

Approved: March 25, 2011

Date

MINUTES OF THE SENATE WAYS AND MEANS COMMITTEE

The meeting was called to order by Chairperson Carolyn McGinn at 10:30 a.m. on February 9, 2011, 548-S

All members were present.

Committee staff present:

Jill Wolters, Office of the Revisor of Statutes
Daniel Yoza, Office of the Revisor of Statutes
David Wiese, Office of the Revisor of Statutes
Alan Conroy, Director, Legislative Research Department
J. G. Scott, Chief Fiscal Analyst, Legislative Research Department
Aaron Klaassen, Senior Fiscal Analyst, Legislative Research Department
Dorothy Hughes, Fiscal Analyst, Legislative Research Department
Brea Short, Intern, Senator McGinn's Office
Jan Lunn, Committee Assistant
Josh Lewis, Chief of Staff

Conferees appearing before the Committee:

Senator Jay Emler, Chairperson, Senate Ways and Means Commissions/CURB Subcommittee
Senator Ty Masterson, Chairperson, Senate Ways and Means Labor Subcommittee
Secretary Karin Brownlee, Department of Labor

Others attending are listed on the attached sheet.

Bill Introductions

Senator Huntington moved to introduce a bill concerning the low-income family post secondary savings account incentive program (#rs0229); the motion was seconded by Senator Francisco and passed on a voice vote.

Senator Huntington moved to introduce a bill to clarify language in the State's seat belt law (#rs0587); the motion was seconded by Senator Vratil and passed on a voice vote.

Senator Huntington moved to introduce a bill concerning license fees for abstracters (#rs0796); the motion was seconded by Senator Francisco and passed on a voice vote.

Senator Umbarger moved to introduce a bill (#rs 0462) concerning school districts and assessed valuations; the motion was seconded by Senator Emler and passed on a voice vote.

Senator Umbarger moved to introduce a bill related to adult care homes and required minimum nursing care hours (#rs0758); the bill was seconded by Senator Emler and passed on a voice vote.

Senator Umbarger moved to introduce a bill concerning the Kansas dental board and registered dental practitioners (#rs0323); the bill was seconded by Senator Huntington and passed on a voice vote.

Follow-up Reports

Jim MacMurray, Kansas Development Finance Authority, provided a response to committee members' questions from the January 21 meeting (Attachment 1).

In follow-up to the January 2011 preliminary State General Fund Receipts Report (presented February 4), Mr. Alan Conroy, Director of the Legislative Research Department, provided the finalized report. (Attachment 2).

Senate Ways and Means Subcommittee Reports

Governmental Ethics Commission, Kansas Corporation Commission and Citizens Utility Ratepayer Board Subcommittee (Attachment 3)

CONTINUATION SHEET

MINUTES OF THE WAYS AND MEANS COMMITTEE on February 9, 2011, 10:30 a.m. 548-S

Senator Emler, Subcommittee chairman, described the agency funding requests as compared to the Governor's recommendation. The Governor's recommendation supplants the State General Fund (SGF) in the amount of \$230,017 with Governmental Ethics Fee Funds; statutory approval must occur in order to increase these fees. Senator Emler reported on the status of SB 102, which is currently in the Senate Ethics and Elections Committee. Senator McGinn suggested the subcommittee report be amended to reflect these contingencies. Senator McGinn moved that the subcommittee report be amended to accurately reflect funding recommendations are contingent on the passage of SB 102 and the gubernatorial signature on statutory fee increases; if not passed, the funding will revert to the agency's request. The motion was seconded by Senator Umbarger and passed on a voice vote.

Senator Emler moved adoption of the Governmental Ethics Commission Subcommittee Report as amended; the motion was seconded by Senator Teichman and passed on a voice vote.

The Governor's funding recommendation for the Kansas Corporation Commission is \$27.6 million from special revenue funds, which is below the agency request. (Attachment 4). It does not include the \$400,000 transfer from the SGF to the Abandoned Oil and Gas Well Fund and includes \$100,000 for the Kansas Electric Transmission Authority (KETA). The Subcommittee concurs with the Governor's FY 2011 recommendation but did not concur with the FY 2012 recommendation. The Subcommittee proposes the addition of \$200,000, all from special revenue funds, to approve part of the agency's FY 2012 enhancement request, and the replacement of ten agency vehicles, all of which have met the 100,000 mile threshold.

Senator Emler moved adoption of the Kansas Corporation Commission subcommittee report as discussed; the motion was seconded by Senator Kelly and passed on a voice vote.

For FY 2012, the Citizen Utility Ratepayer Board has requested \$828,179 from special revenue funds, which is a decrease of \$88,128 below the FY 2011 estimate. Senator Emler reported the Subcommittee concurred with the recommendation with the exception of an adjustment of 2.0 FTE positions (Attachment 5). Senator Emler explained a misunderstanding existed in which 2.0 FTE positions appeared to be unfilled but they were not. The Subcommittee recommended adding 2.0 FTE positions to correct the misunderstanding and maintaining the current staffing level of 6.0 FTEs; there was no impact on the funding request. Senator Emler moved adoption of the subcommittee report containing the FTE adjustment; Senator Kelly seconded the motion, which passed on a voice vote.

Senator Emler noted that the Human Rights Commission report will be rolled into the Legislative and Elected Officials Subcommittee.

Department of Labor Subcommittee

Senator Masterson, Subcommittee chair, briefed committee members on the funding request for the Department of Labor (Attachment 6). The recommendation is a decrease of 3.5 percent below the Governor's FY 2011 recommendation, and a 5.0 percent decrease below the agency's FY 2012 request. Senator Masterson moved approval of the subcommittee report; Senator Taddiken seconded the motion, which passed on a voice vote.

Department of Labor Briefing

Secretary Karin Brownlee, Department of Labor, was present to brief committee members on the agency's goals, priorities, and projects in process (Attachment 7). Secretary Brownlee discussed the State's Unemployment Insurance (UI) program and the existing challenge to repay interest on borrowed funds from the federal government.

Considerable discussion was heard concerning information technology, the Joint Committee on

Information Technology and its role and function, inadequate oversight and monitoring of projects, and processes that require change.

Responding to questions from Committee members, she indicated that:

- Since she assumed the Secretary position, there have been approximately 27 persons terminated in the Department of Labor.
- The UI tax base in Kansas is \$8,000, Missouri is \$13,900, and Colorado is \$10,000. The most fiscally sound UI programs are Washington with a base of \$26,900, Oregon at

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections. 2

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\$24,000, and Iowa at \$24,000.

Secretary Brownlee introduced Kathie Sparks, Deputy Secretary, and indicated Jenna Keesling and Matt Manda from her office are contact persons for Senators and their concerns.

The meeting was adjourned at 11:54 a.m.

February 9, 2011

[illegible]

Jan Lunn

From: Jim MacMurray [jmacmurray@kdfa.org]
Sent: Tuesday, February 08, 2011 9:13 AM
To: Jan Lunn
Cc: Rebecca Floyd; 'tim.shallenburger@ks.gov'
Subject: RE: Follow-Up Information Requested for Senate Ways and Means Committee
Attachments: Highway Fund_Historical Transfers 01-26-11.pdf; KS 1984-2010 Revenue Bond Balance.xlsx; Pension Debt Combined Final 1 27.pdf; KS Self Assessment New S&P Rating Methodology Jan 2011.pdf

Jan-

"Senator McGinn asked if it was possible to create a chart containing a 30-year historical trend relating to total debt outstanding and its components (self-supported debt, user fee supported debt, and tax supported debt."
This question referred to page 5 of your handout.

KDFA was able to retrieve records of the State's Comprehensive Annual Financial Report (CAFR) back to 1984. Over this time period accounting methodologies for categorizing the State's debt have changed from time to time. KDFA was not able to break down the total Revenue Bonds outstanding into the three categories but can report the total number, the annual change in dollars and percent and also point out several of the notable transaction over that time period. See Excel file "KS 1984-2010 Revenue Bond Balance"

"Senator Kelly inquired why Kansas is ranked higher than Oklahoma (with significantly less net tax debt per capita). Mr. MacMurray indicated he would provide that information at a later date."

Oklahoma's credit rating is lower than Kansas' even though Kansas has higher Net Tax-Supported ratios because Oklahoma has a significantly higher per capita unfunded pension liability than Kansas does. Subsequent to the 1-21-11 SWAM Committee meeting, Moody's Investor Services published a new US State Comparison Report that combines states' Net Tax-Supported Debt and Unfunded Pension Liability (see "Pension Debt Combined Final 1 27" attached). Additional discussion with Senator Kelly included rating methodologies and how Kansas "scores" in those methodologies. Please find attached S&P's US State Rating methodology with scoring done through self assessment. KDFA's self assessment of an Indicative Credit Level of AA+ is consistent with our current S&P Issuer Credit Rating of AA+. However, the self assessment also indicates that we are borderline between AA+ and AA, which may suggest that it is possible that S&P could place a negative outlook or downgrade the State in the process of reviewing the State's finances for KDFA's planned 2011B issuance of \$36M for the State Capitol Renovation.

"Senator Umbarger requested information related to the total sum of funds removed from the KDOT budget compared to the bonded indebtedness incurred in attempts to replace funding. Mr. MacMurray will furnish the information at a later time."

Please find attached a pdf file named "Highway Fund_Historical Transfers 01-26-11"

I hope that this is responsive to the questions. Please feel free to contact us if there are any further questions or follow-up needed.

Best Regards,

Jim MacMurray, CFA

Vice President - Finance

Senate Ways and Means

Date:

02/09/11

Attachment:

1

Ka. Development Finance Authority
555 S. Kansas Avenue, Suite 202 Topeka, KS 66603
Phone: 785.357.4445 ext.304
Mobile: 785.580.6045

From: Jan Lunn [<mailto:Jan.Lunn@Senate.ks.gov>]
Sent: Monday, February 07, 2011 4:25 PM
To: Jim MacMurray
Subject: Follow-Up Information Requested for Senate Ways and Means Committee

Mr. MacMurray:

During your presentation at the Senate Ways and Means Committee meeting, there were several questions asked that require follow-up. Our standard process consists of the information being provided to me; I e-mail it to all Committee members as well as ensure the information is included in the meeting minutes.

Excerpts from the meeting on January 21st follow:

*"Senator McGinn asked if it was possible to create a chart containing a 30-year historical trend relating to total debt outstanding and its components (self-supported debt, user fee supported debt, and tax supported debt."
This question referred to page 5 of your handout.*

"Senator Kelly inquired why Kansas is ranked higher than Oklahoma (with significantly less net tax debt per capita). Mr. MacMurray indicated he would provide that information at a later date."

"Senator Umbarger requested information related to the total sum of funds removed from the KDOT budget compared to the bonded indebtedness incurred in attempts to replace funding. Mr. MacMurray will furnish the information at a later time."

Thank you very much, and I look forward to hearing from you.

Jan Lunn, Committee Secretary
Senate Ways and Means Committee
jan.lunn@senate.ks.gov
785-296-3775

Kansas Revenue Bonds Outstanding

Notable New Money Issuance

Fiscal Year Ending	Revenue Bonds	Change \$	Change %	KDFA	KDOT
1984	290,540				
1985	214,125	(76,415)	-26%		
1986	203,226	(10,899)	-5%		
1987	203,881	655	0%		
1988	196,993	(6,888)	-3%		
1989	209,420	12,427	6%		
1990	253,789	44,369	21%		
1991	248,051	(5,738)	-2%		
1992	391,920	143,869	58%		1992 \$250M
1993	896,152	504,232	57%		1992A \$125M; 1993 \$250M
1994	1,022,509	126,357	14%		1994 \$125M
1995	1,058,305	35,796	4%		1994A/B \$140M
1996	1,075,145	16,840	2%		
1997	1,134,842	59,697	6%		
1998	1,372,156	237,314	21%		
1999	1,421,376	49,220	4%		
2000	1,905,755	484,379	34%		1999 \$325M
2001	2,250,495	344,740	18%		2000A/B/C \$350M
2002	2,415,484	164,989	7%		
2003	2,559,767	144,283	6%		
2004	3,368,572	808,805	32%	2004C \$500M	2004A \$250M
2005	3,125,135	(243,437)	-7%		2004B/C \$347M
2006	4,177,180	1,052,045	34%	2006A \$210M	
2007	4,139,354	(37,826)	-1%		
2008	4,096,467	(42,887)	-1%		
2009	4,216,027	119,560	3%		
2010	4,311,634	95,607	2%		
2011					2010A \$325M

January 3, 2011

Criteria | Governments | U.S. Public Finance:

U.S. State Ratings Methodology

Primary Credit Analysts:

Robin Prunty, New York (1) 212-438-2081; robin_prunty@standardandpoors.com
Horacio Aldrete-Sanchez, Dallas (1) 214-871-1426; horacio_aldrete@standardandpoors.com

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*Annotated
with
Self Grading*

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Criteria | Governments | U.S. Public Finance:

U.S. State Ratings Methodology

(Editor's Note: This methodology replaces portions of U.S. Public Finance Criteria: GO Debt, published Oct. 12, 2006 and is related to Principles Of Corporate And Government Ratings, published June 26, 2010.)

1. Standard & Poor's Ratings Services is updating its methodology for rating United States state governments. We are publishing this article to help market participants better understand our approach to assigning state ratings. "Rating" refers to the rating assigned to general obligation (GO) debt of U.S. states or the issuer credit rating if no GO debt is outstanding. This methodology replaces portions of "U.S. Public Finance Criteria: GO Debt," published Oct. 12, 2006, and relates to "Principles Of Corporate And Government Ratings," published June 26, 2007.

SCOPE OF THE CRITERIA

2. These criteria apply to all U.S. state governments and U.S. Territories.

SUMMARY OF CRITERIA UPDATE

3. Standard & Poor's publicly rates all 50 U.S. states based on an analysis of a range of financial, economic, managerial, and institutional factors. Given the specific delegation of powers to states under the U.S. Constitution, we view states as having sovereign powers that warrant recognition in our criteria, and therefore we are separating our criteria for our analysis of states from our broader general obligation criteria.
4. We are keeping the existing general analytic framework for U.S. states, which involves five main factors:
 - Government framework;
 - Financial management;
 - Economy;
 - Budgetary performance; and
 - Debt and liability profile.
5. We provide greater transparency on how the rating for each state is determined using the combination of the various rating factors. We assess these factors using various credit metrics as outlined in Chart 1. These criteria follow the publication of the "Request for Comment: Methodology For U.S. State Ratings," published on May 11, 2010.

IMPACT ON OUTSTANDING RATINGS

6. We do not expect any significant rating changes as a result of these criteria.

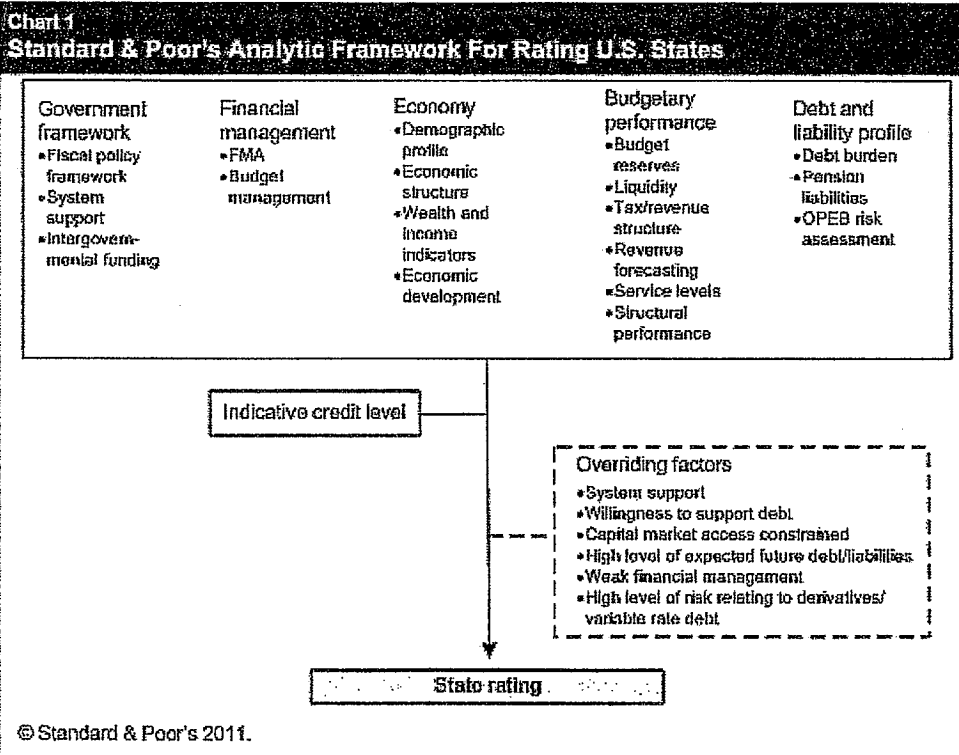
EFFECTIVE DATE AND TRANSITION

7. These criteria are effective immediately.

METHODOLOGY

A. Overall Analytic Framework For U.S. States

8. Standard & Poor's assigns credit ratings to U.S. states and Territories based on our qualitative and quantitative analysis of a range of financial, economic, managerial, and institutional factors. Our overall analytic framework centers around the following factors:
- Government framework;
 - Financial management;
 - Economy;
 - Budgetary performance; and
 - Debt and liability profile.
9. We assess each of these factors utilizing various metrics that we score on a scale from 1 (strongest) to 4 (weakest). For each metric there may be several indicators we evaluate to develop the metric score. We score each indicator individually on the same scale and average the indicators' scores to develop the overall score for the metric. We average the metrics for each factor to develop a composite score for each. The scores for the five factors are combined and averaged with equal weighting to arrive at an overall score which is then translated to an indicative credit level as illustrated in table 1. (A glossary of selected terms is provided at the end of this article.)



10. Table 1 below lists the indicative credit level that is associated with the overall score assigned. In most cases, we expect the final state rating to be within one notch of the indicative credit level, based on the state's position relative to all other states.

Table 1

Scores And Indicative Credit Level	
Score	Indicative Credit Level
1-1.5	AAA
1.6-1.8	AA+
1.9-2	AA
2.1-2.2	AA-
2.3-2.4	A+
2.5-2.6	A
2.7-3	A-
3.1-4	BBB category

Note: A rating below 'BBB' is possible based on various overriding factors as outlined in paragraphs 11-18.

