanded lottery act revenue fund." These are as follows.

1. Reduction of State debt;
2. State Infrastructure improvements; and
3. Reduction of local ad valorem tax.

A T-LINK member inquired 'what would the state's cash flow look like if gaming revenues were used to pay off debt and then the debt service money were used elsewhere.' The gaming revenues could be applied in two different methods. One approach would be to use current year gaming revenues to pay current year debt service. Assuming that 25% of the expanded gaming revenues were $30, $31, $32 and $33 million in fiscal years 2011 through 2014 respectively, and then a direct one-for-one benefit would be available in each of those years. In aggregate the benefit would be $126 million.

A second approach would be to use the expanded gaming revenues to prepay $126 million of principal due in some distant year(s). On twenty year bonds with level debt service and five percent interest the annual debt service is eight percent of the principal amount. Accordingly, in 2011 through 2014 the annual reduction in debt service via this approach would be $2.4, $4.9, $7.4, and $10.1 respectively or $24.8 million in aggregate. The reduction of $10.1 million in 2014 would continue annually until the year in which the principal would have normally been repaid. Thereafter the benefits would cease.

If the gaming revenues beyond 2014 continue to be applied to prepaying debt due in distant years, then the $10.1 million annual benefit will continue to increase by approximately eight percent of the principal that is prepaid.

Post CTP payments for CTP projects

The total payments on CTP projects following the CTP:

Project Payments	$817 million
Plus: Projects slipped past the end	75 million
Less: Projected Ending Balance	231 million
Less: Associated federal aid	325 million
Additional project payouts after the CTP	$336 million

The cash flow modeling of the CTP, given projects take from one to five years to complete, recognized that there would be payments on projects after the end of the CTP. By the same token, during the CTP KDOT was paying on projects from before the CTP including CHP projects. To minimize the impact on a future program, KDOT originally modeled an ending balance reserve designed to substantially pay for the state portion of CTP projects following the CTP. During the first half of this decade when the State was experiencing significant financial pressure there was concern about KDOT projecting large ending cash balances. To assist the State, $300 million of the cash reserves were drawn down by diverting revenues from the Highway Fund. The impact is that future revenues would be used to pay for CTP projects. In addition, there has been some slippage in the project schedule which has deferred approximately $75 million in the secondary phases of some project, such as seeding, pavement and lighting, until after the CTP.

State Highway Fund Debt Service Restructure

In November of 2003, KDOT refunded $324 million of outstanding bonds and restructured the Department's debt service. In restructuring the debt, KDOT deferred a cumulative total of $170 million in debt service payments from fiscal years 2004-2009 into fiscal years 2010 and beyond. The refunding created a net present value savings of more than $3 million for the Department.

State Highway Fund

Debt Service Prior To and Following the Debt Restructuring in November, 2003

Amounts in Millions

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Debt Service (principal and interest)																			
Pre-restructuring	$122	$122	$ 136	$128	$128	$122	$124	$126	$122	$112	$ 88	$ 88	$88	$88	$87	$89	$88	$ 93	$1,954
Post-restructuring	85	98	98	103	103	103	146	146	146	138	129	135	94	64	88	89	89	93	1,946
Decrease (Increase)	$ 37	$ 25	$ 39	$ 26	$ 25	$ 19	$ (22)	$ (20)	$ (24)	$ (26)	$(41)	$(46)	$(6)	$24	$(0)	$(0)	$(0)	$-	$ 8
Cumulative deferral between FY 2004 and 2009						$170													

The refunded bonds consisted of the following series and maturities.

1992 Series	$ 44	Maturing March 1, 2004-2006, inclusive.
1993 Series	15	Maturing March 1, 2004.
1994 Series	60	Maturing September 1, 2004-2010, inclusive.
1994A Series	7	Maturing September 1, 2008-2009, inclusive.
1999 Series	48	Maturing September 1, 2005-2011, inclusive.
2000 Series	150	Maturing Sept. 1, 2008, Sept. 1, 2009, Sept. 1, 2011-2016, inclusive.
	$324	

As indicated in the Dec., 2003 Verification Reports the net present value savings on the refundings was in excess of $3.

Railroad Diesel Usage in Kansas

KDOT Freight and Rail Unit staff has requested diesel fuel usage by railroads operating in Kansas. The term usage means gallons used, not necessarily gallons purchased. Staff has been told to expect an answer the week of October 27th. If figures are received estimates provided below will be updated at that time.

Based on general data available, it is estimated that railroads in Kansas use between 100 and 125 million gallons of diesel annually. The basis for diesel fuel usage is:

- The American Association of Railroads estimates that 4.1 billion gallons of diesel were used in the United States during 2007
- There are 173,000 miles of railroad track in the United States
- Dividing 4.1 billion (gallons) by 173,000 (miles) results in 23,699 gallons per mile of track
- There are 4,900 miles of railroad track in Kansas
- Multiplying 23,699 (gallons per mile of track) by 4,900 miles (Kansas route miles) results in 116,127,168 gallons of diesel used in Kansas
- This is a very simple calculation subject to multiple variables that were not available when calculating estimates

If the TLINK committee decides to pursue a tax on railroad diesel usage as a potential revenue source they need to understand the controlling provisions of the federal 4-R Act (the Railroad Revitalization and Regulatory Act of 1976). The 4-R Act prevents railroads from being taxed by a state at a higher percentage of taxes than other commercial and industrial property. Basically if a diesel tax is placed on railroads, it will need to be placed on all non highway users of diesel (i.e., farmers and construction companies) as well to keep from being overturned in federal court. There is a history of federal court case law from other states preempting attempts to place a tax on diesel fuel purchased by railroads. Federal statute preempts state statute because railroads engage in interstate commerce.

