

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings assigns an 'AA+' rating to the Kansas Department of Transportation (KDOT) issuance of \$250 million highway revenue bonds, series 2014A. The bonds are expected to sell via negotiation on or about July 15, 2014.

In addition, Fitch affirms its 'AA+' rating on \$1.634 billion of KDOT's outstanding highway revenue bonds.

The Rating Outlook is Stable.

SECURITY

The bonds are special obligations of the state of Kansas secured by a gross lien on and payable from revenues received in the State Highway Fund (SHF) and transferred to the Highway Bond Debt Service Fund.

KEY RATING DRIVERS

DIVERSE REVENUE STREAM SUPPORTS BONDS: Bonds are secured by a gross lien on the SHF, which receives a diverse stream of broad-based revenues. Revenues credited to the fund are subject to legislative alteration, although certain monies are constitutionally dedicated to transportation.

STRONG DEBT SERVICE COVERAGE: The state covenants to ensure that revenues to the SHF equal no less than 3x annual debt service. Actual annual and maximum annual debt service (MADS) coverage has been well in excess of this requirement.

FUTURE BORROWING IS LIMITED: Issuance of additional highway revenue bonds requires 3x coverage of MADS. Additional leveraging is also limited such that MADS may

not exceed 18% of current or future SHF revenues.

RATING SENSITIVITIES

The rating is sensitive to the performance of pledged revenues and debt service coverage.

CREDIT PROFILE

The 'AA+' rating reflects the diverse stream of broad-based revenues in the SHF, along with the protections afforded by the strong 3x MADS additional bonds test. The legislature has altered, and may well continue to alter, the components and/or distribution formulas of the revenues credited to the fund. However, bondholders are insulated from the changes to the extent that the state has covenanted to maintain revenues in the highway fund at least equal to 3x coverage of annual debt service. In addition, certain revenues are constitutionally dedicated to transportation.

The bonds are secured by and payable from a gross pledge of all revenues in the SHF, including motor fuel taxes, a portion of the state's general sales and use tax, and federal aid. Constitutionally dedicated transportation revenues include 66.37% of state motor fuel tax receipts and a percentage of vehicle registration and license fees. Combined, these constitutionally dedicated revenues alone totaled roughly \$460 million in fiscal 2013 (cash basis), providing healthy 2.49x coverage of debt service. Sales and use taxes represented approximately 26% of SHF revenues, or \$321 million, in fiscal 2013, while federal aid accounted for a sizable 33%. KDOT has conservatively forecast reduced support from federal aid in future fiscal years given the lack of consensus on a new federal transportation authorization bill and continues to target annual debt service coverage of 4x from state-source revenues alone.

The SHF's allocation of the state's sales and use taxes statutorily increased for the fiscal year beginning July 1, 2013. Beginning in fiscal 2014, the state's 6.3% sales and use tax rate was scheduled to drop to 5.7%; the legislature instead reduced the rate to 6.15% and the SHF's share of sales tax receipts changed from 11.2% of receipts based on the 6.3% sales tax rate to 17.073% of receipts; additional sales and use tax revenue to the

Fitch Rates Kansas Dept. of Transportation's \$250MM Rev Bonds 'AA+'; Outlook Stable

Written by Australian Business

SHF in fiscal 2014 is expected by KDOT to total about \$165 million. The increased revenue has boosted the proportion of sales tax revenue in the SHF from 26% in fiscal 2013 to an approximate 33% in fiscal 2014.

State Highway Fund revenues for fiscal 2013, less federal funds, increased 3.9% from fiscal 2012, covering debt service by a solid 4.4x; including federal funds, total revenues decreased by 1.5% as federal revenue fell by 11% from the prior year due to the fall off of federal stimulus aid. Coverage in fiscal 2014, excluding federal funds but including both the current issue and a refunding issue expected in August 2014, is expected to be 5.6x based on an April 2014 state revenue forecast and a November 2013 highway revenue forecast. Coverage expectations are up primarily due to the increased share of sales and use tax revenue. Beginning in fiscal 2014, federal reimbursements are permitted to be included in the calculation of the 3x covenanted requirement for additional issuance; local reimbursements are not included in the calculation.

MADS coverage by fiscal 2013 revenues (excluding both federal and local funds) is 4x; when including future debt issues under the capital program described below, MADS by fiscal 2013 revenues remains a solid 3.84x. MADS coverage at full program issuance by fiscal 2014 revenues (including federal aid) is 6.7x; decreasing to 4.77x when federal aid is excluded.

KDOT has shown a long-standing commitment to planning, developing, and operating various modes of transportation across the state. KDOT's current transportation improvement program, Transportation Works for Kansas (T-WORKS), runs through fiscal 2020 and is expected to fund \$7.7 billion in projects over the life of the program. Debt issuance is dependent upon the availability of SHF revenues rather than a statutory dollar limitation, and about \$1.3 billion in total bonding is expected to be issued over the course of the program; \$525 million has been issued to date, not including the current issue. Amendments made by the 2010 legislature included permitting issuance of highway revenue bonds so long as MADS on all outstanding and proposed bonds does not exceed 18% of SHF revenues for the current or any future fiscal year; this 18% cap did not in any way change or alter the 3.0x additional bonds test.

Following the current issue, a total of \$485 million is expected to be issued for capital projects through fiscal 2019. Outstanding bonded debt totals \$1.634 billion, 31% of which is outstanding in a variable-rate mode. Although this level of variable-rate exposure is unusually high for a state security of this type, risks are mitigated by the very strong coverage levels and the department's demonstrated market access.

Additional information is available at ' www.fitchratings.com '.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. State Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686033

Additional Disclosure

Solicitation Status

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