1. Overriding factors impacting state ratings

11. In certain circumstances, the following overriding factors may result in a rating different from the indicative credit level as follows.
12. **System support score.** In the case of U.S. Territories and Commonwealths, where the policy and fiscal relationship with the federal government may result in a system support score that is different from the score assigned to all states, the rating may be multiple notches below the indicative credit level, as a result of the lower system score (see "Methodology for Rating International Local and Regional Governments," published Sept. 20, 2010).
13. **Willingness to support debt.** We view U.S. states as generally having a strong commitment to honor their legal obligation to pay debt even during difficult or stressful economic cycles. If we believe there is a change in a state's willingness to support its debt, we will assign a rating below what is indicated, possibly by several categories. For example, were a state to choose not to pay obligations we view as debt subject to annual appropriation, we would lower the state's GO rating or ICR, as detailed in our appropriation-backed obligations criteria ("Appropriation-Backed Obligations", published June 13, 2007). Were state officials who are charged with funding debt to suggest an unwillingness to fund debt in accordance with the priority payment status, we would likely assign the state a GO rating or issuer credit rating that is no higher than the 'BB' category. The rating would be no higher than the 'B' category and would likely be lower if we determined that this lack of willingness was likely to threaten a pending debt payment.
14. **Capital market access.** In addition, if we deem access to the capital markets or other sources of external liquidity as questionable and we view that access as necessary for the state to maintain regular operations, we will assign a rating no higher than the 'BBB' category. The rating may remain investment grade if we believe that internal liquidity, the priority claim enjoyed by bond holders, and the state's ability to manage disbursements provides good coverage of debt service. If we believe these internal factors provide questionable coverage of debt service and we perceive difficulties accessing the market for external liquidity to pay debt obligations, this would lead to a more rapid transition below the 'BB' category.
15. We also anticipate possible but limited circumstances where we will adjust a state's rating by one notch compared with the indicative credit level in table 1. These include:

Aug.
B Gov't Framework tables 2-7 1.17
C. Financial Mgmt tables 8u 2.00
D. Economy tables 9-12 2.13
E. Budget Perform. 13-19 1.57
F. Debt : Liability Prof. 19-29 2.45
Aug. 1.86

16. **High level of expected future debt/liabilities.** In cases where we expect that a state's identified future debt obligations are likely to increase the majority of ratios used to measure the state's debt burden to levels that are higher than one-third above those indicated for a score of '4' (see paragraphs 62-69), we will assign a rating one notch below the indicative credit level in table 1. Instances where we anticipate future debt and liability metrics to be an overriding factor in the rating include (but are not limited to) when the state authorizes a large debt program that we expect to significantly alter its current debt position, or when a contingent liability (such as the debt of another government entity or an underlying level of government) becomes a direct funding responsibility of the state. Finally, if a state's pension funded ratio were to fall below 40%, the rating will be one notch below the indicative credit level in table 1. We believe that the inclusion of this overriding factor will allow for a forward-looking assessment of future debt and liabilities and its impact on the state's future operating budget performance.
17. **Weak financial management.** In cases where we score a state's overall financial management at '4' (see paragraphs 32-36) the rating will be one notch lower than the indicative credit level in table 1. In our opinion, weak financial management can result in rapid credit deterioration.
18. **High level of risk relating to derivatives/variable rate debt.** In cases where a state has a liquidity score of '4' (see paragraphs 46-51) and also has what we consider a high level of risk relating to derivatives/variable rate debt, the rating will be one notch lower than the indicative credit level in table 1. Specifically this includes the requirement to fund any accelerated payment provisions without having funds identified and available to make these payments.

2. Relationship to sovereign rating

19. Although many economic credit factors are similar and some expenditure responsibilities are linked, we do not directly link state ratings to the rating of the U.S. The rating on a state or local government can be higher than a sovereign rating (see "Methodology: Rating A Regional Or Local Government Higher Than Its Sovereign," published Sept. 9, 2009) if, in our view, the individual credit characteristics remain stronger than those of the sovereign in a scenario of economic or political stress. Other factors that we will review include our view of the predictability of the institutional framework that limits the risk of negative sovereign intervention and the state's ability to mitigate negative intervention from the sovereign due to the state's high financial flexibility and limited dependence on the federal government.

3. Standard & Poor's use of stress scenarios and calibration of state criteria

20. To calibrate the criteria for state ratings, Standard & Poor's uses the stress scenarios associated with each rating category level, as presented in Appendix IV of "Understanding Standard & Poor's Rating Definitions," published June 3, 2009 (hereafter called the "stress scenario article"). We believe that most states should be able to attain at least a 'AA' rating level, because we expect they should be able to meet their debt obligations, even in a very severe stress scenario, as defined in the stress scenario article. Under the U.S. Constitution, state governments have broad powers to establish their own tax structures and expenditure responsibilities and therefore possess unique administrative and financial flexibility. They are not eligible to file for bankruptcy under the U.S. Bankruptcy Code. They may adjust revenues, alter disbursements, and access reserves or other forms of liquidity when they consider it necessary in order to restore budgetary balance.
21. State public finance systems are in our view mature and accounting standards are well-developed, contributing to a high level of transparency relative to regional governments in other countries. U.S. states typically have balanced-budget requirements and well-developed revenue and expenditure monitoring policies and procedures. Although there is some variation among states in terms of economic diversity and wealth, when evaluated on a global basis we find that state economies as a whole are generally diverse and income levels are above average. The security features and priority of payment for debt service are generally well-defined and capital market access is also

generally well-established. We also believe U.S. states typically have a strong commitment to their legal obligation to pay debt despite difficult economic cycles as evidenced by only one observed default for the sector in more than one hundred years.

22. When defaults have occurred, reforms have generally followed. Although eight states (Arkansas, Illinois, Indiana, Louisiana, Maryland, Michigan, Mississippi, and Pennsylvania) plus the Territory of Florida defaulted following the panic of 1837, most debt issued for state and local purposes was issued at the state level, where large amounts of debt had been issued for economic development and public improvements. Following this episode, states' borrowing abilities were curtailed, and debt issuance for economic development purposes shifted primarily to local governments. Only one state (Arkansas) defaulted on debt during the Great Depression, and following this period governments further diversified their revenue streams by increasing their reliance on personal income taxes and implementing sales taxes—largely the structure we see today. Additional improvements to states' financial controls, reporting, and disclosure followed in the postwar period.

B. Government Framework

23. Government framework is the first factor we assess to arrive at the indicative rating level. A state's government structure and political environment can affect its powers as defined by federal and state law and influence its fiscal position. Fiscal policy framework, system support, and intergovernmental funding are the metrics we use to assess government framework. Each is scored individually, and we then average the scores to determine the overall government framework score.

1. Fiscal policy framework

24. The framework within which a state taxes, spends, and issues debt influences its ability to manage through various economic stress scenarios in our opinion. When evaluating the fiscal policy framework of a state we analyze five metrics that are averaged to determine the overall fiscal policy framework. These five metrics include: balanced budget requirement (table 2), revenue structure (table 3), disbursement autonomy (table 4), voter initiatives (table 5), and legal framework for debt (table 6).
25. *Balanced budget requirement (table 2).* In contrast to the federal government and many local governments, most U.S. states are required by statute or their constitution to propose or adopt a balanced budget. Others are required to ensure balance during the fiscal year. In our opinion, these requirements tend to encourage budgetary discipline.

Table 2 - As described in paragraph 25

Balanced Budget Requirement	
Score	
1	Constitutional/statutory requirement for balanced budget when introduced and adopted. The budget is required to stay in balance during the year. <i>at end</i>
2	Budget must be balanced when introduced or when adopted but no legal requirement to maintain balance during the year.
3	There is no requirement to propose or adopt a balanced budget but in our view there is a track record of doing so.
4	No balanced budget requirements exist and, in our view, there is no track record of doing so.

26. *Revenue structure (table 3).* Most states enjoy the flexibility to set and modify tax rates, deductions, exemptions, and collection dates. If, in our view, these can be achieved without major constitutional, legal, political, or administrative difficulty, these discretionary powers can quickly and favorably influence a state's fiscal condition.

Table 3 - As described in paragraph 26

Revenue Structure	
Score	
1	The state has autonomy to raise taxes and other revenues (rate and base); in addition, there is <u>no constitutional constraint or extraordinary legislative threshold</u> for approval (a simple majority requirement for approval of new taxes, for example) and state policymakers have, in our view, a proven <u>track record of implementing tax increases as one of the alternatives to address budget imbalances.</u> <i>i.e. 1% Sales Tax '10</i>
2	The state has autonomy to raise most but not all taxes and revenues. In addition, in our view, the track record of implementing tax increases as a policy alternative to address budget imbalances is uneven, thus effectively reducing the state's revenue flexibility.
3	There are in our view significant constraints to adjusting taxes or revenues. These constraints can include constitutional prohibitions on tax increases, an above majority legislative threshold for approval, or the need to have voter approval for tax and revenue increases..
4	The state is both legally and, in our view, politically constrained in its ability to increase all key revenue sources. We view revenue flexibility as practically limited to the potential growth of the existing revenue base.

27. *Disbursement autonomy (table 4).* While state governments generally have broad service responsibilities, most enjoy what we view as considerable discretion in establishing funding levels for state assistance, shifting responsibilities to local government and establishing or changing disbursement dates for various programs. Absent constitutional or other legal mandates, this affords control over budgets and cash flow which, in our view, can positively affect fiscal standing. When assessing flexibility, we look at fixed costs relative to the total budget. Fixed costs include debt and contractual obligations. We also review the legal framework governing various program areas and how that affects the ability to reduce or eliminate spending and programs.

Table 4 - As described in paragraph 27

Disbursement Autonomy	
Score	
1	High degree of flexibility in adjusting disbursements; extends to nearly all program areas, including the ones with the highest impact on the budget.
2	Flexibility to adjust disbursements exists but adjustments may not be legally allowed for all program areas, including one or more of the state's largest expenditure programs such as education and health care.
3	Flexibility to adjust disbursements is constrained, and does not include the legal ability to adjust disbursements for large expenditure programs such as education and health care.
4	Flexibility to adjust disbursements is practically non-existent.

28. *Voter initiatives (table 5).* A state government's autonomy can be limited and this can affect relative credit standing in our view. Where decisions about specific tax or revenue levels, spending allocations, and debt issuance require approval from the electorate, states have reduced flexibility to respond to changing economic or financial situations, in our opinion.

Table 5 - As described in paragraph 28

Voter Initiatives	
Score	
1	Not a voter initiative state
2	State has some voter initiative activity but it has not historically negatively affected operations or limited flexibility.
3	State has an active initiative process which has affected state revenues and/or expenditures and flexibility has been diminished.
4	Initiative process is highly active and has substantially impaired operations of government in our view.

29. *Legal framework for debt (table 6).* We analyze both statutory and constitutional debt provisions.. This review includes consideration of the nature of the repayment pledge, the priority of payment for debt service, amortization features that are imbedded in constitution or statute, and legal restrictions related to debt issuance.

Table 6 - As described in paragraph 29

Legal Framework for Debt	
1	High degree of legal flexibility to issue debt for a range of purposes. There is a strong legal priority for payment of debt.
2	Some legal limitation on debt issuance which has not in our view inhibited planned issuance. There is a legal priority for payment of debt service but it is not a first claim on revenues.
3	Very limited legal right to issue debt; lack of voter support or limited access to alternative debt structures. There is no established legal priority for debt.
4	Cannot issue debt; there is a lack of voter support. There is no priority of payment for debt service.

2. System support

30. System support refers to our assessment of the predictability of the public finance system in a federal context. It is the same for all states and incorporates the predictability, transparency and accountability, and system support aspects of the institutional framework score as detailed in our criteria for rating international local and regional governments (see "Methodology For Rating International Local And Regional Governments," published Sept. 20, 2010). We assess the final element of the international public finance institutional framework, revenue and expenditure balance by the other metrics in the government framework analysis of the U.S. state criteria to capture the state constitutional and statutory differences that affect this area.

3. Intergovernmental funding

31. Table 7 details our assessment of a state's local government funding framework. How services and programs are provided across state and local governments and what the funding relationship has been over time are in our view important considerations because they influence revenues, spending and overall budget flexibility. We review the legal requirements and historical patterns of state assistance and revenue sharing arrangements. If a state has broad discretion in adjusting spending flows to local governments or the amount of these flows are limited, we view the state as having a high level of control over budgeting and cashflow. Conversely, if a state has limited legal capacity to adjust programs and spending levels or limited political willingness to do so, we view the state as having less autonomy, especially when this funding represents a significant state budget element.

Table 7 - As described in paragraph 31

Local Government Funding Framework	
Score	
1	Level of assistance to local governments is limited or highly flexible from a legal standpoint or by historic patterns; strong ability to downstream reductions or change revenue allocations.
2	Level of assistance to local governments is high; flexibility (either legal or practical) may be limited at times.
3	Level of assistance is high and is not flexible from a legal or practical standpoint; ability to reduce local government funding is restrained. <i>result of school litigation can cause #3</i>
4	Very limited flexibility exists.

C. Financial Management

32. Financial management is the second of the five major factors shown in chart 1 contributing to our assessment of the indicative credit level. Our view of the rigor of a government's financial management practices is an important factor in Standard & Poor's analysis of creditworthiness. We believe managerial decisions, policies, and practices have a direct effect on a government's financial position and operations, debt burden, and other key credit factors. A government's ability to implement timely and sound financial and operational decisions in response to economic and fiscal demands is in our view a key factor in assessing credit quality. The financial policies (Financial Management

Assessment) and the budget management framework are the key metrics we use to assess financial management that are scored individually and averaged to develop an overall score for financial management.

1. Financial Management Assessment

33. Standard & Poor's analyzes the impact of financial management policies and practices through the use of the Financial Management Assessment (FMA). We believe the FMA provides a transparent assessment of a government's financial practices and highlights aspects of management that are common to most governments in a consistent manner (see "USPF Criteria: Financial Management Assessment," published June 27, 2006). Based on the current framework, a state is assigned a 'strong,' which equates to a score of 1, 'good' (score of 2), 'standard' (score of 3), or 'vulnerable' (score of 4) assessment.

2. Budget management framework

34. While the FMA outlines policies in a range of areas including budget amendments, our view of the framework for managing the budget (including legal framework as well as the policies in practice) is a factor in the high credit profile of U.S. states and we believe it is important in differentiating state credit ratings above or below the 'AA' rating level. Table 8 details our scoring methodology for this area.

Table 8 - Assessment of the framework is further detailed in paragraphs 34 and 35.

Budget Management Framework	
1	Framework is formalized, strong, and proactive; adjustments are timely, with emphasis on structural balance.
2	Framework is good but process may be less defined and adjustments may be less timely
3	Framework is adequate; budget monitoring is established but adjustments are not timely and response is uneven.
4	Framework is weak, which effectively prohibits timely adjustment; deficits carry forward into the next fiscal year.

35. To score the budget management framework, we review whether:
- There is a formal schedule for providing revenue and spending forecast updates throughout the year;
 - There are frequent (two or more times) updates during the fiscal year, especially during weak economic periods;
 - Budget adjustments are implemented in a timely manner to restore balance, generally within 30-60 days of budget gap being identified;
 - The executive branch/budget office has what we consider to be broad powers to adjust appropriations;
 - Legislative approval is required to restore balance and if the response is timely (adjustments begin within about 30 days of the gap being identified);
 - There is in our view a well-established track record of making difficult and politically unpopular revenue and spending decisions in order to restore balance during the fiscal year;
 - Gap-closing solutions are in our view generally focused on structural budget balance rather than relying on non-recurring revenue or spending actions; and
 - Deficits are not carried forward.
36. A state that meets all but one or two of the above budget management items will likely receive the highest score for its budget management framework while a state that exhibits only one or two of the these characteristics will likely result in the lowest score.

D. Economy

37. Economy is the third of the five major factors shown in chart 1 contributing to our assessment of the indicative credit level. Our economic review focuses on four metrics: demographic profile, economic structure including employment composition and performance, wealth and income indicators, and economic development. Each of these metrics is scored (1-4) and averaged to assess the overall economic fundamentals of a state. Where there are multiple indicators for each metric, they are also scored (1 to 4) and averaged to develop the metric score.

1. Demographic profile

38. We believe that the structure and growth characteristics of a state's population base provide critical information about revenue-generating capability as well as the costs of providing services and infrastructure. It is also a factor in revenue distribution at the federal level. We analyze historic population trends for each state relative to national trends. We also examine U.S. Census and other third party projections for future growth or decline. The age profile of the population base and changes in it over time are also considerations due to the high proportion of state spending tied to education and social service programs. To assess this we review the age dependency ratio calculated by the U.S. Census Bureau. As detailed in table 9, the key indicators of our demographic profile score are our view of:

- Population growth trends; and
- Age distribution of population.

Table 9 - As described in paragraph 38

Demographic Profile		
Indicators (scored separately then averaged)		
Score	Population growth trends	Age dependency ratio*
1	Strong population growth relative to U.S.	Relatively low dependent population (more than 5% below U.S. levels).
2	Stable population trends; steady growth over time in line with U.S.	★ Dependent population ratio in line with U.S. levels.
3	★ Demographic trends are weaker than the U.S.	Dependent population is well above U.S. (0- +5%).
4	Growth has declined for more than a decade.	Dependent population has significant variance (more than 5%-10% from U.S.).

* From the U.S. Census.

2. Economic structure

39. The composition, output, and diversity of the employment base plays a role in the link between a state's economy and its ability to generate revenues. A state's economic structure can also influence the level of services it provides and can contribute to spending growth pressures. A review of the economic structure, growth trends, and how various indicators perform during economic cycles allows us to assess the relative stability or cyclicity of a state's economy. We also review changes in the structure of the economy over time to assess diversification trends and how this may affect future economic performance. As detailed in table 10, the key indicators summarize our view of:

- Employment, labor force, and unemployment trends;
- Employment composition by sector and how it compares to the national distribution; and
- Gross state product growth trends and gross state product per capita.

Table 10 - As described in paragraph 39

Economic Structure

Indicators (scored separately then averaged)

Score	Unemployment	Employment composition/ diversity of base	GSP* per capita	GSP growth
1	Rate 2%+ below U.S.	Employment mix in line with U.S.; limited concentration; performance tends to be less cyclical than U.S.	>100% of U.S. Gross Domestic Product (GDP)	Growth consistently above U.S.
2	Rate within 2% +/- of U.S.	Employment base exhibits some concentration that contributes to more cyclical performance than the U.S. economy as a whole.	>85% of U.S. (GDP)	Growth in line with U.S.
3	Rate 2%+ above U.S.	Employment base is concentrated, performance has been cyclical and weak relative to the U.S. over the past decade	>75% of U.S. (GDP)	Growth below the U.S. periodically.
4	Rate 5% or more above U.S.	Employment base has high level of concentration relative to U.S. distribution which has contributed to cyclical performance and weak trends over decades.	<75% of U.S. (GDP)	Growth has consistently been below U.S. levels.

* GSP—Gross state product.

40. As part of our review of the employment composition and diversity of the employment base as outlined in table 10, we analyze the largest employers in the state relative to current economic conditions to assess the potential for cyclicity and how those firms might affect future growth and development. We include regional patterns of employment in the review if an individual state benefits from proximity to other labor markets.

3. Wealth and income indicators

41. We consider wealth levels of a state as part of the economic review. We believe that how income compares to national levels and how growth rates have trended over time can provide useful information about the ability to generate additional revenues. The key indicator to us is per capita personal income, as detailed in table 11.

Table 11 - As described in paragraph 41

Income And Wealth

Score	Per capita personal income rank
1	>100% of U.S.
2	>85% of U.S.
3	75%-85% of U.S.
4	<75% of U.S.