CTP Short Line Railroad Rehabilitation Project History

Railroad	Project Number	Length	MP to MP	Subdivision	City to City	Cross Ties	Cross Ties Per Mile	Ballast (Tons)	Tons of Ballast Per Mile	Rail Relay	Tons of Rail Relay Per Mile	Total Project Cost	Loan Amount	Railroad Share	Grant Amount
Boothill and Western	**RR-8019-21**	9.0	0.0 - 9.0	Dodge City	Dodge City to Wilroads	7,200	800.00	4,300	478	0	0	616,370	246,548	184,911	184,911
KSW / Kansas & Oklahoma	**RR-8028-01**	22.2	550.5 - 572.7	Geneseo	Sterling to Geneseo	11,000	495.50	9,157	412	0	0	622,588	435,812	186,776	-
Kansas & Oklahoma	**RR-8029-22**	50.0	489.0 - 536.0	Hutchinson	Wichita to Hutchinson	35,146	702.92	3,954	79	0	0	988,125	395,250	296,438	296,438
Kansas & Oklahoma	**RR-8029-23**	10.0	44.0 - 54.0	McPherson	McPherson to Conway	8,689	868.90	5,601	560	0	0	372,000	148,800	111,600	111,600
Kansas & Oklahoma	**RR-8029-32**	17.0	103.1 - 120.1	Scott City	Amy to Scott City	8,510	500.59	9,300	547	0	0	459,203	183,681	137,761	137,761
Kansas & Oklahoma	**RR-8029-33**	13.5	223.2 - 236.7	Great Bend	Yaggy to Sterling	10,820	801.48	5,400	400	0	0	437,691	175,077	131,307	131,307
Kansas & Oklahoma	**RR-8029-42**	16.4	45.0 - 54.1 & 72.1 - 79.4	Kingman	Kingman to Calista & Waldeck to Pratt	8,631	526.28	5,090	310	0	0	425,079	170,032	127,524	127,524
Kansas & Oklahoma	**RR-8029-43**	1.2	482.3 - 482.8	Hutchinson	Wichita	2,875	2,395.83	4,311	3,593	0	0	376,104	150,441	112,831	112,831
Kansas & Oklahoma	**RR-8029-44**	15.0	255.0 - 270.0	Great Bend	Alden to Great Bend	7,475	498.33	5,000	333	0	0	445,975	178,390	133,793	133,793
Kansas & Oklahoma	**RR-8029-45**	17.5	495. - 512.5	Isabel	Frontier to Conway Springs	11,314	646.51	3,630	207	0	0	520,317	208,127	156,095	156,095
Kansas & Oklahoma	**RR-8029-52**	64.0	0.00 - 64.0	Scott City	Great Bend to Ness City	32,000	500.00	10,900	170	0	0	1,618,334	1,132,834	485,500	-
Kansas & Oklahoma	**RR-8029-63**	14.0	506.0 - 492.0	Hutchinson	West Wichita to Andale	13,900	992.86	0	0	0	0	542,099	379,470	162,630	-
Kansas & Oklahoma	**RR-8029-65**	25.0	512.0 - 487.0	Newton	Newton to McPherson	13,354	534.16	3,737	149	0	0	661,326	462,928	198,398	-
V and S	**RR-8024-51**	10.0	10.5 - 20.5	Medicine Lodge	Sharon to Medicine Lodge	7,000	700.00	2,000	200	0	0	332,753	232,927	99,826	-
V and S	RR-8024-71	10.0	0.0 - 10.0	Medicine Lodge	Attica to Sharon	7,500	750.00	10,000	1,000	0	0	1,322,750	925,925	396,825	-
Kyle	**RR-8033-01**	62.0	189.0 - 353.0	Belleville (#3)/ Phillipsburg (#4)	Belleville to Dresden	25,382	409.39	0	0	0	0	551,432	386,002	165,430	-
Kyle	**RR-8033-11**	59.0	329.0 - 335.0 & 389.0 - 442.0	Phillipsburg (#4)/ Goodland (#5)	Norton to Clayton & Colby to Kanorado	18,459	312.86	0	0	0	0	567,462	226,985	170,239	170,239
Kyle	**RR-8033-21**	85.0	199.0 - 284.0	Belleville (#3)	Scandia to Phillipsburg	35,525	417.94	45,845	539	0	0	666,285	266,514	199,885	199,885
Kyle	**RR-8033-31**	36.0	353.0 - 389.0	Phillipsburg (#4)	Dresden to Colby	18,514	514.28	15,578	433	0	0	1,017,324	406,930	305,197	305,197
Kyle	**RR-8033-41**	14.0	490.3 - 504.3	Yuma (#3?)	Yuma to Scandia	8,676	619.71	8,917	637	0	0	581,371	232,548	174,411	174,411
MSPA	RR-8035-71	0.2	189.0 - 189.2	Belleville	East of Belleville	0	0	0	0	0	0	658,282	460,797	197,484	-
Nebraska Kansas Colorado	**RR-8049-01**	73.2	133.1 - 59.9	St. Francis	Cedar Bluffs to St. Francis	7,418	101.34	7,555	103	197.5	2.70	632,997	443,098	189,899	-
South Kansas & Oklahoma	**RR-8054-01**	28.4	218-1 - 246.5	Moline	Grant Summit to Winfield	12,900	454.23	912	32	0	0	356,594	249,616	106,978	-
South Kansas & Oklahoma	**RR-8054-02**	23.6	130.5 - 153.6	Chanute	Chanute to Cherryvale	8,047	340.97	7,492	317	0	0	322,620	225,834	96,786	-
South Kansas & Oklahoma	**RR-8054-21**	27.0	414.0 - 387.0	Neodesha	Cherryvale to Fredonia	22,809	844.78	4,039	150	0	0	627,750	251,100	188,325	188,325
South Kansas & Oklahoma	**RR-8054-22**	29.8	155.7 - 165.0 & 0.0 - 20.5	Tulsa	Cherryvale to Caney	17,705	594.13	15,822	531	0	0	750,301	300,120	225,090	225,090
South Kansas & Oklahoma	**RR-8054-31**	0.25	387.0 - 155.4	Neodesha/ Chanute Connector	Cherryvale	1,188	4,752.00	1,108	4,432	0	0	138,202	55,281	41,461	41,461
South Kansas & Oklahoma	**RR-8054-33**	26.7	325.8 - 379.5	Pittsburg Branch	Cherokee to Sherwin	7,524	281.80	4,895	183	600	22.47	475,294	190,118	142,588	142,588
South Kansas & Oklahoma	**RR-8054-35**	37.2	350.8 - 386.9	Neodesha	Hallowell to Cherryvale	12,591	338.47	7,997	215	0	0	618,018	247,207	185,405	185,405
South Kansas & Oklahoma	**RR-8054-37**	20.0	210.0 - 230.0	Moline	Grendola to Burden	8,020	401.00	2,675	134	0	0	409,302	163,721	122,791	122,791
South Kansas & Oklahoma	**RR-8054-38**	18.1	0.0 - 18.1	Coffeyville	Cherryvale to Coffeeyville	7,240	400.00	5,532	306	0	0	445,191	178,076	133,557	133,557
South Kansas & Oklahoma	**RR-8054-42**	8.0	132.0 - 140.0	Chanute	Chanute to Thayer	4,200	525.00	3,510	439	0	0	209,789	83,916	62,937	62,937
South Kansas & Oklahoma	**RR-8054-51**	19.0	160.0 - 199.0	Moline	Fredonia to Moline	10,500	552.63	7,878	415	0	0	547,150	383,005	164,145	-
South Kansas & Oklahoma	**RR-8054-53**	11.1	128.5 - 117.4	Humbolt Lead	Chanute - Humboldt	5,500	495.50	5,837	526	0	0	280,203	196,142	84,061	-
South Kansas & Oklahoma	**RR-8054-61**	13.0	143.0 - 156.0	Chanute	Morehead to Cherryvale	7,872	605.54	3,714	286	0	0	441,334	308,934	132,400	-
South Kansas & Oklahoma	**RR-8054-62**	22.0	232.0 - 210.0	Moline	Grenola to Burden	17,790	808.64	0	0	0	0	614,663	430,264	184,399	-
South Kansas & Oklahoma	**RR-8054-63**	33.0	155.5 - 165.5 & 0.0 - 23.0	Tulsa	Cherryvale to Caney	24,256	735.03	6,340	192	0	0	1,091,048	763,733	327,314	-
South Kansas & Oklahoma	RR-8054-71	16.0	360.0 - 376.0	Neodesha	Oswego - Mound Valley		0.00		0		0.00	647,829	453,480	194,349	-
New Century AirCenter	**RR-8072-01**	5.0	0.00 - 5.0	N/A	New Century Air Center (Jo. Co.)	750	150.00	10,221	2,044	0	0	300,000	210,000	90,000	-
New Century AirCenter	**RR-8072-31**	5.0	0.00 - 5.0	N/A	New Century Air Center (Jo. Co.)	3,205	641.00	700	140	102	20.40	542,993	217,197	162,898	162,898
New Century AirCenter	**RR-8072-41**	5.0	0.00 - 5.0	N/A	New Century Air Center (Jo. Co.)	120	24.00	85	17	0	0	200,071	-	-	200,071
		972.4				471,605		249,033				23,434,220	12,756,860	6,970,245	3,707,115

Part 6:

Financial Overview Supplement #2

Funding Options for an Additional One Billion over 10 Years

A T-LINK member inquired as to the rate increase necessary to produce an estimated $1 billion of additional revenues to the State Highway Fund over a ten year time period from each of the following three mutually exclusive sources Motor Fuel Taxes, automobile registration fees, and dedicated sales taxes. The following estimates were produced by the T-LINK calculator which assumes a 1.5% growth in consumption.

