

SESSION OF 2003

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2466

As Introduced by House Committee on
Appropriations

Brief*

HB 2466 would authorize the issuance of an amount not to exceed \$175.0 million in revenue bonds, plus any additional amounts for the costs of issuing bonds, for reserves to pay bond principal and interest, and for capitalized bond interest. The Kansas Development Finance Authority (KDFA) would issue the bonds as determined by the Secretary of Administration for the purpose of financing capital improvement projects of the Kansas Department of Transportation (KDOT). Bonds could be issued in one or more series. Bond proceeds would be deposited into the State Highway Fund, unless otherwise directed by bond covenants. Expenditures from bond money would be limited to an amount not to exceed \$175.0 million for capital improvements of the Department of Transportation. Debt service on the bonds would be financed by appropriations from the State General Fund or any other appropriate special revenue funds, except the State Highway Fund.

The bill would provide for a transfer on or before June 30, 2003, for an amount to be certified by the Director of the Budget. The transfer would be from the State Highway Fund to the State General Fund. In calculating the amount of transfer, the Director of the Budget would determine how much was made available to KDOT for capital improvements, but would not include amounts for the cost of issuing bonds, capitalizing any interest, or providing reserves to pay principal and interest.

The bill would be effective upon publication in the *Kansas Register*.

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org/klrd>

Background

The bill was introduced on behalf of the Governor in order to implement one provision identified as the "Unallocated Tobacco Revenue Accelerator" initiative in the Governor's Budget Amendment of March 25, 2003, that proposes various revenue enhancing alternatives for legislative consideration.

Appearing in support of the bill were the Secretary of Administration, the Secretary of Transportation, and the Director of the Budget. The President of KDFA presented alternative bond schedules for different principal amounts and provided a detailed amortization schedule representing the Governor's proposal. The total estimated cost for a \$175.0 million bond issue is projected at \$261,711,305 for a period of 15 years. The estimated interest rate would be 3.67 percent for tax exempt revenue bonds, payable from the State General Fund (SGF). Included in the costs would be \$6,118,985 of capitalized interest, based on the structure of a bond issue reviewed for the House Select Committee.

The Governor proposes to issue \$175.0 million of revenue bonds in FY 2003, and to deposit the proceeds into the State Highway Fund. Subsequently, a transfer would be made to the SGF prior to June 30, 2003, of a like amount of \$175.0 million to enhance the ending balance. A portion of the future anticipated annual revenue from the tobacco settlement could be pledged to reimburse the SGF in amounts which would cover the annual costs of principal and interest on the tax exempt revenue bonds. Payments could come from that portion of the tobacco settlement receipts which is currently "unallocated," although the bill does not specify that revenue source specifically. Under the Kansas statutes governing disposition of tobacco settlement proceeds, revenue initially is deposited into the Kansas Endowment for Youth (KEY) Fund. Each fiscal year moneys are transferred out of the KEY Fund and appropriated by the Legislature for various purposes. Any money remaining in the KEY Fund after appropriations is considered "unallocated" and may be invested by the Kansas Public Employees Retirement System (KPERs) based on current law.

KDFA would issue bonds on behalf of the Secretary of Administration, and the bond proceeds would be used to pay for highway capital improvement projects. The Governor's proposal would "accelerate" the accounting of "unallocated" tobacco revenues for the period FY 2005 to

FY 2018, and those anticipated revenues might be used in repaying over a 15-year period the SGF for principal, interest, and other costs for the revenue bonds. Since the SGF would be pledged to legally make payments on the bonds, the tobacco receipts could reimburse the SGF under the Governor's proposal, subject to the Legislature's appropriation. Nothing in the bill as introduced would mandate that policy.

It was noted that "securitizing" tobacco settlement receipts is not advantageous in the current bond market. As an alternative, the Governor recommends pledging the SGF to make initial payments, with tobacco receipts reimbursing the SGF annually. It was noted that if bond market conditions were to change, then tobacco might be "securitized" and the bonds repaid from the proceeds.

Kansas Development Finance Authority
Revenue Bonds, Series to be Designated
 (State of Kansas - Capital Improvement Reimbursement Projects) \$1.75 mil. - Final Maturity 2018 (03.28.03)