4. Economic development

42. In addition to historic economic trends, we consider each state's economic development initiatives and future growth prospects as they are likely to affect future revenue generating capacity. We have identified areas that we believe drive future development. A state that we believe displays a preponderance of attributes in a given section below will be assigned that score. We express our assessment of economic development prospects as detailed in table 12:

Table 12 - As described in paragraph 42

Economic Development	
Score	
1	The state's resources, employment opportunities, cost of living, cost of doing business, and tax structure result in an economic environment that supports entrepreneurship, as well as significant levels of private sector investment. The majority of urban centers in the state are economically vibrant and continue to attract in-migration and investment. In addition, the state is home to the headquarters of employers with global operations, as well as prominent higher education anchors which serve as catalysts to continuous investment over time. A majority of the state's current employment is in economic sectors that are expected to perform at an above-average pace during periods of economic growth. Infrastructure is in place to support further growth and development.
2	The state's resources, employment opportunities, cost of living, cost of doing business, and tax structure result in overall growth in population and employment over time, but economic growth across the state is uneven, with only a few urban centers performing better than average, and the majority of urban centers exhibiting lackluster economic performance. Some, but not all, of the major urban centers are attracting private investment and are major centers of job creation. Higher education anchors exist, but are not situated near major urban centers or major employment centers, which could limit their effectiveness in attracting investment. Concentration of private investment and employment in economic sectors that have below-average growth prospects may limit overall economic growth.
3	We expect the state to experience limited employment and private investment growth or possibly decline for a range of reasons including one or both of the following: reliance on sectors that are experiencing structural decline in both output and employment; and a tax structure that may represent a competitive disadvantage (measured by historic levels of private investment, high cost of doing business, population flows, and recent loss of key employers).
4	Growth prospects are not evident and there is little focus by the state on economic development initiatives.

E. Budgetary Performance

43. Budgetary performance is the fourth of the five major factors shown in chart 1 contributing to our assessment of the indicative credit level. While states prepare financial statements each year using generally accepted accounting principles (GAAP), which includes accruals, the budget development, appropriations, budget monitoring, and reserves, are expressed on a budgetary basis, which is more closely aligned with a cash basis presentation. Budget-based financial information is a primary focus of our financial review because it shows how state finances are managed day-to-day. However, we also analyze the GAAP audited financial statements and variations between GAAP and budget-based financial disclosure to gain a more complete understanding of a state's financial condition. We assess six key metrics in order to evaluate budgetary performance: budget reserves, liquidity, tax/revenue structure, revenue forecasting, service levels, and structural budget performance. These metrics are scored individually and averaged to develop an overall assessment of budgetary performance. Where there are multiple indicators for each metric, they are also scored (1 to 4) and averaged to develop the metric score.

1. Budget reserves

44. State revenues tend to be cyclical and in our view generally are sensitive to changing economic conditions. Looking at the history of revenue shortfalls for states, we believe that no budget reserve fund could be sized to completely address the potential for volatility in a severe recession or revenue downturn. However, all other factors being equal, we believe states with well-funded reserves have greater flexibility to address shortfalls should and when they occur.
45. Over the past two decades states have generally exhibited greater formalization of budget reserve policies. We believe that a clearly articulated policy and steady funding of reserves is important to allow states to manage through challenging economic cycles. In addition to the level of funding, our review (detailed in table 13) includes an analysis of how the size of the reserve compares to historic revenue and spending patterns and gaps and of the track record of funding the reserve, including any replenishment mechanisms. If there is a stated policy but there is no track record of funding the reserve in positive economic periods, we will assess the reserve at the average level it is actually funded at historically. In addition to formal budget reserves, we review financial reserves and balances identified in funds outside of the state's main operating fund or general fund that may be available for budget

purposes. If there are other available reserves identified by the state in addition to the formal budgetary reserve, we will consider these as part of the overall reserve capacity of the state if they are available for state operating purposes.

Table 13 - As described in paragraph 45

Budget-Based Reserves Relative To Revenue And Spending	
Score	
1	There is a formal budget-based reserve relative to revenue or spending that is above 8%. In addition, there is a formal process or a demonstrated track record of restoring the reserve following depletion.
2	There is a formal budget-based reserve relative to revenue or spending that is between 4% and 8%. In addition, there is a formal process or a demonstrated track record of restoring the reserve following depletion. <i>weak</i>
3	There is a formal budget-based reserve relative to revenue or spending that is between 1% and 4%. In addition, there is a formal process or a demonstrated track record of restoring the reserve following depletion.
4	There is no formal budget reserve fund, or reserves are funded at less than 1% over time, or there is no process for accumulating reserves. No additional reserve funds are identified or available.

Note: Refers to reserve policy levels and not actual funding level as we observe that reserves are often depleted through economic cycles.

2. Liquidity

46. Standard & Poor's believes that a state's liquidity position is an important component of its overall credit profile. We generally regard available cash as the strongest form of liquidity, but many states rely on external borrowing and disbursement adjustments in order to fund priority payments including debt service. While the ability to adjust disbursements provides short term flexibility, it could result in additional cost pressure or fiscal strain later in the fiscal year if disbursement delays are frequent and represent a significant portion of the total budget. When assessing liquidity for a state, we focus on the resources it is legally allowed to access to fund cash flow requirements. In analyzing liquidity, we consider four areas: a) cash monitoring capabilities, b) cash flow predictability, c) internal cash flow generation capacity, and d) external cash flow borrowing. We combine our view of these four areas to arrive at our liquidity score. Below is a description of each of these areas and how they are combined into the overall score.
47. *(a) Cash monitoring capabilities.* We analyze states' cash monitoring capabilities to determine whether they include daily monitoring of balances and well-developed forecasting tools that enable swift reaction to imbalances. We also consider the ability to adjust disbursements and collections.
48. *(b) Cash flow predictability.* We evaluate the fluctuation in receipts and disbursements during the year and determine mismatches and how these change from year to year.
49. *(c) Internal cash flow generation capacity.* States often have what we view as broad discretion to access liquidity from other than general funds. We examine whether all funds are immediately available--which provides a high degree of flexibility--or whether legislative or executive authority is required to shift resources from other funds to cover key operating fund requirements. We also factor into our review of liquidity the level of reserves available for cash flow purposes across state government.
50. *(d) External cash flow borrowing.* We review borrowing for operations and how that has fluctuated over time.
51. Table 14 details the characteristics that we would generally expect to see at different levels for our liquidity score resulting from the combination of the above factors. We expect that a single state would exhibit most but not all of the characteristics listed.

Table 14 - As described in paragraphs 46-50

Liquidity	
Score	
1	Strong cash monitoring capabilities including regular cash flow forecasting; broad authority to access liquidity from pooled funds which allows for highly predictable cash management; receipts and disbursements are aligned; broad authority to adjust disbursements; little or no reliance on external borrowing and if necessary is conducted with ease.
2	Well-established cash monitoring capabilities and periodic cash flow forecasting. Access to pooled cash is available but may be limited to certain funds; receipts and disbursements may not be totally aligned during the fiscal year; well-defined contingencies are in place to augment internal resources; external borrowing is conducted with ease and stable over time relative to the size of the budget; ability to manage disbursements may be limited in some areas.
3	Cash monitoring is generally comprehensive but cash forecasting may be less established; access to internal liquidity is not sufficient to address timing or is restricted; recurring receipts and cash disbursements are not aligned and there may be variability that leads to external borrowing requiring regular adjustments through the course of the budget year, internal estimation of cash flow needs difficult to predict.
4	Cash monitoring is weak and cash forecasting is not done on a regular basis. Liquidity is weak and needs are volatile at times; state is meeting certain obligations only by deeply delaying payment on other obligations; ability to access pooled cash is limited; external borrowing is common and not predictable in terms of size and frequency; borrowing for cash flow is expanding relative to the size of the budget and may cross fiscal years.

3. Tax/revenue structure

52. Levying and collecting taxes has been a key tool for states in managing through a range of economic cycles. We believe that a state's tax structure, including the range of taxes, the ability and willingness to adjust them, and how they align with economic activity within its borders is an important credit factor. Our analysis of revenue structure considers the diversity of revenue sources (table 15) and the revenue adjustment history (table 16). In making these assessments we focus our analysis on the principal operating funds of the state.
53. *Diversity of revenue sources.* We evaluate the range of taxes levied and other revenues generated by each state and what the relative contributions are from each source. This includes a review of both the tax base and the rates to understand how they align with a state's economy and ultimately how they affect the volatility and predictability of revenues.

Table 15 - As described in paragraph 53

Revenue Diversity Score	
Score	
1	State has contributions from at least two major sources that generally contribute more than 15%-30% each.
2	State relies on one key revenue source, generally providing more than 65% to fund operations but revenue aligns with key economic strengths of the state.
3	State relies on one key revenue source for more than 65% of revenues; key revenue source does not align closely to economic fundamentals.
4	State relies on one revenue source to fund more than 90% of operations.

54. *Revenue adjustment history.* While we measure the legal framework for levying taxes and adjusting the tax rate and base as part of the government framework, we assess a state's practical ability and willingness to use these powers if needed as part of our assessment of the state's financial flexibility and performance.

Table 16 - As described in paragraph 54

Revenue Adjustment History	
Score	
1	Strong track record of revenue adjustments in our view; adjustments are timely.
2	There is demonstrated track record of revenue adjustments in our view; response is generally less timely and may lag by a fiscal year.
3	Revenue adjustments are made periodically but they are not timely and may lag structural imbalance by more than a year.

Table 16 - As described in paragraph 54

Revenue Adjustment History (cont.)

4	Revenue adjustments are not implemented.
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4. Revenue forecasting

55. State revenues tend to be volatile during economic downturns because they rely on personal income tax, sales tax, corporate income tax, and other economically sensitive sources. We have observed that these sources tend to react more swiftly to changing economic conditions. As a result, the revenue forecasting process is part of our review for each state. Specifically, we review what economic sources and assumptions provide the foundation for the forecast and how the economic assumptions and forecast compare to those of other states. We also evaluate the process in place to establish the forecast to determine if it is an independent process or a forecast negotiated by the executive and legislative branches. We analyze forecasts to determine whether they align with the current economic environment and historic performance.

Table 17 - As described in paragraph 55

Revenue Forecasting

Score	
1	There is a formal independent revenue forecast that guides budget development and the forecast is reviewed several times during fiscal year.
2	There is a formal and detailed revenue forecast; may be done by executive and legislative branch separately with an attempt to align the forecast in advance of budget approval based on economic considerations.
3	The revenue forecast is detailed and comprehensive but the final outcome may be "negotiated" and there is some level of political influence over outcome.
4	There is no formal revenue forecasting process.

5. Service levels

56. The range and level of services provided by each state varies significantly. We believe that assessing expenditure composition and how this has changed over time is useful in assessing service levels and flexibility. Our analysis focuses on the legal requirements to provide services, the discretion available in providing services, and the predictability of the services provided, as detailed in table 18.
57. *Legal requirements to provide services.* We believe that the legal framework for funding various service responsibilities is important to the extent that it creates or constrains budget flexibility. Spending for Medicaid is an example of a federally mandated program that is costly and usually difficult to adjust. Certain states provide a high level of services under the program, while others provide less. These differences will affect overall budget flexibility. Other services may have a constitutional or statutory basis of funding. Funding for K-12 education is a constitutional obligation for nearly all states. A state defending a legal challenge to its funding system could face additional spending requirements, which could diminish flexibility.
58. *Discretionary vs. non-discretionary expenditures.* When evaluating the range of services provided we analyze which are non-discretionary (mandates, statutory, constitutionally required, or contractual) and difficult to reduce versus those that are discretionary.
59. *Predictability.* When evaluating state spending, we review how predictable the expenses are: do they fluctuate with the economic environment (social service programs are an example), are they regularly tied to other statutory actions (stringent prison sentencing laws translating to higher prison costs), or influenced by other policies or factors specific to a state (debt vs. pay-as-you-go policies or collective bargaining agreements).

Table 18 - As described in paragraphs 56-59

Service Levels	
Score	
1	Expenditures are predictable as measured by variance from budget expectations; high degree of flexibility to reduce services/expenditures in most program areas. This flexibility is measured in terms of the legal ability and our view of the political willingness to make adjustments.
2	Expenditures are generally predictable as measured by variance from budget expectations, but may experience cyclical trends; ability to cut services and expenditures is good in our view, but may not extend to all program areas from a practical or legal standpoint.
3	Expenditures tend to be cyclical and less predictable with variances relative to budget common in certain program areas; ability to cut services/ expenditures is adequate in our view but many program areas are excluded from a practical or legal standpoint.
4	Expenditures are very cyclical and unpredictable and variances relative to the budget are common for many program areas; the state has exhibited a persistent reluctance or inability in our view to reduce expenditures and service levels.

6. Structural budget performance

60. Table 19 details our assessment of structural budget performance. We consider a state's budget to be structurally balanced if recurring revenues equal or exceed recurring operating expenditures. We recognize that structural balance is difficult to maintain during economic downturns when revenue performance is weak and support expenses may increase, but we believe it is also difficult during periods of strong economic growth when excess revenue can lead to expansion of programs and services. Most state governments that do multi-year financial planning will almost always show out-year gaps regardless of the economic climate as scarce resources are balanced against virtually unlimited spending needs. Periods of imbalance are common for states but we believe that a track record of aligning recurring revenues and expenditures over time is an important element of fiscal performance.

Table 19 - As described in paragraph 60

Structural Budget Performance	
Score	
1	Surpluses are regularly recorded in periods of positive economic growth; surpluses are used to fund reserves and other non recurring items. In periods of economic decline, focus on addressing budget imbalance includes structural solutions (generally more than 50% of the gap) rather than all one time measures.
2	Balanced operating results are typically achieved during periods of positive economic growth; commitment to reserves and non-recurring program areas is not formalized and may not be consistent; in periods of decline, focus on budget balance may be more reliant on non-recurring measures (more than 50% of the gap) to restore balance.
3	Balanced operating results may be achieved in positive economic periods but there is limited commitment to reserves and non-recurring program areas (surpluses largely fund higher recurring spending). In periods of economic and revenue decline, focus on budget balance may be more reliant on non-recurring measures (more than 75% of the gap) to restore balance.
4	There is limited focus on structural budget balance; deficits are regularly carried forward into future fiscal years and reserves are not funded in periods of positive economic growth.

F. Debt And Liability Profile

61. The debt and liability profile is the fifth of the five major factors in our assessment of the indicative credit level. In particular, we review debt service expenditures and how they are prioritized versus funding of other long-term liabilities and operating costs for future tax streams and other revenue sources. We evaluate three key metrics which we score individually and weight equally: debt burden, pension liabilities, and other post employment benefits. For each metric there may be multiple indicators that we score separately and then average to develop the overall score for the metric.

1. Debt burden

62. Standard & Poor's debt ratio calculations for states aggregate all tax-supported debt, including GO bonds, appropriation obligations, and special-tax bonds such as sales, personal income, and gas tax bonds. In general, our tax-supported debt calculation do not include debt that is issued for true enterprises or is self-supported, such as toll revenue bonds if revenues are sufficient to cover debt service costs. (see "USPF Criteria: Debt Statement Analysis," published Aug. 22, 2006). Once we have determined a net direct tax supported debt figure, we calculate various ratios, as indicated in tables 20, 21, 22, 23, and 24.
63. We do not include grant anticipation revenue (GARVEE) bonds in state debt calculations if they are payable solely from dedicated federal revenues. We will also exclude bonds secured by tobacco settlement revenues from state debt calculations if they conform to our stress scenarios for rating such debt and are payable exclusively from settlement revenues. We exclude contingent obligations or moral obligation debt from the tax-supported debt calculation if there has been no state support required and we expect no need for support in the future see ("Moral Obligation Bonds," published June 27, 2006). There have not been a wide range of securitizations of assets or future revenues, but we will evaluate other structures to determine if they should be included as tax supported debt or a contingent liability. Similarly, as the use of public-private partnerships expands, we will evaluate the nature of a state's obligation under various long-term agreements to determine whether the obligation is considered part of a state's tax-supported debt burden or a contingent liability.
64. We examine a variety of ratios to measure debt burden. We score these individually and then average them to develop a score for debt burden. The indicators that we score include:
65. *Debt per capita (table 20)* Table 20 shows the scoring ranges for tax-supported debt per capita, based on the population that is served and pays for the debt.

Table 20 - As described in paragraph 65

Tax-Supported Debt Per Capita	
1	Below \$500 (Low)
2	\$500-\$2,000 (Moderate)
3	\$2,000-\$3,500 (Moderately high)
4	Above \$3,500 (High)

66. *Debt as a percentage of personal income (table 21)* We consider the ratio of debt to personal income to be relevant because we believe the capacity to pay is a critical factor in debt analysis.

Table 21 - As described in paragraph 66

Tax-Supported Debt/Personal Income	
1	Below 2% (Low)
2	2%-4% (Moderate)
3	4%-7% (Moderately high)
4	Above 7% (High)

67. *Debt service as a percentage of expenditures (table 22)* We believe the ratio of debt service to expenditures is an important indicator, as it indicates the level of inflexibility that debt places on the budget. The ratio of debt service to operating revenue and debt service to operating expenditures usually track closely, although distortions in the first ratio can occur if nonrecurring revenues are factored into state revenue bases.

Table 22 - As described in paragraph 67

Tax-Supported Debt Service As A % of General Government Spending	
1	Below 2% (Low)
2	2%-6% (Moderate)
3	6%-10% (Moderately high)
4	Above 10% (High)

1.9

68. *Debt to gross state product (table 23)* We use the ratio of debt to gross state product widely for sovereign and non-U.S. public finance and we believe it should allow enhanced comparability for government ratings.

Table 23 - As described in paragraph 68

Tax-Supported Debt As A % Of Gross State Product	
1	Below 2% (Low)
2	2%-4% (Moderate)
3	4%-7% (Moderately high)
4	Above 7% (High)

2.4

69. *Debt amortization (table 24)* Serial amortization is a common feature for government debt issuance in the U.S. We believe that debt service relative to the size of the budget is an important affordability measure but needs to be evaluated in the context of the overall debt amortization schedule. A low debt service carrying charge ratio could simply be a function of a very slow 30-year amortization, which we view differently from a 15-year schedule. We consider the benchmark of 50% of principal repaid in 10 years to be average. This indicator assumes serial debt amortization where rapid amortization can allow new debt to be issued without affecting debt burden measures.

Table 24 - As described in paragraph 69

Debt Amortization (10 year)	
1	80%-100% (Very Rapid)
2	60%-80% (Rapid)
3	40%-60% (Average)
4	Less than 40% (Slow)

2. Pension liabilities

70. We review state pension liabilities and trends related to funding progress. This analysis focuses on the principal state pension plans and includes changes in assets and liabilities, funded ratios, and unfunded actuarial accrued liabilities. Pension asset valuations can change, as can the actuarial liabilities. A state's commitment to funding the annual required contribution and how substantive and volatile these contributions are relative to the total budget are key credit considerations. We have historically not included pension liabilities in our calculation of tax supported debt ratios due to variation in how the liabilities are calculated. Specifically, under current accounting standards, there are a broad range of actuarial methods and assumptions allowed by the Governmental Accounting Standards Board (GASB) for governments in the U.S. and interest earnings assumptions differ by state. However, we have consistently analyzed and reported pension liabilities for states relative to population and personal income to allow a comparative framework for evaluating these liabilities relative to state tax supported debt. Our assessment of pension liabilities includes the following four indicators which are averaged to develop an overall score:

- Pension funded ratio (table 25),
- Pension funding levels (table 26),
- Unfunded pension liabilities per capita (table 27), and

1-21

- Unfunded pension liabilities relative to personal income (table 28).

We typically derive this information from audit reports as well as actuarial reports.