- Five cent increase in motor fuel taxes produces an estimated $996 million;
- $41 dollar increase in automobile registration fees produces $1,009 million; and
- 20 hundredths of one percent increase in sales taxes produces $1,016 million. Based upon the Consensus Estimating Group report of November 4, 2008 and the T-LINK calculator raising the dedicated sales tax by 21 hundredths of one percent creates $1,022 million of additional revenues over a 10-year time period.

TAX INCREMENT FINANCING (TIF)

Tax increment Financing was originally designed as a local method of self-financing the redevelopment of "blighted" areas. As property values within a TIF district increase, incremental tax revenue generated is used to finance the development. Since this revenue is not realized until after economic development occurs, bonds are typically issued to cover the up-front costs of the project. K.S.A. 12-774 grants cities and municipalities the authority to issue special obligation bonds payable with these incremental tax revenues. Such an approach limits the use of TIF in a strictly "pay-as-you-go" program.

The assessment of incremental property taxes begins when the TIF district is established. At this point a base year for evaluation is determined and the assessed value of real property in the district is calculated. Property tax on any incremental assessed value of property following the base year is remitted to the city or municipality for costs (including debt service on TIF bonds) associated with ongoing projects in the district. In the case that TIF bonds are issued, all transient guest and local sales and use taxes collected from taxpayers within the district may also be pledged for the repayment of such bonds.

Utilizing TIF in the State of Kansas

Municipal Procedure:

In order for Tax Increment Financing of economic development to occur in Kansas, a redevelopment or bioscience development district must first be created following the procedures set forth in K.S.A. 12-1771 et seq. This requires that a city proposing to establish a redevelopment district must first adopt a resolution stating its intent to do so. The resolution must contain a notice of a public hearing, the proposed boundaries of the redevelopment district, a description of the district plan, and notation of where and when a description and map of the proposed district will be available. After the resolution is adopted a public hearing is held and the public's comments and concerns are taken into consideration. Upon completion of the hearing the city may pass an ordinance establishing the district so long as the proposed area is an eligible area and the "conservation, development or redevelopment of such area is necessary to promote the general and economic welfare of the city." This redevelopment district may span beyond the boundaries of the city pending approval of the board of county commissioners.

The second step in the process commences with the project approval phase. The city first develops a project plan which includes a feasibility study[1], reference to the district plan established under K.S.A. 12-1771, a description and map of the redevelopment project area, a

[1] A feasibility study must demonstrate that the benefits of the project will exceed costs and income is sufficient to pay costs of the project.

relocation plan[2], and a detailed description of buildings and facilities proposed to be constructed. A resolution must next be adopted stating the cities consideration of adopting such a project plan which is then followed by another public hearing. Upon completion of the public hearing, the governing body[3] may adopt the project plan by ordinance passed upon a 2/3 vote. Any project that is accepted must be completed within 20 years from the date of project plan approval.

According to K.S.A. 12-1773 et seq., any city which has adopted a redevelopment district is granted authority to purchase or otherwise acquire real property in the district in connection with the adopted project plan. This includes the right to use eminent domain on "blighted" areas of the redevelopment district as authorized by K.S.A. 2007 Supp. 26-501b. If eminent domain is to be used for such purposes, the Kansas legislature must enact law which gives the municipality the express right to utilize such methods of acquisition on specific tracts of land. If granted this right, procedures for acquiring land for the project must be exercised in a manner provided by K.S.A. 26-501 et seq.

Limitations:

There are several limitations to the use of TIF. The first of these limitations comes with the procedural challenges of implementation. With each redevelopment district and project requiring approval by a governing body, many projects may get caught up on details and their delivery be delayed or even abandoned. Also, if land must be acquired via eminent domain, approval from the legislature or litigation surrounding such proceedings may again be cause for delay or abandonment.

A second potential limitation in the use of TIF regards the composition of the tax base within the established redevelopment district. Since TIF relies on the assessed value of taxable real property, buildings or facilities that are exempt from property tax in the district (i.e. nonprofit organizations or government buildings) make no contribution to the anticipated increment. These considerations must be accounted for in the feasibility study and therefore makes the use of TIF in certain areas difficult.

Another limitation of using TIF relates to inflationary factors of real property value. In order to capture incremental tax revenues, assessed property value is determined at some base year and any incremental property taxes realized beyond this base year is contributed to a special fund for the cost of redevelopment projects in the district. Using such procedures enables the redevelopment district to capture general inflation in property values unrelated to development occurring in the district. These general inflationary gains would otherwise be allocated to general coffers.

[2] K.S.A. 12-1777 requires that a relocation assistance plan be put into effect which provides for relocation payments to persons, families and businesses who must move from real property located in the redevelopment district. Such payments shall not be less than $500.

[3] "Governing Body" means the governing body of a city or board of county commissioners of a county.

Summary

Tax Increment Financing provides a method for capturing the gain realized by economic development to pay for the costs of such development. If contemplating the use of TIF, careful consideration must be given to the complexity of its implementation. The establishment of a district and approval of projects offers many hurdles to clear while the tax position of property within certain areas may also make its use difficult. TIF provides an excellent tool for sparking economic development, however, many pieces must be in place if it is to be successfully used to finance transportation infrastructure.

TRANSPORTATION DEVELOPMENT DISTRICTS (TDD)

Transportation Development Districts are created for the purpose of developing or improving transportation infrastructure within a specific area. Funding of projects within such a district usually occurs through the issuance of bonds by a municipality in accordance with K.S.A. 12-17,149.

Project costs (or debt service in the case that bonds are issued) may be paid with all or part of special assessments levied on property in the district, TDD sales tax revenue, or any other funds appropriated by the municipality. K.S.A. 12-17,145 restricts the sales tax rate which the municipality may levy to a maximum of 1 percent. The life of the TDD extends until all project costs are paid or no bonds used to fund the project(s) are outstanding (maximum term life of bonds is 22 years). With the dissolution of the district any TDD sales tax levied will expire.

Though similar to TIF in regards to geographically matching revenues to infrastructure development, TDDs differ from TIF in that TDDs create a new taxing district which may raise additional tax revenue to pay for transportation improvements whereas TIF pays for transportation and other public improvements by allowing taxing jurisdictions to forego a portion of incremental tax revenues that would otherwise be realized. Additionally, the original intent of TIF was to revitalize entire "blighted" areas while TDD projects are limited in scope to transportation improvements and have no requirements that the area be "blighted".

Creating TDDs in the State of Kansas

Municipal Procedure:

The creation of a Transportation Development District in Kansas is initiated with a petition which has been signed by all owners of the land area within the proposed district. The petition must include all relevant details about the proposed project (e.g., nature of project, maximum cost, proposition of financing, etc.). If the project is to be financed only by assessments, the municipality may establish the TDD through adoption and publication of an appropriate resolution or ordinance. If the petition proposes the levying of a TDD sales tax, the municipality must adopt a resolution stating its intent to levy such a tax and hold a public hearing on the advisability of creating the district. Following the hearing, the governing body may create the district and authorize the project(s) via adoption of the appropriate resolution or ordinance.