CASH FLOW SUMMARY

| Date | Tobacco Settlement Revenues | Capitalized Interest | Total Revenues | Bond Payments | KEY Fund Deposits | Annual Residual |
|-----------|-----------------------------------|-------------------------|-------------------|------------------|----------------------|--------------------|
| 5/01/2004 | 54,361,010.00 | 6,118,984.67 | 60,479,994.67 | 6,118,984.67 | 46,125,000.00 | 8,236,010.00 |
| 5/01/2005 | 55,068,685.00 | -- | 55,068,685.00 | 7,790,256.00 | 47,278,125.00 | 304.00 |
| 5/01/2006 | 55,969,395.00 | -- | 55,969,395.00 | 7,507,768.00 | 48,460,078.13 | 1,548.87 |
| 5/01/2007 | 56,823,368.00 | -- | 56,823,368.00 | 7,150,177.50 | 49,671,580.08 | 1,610.42 |
| 5/01/2008 | 74,528,602.00 | -- | 74,528,602.00 | 23,611,027.50 | 50,913,369.58 | 4,204.92 |
| 5/01/2009 | 75,644,212.00 | -- | 75,644,212.00 | 23,454,111.50 | 52,186,203.82 | 3,896.68 |
| 5/01/2010 | 76,648,183.00 | -- | 76,648,183.00 | 23,155,031.50 | 53,490,858.92 | 2,292.58 |
| 5/01/2011 | 77,742,817.00 | -- | 77,742,817.00 | 22,912,852.50 | 54,828,130.39 | 1,834.11 |
| 5/01/2012 | 78,838,069.00 | -- | 78,838,069.00 | 22,637,825.50 | 56,198,833.65 | 1,409.85 |
| 5/01/2013 | 79,878,352.00 | -- | 79,878,352.00 | 22,269,720.00 | 57,603,804.49 | 4,827.51 |
| 5/01/2014 | 80,893,091.00 | -- | 80,893,091.00 | 21,844,960.00 | 59,043,899.60 | 4,231.40 |
| 5/01/2015 | 81,889,110.00 | -- | 81,889,110.00 | 21,364,050.00 | 60,519,997.09 | 5,062.91 |
| 5/01/2016 | 83,045,385.00 | -- | 83,045,385.00 | 21,011,115.00 | 62,032,997.02 | 1,272.98 |
| 5/01/2017 | 84,202,053.00 | -- | 84,202,053.00 | 20,614,515.00 | 63,583,821.94 | 3,716.06 |
| 5/01/2018 | 75,444,553.00 | -- | 75,444,553.00 | 10,268,910.00 | 65,173,417.49 | 2,225.51 |

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CASH FLOW SUMMARY

| Date | Tobacco Settlement Revenues | Capitalized Interest | Total Revenues | Bond Payments | KEY Fund Deposits | Annual Residual |
|--------------|-----------------------------------|-------------------------|-------------------------|-----------------------|------------------------|----------------------|
| 5/01/2019 | 76,443,951.00 | -- | 76,443,951.00 | -- | 66,802,752.93 | 9,641,198.07 |
| 5/01/2020 | 77,419,189.00 | -- | 77,419,189.00 | -- | 68,472,821.75 | 8,946,367.25 |
| 5/01/2021 | 78,484,747.00 | -- | 78,484,747.00 | -- | 70,184,642.30 | 8,300,104.70 |
| 5/01/2022 | 79,542,223.00 | -- | 79,542,223.00 | -- | 71,939,258.35 | 7,602,964.65 |
| 5/01/2023 | 80,646,347.00 | -- | 80,646,347.00 | -- | 73,737,739.81 | 6,908,607.19 |
| 5/01/2024 | 81,750,485.00 | -- | 81,750,485.00 | -- | 75,581,183.31 | 6,169,301.69 |
| 5/01/2025 | 82,951,756.00 | -- | 82,951,756.00 | -- | 77,470,712.89 | 5,481,043.11 |
| 5/01/2026 | 84,163,135.00 | -- | 84,163,135.00 | -- | 79,407,480.71 | 4,755,654.29 |
| 5/01/2027 | 85,401,286.00 | -- | 85,401,286.00 | -- | 81,392,667.73 | 4,008,618.27 |
| 5/01/2028 | 86,666,863.00 | -- | 86,666,863.00 | -- | 83,427,484.42 | 3,239,378.58 |
| 5/01/2029 | 87,960,539.00 | -- | 87,960,539.00 | -- | 85,513,171.54 | 2,447,367.46 |
| 5/01/2030 | 89,274,287.00 | -- | 89,274,287.00 | -- | 87,651,000.82 | 1,623,286.18 |
| 5/01/2031 | 90,608,441.00 | -- | 90,608,441.00 | -- | 89,842,275.84 | 766,165.16 |
| TOTAL | 2,172,290,134.00 | 6,118,984.67 | 2,178,409,118.67 | 261,711,304.67 | 1,838,533,309.6 | 78,164,504.40 |
| | | | | | 0 | |

These projections should be used for estimation purposes only. Assumptions made for these projections are based on the best available information at the time. No representation is made that these assumptions will prevail for the proposed transaction. Changes to these assumptions may have a material impact on the proposed transaction.

Source: Kansas Development Finance Authority, 3/31/2003.