Table 25 - As described in paragraph 70

Pension Funded Ratio	
Strong (1)	90% or above
Above average (2)	80%-90%
Below average (3)	60%-80%
Weak (4)	60% or below

~64%
2008 @ 59%

Table 26 - As described in paragraph 70

Pension Funding Levels	
Strong (1)	Consistently funds annual required contributions (ARC).
Above average (2)	Funds ARC in most years but occasionally contributes less.
Below average (3)	Has not funded ARC for 3 years.
Weak (4)	Has not funded ARC for more than 3 years.

since early 1990's?

Table 27 - As described in paragraph 70

Unfunded State Pension Liabilities Per Capita	
Strong (1)	Below \$500
Above average (2)	\$501-\$2,000
Below average (3)	\$2,001-\$3,500
Weak (4)	Above \$3,500

~2,750

Table 28 - As described in paragraph 70

Ratio Of State Pension Liabilities To Personal Income	
Strong (1)	Below 2%
Above average (2)	2.1%-4%
Below average (3)	4.1%-7%
Weak (4)	Above 7%

$\frac{7.7}{110} \approx 7.0$

~7.0%

3. Other post employment benefits (OPEB) risk assessment

71. Our analysis of OPEB liabilities is similar to that of pensions, although our overall assessment is a combined one as detailed in table 29. The legal and practical flexibility that a state has to adjust these liabilities and the overall strategy to manage the cost of these benefits will affect future contribution rates and budgetary requirements. All states are now reporting OPEB liabilities pursuant to GASB Statement 45. Currently, OPEB expenditures are funded generally on a pay-as-you-go basis. Under GASB Statement 45, liabilities attributable to OPEB and the annual required contribution for employers are actuarially determined and reported.

Table 29 - As described in paragraph 71

OPEB Risk Assessment	
Low (1)	Limited benefits provided or benefit consists of allowing some participation in the health plan (cost paid entirely by the retiree, implicit subsidy recorded), high level of discretion to change benefits, pay-go costs are not significantly different from the actuarial required contribution.
Moderate (2)	Moderate/average liability relative to other states, proactive management of the liability in our view, some flexibility to adjust benefit levels, contributions in excess of the annual pay-go amount have been made in order to accumulate assets to address the liability.

Table 29 - As described in paragraph 71

OPEB Risk Assessment (cont.)	
Elevated (3)	Above-average liability relative to other states, options to address the liability are being considered but plans are not well-developed in our view, there may be some flexibility to adjust benefits but changes have been limited.
High (4)	High liability relative to other states, high level of benefits that are viewed as inflexible based on statute/constitution/contract terms, a lack of management action to address the liability in our view which will lead to accelerating pay-go contributions.

APPENDIX

On May 11, 2010, Standard & Poor's published "Request for Comment: Methodology For U.S. State Ratings". We received several responses from market participants addressed to the criteria comments mailbox. The comments addressed a wide range of issues that extended beyond the questions asked in the RFC but in general there was a positive response to the enhanced transparency and greater clarity of the proposed criteria.

- On the first question regarding separating the GO criteria for U.S. states from the broader GO criteria, nearly all market participants agreed with this.
- On the second question, regarding whether the proposed rating factors and individual metrics focus on the key factors affecting state government, most market participants agreed that the information was useful in evaluating state creditworthiness. There was a range of opinions on the equal weighting of factors. There was also feedback that the security features of state debt and default history of the sector should be highlighted more significantly.
- On the third question regarding scoring each individual metric in order to establish an overall score for each factor and translating that score to an indicative credit level, there was some feedback that the scoring would allow for greater transparency. Other market participants expressed reservations about how the scores would be utilized.

There were other comments and observations on specific aspects of the methodology. We have analyzed each comment and have made some adjustments to the methodology. The main changes between the criteria presented in the Request For Comment and the final criteria as described in this article are the following:

- We have expanded the discussion of institutional framework (see "Standard & Poor's use of stress scenarios and calibration of state criteria") to highlight that the priority of payment, security features and the state sector's strong commitment to their legal obligation to pay debt are fundamental to our analysis of the state sector and contribute to its high credit profile.
- We have added additional clarity to the section "Overriding factors impacting state ratings."
- We have streamlined the metrics in the economic section and explained our approach to analyzing economic indicators for US states in a global context.
- We have adjusted the "reserve" section to better capture funding patterns as well as policy.
- We have changed the "future debt" metric as part of the Debt and Liability Profile score. We believe that forward looking measures are important to credit analysis and we will instead include this in the section "Overriding factors impacting state ratings" (see paragraph 16).
- In the area of pension liabilities, we added two additional measures, state pension liabilities per capita and state pension liabilities relative to personal income, to our assessment of this factor. We eliminated the three year average when assessing the funded ratio since nearly all state pension plans are subject to smoothing currently which phases in gains and losses over a multi year period.

GLOSSARY

Accelerated payment provisions. This term refers to an investor's ability to require early repayment of principal that is not scheduled based on certain events, with repayment required on a compressed timeframe, generally less than 180 days.

Bank bond exposure. Refers to bonds purchased by a bank following a failed remarketing (outlined under the terms of a letter of credit reimbursement agreement or a standby bond purchase agreement). The bonds typically have a significantly higher interest rate and a significantly shorter maturity schedule than the original bond.

Balanced budget. Many states have balanced budget requirements that require them to pass a budget that provides sufficient revenues to fund all expenditures at the time of passage.

Budget reserves. Excess financial resources accumulated either formally or informally to address budget balance or other requirements of a government.

Independent revenue estimating process. A forecast developed by a group of subject matter experts which can include economists, business leaders and practitioners based on knowledge of current economic conditions and the existing tax structure.

Contingent obligations. Includes explicit or implicit obligations that a state may incur under certain circumstances and that could affect its financial position if the state absorbs these obligations and is fully responsible for them. Contingent obligations are generally not recorded in the state's balance sheet and often are not disclosed as off-balance sheet liabilities.

Debt service. Principal and interest payable during the fiscal year.

Deficit. The result achieved when operating revenues and recurring transfers in are less than operating expenditures and recurring transfers out.

GAAP. Generally accepted accounting principles are the common set of accounting principles, standards, and procedures that most governments utilize. For local and state governments, GAAP is determined by the Governmental Accounting Standards Board (GASB).

Gross state product (GSP). A measurement of the economic output of a state. It is the value added in production by the labor and property located in a state. GSP for a state is the sum of the gross product originating in all industries in a state. GSP is considered the state counterpart of the nation's gross domestic product (GDP), the U.S. Bureau of Economic Analysis' featured measure of U.S. output.

Moral obligation debt. Moral obligation debt represents a commitment by a state to seek future appropriations for payment of debt service or replenishment of a debt service reserve fund should it fall below its required level.

Other post employment benefits (OPEB). Includes retiree health care, along with dental, vision, disability, long-term care, and life insurance benefits.

Revenue forecast. The forecast developed by a state that underlies its budget. This would be the expected revenue based on assumptions reflecting the conditions a state expects to exist and adjustments (authorized/proposed) to the rates/fees or the base they are levied on.

Self-supported. Debt is considered self-supported if it is funded by an enterprise operation without any subsidy or support from the state government.

Structural budget balance. Results from matching recurring operating revenues to recurring expenditures. In measuring structural budget balance we do not include nonrecurring intergovernmental transfers, proceeds from the sale of assets, and non-recurring capital expenditures.

Tax-supported debt. When calculating tax-supported obligations, we include GO bonds, appropriation obligations, and special-tax bonds such as sales, personal income, and gas tax bonds. We typically include debt secured by revenues or assessments and charges levied state wide. In general, our tax-supported debt calculation will not include debt that is issued for true enterprise or self-sustaining purposes, such as toll revenue bonds if revenues are sufficient to cover debt service costs (see "USPF Criteria: Debt Statement Analysis," Aug. 22, 2006). We do not include grant anticipation revenue (GARVEE) bonds in state debt calculations if they are payable solely from dedicated federal revenues. We will also exclude bonds secured by tobacco settlement revenues from state debt calculations if they conform to our stress scenarios for rating such debt and are payable exclusively from settlement revenues.

Related Criteria And Research

- Principles Of Corporate And Government Ratings, June 26, 2007
- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- Pension Funding And Policy Challenges Loom For U.S. States, July 8, 2010
- USPF Report Card: 2009 State Debt Review: Significant Challenges Lie Ahead, Dec. 16, 2009
- U.S. States' OPEB Liabilities And Funding Strategies Vary Widely , June 3, 2009
- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.

MOODY'S INVESTORS SERVICE

SPECIAL COMMENT

This is another in an ongoing series on pension obligations. Previous reports (listed on page 10) covered potential pension accounting changes, fiscal pressure on governments, and the stock market's impact on pension funding. The impact of pension obligations on U.S. state and local credit ratings will be the subject of further reports in the coming months.

Combining Debt and Pension Liabilities of U.S. States Enhances Comparability

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Summary

Our credit analysis has long focused on states' net tax-supported debt, while also looking separately at pension funded ratios¹ to assess the relative risk implied in states' long-term liabilities. As part of our ongoing efforts to provide increased transparency, and in view of prospects for sluggish economic growth and slow revenue recovery among U.S. states, this report provides figures that combine unfunded pension liabilities with outstanding bonds when evaluating the leverage position of state governments.

Large and growing debt and pension burdens have been, and will continue to be, contributing factors in rating changes. However, unfunded pension liabilities have grown more rapidly in recent years because of weaker-than-expected investment results, previous benefit enhancements and, in some states, failure to pay the full annual required contribution (ARC).² Moreover, pension liabilities may be understated because of current governmental accounting standards.

Demographic factors (including the retirement of Baby Boom generation employees and increasing life expectancy of beneficiaries) are also adding to liabilities. States are beginning to respond to this growing challenge by increasing contribution requirements, raising minimum retirement ages, and undertaking other reforms. Several states have both high debt and pension liabilities, and these states, predictably, rank highest using these new measures. States' liability rankings versus revenue or economic measures tend to be indicative of the nature of risks these states carry in funding their obligations over the long term. Combining debt and pension metrics will improve transparency for investors by:

- » Supplementing traditional credit analysis measures and improving comparative credit assessment of states
- » Better aligning state credit analysis with corporate and other market sectors
- » Improving comparability between and among U.S. states and corporate issuers.

¹ The funded ratio of a pension is defined as the actuarially determined value of its assets divided by its actuarial, accrued liability for benefits.

² The ARC is defined as the amount needed to provide for future pension benefits earned in the current year as well as the share needed to amortize a portion of any unfunded liability from prior years.

Rationale for Combining Pension Liabilities with Debt

We have historically assessed the credit risk of states' long-term obligations by comparing the amount of outstanding bonds to the size and growth of state tax bases and economies. We have ranked states in our annual debt medians reports based on the par value of outstanding bonds (net tax-supported debt³), as a percentage of income, on a per-capita basis and, more recently, as a share of states' gross domestic product. The funded ratios of pension plans have also been regularly factored into our analysis of state credit. In Moody's U.S. States Scorecard, first published in 2006, states have been ranked based on scores in 15 variables, including aggregate pension funded ratio.⁴

The pension funded ratio alone does not provide a full context for measuring the burden of long-term funding needs. For example, a relatively low funded ratio can reflect liabilities that are small in relation to available resources. A funded ratio that appears to be healthier when compared with those of other states still can be associated with onerous funding needs, given states' differing capacities to generate tax revenues, cut operating costs, and reform pension plans. Treating pension liabilities as a form of debt, and combining the unfunded amount with outstanding indebtedness, improves transparency by providing a more complete comparison of states based on their total long-term obligations as a portion of available revenue and taxing capacity.

The total pension and debt burden highlights different credit characteristics when compared to economic or revenue measures. Pension and debt liabilities compared to operating fund revenues indicate the relative degree of affordability based on current revenue sources. A comparison of the combined liabilities to GDP, population, and personal income indicates the economic and demographic base states may draw on to meet their obligations over time. For states such as Connecticut, Illinois and New Jersey, which have engaged in both underfunding and pension bond issuance, combined debt and pension metrics facilitate more comprehensive comparisons. This approach also provides a basis for comparisons with other sectors, such as hospitals and corporations.

Accounting Rules Allow Significant Flexibility in Determining Liabilities

Public pension obligations represent deferred compensation owed to government employees. To derive the value of their obligations, states use actuarial projections, which incorporate assumptions about employee retirement ages, longevity, investment performance, and other factors. The unfunded actuarial accrued liabilities (UAALs) are highly sensitive to changes in the underlying assumptions. States use different combinations of assumptions and actuarial cost methods, making comparisons among states imperfect. Nonetheless, Moody's relies on the issuer's reported pension funded ratio and ARC as rough estimates of the magnitude of pension liabilities.

Notably, the Governmental Accounting Standards Board's rules applicable to pension reporting (GASBS 25 and 27) allow states significant flexibility not permitted under the Financial Accounting Standards Board's rules for corporate financial reporting (FAS 87). GASB indicates that the discount rate used to derive plan liabilities' present value should be consistent with expected long-term asset returns. FASB, meanwhile, dictates that the discount rate be consistent with guaranteed investment contracts or other instruments that could be used to settle a plan's liabilities. This difference stems from the fact that governments exist in perpetuity, while corporations can cease to exist. States and

³ Net tax-supported debt excludes bonds that are not supported by state revenues and moral obligations or other guarantees that are not expected to be paid from state revenues.

⁴ The U.S. States Scorecard includes an aggregate funded ratio for each state as one of four metrics in the debt category.

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other public-sector plan sponsors typically discount their liabilities using the approximately 8% return anticipated on stocks and other assets, which substantially reduces the liabilities' reported size. For a state with a pension funded ratio of 70%, lowering the discount rate to 7% from 8% would lower the funded ratio to approximately 63%.

Moody's uses valuations of assets and liabilities for pension funding as reported in audited financial statements for states according to GASB reporting standards. Use of other assumptions and valuation methods would likely lead to higher unfunded liabilities than are currently disclosed.

Pension Benefits Are Protected, Long-Term Obligations

States typically provide pension benefits through retirement plans managed by systems that are not directly managed by the state government, but that are bound by statutory provisions. Once accrued, public pension benefits are protected, contractual obligations, sometimes shielded by specific pension provisions in state constitutions. In this respect, pension benefits differ from other post-employment benefits (or OPEB, primarily health insurance), which are typically easier for states to alter.⁵ Pension liabilities therefore have an irrevocable, long-term nature that resembles bonded debt. States, however, retain the ability to alter many factors that go into valuing pension liabilities. In addition, states' requirements to contribute to pension plans in any specific year are subject to statutory change. States have also passed laws granting relief from contribution requirements in times of fiscal stress. Bonds, by contrast, carry specific dates on which interest and principal must be paid, and these dates are not subject to change by the legislature.

Connecticut, Illinois and Hawaii Debt and Pension Liabilities Rank Among Highest

The combined net tax-supported debt and pension liability figures in this report have been measured compared with state personal income, GDP, population and operating fund revenue. The states with the largest combined pension and debt burdens include Connecticut, Hawaii, Illinois, Kentucky, Massachusetts, Mississippi, New Jersey and Rhode Island, as well as the Commonwealth of Puerto Rico. Figures 1 and 2 display the 10 states with the largest long-term liabilities as a percentage of revenues and as a percentage of GDP, respectively. A total of 12 states appear in these charts.

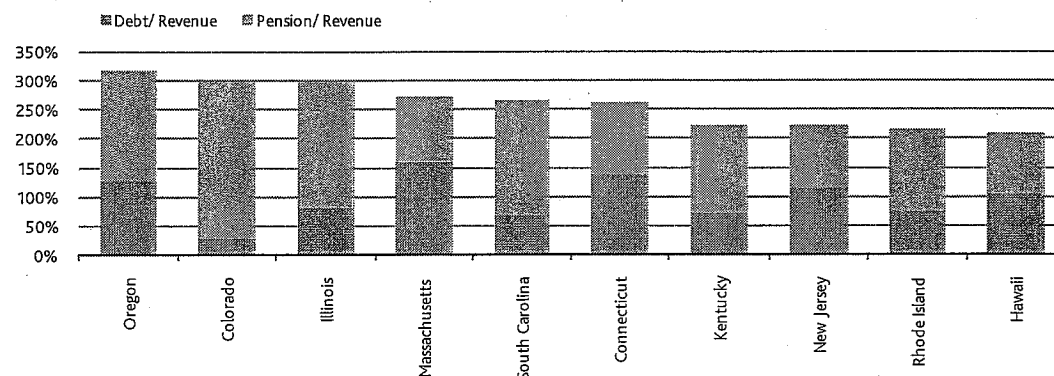
In general, states' rankings for debt and pension combined parallel their rankings for debt alone. Nebraska and South Dakota have conservative approaches to borrowing in the bond market and also benefit from comparatively low pension funding needs and therefore rank among the lowest in the combined measures. Hawaii, Massachusetts and Connecticut – the three states with the largest ratios of bonded debt to personal income – are also among states with the largest combined debt and pension obligations relative to their economies and revenues. Connecticut (Aa2, stable) has a combination of very high debt and pension obligations, even in view of its wealth. Looking at all four measures of pension and debt burden, Connecticut has the highest funding needs, followed by Hawaii, Massachusetts (Aa1, stable), Mississippi (Aa2, stable) and Illinois. Hawaii (Aa1, negative) has a combination of very high debt (given that it issues debt for local capital projects), and it has struggled to make pension ARCs in recent years. Most of these states, however, have offsetting credit strengths that account for their high ratings, underscoring that these liabilities are only one of many factors that contribute to state credit ratings. In the case of Illinois, this high burden in combination with other fiscal weaknesses makes Illinois the lowest rated state, at A1 with a negative outlook.

⁵ While we do include OPEB liabilities in our analysis of states, we have not included them in the current report because they are less binding under state law.

Not all states with large debt burdens also suffer from weak pension funding, however. New York (Aa2, stable), Delaware (Aaa, stable) and California (A1, stable) – states with comparatively large debt burdens – are not among the states with the highest combined long-term liabilities. New York which ranked fifth for debt to personal income in Moody's 2010 state debt medians report, ranks 35th based on its combined debt and pension obligations relative to personal income. Colorado and Illinois have two of the largest combined debt and pension obligations versus revenues for different reasons. In the case of Colorado (Aa1, stable issuer rating), the ranking reflects weak pension funding and a revenue system that has been ratcheted lower by the state's constitutional constraints on taxes. Illinois' ranking is the product of a severe pension funding shortfall, a high debt burden, and use of numerous special revenue funds that reduce revenues of the state's general operating funds.