Limitations:

The primary limitation to the use of TDDs is that a petition must be signed by all landowners within the proposed district before it may be created. Unlike Tax Increment Financing which may use eminent domain to acquire property in the TIF district, TDDs require consent of all persons within the district. This could potentially make large scale projects difficult to achieve in highly populated land areas.

Another possible limitation of using TDD is that, dependent on project size, they may only be feasible in areas which already experience a large degree of economic activity. These areas carry a larger sales tax base which will likely provide sufficient revenues to cover projects. More rural or underdeveloped areas may not produce sufficient revenues from their sales tax base to make the use of TDDs a viable option.

Summary

Transportation Development Districts provide municipalities a method of financing projects with additional revenues acquired from the area in which the project is taking place. They offer municipalities the ability to levy a sales tax within the district which is used exclusively to pay for project costs (or debt service of bonds). Though ideal, the use of such a tool is limited by the approval of landowners within the prospective area and the size of the tax base. If these obstacles may be overcome, TDD provides an excellent option for improving transportation infrastructure.

KDOT Summary of Public Financial Management Memo on Credit Agencies Views on State Debt Burden

State Debt Capacity

A state's debt capacity and relative rating are determined on both a qualitative and quantitative basis by credit rating agencies. Debt issued by the State of Kansas is viewed very favorably both in absolute and relative terms by these agencies. Standard and Poor's (S&P) describes the tax supported debt burden in Kansas as low, 35th among the states on a per capita and 17th as a percent of income (1st is the highest debt per capita or highest debt as a percent of personal income). Moody's describes the debt as moderate. Moody's indicates that Kansas ranked 18th among states, both in terms of net tax supported debt per capita and debt as a percent of personal income based on FY 2007 data.

Neither agency cites current debt levels or potential issuance of additional transportation related debt as a negative credit factor. One of the distinguishing aspects of state highway programs cited by S&P is its contribution to economic growth and diversity.

State Credit Ratings

Kansas, like many states has constitutional limitations on its ability to issue general obligation (G.O.) debt. In Kansas the debt is secured either by a pledge of annual appropriations from the legislature or by specific pledged revenues. Moody's and S&P are the two entities from whom the state requests credit ratings. Both firms utilize a baseline rating that would apply if G.O. debt were issued. The ratings on this hypothetical G.O. debt are "Aa1" and "AA+" by Moody's and S&P respectively. Both ratings are one step below the maximum achievable rating for G.O. debt. Appropriation backed debt is one rating step lower than the baseline rating. Accordingly, the appropriation backed debt is rated Aa2 and AA. Debt secured by specific pledged revenues is based upon the specific parameters of the pledged revenues.

The primary drivers of a credit rating are as follows.

- Finances and financial management;
- Governance framework and constraints;
- Economy; and
- Debt.

Each agency acknowledges that finance and governance issues have greater determinant value on ratings than economy or debt. In evaluating state credit, rating agencies look to trends of performance over time and a sample of metrics include the following.

- Five year trend of revenue and expenditure growth;
- Five year trend of fund balance ratios;
- Composition and economic sensitivity of revenue sources;
- Institutional flexibility to manage budget challenges; and
- Use of multi-year financial planning focused on structural budget balance.

Summary

Rating agencies view debt issues that support economic growth (i.e. transportation related debt) as favorable. S&P identifies prior state highway programs as contributing to economic growth and diversity. Both Moody's and S&P cite the state as having strong financial management skills and making progress towards the building of general fund reserves as key credit considerations prospectively.

A state's absolute level of debt per capita as a percent of personal income is but one of many factors in determining a state's overall debt capacity across all general and special programs. In Kansas, a large portion of state debt is attributable to transportation (i.e. economic development), which weighs more favorably than indebtedness for non-economic development purposes.

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October 6, 2008

Memorandum

To: Bruce Burditt, KDOT

From: Jeanne Vanda, PFM

Re: Credit Agencies Views on State Debt Burden

Introduction

This memorandum responds to your request for PFM comments regarding state debt burden. PFM's discussion is limited to research completed on the approach national rating agencies utilize in determining state credit ratings. This research is based on internal PFM experience and research advising over thirty-five states on credit strategies and issuance of debt paid by statewide revenues. The memorandum author has worked directly with the state and state agency issuers in Kansas, Iowa, Minnesota, Wisconsin, Missouri, Ohio and Michigan. In addition to direct experience of PFM, we have researched recent publications related to state credit parameters as well as specific state credit reports published by Moody's Investors Service, Standard and Poor's and Fitch Ratings.

Current State Ratings

It should be noted that the State of Kansas requests ratings on its state appropriation and agency debt from Moody's and Standard and Poor's. Like many states, Kansas has constitutional limitations on its ability to issue general obligation debt. No general obligation debt is outstanding. Debt outstanding is either secured by specific pledged revenues, or secured by a pledge of annual appropriations by the State legislature. The rating agencies recognize the distinction in security by offering a baseline rating that would apply if general obligation debt is issued. The Moody's underlying general obligation is referred to as the Issuer Credit Rating ("ICR") while Standard and Poor's equivalent is referred to as the Standard and Poor's Underlying Rating or ("SPUR"). State debt secured by appropriation is directly related to the ICR or SPUR, at one-step below the baseline rating, while revenue secured debt is rated based on the specific parameters of the pledged revenues. The State's ICR from Moody's is Aa1, (appropriation is Aa2) Stable Outlook, and the SPUR from Standard and Poor's is AA+, (appropriation is AA). Moody's "outlook" includes "positive, stable, and negative" reflecting their view of near term rating direction. The State's ICR and SPUR ratings are just one step below the top ratings of Aaa for Moody's and AAA for Standard and Poor's.

The KDOT requests ratings on State Highway Bonds, revenue supported debt, from Moody's, Standards and Poor's and Fitch. KDOT's ratings on outstanding bonds are Aa2 Moody's, AAA Standard and Poor's, and AA Fitch. All three agencies are informed regarding the statewide dialogue on future transportation funding in Kansas.

Current Amortization of State Highway Revenue Bonds
KDOT currently has approximately $1.8 billion in Highway Revenue Bonds, with the final maturity in 2024. Annual amortization of outstanding debt averages $120 million per year over the next five years and 53% of the debt is paid in ten years. KDOT has issued twenty year debt, with the term well under the useful life of the transportation projects financed. Federal highway transportation revenues are not currently pledged to KDOT State Highway Bonds will be pledged upon defeasance of the outstanding Series 1998 Bonds or in 2014, Future debt, if approved, may be secured directly or indirectly by Federal transportation revenues. Rating agencies generally exclude debt secured by Federal transportation revenues in state debt burden calculations.

Credit Agencies Guidance on State Credit & Debt
Of the three national rating agencies, Moody's has the best documented guidance on their views of state credit parameters. While each agency has variations of focus and weighting, all three do look at the same four fundamental drivers of credit, finances and financial management, governance framework and constraints, the economy and debt. Each agency employs a number of performance metrics within these four credit categories and each agency acknowledges that finances and governance issues have greater determinant value on ratings than economy or debt. Good management as demonstrated in a trend of sound budget performance and adequate reserves can offset concerns regarding debt levels, but low debt burden will not counterbalance the credit impact of structural budget deficits and declining or inadequate reserves.