FIGURE 1

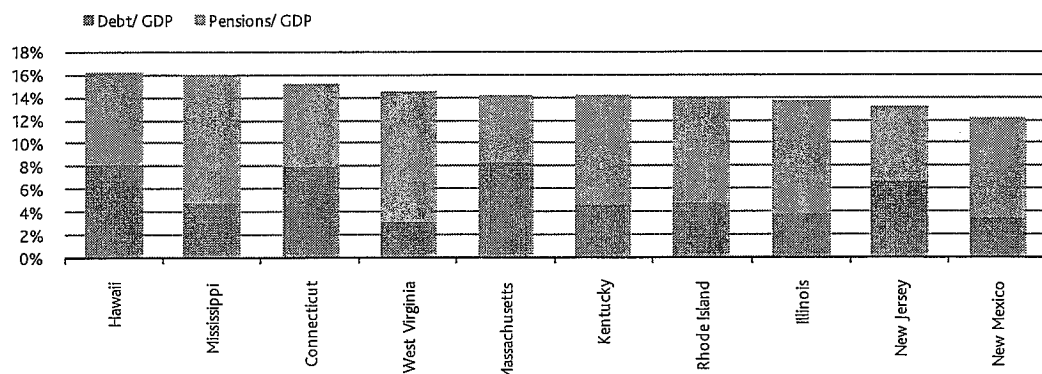
Combined Liabilities as Share of Operating Revenue – Top 10 States



Illinois has also faced dwindling tax revenues in the recent recession while its pension contribution requirements have increased. Illinois law provides for annual contributions that are less than the actuarially determined amount needed to amortize pension liabilities over 30 years. The relative burden of Illinois' combined long-term debt and pension obligations may be understated compared with other states due to the adoption of a five-year smoothing policy for asset valuation.

FIGURE 2

Combined Liabilities as Share of State GDP – Top 10 States



Mississippi is a comparatively high-debt state, because of debt issued for economic development. The state in recent years has experienced faster growth in pension liabilities than in assets. As a consequence, Mississippi this year raised the required employee contribution rate to 9% of gross salary from 7.25%. Kentucky (Aa1, negative issuer rating) also has comparatively high net tax-supported debt. The state in 2008 enacted legislation aimed at moving to full ARC payments, although not until 2025. Rhode Island (Aa2, stable) has unfunded pension liabilities that reflect a history of generous retirement incentives, as well as weak investment returns in recent years. The state is paying its annual required contribution and has enacted a series of pension reforms, which indicate the burden will be manageable over time.

New Jersey (Aa2, negative) faces pension funding requirements that, like Illinois,⁶ are straining the state's budget. The state has committed, under a package of pension reforms, to fund one seventh of its ARC in fiscal 2012. In fiscal 2010, New Jersey failed to make any contribution, and it did not budget a contribution for the current year. In addition, the state faces retiree health benefit liabilities that are even more onerous than its pension burden. The governor has proposed additional reforms, including reversal of a 9% benefit increase granted in 2001, elimination of automatic cost-of-living adjustments, and increases in both the minimum retirement age and required employee contributions.

The State of Alaska (Aaa, stable) has a low liability-to-revenue ranking but, interestingly, relatively high liability rankings based on income and population (fifth and sixth, respectively). These divergent rankings are explained by the state's petroleum-tax-based revenue system, which is not directly connected to population or personal income.

Not included in the preceding charts is the Commonwealth of Puerto Rico, for which the outlook was revised to negative in August in large part because of a very low pension funded ratio. Puerto Rico (A3, negative) has three pension funds, which have a combined funded ratio of 14.5%. The combined debt and pension measure shows that Puerto Rico's debt and pension burden is dramatically higher than the 50 states as a share of economic output, at 94% of GDP compared with Hawaii's 16%. Puerto Rico's long-term liabilities are 437% of revenues, compared with just under 300% for Colorado and Illinois.

Combining Long-Term Liabilities Is a Step Towards Enhanced Analysis of States' Relative Pension Funding

The combination of pension and debt measures represents a tool to help investors understand the relative magnitudes of these long-term liabilities. Pension funding pressures will continue to have a negative impact on state credit quality and state ratings. Combining debt and pension liabilities will allow enhanced comparisons not only among states but also with corporate entities.

We acknowledge, nevertheless, that these measures have certain limitations. Despite existing provisions under generally accepted accounting principles to standardize pension disclosure, states are able to make different assumptions about interest rates and other key variables, and they are able to use different actuarial cost methods. We have not adjusted for these differences. In addition, many states participate in cost-sharing, multi-employer plans, for which the reported liabilities include substantial amounts attributable to local governments. In some cases,⁶ we have already adjusted the liabilities to reflect the approximate amounts attributable to the state rather than to local entities, but we expect to revise the data further over time to more accurately reflect states' portions of cost-sharing plans. This

⁶ We have adjusted the pension liability amounts attributable to Ohio and Nevada, in response to the states' estimates of their shares of liabilities in cost-sharing plans.

approach improves our ability to assess and compare states' long-term liabilities at a time when pension funding pressures are increasing.

FIGURE 3

States' Combined Pension and Long-Term Debt Liabilities Compared to Various Metrics

Ranked From Highest to Lowest

Personal Income			GDP			Per Capita		As a % of Revenue			
1	Hawaii	27.7%	1	Hawaii	16.2%	1	Connecticut	9,366	1	Oregon	316.8%
2	Mississippi	22.8%	2	Mississippi	15.9%	2	Hawaii	7,987	2	Colorado	298.5%
3	Connecticut	22.3%	3	Connecticut	15.2%	3	Massachusetts	7,872	3	Illinois	296.8%
4	New Mexico	21.9%	4	West Virginia	14.5%	4	New Jersey	7,198	4	Massachusetts	271.9%
5	Alaska	21.6%	5	Massachusetts	14.2%	5	Illinois	6,692	5	South Carolina	264.0%
6	Kentucky	21.2%	6	Kentucky	14.2%	6	Alaska	6,407	6	Connecticut	262.7%
7	West Virginia	20.9%	7	Rhode Island	13.9%	7	Rhode Island	6,261	7	Kentucky	223.0%
8	Massachusetts	20.6%	8	Illinois	13.6%	8	Kentucky	5,143	8	New Jersey	222.6%
9	Illinois	20.5%	9	New Jersey	13.2%	9	Mississippi	4,955	9	Rhode Island	217.3%
10	Rhode Island	19.7%	10	New Mexico	12.2%	10	West Virginia	4,910	10	Hawaii	210.3%
11	Louisiana	18.9%	11	Oregon	11.0%	11	New Mexico	4,842	11	Mississippi	202.0%
12	New Jersey	18.5%	12	Oklahoma	10.4%	12	Louisiana	4,799	12	Alabama	195.0%
13	Oregon	17.6%	13	South Carolina	10.4%	13	Maryland	4,677	13	Montana	173.3%
14	Oklahoma	17.1%	14	Maine	10.1%	14	Oregon	4,666	14	Maryland	172.7%
15	South Carolina	15.6%	15	Maryland	9.8%	15	Oklahoma	4,142	15	Louisiana	167.0%
16	Maine	13.9%	16	Louisiana	9.7%	16	Colorado	3,968	16	Maine	167.0%
17	Maryland	13.5%	17	Alaska	9.3%	17	Maine	3,790	17	New Hampshire	164.5%
18	Colorado	13.3%	18	Montana	8.3%	18	California	3,704	18	Arizona	164.2%
19	Montana	13.2%	19	Colorado	8.0%	19	Minnesota	3,688	19	California	162.6%
20	Idaho	12.0%	20	Idaho	7.7%	20	South Carolina	3,560	20	New Mexico	162.6%
21	California	11.8%	21	Alabama	7.6%	21	New Hampshire	3,336	21	Oklahoma	160.8%
22	Alabama	11.5%	22	California	7.4%	22	Montana	3,071	22	West Virginia	149.3%
23	Minnesota	11.4%	23	Minnesota	7.4%	23	Delaware	2,974	23	Idaho	146.0%
24	Utah	10.9%	24	New Hampshire	7.4%	24	Kansas	2,968	24	Kansas	134.1%
25	Kansas	10.6%	25	Kansas	6.8%	25	Alabama	2,756	25	Minnesota	127.9%
26	Arizona	10.3%	26	Vermont	6.0%	26	Wyoming	2,731	26	Florida	123.4%
27	New Hampshire	10.1%	27	Arizona	5.9%	27	Idaho	2,616	27	Nevada	119.2%
28	Delaware	9.9%	28	Utah	5.6%	28	New York	2,601	28	Utah	118.3%
29	Wyoming	9.7%	29	Washington	5.2%	29	Washington	2,510	29	Washington	117.8%
30	Washington	8.4%	30	Florida	5.2%	30	Vermont	2,462	30	Virginia	114.6%
31	Vermont	8.4%	31	Georgia	5.1%	31	Virginia	2,257	31	Georgia	111.4%
32	Georgia	8.2%	32	Michigan	5.0%	32	Arizona	2,233	32	New York	101.6%
33	Florida	7.8%	33	Arkansas	4.7%	33	Utah	2,207	33	Pennsylvania	84.5%
34	Virginia	7.4%	34	Virginia	4.5%	34	Florida	2,073	34	Michigan	78.1%
35	New York	7.4%	35	New York	4.4%	35	Georgia	2,067	35	North Dakota	73.1%
36	Arkansas	7.2%	36	Delaware	4.3%	36	Michigan	1,903	36	Ohio	71.7%
37	Nevada	6.2%	37	Wyoming	4.2%	37	Wisconsin	1,765	37	Delaware	70.7%

FIGURE 3

States' Combined Pension and Long-Term Debt Liabilities Compared to Various Metrics

Ranked From Highest to Lowest

Personal Income			GDP			Per Capita		As a % of Revenue			
38	Michigan	6.2%	38	Wisconsin	4.2%	38	Pennsylvania	1,726	38	Missouri	69.8%
39	Wisconsin	6.1%	39	Pennsylvania	3.9%	39	Arkansas	1,587	39	Wyoming	67.9%
40	North Dakota	5.6%	40	Nevada	3.1%	40	Nevada	1,547	40	Vermont	66.1%
41	Pennsylvania	5.6%	41	North Dakota	3.1%	41	North Dakota	1,477	41	Wisconsin	65.3%
42	Texas	4.5%	42	Ohio	2.9%	42	Ohio	1,184	42	Texas	64.7%
43	Ohio	4.1%	43	Missouri	2.8%	43	Texas	1,131	43	Alaska	64.1%
44	Missouri	4.0%	44	Texas	2.3%	44	Missouri	1,099	44	South Dakota	60.9%
45	South Dakota	3.5%	45	Iowa	2.1%	45	Iowa	949	45	Arkansas	59.5%
46	Iowa	3.4%	46	South Dakota	1.9%	46	South Dakota	884	46	North Carolina	42.0%
47	North Carolina	3.3%	47	North Carolina	1.9%	47	North Carolina	818	47	Tennessee	37.2%
48	Tennessee	2.9%	48	Tennessee	1.9%	48	Tennessee	750	48	Indiana	35.4%
49	Indiana	2.5%	49	Indiana	1.7%	49	Indiana	685	49	Iowa	32.3%
50	Nebraska	0.1%	50	Nebraska	0.1%	50	Nebraska	43	50	Nebraska	2.3%
Puerto Rico		108.4%	94.4%			16,157*				436.8	

Sources: State and retirement plan audited financial reports, Moody's State Debt Medians, Bureau of Economic Analysis and U.S. Census Bureau information

* Per capita was derived using the per capita income multiplied by population (both numbers found in 2009 CAFR)

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FIGURE 4

States' Debt and Pension Liabilities

State	Net Tax-Supported Debt (000s)	Unfunded Pension Liability (000s)	Combined Debt and Pension (000s)
Alabama	\$3,748,559	\$9,228,918	\$12,977,477
Alaska	\$939,600	\$3,535,519	\$4,475,119
Arizona	\$4,856,686	\$9,868,823	\$14,725,509
Arkansas	\$900,483	\$3,686,420	\$4,586,903
California	\$87,320,000	\$49,589,000	\$136,909,000
Colorado	\$2,011,683	\$17,925,705	\$19,937,388
Connecticut	\$17,093,853	\$15,858,500	\$32,952,353
Delaware	\$2,202,968	\$429,399	\$2,632,367
Florida	\$20,819,974	\$17,610,905	\$38,430,879
Georgia	\$11,011,066	\$9,303,207	\$20,314,273
Hawaii	\$5,176,063	\$5,168,108	\$10,344,171
Idaho	\$831,110	\$3,213,106	\$4,044,216
Illinois	\$23,957,015	\$62,439,093	\$86,396,108
Indiana	\$3,156,986	\$1,239,639	\$4,396,625
Iowa	\$219,279	\$2,635,677	\$2,854,956
Kansas	\$3,213,826	\$5,152,469	\$8,366,295
Kentucky	\$7,269,586	\$14,918,955	\$22,188,541
Louisiana	\$5,708,165	\$15,851,276	\$21,559,441
Maine	\$1,002,485	\$3,994,115	\$4,996,600
Maryland	\$9,166,095	\$17,488,177	\$26,654,272
Massachusetts	\$30,371,476	\$21,533,599	\$51,905,075
Michigan	\$7,461,594	\$11,515,100	\$18,976,694
Minnesota	\$5,463,418	\$13,955,784	\$19,419,202
Mississippi	\$4,364,174	\$10,262,074	\$14,626,248
Missouri	\$4,672,127	\$1,906,496	\$6,578,623
Montana	\$349,260	\$2,645,369	\$2,994,629
Nebraska	\$27,032	\$49,446	\$76,478
Nevada	\$2,446,111	\$1,643,838	\$4,089,949
New Hampshire	\$880,871	\$3,537,732	\$4,418,603
New Jersey	\$31,951,013	\$30,726,692	\$62,677,705
New Mexico	\$2,809,156	\$6,922,147	\$9,731,303
New York	\$61,259,793	\$(10,428,000)	\$50,831,793
North Carolina	\$7,174,650	\$503,580	\$7,678,230
North Dakota	\$211,822	\$743,800	\$955,622
Ohio	\$10,766,277	\$2,904,560	\$13,670,837
Oklahoma	\$2,100,583	\$13,172,000	\$15,272,583
Oregon	\$7,110,604	\$10,738,900	\$17,849,504
Pennsylvania	\$11,827,000	\$9,923,500	\$21,750,500

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FIGURE 4

States' Debt and Pension Liabilities

State	Net Tax-Supported Debt (000s)	Unfunded Pension Liability (000s)	Combined Debt and Pension (000s)
Rhode Island	\$2,240,527	\$4,353,892	\$6,594,419
South Carolina	\$4,184,210	\$12,052,684	\$16,236,894
South Dakota	\$109,528	\$608,886	\$718,414
Tennessee	\$2,003,673	\$2,719,767	\$4,723,440
Texas	\$12,892,508	\$15,124,564	\$28,017,072
Utah	\$2,665,545	\$3,480,753	\$6,146,298
Vermont	\$441,017	\$1,089,831	\$1,530,848
Virginia	\$7,056,177	\$10,733,000	\$17,789,177
Washington	\$14,832,717	\$1,894,400	\$16,727,117
West Virginia	\$1,962,926	\$6,971,820	\$8,934,746
Wisconsin	\$9,726,313	\$252,600	\$9,978,913
Wyoming	\$42,066	\$1,444,353	\$1,486,419
Puerto Rico	\$40,201,000	\$23,900,000	\$64,101,000

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FIGURE 5

States Ranked by Debt and Pension Liability as Share of GDP

State	NTSD/ GDP	State	Unfunded Pension Liability/ GDP	State	Adjusted Debt/ GDP
Massachusetts	8.32%	West Virginia	11.31%	Hawaii	16.20%
Hawaii	8.11%	Mississippi	11.18%	Mississippi	15.94%
Connecticut	7.91%	Illinois	9.85%	Connecticut	15.24%
New Jersey	6.73%	Kentucky	9.54%	West Virginia	14.49%
New York	5.35%	Rhode Island	9.19%	Massachusetts	14.22%
Mississippi	4.75%	Oklahoma	8.99%	Kentucky	14.18%
Rhode Island	4.73%	New Mexico	8.66%	Rhode Island	13.92%
California	4.73%	Hawaii	8.09%	Illinois	13.63%
Kentucky	4.65%	Maine	8.03%	New Jersey	13.20%
Washington	4.60%	South Carolina	7.71%	New Mexico	12.18%
Oregon	4.40%	Alaska	7.38%	Oregon	11.05%
Wisconsin	4.05%	Montana	7.37%	Oklahoma	10.43%
Illinois	3.78%	Connecticut	7.34%	South Carolina	10.38%
Delaware	3.56%	Colorado	7.21%	Maine	10.05%
New Mexico	3.52%	Louisiana	7.13%	Maryland	9.75%
Maryland	3.35%	Oregon	6.65%	Louisiana	9.70%
West Virginia	3.18%	New Jersey	6.47%	Alaska	9.34%
Florida	2.80%	Maryland	6.40%	Montana	8.34%
Georgia	2.77%	Idaho	6.09%	Colorado	8.02%
South Carolina	2.68%	Massachusetts	5.90%	Idaho	7.67%
Kansas	2.62%	New Hampshire	5.90%	Alabama	7.63%
Louisiana	2.57%	Alabama	5.43%	California	7.41%
Utah	2.43%	Minnesota	5.31%	Minnesota	7.39%
Ohio	2.28%	Vermont	4.28%	New Hampshire	7.36%
Alabama	2.20%	Kansas	4.20%	Kansas	6.82%
Pennsylvania	2.14%	Wyoming	4.09%	Vermont	6.02%
Minnesota	2.08%	Arizona	3.97%	Arizona	5.92%
Maine	2.02%	Arkansas	3.75%	Utah	5.60%
Missouri	1.96%	Utah	3.17%	Washington	5.18%
Alaska	1.96%	Michigan	3.01%	Florida	5.16%
Arizona	1.95%	Virginia	2.70%	Georgia	5.11%
Michigan	1.95%	California	2.69%	Michigan	4.96%
Nevada	1.86%	North Dakota	2.38%	Arkansas	4.66%
North Carolina	1.79%	Florida	2.37%	Virginia	4.48%
Virginia	1.78%	Georgia	2.34%	New York	4.44%
Vermont	1.73%	Iowa	1.94%	Delaware	4.26%
Idaho	1.58%	Pennsylvania	1.79%	Wyoming	4.21%
New Hampshire	1.47%	South Dakota	1.65%	Wisconsin	4.15%

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FIGURE 5

States Ranked by Debt and Pension Liability as Share of GDP

State	NTSD/ GDP	State	Unfunded Pension Liability/ GDP	State	Adjusted Debt/ GDP
Oklahoma	1.43%	Nevada	1.25%	Pennsylvania	3.93%
Indiana	1.24%	Texas	1.24%	Nevada	3.12%
Texas	1.05%	Tennessee	1.08%	North Dakota	3.06%
Montana	0.97%	Missouri	0.80%	Ohio	2.90%
Arkansas	0.92%	Delaware	0.69%	Missouri	2.77%
Colorado	0.81%	Ohio	0.62%	Texas	2.29%
Tennessee	0.79%	Washington	0.59%	Iowa	2.10%
North Dakota	0.68%	Indiana	0.49%	South Dakota	1.94%
South Dakota	0.30%	North Carolina	0.13%	North Carolina	1.92%
Iowa	0.16%	Wisconsin	0.11%	Tennessee	1.87%
Wyoming	0.12%	Nebraska	0.06%	Indiana	1.73%
Nebraska	0.03%	New York	-0.91%	Nebraska	0.09%

Moody's Related Research

Special Comments:

- » [U.S. States Credit Scorecard 2010, September 2010 \(126874\)](#)
- » [Roadmap 2010: U.S. State Governments, July 2010 \(126155\)](#)
- » [Governmental Pension Contributions May Increase Due to New Guidance, July 2010 \(126014\)](#)
- » [2010 State Debt Medians Report, May 2010 \(125068\)](#)
- » [Employee Pension Costs Pressure State and Local Governments, November 2009 \(120474\)](#)
- » [Pension Funding May Suffer From 2008 Stock Market Declines, November 2008 \(112335\)](#)

Rating Methodology:

- » [Moody's State Rating Methodology, November 2004 \(89335\)](#)

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Report Number: 128570

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SPECIAL COMMENT

This is another in an ongoing series on pension obligations. Previous reports (listed on page 10) covered potential pension accounting changes, fiscal pressure on governments, and the stock market's impact on pension funding. The impact of pension obligations on U.S. state and local credit ratings will be the subject of further reports in the coming months.

Combining Debt and Pension Liabilities of U.S. States Enhances Comparability

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Summary

Our credit analysis has long focused on states' net tax-supported debt, while also looking separately at pension funded ratios¹ to assess the relative risk implied in states' long-term liabilities. As part of our ongoing efforts to provide increased transparency, and in view of prospects for sluggish economic growth and slow revenue recovery among U.S. states, this report provides figures that combine unfunded pension liabilities with outstanding bonds when evaluating the leverage position of state governments.

Large and growing debt and pension burdens have been, and will continue to be, contributing factors in rating changes. However, unfunded pension liabilities have grown more rapidly in recent years because of weaker-than-expected investment results, previous benefit enhancements and, in some states, failure to pay the full annual required contribution (ARC).² Moreover, pension liabilities may be understated because of current governmental accounting standards.

Demographic factors (including the retirement of Baby Boom generation employees and increasing life expectancy of beneficiaries) are also adding to liabilities. States are beginning to respond to this growing challenge by increasing contribution requirements, raising minimum retirement ages, and undertaking other reforms. Several states have both high debt and pension liabilities, and these states, predictably, rank highest using these new measures. States' liability rankings versus revenue or economic measures tend to be indicative of the nature of risks these states carry in funding their obligations over the long term. Combining debt and pension metrics will improve transparency for investors by:

- » Supplementing traditional credit analysis measures and improving comparative credit assessment of states
- » Better aligning state credit analysis with corporate and other market sectors
- » Improving comparability between and among U.S. states and corporate issuers.

¹ The funded ratio of a pension is defined as the actuarially determined value of its assets divided by its actuarial, accrued liability for benefits.

² The ARC is defined as the amount needed to provide for future pension benefits earned in the current year as well as the share needed to amortize a portion of any unfunded liability from prior years.

Rationale for Combining Pension Liabilities with Debt

We have historically assessed the credit risk of states' long-term obligations by comparing the amount of outstanding bonds to the size and growth of state tax bases and economies. We have ranked states in our annual debt medians reports based on the par value of outstanding bonds (net tax-supported debt³), as a percentage of income, on a per-capita basis and, more recently, as a share of states' gross domestic product. The funded ratios of pension plans have also been regularly factored into our analysis of state credit. In Moody's U.S. States Scorecard, first published in 2006, states have been ranked based on scores in 15 variables, including aggregate pension funded ratio.⁴

The pension funded ratio alone does not provide a full context for measuring the burden of long-term funding needs. For example, a relatively low funded ratio can reflect liabilities that are small in relation to available resources. A funded ratio that appears to be healthier when compared with those of other states still can be associated with onerous funding needs, given states' differing capacities to generate tax revenues, cut operating costs, and reform pension plans. Treating pension liabilities as a form of debt, and combining the unfunded amount with outstanding indebtedness, improves transparency by providing a more complete comparison of states based on their total long-term obligations as a portion of available revenue and taxing capacity.

The total pension and debt burden highlights different credit characteristics when compared to economic or revenue measures. Pension and debt liabilities compared to operating fund revenues indicate the relative degree of affordability based on current revenue sources. A comparison of the combined liabilities to GDP, population, and personal income indicates the economic and demographic base states may draw on to meet their obligations over time. For states such as Connecticut, Illinois and New Jersey, which have engaged in both underfunding and pension bond issuance, combined debt and pension metrics facilitate more comprehensive comparisons. This approach also provides a basis for comparisons with other sectors, such as hospitals and corporations.

Accounting Rules Allow Significant Flexibility in Determining Liabilities

Public pension obligations represent deferred compensation owed to government employees. To derive the value of their obligations, states use actuarial projections, which incorporate assumptions about employee retirement ages, longevity, investment performance, and other factors. The unfunded actuarial accrued liabilities (UAALs) are highly sensitive to changes in the underlying assumptions. States use different combinations of assumptions and actuarial cost methods, making comparisons among states imperfect. Nonetheless, Moody's relies on the issuer's reported pension funded ratio and ARC as rough estimates of the magnitude of pension liabilities.

Notably, the Governmental Accounting Standards Board's rules applicable to pension reporting (GASBS 25 and 27) allow states significant flexibility not permitted under the Financial Accounting Standards Board's rules for corporate financial reporting (FAS 87). GASB indicates that the discount rate used to derive plan liabilities' present value should be consistent with expected long-term asset returns. FASB, meanwhile, dictates that the discount rate be consistent with guaranteed investment contracts or other instruments that could be used to settle a plan's liabilities. This difference stems from the fact that governments exist in perpetuity, while corporations can cease to exist. States and

³ Net tax-supported debt excludes bonds that are not supported by state revenues and moral obligations or other guarantees that are not expected to be paid from state revenues.

⁴ The U.S. States Scorecard includes an aggregate funded ratio for each state as one of four metrics in the debt category.

other public-sector plan sponsors typically discount their liabilities using the approximately 8% return anticipated on stocks and other assets, which substantially reduces the liabilities' reported size. For a state with a pension funded ratio of 70%, lowering the discount rate to 7% from 8% would lower the funded ratio to approximately 63%.

Moody's uses valuations of assets and liabilities for pension funding as reported in audited financial statements for states according to GASB reporting standards. Use of other assumptions and valuation methods would likely lead to higher unfunded liabilities than are currently disclosed.

Pension Benefits Are Protected, Long-Term Obligations

States typically provide pension benefits through retirement plans managed by systems that are not directly managed by the state government, but that are bound by statutory provisions. Once accrued, public pension benefits are protected, contractual obligations, sometimes shielded by specific pension provisions in state constitutions. In this respect, pension benefits differ from other post-employment benefits (or OPEB, primarily health insurance), which are typically easier for states to alter.⁵ Pension liabilities therefore have an irrevocable, long-term nature that resembles bonded debt. States, however, retain the ability to alter many factors that go into valuing pension liabilities. In addition, states' requirements to contribute to pension plans in any specific year are subject to statutory change. States have also passed laws granting relief from contribution requirements in times of fiscal stress. Bonds, by contrast, carry specific dates on which interest and principal must be paid, and these dates are not subject to change by the legislature.

Connecticut, Illinois and Hawaii Debt and Pension Liabilities Rank Among Highest

The combined net tax-supported debt and pension liability figures in this report have been measured compared with state personal income, GDP, population and operating fund revenue. The states with the largest combined pension and debt burdens include Connecticut, Hawaii, Illinois, Kentucky, Massachusetts, Mississippi, New Jersey and Rhode Island, as well as the Commonwealth of Puerto Rico. Figures 1 and 2 display the 10 states with the largest long-term liabilities as a percentage of revenues and as a percentage of GDP, respectively. A total of 12 states appear in these charts.

In general, states' rankings for debt and pension combined parallel their rankings for debt alone. Nebraska and South Dakota have conservative approaches to borrowing in the bond market and also benefit from comparatively low pension funding needs and therefore rank among the lowest in the combined measures. Hawaii, Massachusetts and Connecticut – the three states with the largest ratios of bonded debt to personal income – are also among states with the largest combined debt and pension obligations relative to their economies and revenues. Connecticut (Aa2, stable) has a combination of very high debt and pension obligations, even in view of its wealth. Looking at all four measures of pension and debt burden, Connecticut has the highest funding needs, followed by Hawaii, Massachusetts (Aa1, stable), Mississippi (Aa2, stable) and Illinois. Hawaii (Aa1, negative) has a combination of very high debt (given that it issues debt for local capital projects), and it has struggled to make pension ARCs in recent years. Most of these states, however, have offsetting credit strengths that account for their high ratings, underscoring that these liabilities are only one of many factors that contribute to state credit ratings. In the case of Illinois, this high burden in combination with other fiscal weaknesses makes Illinois the lowest rated state, at A1 with a negative outlook.

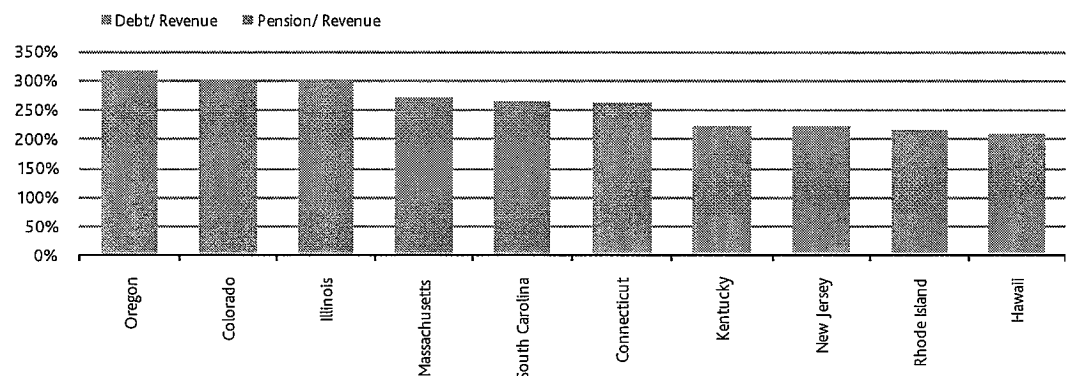
⁵ While we do include OPEB liabilities in our analysis of states, we have not included them in the current report because they are less binding under state law.

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Not all states with large debt burdens also suffer from weak pension funding, however. New York (Aa2, stable), Delaware (Aaa, stable) and California (A1, stable) – states with comparatively large debt burdens – are not among the states with the highest combined long-term liabilities. New York which ranked fifth for debt to personal income in Moody's 2010 state debt medians report, ranks 35th based on its combined debt and pension obligations relative to personal income. Colorado and Illinois have two of the largest combined debt and pension obligations versus revenues for different reasons. In the case of Colorado (Aa1, stable issuer rating), the ranking reflects weak pension funding and a revenue system that has been ratcheted lower by the state's constitutional constraints on taxes. Illinois' ranking is the product of a severe pension funding shortfall, a high debt burden, and use of numerous special revenue funds that reduce revenues of the state's general operating funds.

FIGURE 1

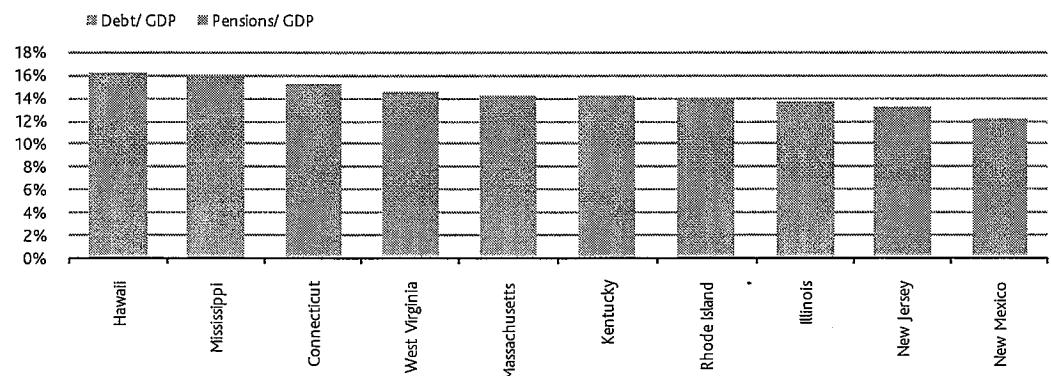
Combined Liabilities as Share of Operating Revenue – Top 10 States



Illinois has also faced dwindling tax revenues in the recent recession while its pension contribution requirements have increased. Illinois law provides for annual contributions that are less than the actuarially determined amount needed to amortize pension liabilities over 30 years. The relative burden of Illinois' combined long-term debt and pension obligations may be understated compared with other states due to the adoption of a five-year smoothing policy for asset valuation.

FIGURE 2

Combined Liabilities as Share of State GDP – Top 10 States



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Mississippi is a comparatively high-debt state, because of debt issued for economic development. The state in recent years has experienced faster growth in pension liabilities than in assets. As a consequence, Mississippi this year raised the required employee contribution rate to 9% of gross salary from 7.25%. Kentucky (Aa1, negative issuer rating) also has comparatively high net tax-supported debt. The state in 2008 enacted legislation aimed at moving to full ARC payments, although not until 2025. Rhode Island (Aa2, stable) has unfunded pension liabilities that reflect a history of generous retirement incentives, as well as weak investment returns in recent years. The state is paying its annual required contribution and has enacted a series of pension reforms, which indicate the burden will be manageable over time.

New Jersey (Aa2, negative) faces pension funding requirements that, like Illinois,⁶ are straining the state's budget. The state has committed, under a package of pension reforms, to fund one seventh of its ARC in fiscal 2012. In fiscal 2010, New Jersey failed to make any contribution, and it did not budget a contribution for the current year. In addition, the state faces retiree health benefit liabilities that are even more onerous than its pension burden. The governor has proposed additional reforms, including reversal of a 9% benefit increase granted in 2001, elimination of automatic cost-of-living adjustments, and increases in both the minimum retirement age and required employee contributions.

The State of Alaska (Aaa, stable) has a low liability-to-revenue ranking but, interestingly, relatively high liability rankings based on income and population (fifth and sixth, respectively). These divergent rankings are explained by the state's petroleum-tax-based revenue system, which is not directly connected to population or personal income.

Not included in the preceding charts is the Commonwealth of Puerto Rico, for which the outlook was revised to negative in August in large part because of a very low pension funded ratio. Puerto Rico (A3, negative) has three pension funds, which have a combined funded ratio of 14.5%. The combined debt and pension measure shows that Puerto Rico's debt and pension burden is dramatically higher than the 50 states as a share of economic output, at 94% of GDP compared with Hawaii's 16%. Puerto Rico's long-term liabilities are 437% of revenues, compared with just under 300% for Colorado and Illinois.

Combining Long-Term Liabilities Is a Step Towards Enhanced Analysis of States' Relative Pension Funding

The combination of pension and debt measures represents a tool to help investors understand the relative magnitudes of these long-term liabilities. Pension funding pressures will continue to have a negative impact on state credit quality and state ratings. Combining debt and pension liabilities will allow enhanced comparisons not only among states but also with corporate entities.

We acknowledge, nevertheless, that these measures have certain limitations. Despite existing provisions under generally accepted accounting principles to standardize pension disclosure, states are able to make different assumptions about interest rates and other key variables, and they are able to use different actuarial cost methods. We have not adjusted for these differences. In addition, many states participate in cost-sharing, multi-employer plans, for which the reported liabilities include substantial amounts attributable to local governments. In some cases,⁶ we have already adjusted the liabilities to reflect the approximate amounts attributable to the state rather than to local entities, but we expect to revise the data further over time to more accurately reflect states' portions of cost-sharing plans. This

⁶ We have adjusted the pension liability amounts attributable to Ohio and Nevada, in response to the states' estimates of their shares of liabilities in cost-sharing plans.

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approach improves our ability to assess and compare states' long-term liabilities at a time when pension funding pressures are increasing.

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FIGURE 3

States' Combined Pension and Long-Term Debt Liabilities Compared to Various Metrics

Ranked From Highest to Lowest

Personal Income			GDP			Per Capita		As a % of Revenue			
1	Hawaii	27.7%	1	Hawaii	16.2%	1	Connecticut	9,366	1	Oregon	316.8%
2	Mississippi	22.8%	2	Mississippi	15.9%	2	Hawaii	7,987	2	Colorado	298.5%
3	Connecticut	22.3%	3	Connecticut	15.2%	3	Massachusetts	7,872	3	Illinois	296.8%
4	New Mexico	21.9%	4	West Virginia	14.5%	4	New Jersey	7,198	4	Massachusetts	271.9%
5	Alaska	21.6%	5	Massachusetts	14.2%	5	Illinois	6,692	5	South Carolina	264.0%
6	Kentucky	21.2%	6	Kentucky	14.2%	6	Alaska	6,407	6	Connecticut	262.7%
7	West Virginia	20.9%	7	Rhode Island	13.9%	7	Rhode Island	6,261	7	Kentucky	223.0%
8	Massachusetts	20.6%	8	Illinois	13.6%	8	Kentucky	5,143	8	New Jersey	222.6%
9	Illinois	20.5%	9	New Jersey	13.2%	9	Mississippi	4,955	9	Rhode Island	217.3%
10	Rhode Island	19.7%	10	New Mexico	12.2%	10	West Virginia	4,910	10	Hawaii	210.3%
11	Louisiana	18.9%	11	Oregon	11.0%	11	New Mexico	4,842	11	Mississippi	202.0%
12	New Jersey	18.5%	12	Oklahoma	10.4%	12	Louisiana	4,799	12	Alabama	195.0%
13	Oregon	17.6%	13	South Carolina	10.4%	13	Maryland	4,677	13	Montana	173.3%
14	Oklahoma	17.1%	14	Maine	10.1%	14	Oregon	4,666	14	Maryland	172.7%
15	South Carolina	15.6%	15	Maryland	9.8%	15	Oklahoma	4,142	15	Louisiana	167.0%
16	Maine	13.9%	16	Louisiana	9.7%	16	Colorado	3,968	16	Maine	167.0%
17	Maryland	13.5%	17	Alaska	9.3%	17	Maine	3,790	17	New Hampshire	164.5%
18	Colorado	13.3%	18	Montana	8.3%	18	California	3,704	18	Arizona	164.2%
19	Montana	13.2%	19	Colorado	8.0%	19	Minnesota	3,688	19	California	162.6%
20	Idaho	12.0%	20	Idaho	7.7%	20	South Carolina	3,560	20	New Mexico	162.6%
21	California	11.8%	21	Alabama	7.6%	21	New Hampshire	3,336	21	Oklahoma	160.8%
22	Alabama	11.5%	22	California	7.4%	22	Montana	3,071	22	West Virginia	149.3%
23	Minnesota	11.4%	23	Minnesota	7.4%	23	Delaware	2,974	23	Idaho	146.0%
24	Utah	10.9%	24	New Hampshire	7.4%	24	Kansas	2,968	24	Kansas	134.1%
25	Kansas	10.6%	25	Kansas	6.8%	25	Alabama	2,756	25	Minnesota	127.9%
26	Arizona	10.3%	26	Vermont	6.0%	26	Wyoming	2,731	26	Florida	123.4%
27	New Hampshire	10.1%	27	Arizona	5.9%	27	Idaho	2,616	27	Nevada	119.2%
28	Delaware	9.9%	28	Utah	5.6%	28	New York	2,601	28	Utah	118.3%
29	Wyoming	9.7%	29	Washington	5.2%	29	Washington	2,510	29	Washington	117.8%
30	Washington	8.4%	30	Florida	5.2%	30	Vermont	2,462	30	Virginia	114.6%
31	Vermont	8.4%	31	Georgia	5.1%	31	Virginia	2,257	31	Georgia	111.4%
32	Georgia	8.2%	32	Michigan	5.0%	32	Arizona	2,233	32	New York	101.6%
33	Florida	7.8%	33	Arkansas	4.7%	33	Utah	2,207	33	Pennsylvania	84.5%
34	Virginia	7.4%	34	Virginia	4.5%	34	Florida	2,073	34	Michigan	78.1%
35	New York	7.4%	35	New York	4.4%	35	Georgia	2,067	35	North Dakota	73.1%
36	Arkansas	7.2%	36	Delaware	4.3%	36	Michigan	1,903	36	Ohio	71.7%
37	Nevada	6.2%	37	Wyoming	4.2%	37	Wisconsin	1,765	37	Delaware	70.7%