PFM generally advises clients that an issuer's ability to demonstrate their control of and direction over financial performance is the primary driver of credit. Management control and direction of financial performance covers budgeting processes and outcomes, the ability to manage scarce or declining resources, the ability to accommodate growth pressures or unplanned or unexpected capital needs while building and maintaining appropriate reserve levels. Rating agencies look to trends of performance over time and a sample of metrics used to evaluate state credit include the following:

- Five year trend of revenue and expenditure growth;
- Five year trend of fund balance ratios;
- Composition and economic sensitivity of revenue sources;
- Institutional flexibility to manage budget challenges;
- Use of multi-year financial planning focused on structural budget balance;

Debt metrics for states include computed ratios of net tax supported debt per capita and as a percent of State personal income. The metrics for each state is compared to all states, with medians and mean value benchmarks. Each agency has distinctive views on what constitutes net tax supported debt. Therefore state debt burden calculations will vary by agency. While all tax supported is reflected in the debt burden calculations, debt issues that support economic growth are favorably viewed. Rating agencies also review the status of state pension funds and the funding ratio. Unfunded pension obligations do pose a direct liability on the state balance sheet and rating

agencies view significant unfunded liability as a debt equivalent consideration but more significantly as a reflection of a state's commitment to meet its long-term employee obligations.

Credit Agency Comments on State of Kansas Credit

The most recent credit updates on the State were published in September 2008 and extracts of commentary are replicated below. The complete reports are transmitted separately. PFM notes the following shared or differing views expressed by the two credit agencies.

- Both rating agencies cite strong financial management and progress towards building of general fund reserves as key credit considerations;
- Standard and Poor's describes debt burden as "low" while Moody's describes debt burden as "moderate" when compared to other states. The rating agencies do view net tax supported differently. Since debt burden is not the key driver of state credit, the differences between the two agencies does not appear material to the rating outcome
    - Moody's indicates Kansas ranked 18th among states, both in terms of debt per capita and debt as a percent of personal income based on FY 2007 data. Standard and Poor's indicates that Kansas ranked 35th among states in debt per capita and 17th in terms of debt as a percent of personal income.
- Standard and Poor's describes prior State Highway Programs as contributing to economic growth and diversity.
- Standard and Poor's lists spending pressures for education funding and potential suspension of statutory reserve requirements as key financial challenges.
- Moody's list financial management challenges as the driver of future ratings changes.
- Neither agency cites either current debt levels or potential issuance of additional transportation related debt as a negative credit factor.

Standard and Poor's Research State Review:

State Review: Kansas
Publication Date: September 19, 2008 (Following extracted from published report.)

"Kansas' 'AA+' ICR reflects the State's:

- Relatively diverse economic base, which limits, in part , the effects of potential softness in manufacturing and agriculture;
- Historically conservative fiscal management, which had allowed Kansas to maintain financial stability through economic cycles and subsequent revenue declines;
- Ongoing financial challenges related to increased education spending, coupled with another suspension of the statutory reserve requirement; and
- Low debt burden.

Kansas, with a population of about 2.77 million, is the 14th largest state in terms of size and 33rd in terms of population. Although much of the state is rural, its highway network's ongoing development has led to significant commercial and industrial investment, resulting in less dependence on farming and agribusiness Kansas' highway revenue bonds, which account for the majority of debt outstanding, currently have more than 4x maximum annual debt service coverage (DSC) by pledged taxes and fees….Debt across all state agencies totaled $4.3 billion: $1.8 billion of which management attributes to KDOT while another $715 million has been issued as part of state revolving fund programs. Total debt service appropriated through the state general fund is budgeted at roughly $88 million for fiscal 2009, or less than 2% of general fund expenditures……Highway transportation has been, and will likely remain, Kansas's capital spending area.

Moody's Investors Service
Global Credit Research: New Issue State of Kansas
Publication Date: September 9, 2008 (Following extracted from published report.)

Moody's confirms the ICR of Aa1, with a stable outlook.
Moody's confirms the Aa2 on Lease Rental & Appropriation Debt.

Moody's cites the following credit strengths and challenges:

Strengths:

- Strong management, featuring most fiscal best practices and a high level of institutional financial flexibility;
- Substantial rebuilding of available balances in last three fiscal years;
- Positive economic trends, reflecting a stabilizing of state's aerospace manufacturing industry, growth in oil and gas an favorable agriculture conditions;
- History of timely appropriation for debt service, reliance on market access for subject-to-appropriation debt.

Challenges:

- Combination of spending pressure and slowdown in revenue growth will lead to reduced reserve levels;
- Court-ordered education funding reduces state's flexibility to find cost savings;
- Economic exposure to volatile aircraft manufacturing sector, as well as consolidating telecommunications industry;
- Subject-to-appropriation nature of payment obligation on the bonds.

Debt Burden is Moderate; Pension Funding is weak
The state's debt burden has been rising this decade, although this trend moderated in recent years. Issuance of pension obligation bonds and highway bonds to finance capital projects of the Kansas Department of Transportation were the primary sources of the growth. The state's debt burden

ranked 18th among states, both as a percentage of personal income and per capita, in Moody's 2008 state debt medians report. These rankings were significantly lower than three years earlier, when the state ranked 14th debt per capita for debt to income. The current measures for the state are $1,202 debt per capita (versus a U.S. median of $889) and 3.5% based on debt to income (versus a median of 2.6%). Even after the state's 2004 issuance of $500 million in pension obligation bonds, the Kansas Public Employees Retirement System (KPERS) still faces substantial unfunded liabilities. The KPERS funded ratio (or actuarial assets to accrued liabilities) equals 70%. The state's obligation for other post-employment benefits (or OPEB), however, is expected to be minimal, given the modest healthcare benefits provided to state retirees.

Moody's Outlook
The outlook for the state of Kansas is stable, reflecting expectations that the state will take appropriate actions to manage the financial strains caused by increased spending needs and unforeseen revenue challenges.

What would make the rating move UP:

- Established trend of structurally balanced operations, accumulation and maintenance of reserves;
- Strong improvement in funding of pensions.

What would make the rating move—DOWN:

- Expectation of protracted structural budget imbalance;
- Inability to manage spending pressures such as those created by the state's school funding equity litigation.

Summary of Debt Considerations
While per capita and personal income metrics are used to describe debt burden, a state's debt capacity cannot be simply calculated based on implied medians or other measures. Although debt burden is a consideration in the credit evaluation process, financial management and governance considerations are the primary drivers of state credit position. The focus on financial management is reflected in the credit agencies commentaries on the State of Kansas published in September 2008. While both Moody's and Standard and Poor's are aware of the current dialogue regarding future funding of transportation projects, neither agency cites concerns regarding state debt burden. Standard and Poor's cites the current debt burden as "low" while Moody's describes the debt burden as "moderate" in comparison to other states. Standard and Poor's commented on the economic growth generated by the State's investment in transportation infrastructure. Both rating agencies have issued underlying credit ratings on the State at the second highest credit rating level, Aa1 for Moody's and AA+ for Standard and Poor's.

Additional Sources:
Standard & Poor's "U.S. Public Finance Report Card: States Weather Credit-Market Disruptions, But are Likely to Step Up Borrowing as Economy Slows," published July 14, 2008.

Moody's Public Finance "2008 State Debt Medians", published April 2008.
Moody's Public Finance "U.S. States Credit Scorecard 2008," published July 2008.

FitchRatings "State Debt and Exposure to Debt-Like Commitments," published December 5, 2008.