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FIGURE 4

States' Debt and Pension Liabilities

State	Net Tax-Supported Debt (000s)	Unfunded Pension Liability (000s)	Combined Debt and Pension (000s)
Alabama	\$3,748,559	\$9,228,918	\$12,977,477
Alaska	\$939,600	\$3,535,519	\$4,475,119
Arizona	\$4,856,686	\$9,868,823	\$14,725,509
Arkansas	\$900,483	\$3,686,420	\$4,586,903
California	\$87,320,000	\$49,589,000	\$136,909,000
Colorado	\$2,011,683	\$17,925,705	\$19,937,388
Connecticut	\$17,093,853	\$15,858,500	\$32,952,353
Delaware	\$2,202,968	\$429,399	\$2,632,367
Florida	\$20,819,974	\$17,610,905	\$38,430,879
Georgia	\$11,011,066	\$9,303,207	\$20,314,273
Hawaii	\$5,176,063	\$5,168,108	\$10,344,171
Idaho	\$831,110	\$3,213,106	\$4,044,216
Illinois	\$23,957,015	\$62,439,093	\$86,396,108
Indiana	\$3,156,986	\$1,239,639	\$4,396,625
Iowa	\$219,279	\$2,635,677	\$2,854,956
Kansas	\$3,213,826	\$5,152,469	\$8,366,295
Kentucky	\$7,269,586	\$14,918,955	\$22,188,541
Louisiana	\$5,708,165	\$15,851,276	\$21,559,441
Maine	\$1,002,485	\$3,994,115	\$4,996,600
Maryland	\$9,166,095	\$17,488,177	\$26,654,272
Massachusetts	\$30,371,476	\$21,533,599	\$51,905,075
Michigan	\$7,461,594	\$11,515,100	\$18,976,694
Minnesota	\$5,463,418	\$13,955,784	\$19,419,202
Mississippi	\$4,364,174	\$10,262,074	\$14,626,248
Missouri	\$4,672,127	\$1,906,496	\$6,578,623
Montana	\$349,260	\$2,645,369	\$2,994,629
Nebraska	\$27,032	\$49,446	\$76,478
Nevada	\$2,446,111	\$1,643,838	\$4,089,949
New Hampshire	\$880,871	\$3,537,732	\$4,418,603
New Jersey	\$31,951,013	\$30,726,692	\$62,677,705
New Mexico	\$2,809,156	\$6,922,147	\$9,731,303
New York	\$61,259,793	\$(10,428,000)	\$50,831,793
North Carolina	\$7,174,650	\$503,580	\$7,678,230
North Dakota	\$211,822	\$743,800	\$955,622
Ohio	\$10,766,277	\$2,904,560	\$13,670,837
Oklahoma	\$2,100,583	\$13,172,000	\$15,272,583
Oregon	\$7,110,604	\$10,738,900	\$17,849,504
Pennsylvania	\$11,827,000	\$9,923,500	\$21,750,500

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FIGURE 4

States' Debt and Pension Liabilities

State	Net Tax-Supported Debt (000s)	Unfunded Pension Liability (000s)	Combined Debt and Pension (000s)
Rhode Island	\$2,240,527	\$4,353,892	\$6,594,419
South Carolina	\$4,184,210	\$12,052,684	\$16,236,894
South Dakota	\$109,528	\$608,886	\$718,414
Tennessee	\$2,003,673	\$2,719,767	\$4,723,440
Texas	\$12,892,508	\$15,124,564	\$28,017,072
Utah	\$2,665,545	\$3,480,753	\$6,146,298
Vermont	\$441,017	\$1,089,831	\$1,530,848
Virginia	\$7,056,177	\$10,733,000	\$17,789,177
Washington	\$14,832,717	\$1,894,400	\$16,727,117
West Virginia	\$1,962,926	\$6,971,820	\$8,934,746
Wisconsin	\$9,726,313	\$252,600	\$9,978,913
Wyoming	\$42,066	\$1,444,353	\$1,486,419
Puerto Rico	\$40,201,000	\$23,900,000	\$64,101,000

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FIGURE 5

States Ranked by Debt and Pension Liability as Share of GDP

State	NTSD/ GDP	State	Unfunded Pension Liability/ GDP	State	Adjusted Debt/ GDP
Massachusetts	8.32%	West Virginia	11.31%	Hawaii	16.20%
Hawaii	8.11%	Mississippi	11.18%	Mississippi	15.94%
Connecticut	7.91%	Illinois	9.85%	Connecticut	15.24%
New Jersey	6.73%	Kentucky	9.54%	West Virginia	14.49%
New York	5.35%	Rhode Island	9.19%	Massachusetts	14.22%
Mississippi	4.75%	Oklahoma	8.99%	Kentucky	14.18%
Rhode Island	4.73%	New Mexico	8.66%	Rhode Island	13.92%
California	4.73%	Hawaii	8.09%	Illinois	13.63%
Kentucky	4.65%	Maine	8.03%	New Jersey	13.20%
Washington	4.60%	South Carolina	7.71%	New Mexico	12.18%
Oregon	4.40%	Alaska	7.38%	Oregon	11.05%
Wisconsin	4.05%	Montana	7.37%	Oklahoma	10.43%
Illinois	3.78%	Connecticut	7.34%	South Carolina	10.38%
Delaware	3.56%	Colorado	7.21%	Maine	10.05%
New Mexico	3.52%	Louisiana	7.13%	Maryland	9.75%
Maryland	3.35%	Oregon	6.65%	Louisiana	9.70%
West Virginia	3.18%	New Jersey	6.47%	Alaska	9.34%
Florida	2.80%	Maryland	6.40%	Montana	8.34%
Georgia	2.77%	Idaho	6.09%	Colorado	8.02%
South Carolina	2.68%	Massachusetts	5.90%	Idaho	7.67%
Kansas	2.62%	New Hampshire	5.90%	Alabama	7.63%
Louisiana	2.57%	Alabama	5.43%	California	7.41%
Utah	2.43%	Minnesota	5.31%	Minnesota	7.39%
Ohio	2.28%	Vermont	4.28%	New Hampshire	7.36%
Alabama	2.20%	Kansas	4.20%	Kansas	6.82%
Pennsylvania	2.14%	Wyoming	4.09%	Vermont	6.02%
Minnesota	2.08%	Arizona	3.97%	Arizona	5.92%
Maine	2.02%	Arkansas	3.75%	Utah	5.60%
Missouri	1.96%	Utah	3.17%	Washington	5.18%
Alaska	1.96%	Michigan	3.01%	Florida	5.16%
Arizona	1.95%	Virginia	2.70%	Georgia	5.11%
Michigan	1.95%	California	2.69%	Michigan	4.96%
Nevada	1.86%	North Dakota	2.38%	Arkansas	4.66%
North Carolina	1.79%	Florida	2.37%	Virginia	4.48%
Virginia	1.78%	Georgia	2.34%	New York	4.44%
Vermont	1.73%	Iowa	1.94%	Delaware	4.26%
Idaho	1.58%	Pennsylvania	1.79%	Wyoming	4.21%
New Hampshire	1.47%	South Dakota	1.65%	Wisconsin	4.15%

FIGURE 5

States Ranked by Debt and Pension Liability as Share of GDP

State	NTSD/ GDP	State	Unfunded Pension Liability/ GDP	State	Adjusted Debt/ GDP
Oklahoma	1.43%	Nevada	1.25%	Pennsylvania	3.93%
Indiana	1.24%	Texas	1.24%	Nevada	3.12%
Texas	1.05%	Tennessee	1.08%	North Dakota	3.06%
Montana	0.97%	Missouri	0.80%	Ohio	2.90%
Arkansas	0.92%	Delaware	0.69%	Missouri	2.77%
Colorado	0.81%	Ohio	0.62%	Texas	2.29%
Tennessee	0.79%	Washington	0.59%	Iowa	2.10%
North Dakota	0.68%	Indiana	0.49%	South Dakota	1.94%
South Dakota	0.30%	North Carolina	0.13%	North Carolina	1.92%
Iowa	0.16%	Wisconsin	0.11%	Tennessee	1.87%
Wyoming	0.12%	Nebraska	0.06%	Indiana	1.73%
Nebraska	0.03%	New York	-0.91%	Nebraska	0.09%

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Report Number: 128570

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Kansas Revenue Bonds Outstanding

Notable New Money Issuance

Fiscal Year Ending	Revenue Bonds	Change \$	Change %	KDFA	KDOT
1984	290,540				
1985	214,125	(76,415)	-26%		
1986	203,226	(10,899)	-5%		
1987	203,881	655	0%		
1988	196,993	(6,888)	-3%		
1989	209,420	12,427	6%		
1990	253,789	44,369	21%		
1991	248,051	(5,738)	-2%		
1992	391,920	143,869	58%		1992 \$250M
1993	896,152	504,232	129%		1992A \$125M; 1993 \$250M
1994	1,022,509	126,357	14%		1994 \$125M
1995	1,058,305	35,796	4%		1994A/B \$140M
1996	1,075,145	16,840	2%		
1997	1,134,842	59,697	6%		
1998	1,372,156	237,314	21%		
1999	1,421,376	49,220	4%		
2000	1,905,755	484,379	34%		1999 \$325M
2001	2,250,495	344,740	18%		2000A/B/C \$350M
2002	2,415,484	164,989	7%		
2003	2,559,767	144,283	6%		
2004	3,368,572	808,805	32%	2004C \$500M	2004A \$250M
2005	3,125,135	(243,437)	-7%		2004B/C \$347M
2006	4,177,180	1,052,045	34%	2006A \$210M	
2007	4,139,354	(37,826)	-1%		
2008	4,096,467	(42,887)	-1%		
2009	4,216,027	119,560	3%		
2010	4,311,634	95,607	2%		
2011					2010A \$325M

REQUEST - 4100 FUND TRANSFERS
4100 - STATE HIGHWAY FUND

FUND	ACCT	Gov. Rec. 2012	Gov. Rec. 2011	Actual 2010	Actual 2009	Actual 2008	Actual 2007	Actual 2006	Actual 2005	Actual 2004	Actual 2003
4100 Board of Education, School Bus Safety	72602C	(247,153)	(282,888)	(271,264)	(273,804)	(263,612)	(246,988)	(216,648)	(185,064)	(252,484)	(236,276)
4100 Kansas Highway Patrol, General Fees Fund	72602D	(250,000)	(250,000)	(250,000)	(250,000)	(326,000)	(326,000)	(260,000)	(260,000)	(255,106)	(223,949)
4100 Kansas Highway Patrol, Highway Safety Fund	72602E	(257,000)	(212,000)	(215,000)	(260,000)	(150,000)	(150,000)	(150,000)	(150,000)	(150,000)	(150,000)
4100 State Treasurer, Services Reimbursement Fund	72602F										
4100 Department of Wildlife & Parks, Bridge Maintenance Fund	72602G	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
4100 KHP - Special Services (Troopers)	72602H								(266,516)	(260,000)	(260,000)
4100 Department of Education - KS Cultural Heritage Center	72602J										
4100 KPERS	72602K										(230,194)
4100 KHP - Operations Fund	72602M	(20,459,923)	(19,304,025)	(20,119,341)	(19,885,617)	(20,152,507)	(17,790,630)	(16,255,879)	(13,793,698)		(13,111,912)
4100 KSIP - to SGF	72602N				(1,336,047)	(84,120)	(137,243)	(191,693)		(196,964)	
4100 KSIP - to SGF	72602P									(212,741)	
4100 Kansan Transfer to SGF	72602Q									(37,963)	
4100 Death & Disability Transfer to SGF	72602R									(667,438)	
4100 BEST Savings	72602T								(2,633,559)		
4100 Vehicle Moratorium	72602U								(1,237,129)		
4100 Dept. of Commerce - affordable airfare	72602V		(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)				
4100 Department of Corrections	726020										
4100 Kansas Highway Patrol, Motor Carrier Inspection Station	726021									(11,137,372)	(10,475,784)
4100 Department of Revenue, Division of Vehicles	726023	(45,506,388)	(45,066,388)	(44,466,388)	(42,761,691)	(39,133,147)	(38,260,508)	(37,271,703)	(38,128,457)	(38,293,758)	(31,949,813)
4100 State General Fund	726025	(32,970,399)	(36,210,000)	(36,245,395)	(37,179,026)	(30,404,740)	(30,207,388)	(34,514,771)	(35,092,138)		(2,248,618)
4100 State General Fund - Allotment, SGF Debt, Other		(200,000,000)	(149,592,584)	(144,080,978)							
4100 Department of Agriculture, Water Structures	726026	(109,651)	(102,813)	(102,032)	(98,289)	(99,662)	(98,559)	(92,277)	(88,259)	(90,890)	(77,103)
4100 Governor's Office	726027										
4100 Department of Wildlife & Parks, Access Road Fund	726028	(2,755,458)	(1,649,819)	(2,617,470)	(1,592,000)	(2,190,000)	(1,500,000)	(1,500,000)	(1,500,000)	(1,500,000)	(1,500,000)
4100 State Fair, Road Maintenance Fund	72602X			(40,000)							
4100 Department of Administration - Financial Management Sys.	72602W				(5,500,000)						
4100 Special City and County Highway Fund	73602L			(5,031,832)							
Transfers OUT to other state funds		(302,755,972)	(257,870,517)	(258,639,700)	(114,336,474)	(98,003,788)	(93,917,316)	(90,652,971)	(93,534,820)	(53,254,716)	(60,663,649)

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REQUEST - 4100 FUND TRANSFERS
4100 - STATE HIGHWAY FUND

FUND	ACCT	Actual 2002	Actual 2001	Actual 2000	Actual 1999	Actual 1998	Actual 1997	Actual 1996	Actual 1995	Actual 1994	Actual 1993	Actual 1992
4100 Board of Education, School Bus Safety	72602C	(214,540)	(205,632)	(196,388)	(200,872)	(174,558)	(169,712)	(175,447)	(134,472)			
4100 Kansas Highway Patrol, General Fees Fund	72602D	(206,200)	(171,200)	(170,000)		(161,288)	(161,288)					
4100 Kansas Highway Patrol, Highway Safety Fund	72602E	(150,000)	(150,000)	(150,000)	(1,499,156)	(208,747)	(150,000)					
4100 State Treasurer, Services Reimbursement Fund	72602F	(91,061)	(113,327)	(113,327)	(113,327)	(113,327)	(113,327)					
4100 Department of Wildlife & Parks, Bridge Maintenance Fund	72602G	(200,000)	(200,000)	(200,000)	(200,000)							
4100 KHP - Special Services (Troopers)	72602H	(259,134)		(1,000,000)								
4100 Department of Education - KS Cultural Heritage Center	72602J		(100,000)									
4100 KPERS	72602K	(310,129)										
4100 KHP - Operations Fund	72602M											
4100 KSIP - to SGF	72602N											
4100 KSIP - to SGF	72602P											
4100 Kansas Transfer to SGF	72602Q											
4100 Death & Disability Transfer to SGF	72602R											
4100 BEST Savings	72602T											
4100 Vehicle Moratorium	72602U											
4100 Dept. of Commerce - affordable airfare	72602V											
4100 Department of Corrections	726020								(40,000)	(89,083)	(87,920)	(42,893)
4100 Kansas Highway Patrol, Motor Carrier Inspection Station	726021	(9,965,844)	(7,633,664)	(7,492,424)	(6,998,636)	(5,654,592)	(5,769,908)	(5,485,328)	(5,668,424)	(5,143,416)	(5,905,615)	(5,175,800)
4100 Department of Revenue, Division of Vehicles	726023	(30,400,000)	(28,447,612)	(34,000,000)	(29,600,000)	(28,372,329)	(27,603,155)	(24,069,288)	(25,654,518)	(24,443,615)	(28,402,936)	(22,493,084)
4100 State General Fund	726025							(210,000)		(194,316)	(185,063)	(3,972,550)
4100 State General Fund - Allotment, SGF Debt, Other												
4100 Department of Agriculture, Water Structures	726026	(86,509)	(88,156)	(92,277)	(89,677)	(103,090)	(118,500)	(124,518)	(118,767)	(116,025)	(115,500)	(119,100)
4100 Governor's Office	726027							(18,116)	(18,116)	(18,116)	(18,116)	(18,116)
4100 Department of Wildlife & Parks, Access Road Fund	726028	(1,500,000)	(1,500,000)	(1,447,918)	(1,350,000)	(1,350,000)	(1,350,000)	(1,350,000)	(1,500,000)	(1,500,000)	(1,200,000)	(1,200,000)
4100 State Fair, Road Maintenance Fund	72602X											
4100 Department of Administration - Financial Management Sys.	72602W											
4100 Special City and County Highway Fund	73602L											
Transfers OUT to other state funds		(43,383,417)	(38,609,591)	(44,862,334)	(40,051,668)	(36,137,931)	(35,435,890)	(31,432,697)	(33,134,297)	(31,504,571)	(35,915,150)	(33,021,543)

1-555

1-56

REQUEST - 4100 FUND TRANSFERS
4100 - STATE HIGHWAY FUND

FUND	ACCT	Actual 1991	Actual 1990
4100 Board of Education, School Bus Safety	72602C		
4100 Kansas Highway Patrol, General Fees Fund	72602D		
4100 Kansas Highway Patrol, Highway Safety Fund	72602E		
4100 State Treasurer, Services Reimbursement Fund	72602F		
4100 Department of Wildlife & Parks, Bridge Maintenance Fund	72602G		
4100 KHP - Special Services (Troopers)	72602H		
4100 Department of Education - KS Cultural Heritage Center	72602J		
4100 KPERS	72602K		
4100 KHP - Operations Fund	72602M		
4100 KSIP - to SGF	72602N		
4100 KSIP - to SGF	72602P		
4100 Kansan Transfer to SGF	72602Q		
4100 Death & Disability Transfer to SGF	72602R		
4100 BEST Savings	72602T		
4100 Vehicle Moratorium	72602U		
4100 Dept. of Commerce - affordable airfare	72602V		
4100 Department of Corrections	726020	(34,841)	(40,833)
4100 Kansas Highway Patrol, Motor Carrier Inspection Station	726021	(5,307,780)	(5,555,548)
4100 Department of Revenue, Division of Vehicles	726023	(20,772,672)	(21,241,280)
4100 State General Fund	726025	(167,856)	(159,863)
4100 State General Fund - Allotment, SGF Debt, Other			
4100 Department of Agriculture, Water Structures	726026		
4100 Governor's Office	726027	(15,000)	
4100 Department of Wildlife & Parks, Access Road Fund	726028		
4100 State Fair, Road Maintenance Fund	72602X		
4100 Department of Administration - Financial Management Sys.	72602W		
4100 Special City and County Highway Fund	73602L		
Transfers OUT to other state funds		(26,298,149)	(26,997,524)

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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February 8, 2011

To: Legislative Budget Committee

STATE GENERAL FUND (SGF) RECEIPTS July through January, FY 2011

This is the third month of experience under the revised estimate of SGF receipts in FY 2011 made by the Consensus Estimating Group on November 2, 2010. The figures in both the "Estimate" and "Actual" columns under FY 2011 on the following table include actual amounts received in July-October. That means that this report deals mainly with the difference between estimated and actual receipts in November through January.