Multi-State Debt Financing Comparison

The debt service coverage ratio is the single most universally accepted measure of a borrower's ability to service debt. It measures the number of times that revenues (however that term is defined in bond covenants) covers the debt service, generally expressed as a multiple such as 3.5X. The graph of Exhibit 1 depicts the coverage ratios of the twenty-three states that finance transportation in a manner similar to Kansas, specifically without a Grant Anticipation Revenue Vehicle (GARVEE) program or the issuance of General Obligation (G.O.) bonds. The graph includes all receipts other than those from federal agencies, local units of government, and tolls. The coverage was computed based upon data from the 2006 Federal Highway Statistics. Other graphs were computed based upon earlier Federal Highway Statistics. Eleven of the states enjoyed stronger coverage and eleven had weaker coverage. Substantial diversity exists between these states in terms of population, density, number of lane miles, geographical characteristics, and preferences to "pay-as-you-go" or use debt financing. Given the relatively low population and relative high number of lane miles in Kansas, the State appears to have a relatively high level of debt per capita. On a per lane mile comparison Kansas transportation debt is well below the mean and slightly above the median. The graphs on Exhibits 2 and 3 reflect the absolute and relative debt per capita and per lane mile.

The debt of the State Highway Fund (SHF) in Kansas is rated very favorably in comparison to the other states, both in absolute and relative terms by the rating agencies.[4] The SHF debt has a single lien.[5] Missouri, Arizona, and Texas each issue debt with a higher credit rating by Moody's due in part to their stronger Additional Bonds Test (ABT) of 4X in comparison to the ABT of 3X for the SHF which is rated Aa2. No state has issued debt that is rated more highly by Standard and Poor's (S&P) than the AAA rated SHF debt. The graphs on Exhibits 4 and 5 reflect the credit ratings by Moody's and S&P respectively.

All other criteria being equal an entity with a higher coverage ratio is viewed more positively since bondholders have greater protection against an erosion of revenues. The coverage ratio does not contractually limit the borrower's ability to issue additional debt rather it reflects the ability to service (i.e. to pay) the debt.

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[4] The comparison only considers the highest rated lien of each jurisdiction. Some states, such as Missouri and Arizona issue debt with different liens.

[5] The lien is on all "revenues" (as defined in the master bond resolution) in the SHF.

State Highway Find Borrowing Comparison

Debt Service Coverage Ratio

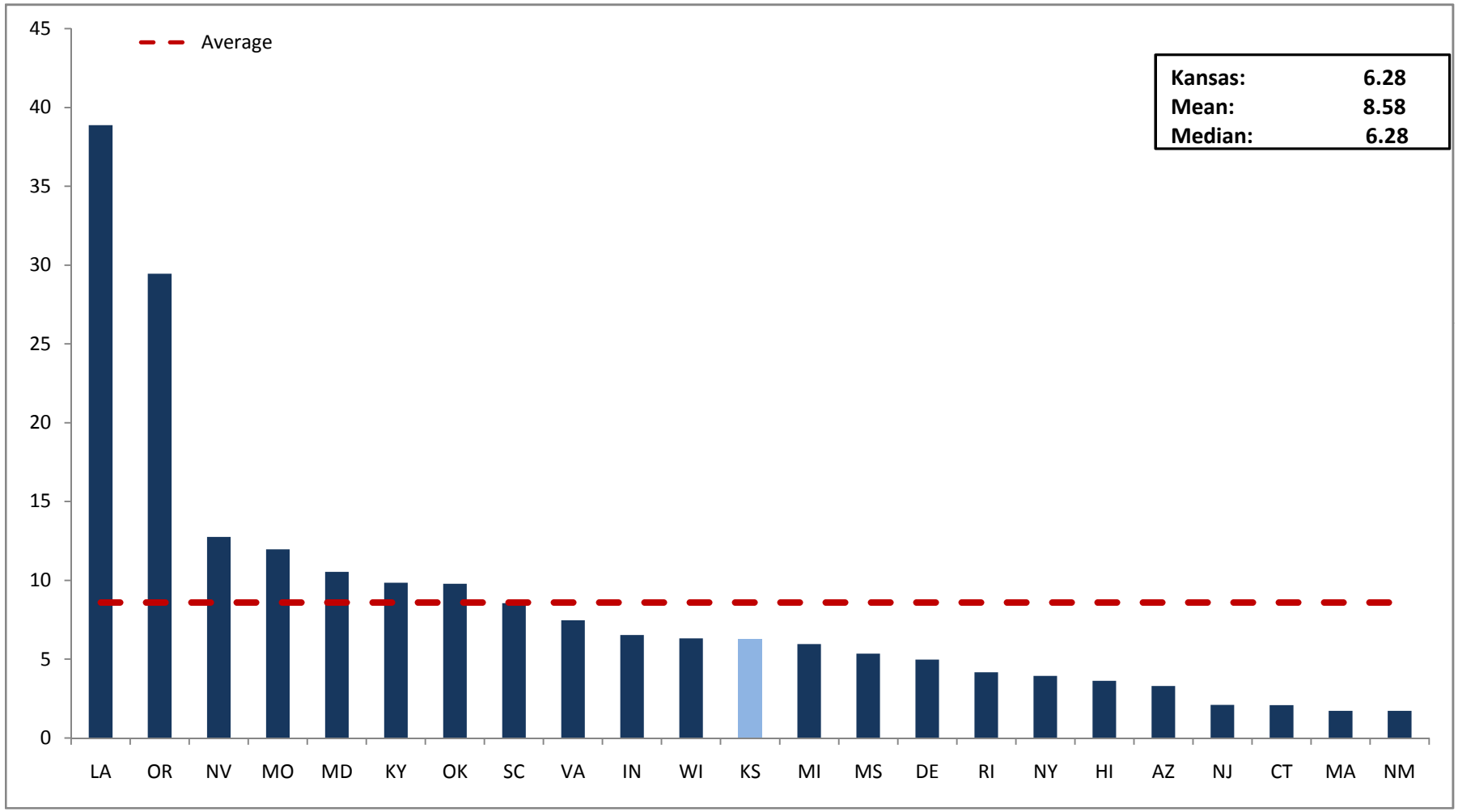


Exhibit 1

State Highway Find Borrowing Comparison

Total Highway User Tax Revenue Debt Per Capita

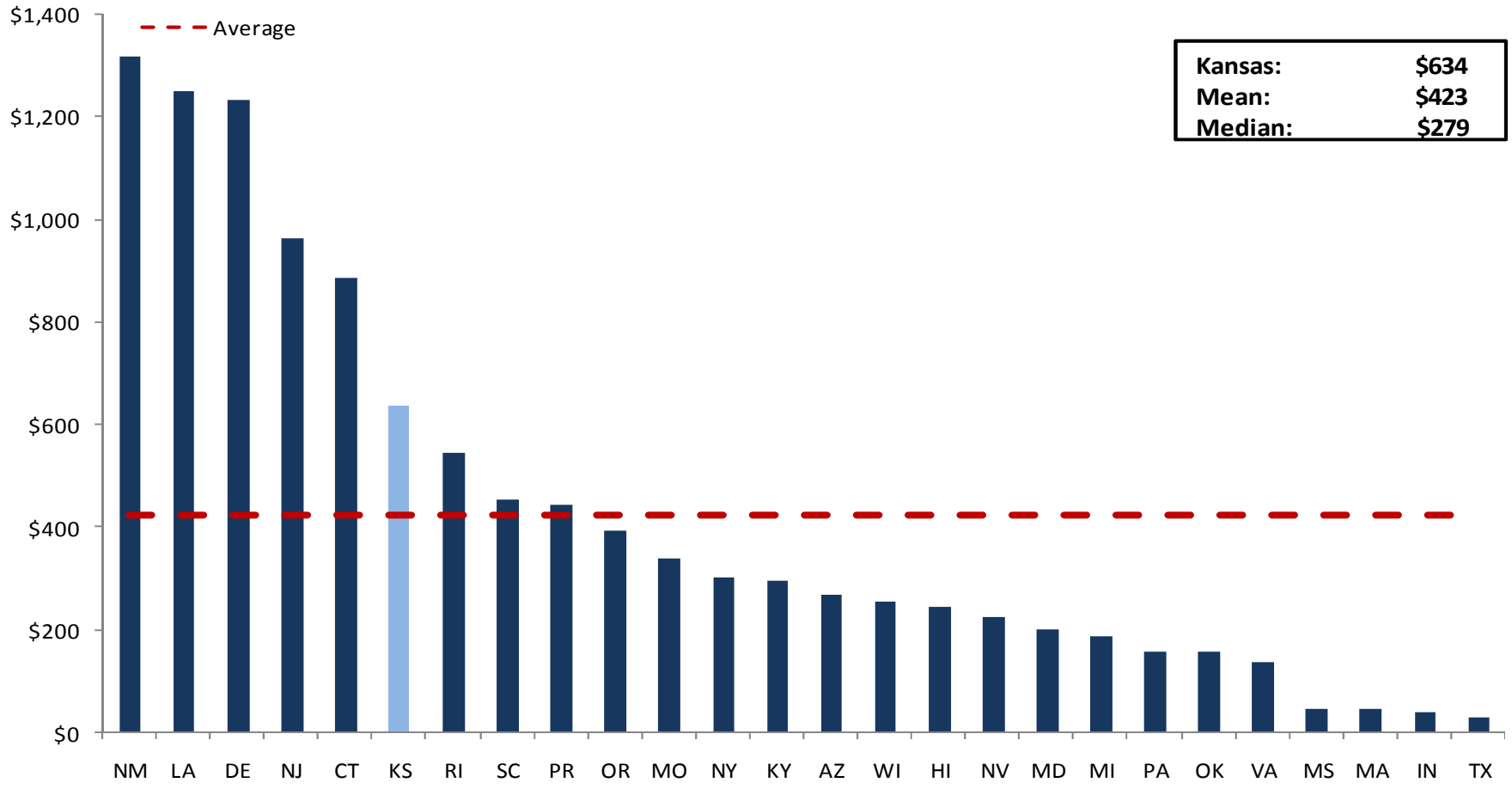
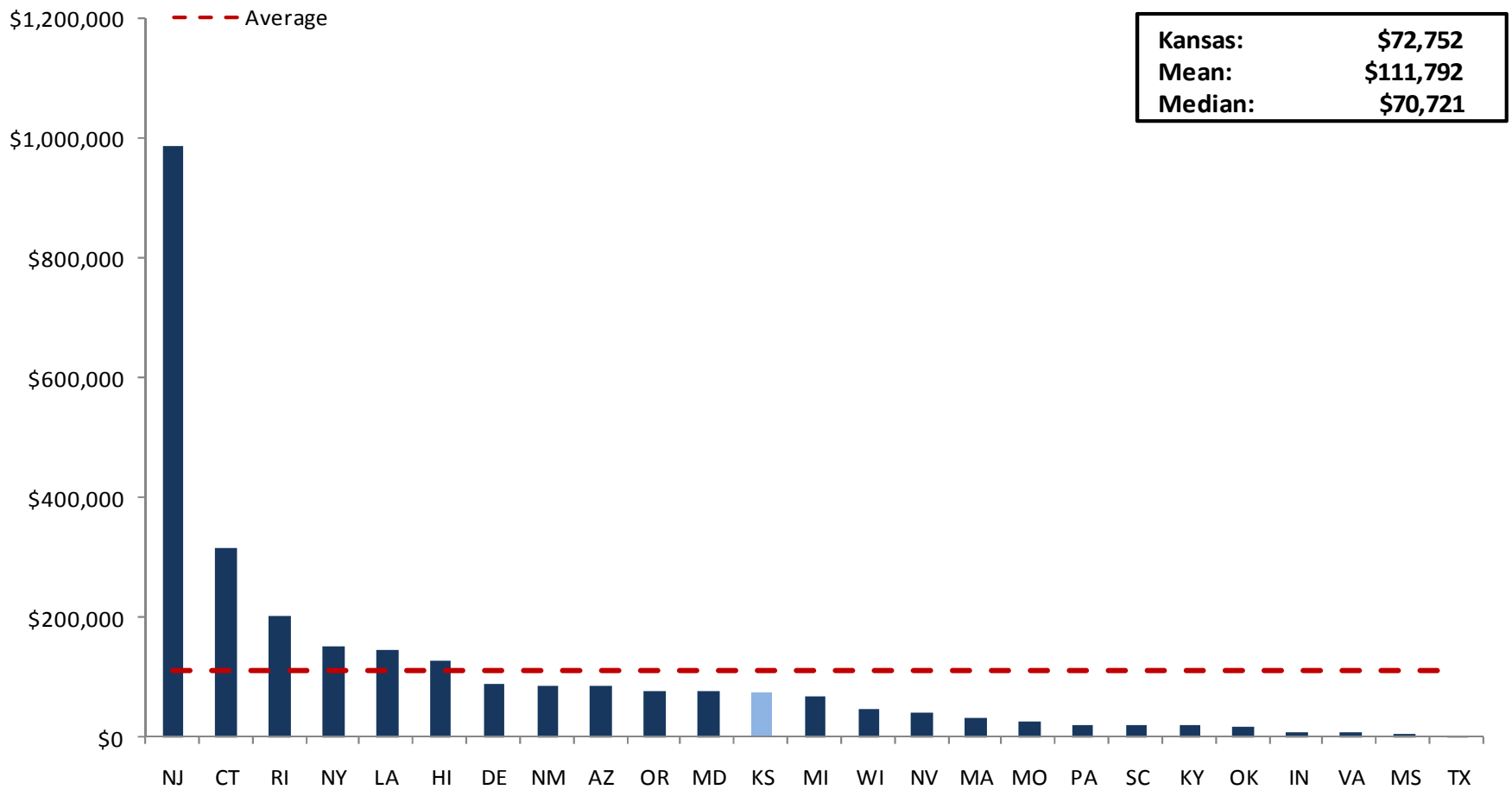


Exhibit 2

State Highway Find Borrowing Comparison

Total Highway User Tax Revenue Debt Per Lane Mile (Total)



Kansas:	**$72,752**
Mean:	**$111,792**
Median:	**$70,721**

Exhibit 3

Ratings Distribution by Rating Agency

KDOT's credit is rated Aa2

Moody's

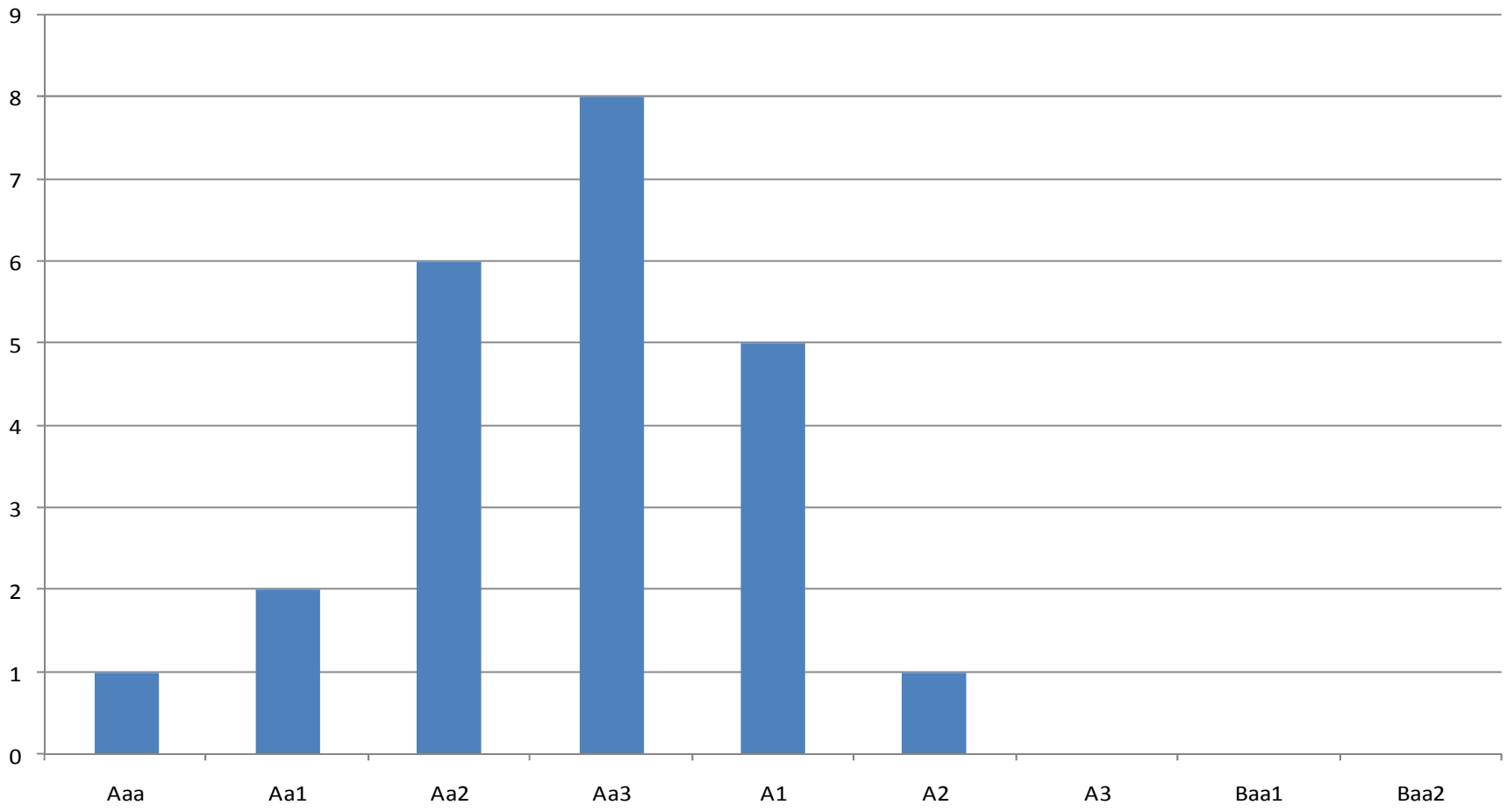


Exhibit 4

Ratings Distribution by Rating Agency

KDOT's credit is rated AAA

S & P

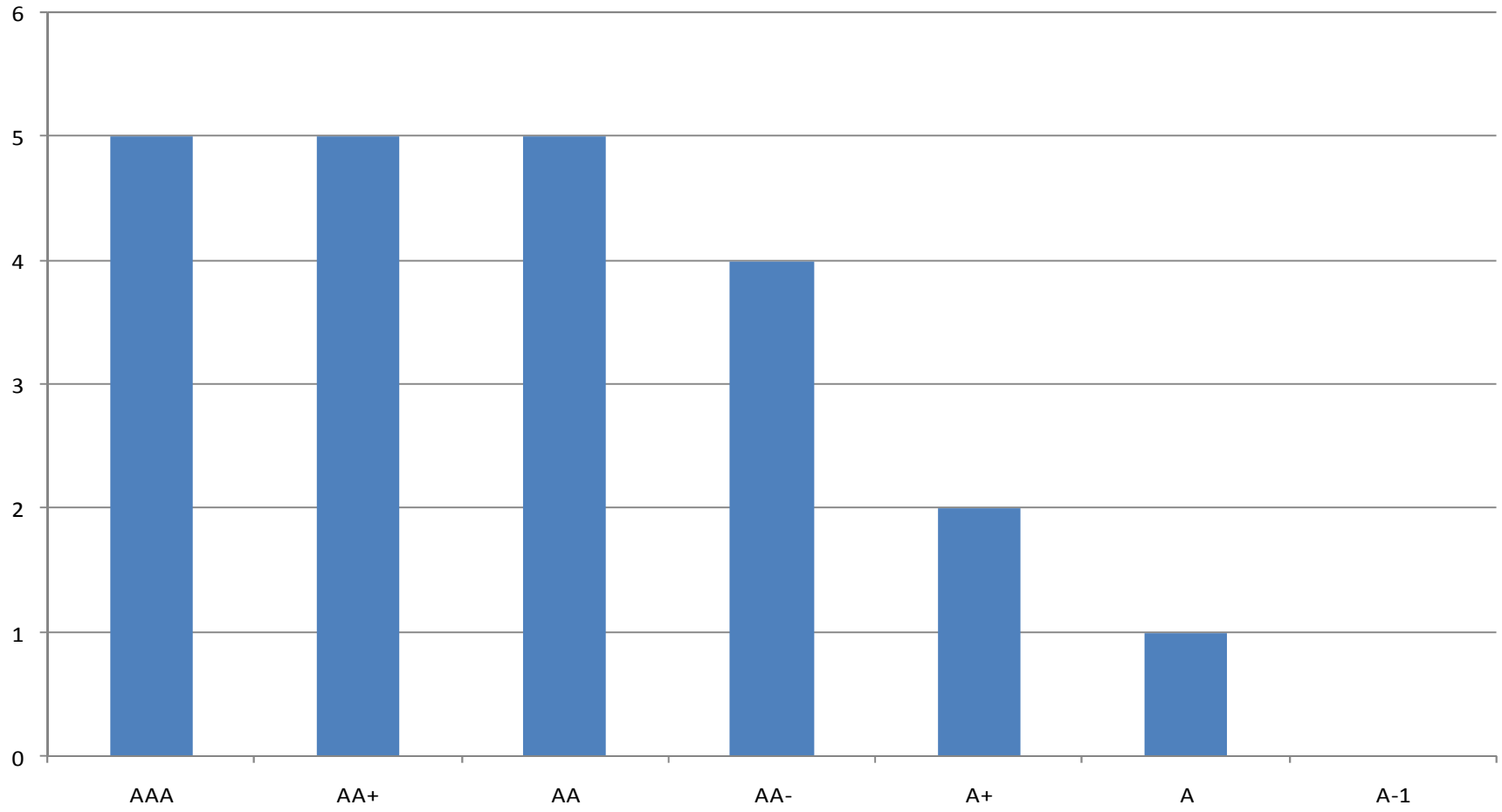


Exhibit 5