Total receipts through January of FY 2011 were \$6,000 or less than 0.1 percent above the estimate. The component of SGF receipts from taxes only was \$8.2 million or 0.2 percent above the estimate. Total SGF taxes only, at the end of December, were \$18.7 million or 0.7 percent below the estimate. Total receipts at the end of December were \$28.6 million or 1.0 percent below the estimate.

Tax sources that **exceeded** the estimate by more than \$1.0 million were individual income (\$33.2 million or 2.2 percent), compensating use (\$3.8 million or 2.3 percent), insurance premiums \$3.3 million or 6.6 percent), and corporation franchise (\$1.7 million or 26.4 percent). Of particular note is that individual income tax quarterly estimated payments for this most recent quarter paid in January were 8.0 percent above the same quarter from last year. This is the first January quarterly payment that increased since 2008. Another positive sign was individual income tax withholding payments increased 10.9 percent compared to the same period last year.

The tax sources that **fell below** the estimate by more than \$1.0 million were corporation income (\$22.2 million or 15.0 percent), retail sales (\$5.7 million or 0.5 percent), cigarette (\$2.0 million or 3.4 percent), financial institutions (\$1.3 million or 13.2 percent), and severance (\$1.1 million or 2.2 percent).

Interest earnings exceeded the estimate by \$1.9 million. Net transfers were \$8.0 million less than expected, and agency earnings were \$2.1 million less than expected

Total SGF receipts through January of FY 2011 were \$412.4 million or 13.9 percent above FY 2010 receipts for the same period. Tax receipts only for the same period were above FY 2010 by \$325.6 million or 11.0 percent. Remember that the FY 2011 receipts include the retail sales tax rate increase authorized by the 2010 Legislature.

This report excludes a deposit to the SGF of \$700 million, pursuant to issuance of a Certificate of Indebtedness. This certificate will be discharged prior to the end of the fiscal year.

Senate Ways and Means

Date:

Attachment:

02/09/11

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STATE GENERAL FUND RECEIPTS

July - January, FY 2011

(dollar amounts in thousands)

	Actual FY 2010	Estimate*	FY 2011 Actual	Difference	Percent increase relative to: FY 2010	Estimate
Property Tax:						
Motor Carriers	\$ 16,183	\$ 16,450	\$ 15,635	\$ (815)	(3.4)%	(5.0)%
Income Taxes:						
Individual	\$ 1,456,824	\$ 1,534,000	\$ 1,567,207	\$ 33,207	7.6%	2.2%
Corporation	137,358	147,500	125,341	(22,159)	(8.7)	(15.0)
Financial Inst.	8,116	9,600	8,332	(1,268)	2.7	(13.2)
Total	\$ 1,602,298	\$ 1,691,100	\$ 1,700,880	\$ 9,780	6.2%	0.6%
Estate Tax	\$ 3,952	\$ 1,400	\$ 787	\$ (613)	(80.1)%	(43.8)%
Excise Taxes:						
Retail Sales	\$ 1,000,784	\$ 1,175,350	\$ 1,169,625	\$ (5,725)	16.9%	(0.5)%
Comp. Use	124,708	166,000	169,839	3,839	36.2	2.3
Cigarette	58,425	58,000	56,050	(1,950)	(4.1)	(3.4)
Tobacco Prod.	3,797	3,950	3,921	(29)	3.3	(0.7)
Cereal Malt Bev.	1,185	1,150	1,134	(16)	(4.3)	(1.4)
Liquor Gallonage	10,863	10,900	11,212	312	3.2	2.9
Liquor Enforce.	33,017	34,300	33,978	(322)	2.9	(0.9)
Liquor Drink	5,139	5,400	5,226	(174)	1.7	(3.2)
Corp. Franchise	11,858	6,250	7,903	1,653	(33.4)	26.4
Severance	39,126	50,800	49,685	(1,115)	27.0	(2.2)
Gas	18,244	21,700	21,149	(551)	15.9	(2.5)
Oil	20,883	29,100	28,536	(564)	36.6	(1.9)
Total	\$ 1,288,903	\$ 1,512,100	\$ 1,508,574	\$ (3,526)	17.0%	(0.2)%
Other Taxes:						
Insurance Prem.	\$ 42,834	\$ 50,200	\$ 53,513	\$ 3,313	24.9%	6.6%
Miscellaneous	626	950	981	31	56.8	3.3
Total	\$ 43,460	\$ 51,150	\$ 54,494	\$ 3,344	25.4%	6.5%
Total Taxes	\$ 2,954,796	\$ 3,272,200	\$ 3,280,370	\$ 8,170	11.0%	0.2%
Other Revenue:						
Interest	\$ 14,961	\$ 11,255	\$ 13,198	\$ 1,943	(11.8)%	17.3%
Transfers (net)	(35,405)	61,555	53,587	(7,968)	--	--
Agency Earnings and Misc.	35,907	37,600	35,461	(2,139)	(1.2)	(5.7)
Total	\$ 15,463	\$ 110,410	\$ 102,246	\$ (8,164)	--	(7.4)%
TOTAL RECEIPTS	\$ 2,970,259	\$ 3,382,610	\$ 3,382,616	\$ 6	13.9%	0.0%

* Consensus estimate as of November 2, 2010.

NOTES:

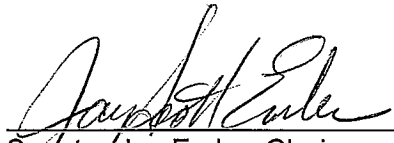
(1) Details may not add to totals due to rounding.

(2) Excludes \$700 million to State General Fund due to issuance of a Certificate of Indebtedness.

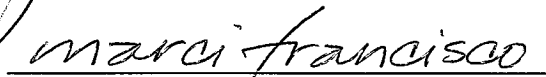
FY 2012

SENATE WAYS AND MEANS SUBCOMMITTEE

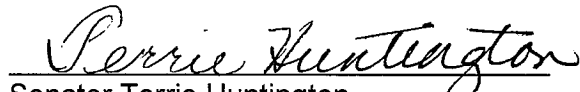
**Governmental Ethics Commission
Kansas Corporation Commission
Citizens Utility Ratepayer Board**



Senator Jay Emler, Chair



Senator Marci Francisco



Senator Terrie Huntington

Senate Ways and Means

Date:

02/09/11

Attachment:

Senate Subcommittee Report

Agency: Governmental Ethics Commission

Bill No. --

Bill Sec. --

Analyst: Montgomery

Analysis Pg. No. --

Budget Page No. 493

Expenditure Summary	Agency Request FY 2012	Governor Recommendation FY 2012	Senate Subcommittee Adjustments
Operating Expenditures:			
State General Fund	\$ 432,269	\$ 180,656	\$ 0
Other Funds	258,491	488,491	0
Subtotal	\$ 690,760	\$ 669,147	\$ 0
Capital Improvements			
State General Fund	\$ 0	\$ 0	\$ 0
Other Funds	0	0	0
Subtotal	\$ 0	\$ 0	\$ 0
TOTAL	\$ 690,760	\$ 669,147	\$ 0
FTE positions	9.0	9.0	0.0
Non FTE Uncl. Perm. Pos.	0.5	0.5	0.0
TOTAL	9.5	9.5	0.0

Agency Request

The **agency** requests FY 2012 operating expenditures of \$690,760, including \$432,269 from the State General Fund. The request is an all funds increase of \$6,968, or 1.0 percent, and a State General Fund increase of \$11,670, or 2.8 percent, above the FY 2011 revised estimate. The request includes \$549,649 for salaries and wages, which is \$6,207, or 1.1 percent, above the FY 2011 revised estimate. The increase is attributable to overtime for Commission staff to code and enter campaign finance data into computer systems so that the information can be accessed by the candidates and public before primary and general elections. The remainder of the increase is attributable to longevity, KPERS employer contributions and employer health insurance contributions for state employees. The request includes \$129,076 for contractual services which is \$2,794, or 2.2 percent, above the FY 2011 revised estimate. The increase is attributable to printing expenditures influxes for all Commission materials that are printed in non-election years to have ready for election years. The request includes \$5,900 for commodities which is an increase of \$50, or 0.9 percent, above the FY 2011 revised estimate, and \$6,135 for capital outlay which is a decrease of \$2,083, or 25.3 percent, below the FY 2011 revised estimate. The reduction in capital outlay is due to one time expenditures in FY 2011 for two replacement computers

Governor's Recommendation

The **Governor** recommends FY 2012 operating expenditures of \$669,147, including \$180,656 from the State General Fund. The request is an all funds decrease of \$14,645, or 2.1 percent, and a State General Fund decrease of \$239,960, or 57.0 percent, below the FY 2011 recommendation. The recommendation includes a State General Fund reduction of \$21,613, or 5.0 percent, from the agency's FY 2012 request for an operating reduction. This State General Fund reduction includes a reduction for salaries and wages of \$10,693, contractual services of \$5,410, and capital outlay of \$5,510 which is the same amount as the FY 2012 reduced resource package submitted by the agency. In addition, the recommendation supplants \$230,017 from the State General Fund with Governmental Ethics Fee Funds. The recommendation assumes the agency request for a statutory fee increase granted by the 2011 Legislature and is not possible without this assumption. The recommendation includes \$538,956 for salaries and wages, \$123,666 for contractual services, \$5,900 for commodities and \$625 for capital outlay.

Senate Subcommittee Recommendation

The **Senate Subcommittee** concurs with the Governor's recommendation with the following adjustments:

1. The Senate Subcommittee concurs with the Governor's recommendation contingent upon passage and Gubernatorial signature on statutory fee increases in the amount needed to fund the agency at the FY 2012 Governor's recommended level (currently an introduced bill in Senate Ethics and Elections).

Senate Subcommittee Report

Agency: Governmental Ethics Commission

Bill No. --

Bill Sec. --

Analyst: Montgomery

Analysis Pg. No. --

Budget Page No. 493

Expenditure Summary	Agency Request FY 2013	Governor Recommendation FY 2013	Senate Subcommittee Adjustments
Operating Expenditures:			
State General Fund	\$ 269,566	\$ 201,567	\$ 0
Other Funds	443,755	489,566	0
Subtotal	\$ 713,321	\$ 691,133	\$ 0
Capital Improvements			
State General Fund	\$ 0	\$ 0	\$ 0
Other Funds	0	0	0
Subtotal	\$ 0	\$ 0	\$ 0
 TOTAL	 \$ 713,321	 \$ 691,133	 \$ 0
 FTE positions	 9.0	 9.0	 0.0
Non FTE Uncl. Perm. Pos.	0.5	0.5	0.0
TOTAL	9.5	9.5	0.0

Agency Request

The **agency** requests FY 2013 operating expenditures of \$713,321, including \$443,755 from the State General Fund. The request is an all funds increase of \$22,561, or 3.3 percent, and a State General Fund increase of \$11,486, or 2.7 percent, above the FY 2012 request. The increase is attributable to heightened agency activity due to the 2012 election cycle occurring in FY 2013. The request includes \$564,233 for salaries and wages, which is an increase of \$14,584, or 2.7 percent, above the FY 2012 request. The increase is attributable to overtime for Commission staff to code and enter campaign finance data into computer systems so that the information can be accessed by the candidates and public before primary and general elections. The remainder of the increase is attributable to longevity, KPERS employer contributions and employer health insurance contributions for state employees. The request includes \$136,978 for contractual services which is an increase of \$7,902, or 6.1 percent, above the FY 2012 request. The increase is attributable to election year printing expenditures and higher postage costs due to the mailings of election year receipts and expenditure reports and the requirement to mail all notices of errors and/or omission for filed reports as certified mail. The request includes \$5,950 for commodities, which is an increase of \$50, or 0.8 percent, above the FY 2012 request, and \$6,160 for capital outlay which is an increase of \$25, or 0.4 percent, above the 2012 request.

Governor's Recommendation

The **Governor** recommends FY 2013 operating expenditures of \$691,133, including \$201,567 from the State General Fund. The request is an all funds increase of \$21,986, or 3.3

percent, and a State General Fund increase of \$20,911, or 11.6 percent, above the FY 2012 recommendation. The recommendation includes a State General Fund reduction of \$22,188, or 5.0 percent, from the agency's FY 2013 request for an operating reduction. This State General Fund reduction includes a reduction for salaries and wages of \$4,125, contractual services for \$12,553, and capital outlay of \$5,510, which is the same amount of the FY 2013 reduced resource package submitted by the agency. In addition, the recommendation shifts \$220,202 from the State General Fund to the Governmental Ethics Fee Fund. The recommendation assumes the agency request for a statutory fee increase granted by the 2011 Legislature and is not possible without this assumption. The recommendation includes \$560,108 for salaries and wages, \$124,425 for contractual services, \$5,950 for commodities and \$650 for capital outlay.

Senate Subcommittee Recommendation

The **Senate Subcommittee** concurs with the Governor's recommendation with the following adjustments:

1. The Senate Subcommittee concurs with the Governor's recommendation contingent upon passage and Gubernatorial signature on statutory fee increases in the amount needed to fund the agency at the FY 2013 Governor's recommended level (currently an introduced bill in Senate Ethics and Elections).

Senate Subcommittee Report

Agency: Kansas Corporation Commission **Bill No. --**

Bill Sec. --

Analyst: Younker

Analysis Pg. No. --

Budget Page No. 42

Expenditure Summary	Agency Request FY 2012	Governor Recommendation FY 2012	Senate Subcommittee Adjustments
Operating Expenditures:			
State General Fund	\$ 0	\$ 0	\$ 0
Other Funds	28,126,410	27,575,310	200,000
Subtotal	\$ 28,126,410	\$ 27,575,310	\$ 200,000
Capital Improvements			
State General Fund	\$ 0	\$ 0	\$ 0
Other Funds	0	0	0
Subtotal	\$ 0	\$ 0	\$ 0
TOTAL	\$ 28,126,410	\$ 27,575,310	\$ 200,000
FTE positions	214.0	212.0	0.0
Non FTE Uncl. Perm. Pos.	6.5	6.5	0.0
TOTAL	220.5	218.5	0.0

Agency Request

The **agency** requests a FY 2012 budget totaling \$28.1 million, all from special revenue funds, which is an increase of \$129,224, or 0.5 percent, above the agency's revised FY 2011 estimate. The FY 2012 request includes an enhancement request totaling \$651,100, all from special revenue funds. Absent the enhancement request, the FY 2012 request is \$27.5 million, which is a decrease of \$521,876, or 1.9 percent, below the revised FY 2011 estimate. The decrease is attributable to a reduction in ARRA funds and one-time expenditures including funding for the Kansas Electric Transmission Authority (KETA). KETA will request funding independently for FY 2012. The 214.0 FTE positions the agency requested did not change from the current year estimate.

Governor's Recommendation

The **Governor** recommends a FY 2012 budget totaling \$27.6 million, all from special revenue funds, which is a decrease of \$551,100, or 2.0 percent, below the agency's FY 2012 request and a decrease of \$421,876, or 1.5 percent below the Governor's FY 2011 recommendation. The recommendation does not include the \$400,000 transfer from the State General Fund to the Abandoned Oil and Gas Well Fund and the Governor does not recommend enhancement funding at this time. The recommendation includes \$100,000 from the Public Service Regulation Fund for the KETA. Further, the Governor recommends a reduction in 2.0 FTE positions as part of a statewide initiative to eliminate vacant FTE positions.

Senate Ways and Means

Date:

Attachment:

02/09/11

Senate Subcommittee Recommendation

The **Subcommittee** concurs with the Governor's FY 2011 recommendation with the following adjustment:

1. Add \$200,000, all from special revenue funds, to approve part of the agency's FY 2012 enhancement request, the replacement of ten agency vehicles, all of which have met the mile-out threshold (100,000 miles for cars and 140,000 miles for trucks).

Senate Subcommittee Report

Agency: Citizens' Utility Ratepayer Board **Bill No. --**

Bill Sec. --

Analyst: Wales

Analysis Pg. No. --

Budget Page No. 85

Expenditure Summary	Agency Request FY 2012	Governor Recommendation FY 2012	Senate Subcommittee Adjustments
Operating Expenditures:			
State General Fund	\$ 0	\$ 0	\$ 0
Other Funds	828,179	828,179	0
Subtotal	\$ 828,179	\$ 828,179	\$ 0
Capital Improvements			
State General Fund	\$ 0	\$ 0	\$ 0
Other Funds	0	0	0
Subtotal	\$ 0	\$ 0	\$ 0
TOTAL	\$ 828,179	\$ 828,179	\$ 0
FTE positions	6.0	4.0	2.0
Non FTE Uncl. Perm. Pos.	0.0	0.0	0.0
TOTAL	6.0	4.0	2.0

Agency Estimate/Request

The **agency** requests FY 2012 operating expenditures of \$828,179, all from special revenue funds, which is a decrease of \$88,128, or 9.6 percent, below the FY 2011 estimate. This request does not include remaining funds to be carried forward from the current year. The agency is allowed to carry forward any unused balances in consulting fees from the previous year but can only use this money on contracts for consultants.

Governor's Recommendation

The **Governor** concurs with the agency's FY 2012 request with one adjustment. The recommendation includes a reduction of 2.0 FTE positions that are vacant and unfunded in the current year.

Senate Subcommittee Recommendation

The **Subcommittee** concurs with the Governor's FY 2012 recommendation with the following adjustment:

1. Add 2.0 FTE positions to correct for the deletion of filled rather than vacant positions to maintain the current staffing level of 6.0 FTE.

Senate Ways and Means

Date:

Attachment:

02/09/11

FY 2012

SENATE WAYS AND MEANS SUBCOMMITTEE


Department of Labor



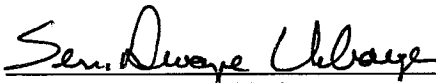
Senator Ty Masterson, Chair



Senator Marci Francisco



Senator Mark Taddiken



Senator Dwayne Umbarger

Senate Ways and Means

Date:

02/09/11

Attachment:

6

Senate Subcommittee Report

Agency: Department of Labor

Bill No. ---

Bill Sec. ---

Analyst: Morrow

Analysis Pg. No. ---

Budget Page No. 240

Expenditure Summary	Agency Estimate FY 2011	Governor Recommendation FY 2011	Senate Subcommittee FY 2011 Adjustments
Operating Expenditures:			
State General Fund	\$ 441,578	\$ 441,578	\$ 0
Other Funds	1,155,355,751	1,155,263,235	0
Subtotal	\$ 1,155,797,329	\$ 1,155,704,813	\$ 0
Capital Improvements			
State General Fund	\$ 0	\$ 0	\$ 0
Other Funds	340,631	340,631	0
Subtotal	\$ 340,631	\$ 340,631	\$ 0
TOTAL	\$ 1,156,137,960	\$ 1,156,045,444	\$ 0
FTE positions	552.0	552.0	0.0
Non FTE Uncl. Perm. <u>Pos.</u>	176.8	176.8	0.0
TOTAL	728.8	728.8	0.0

Agency Estimate

The **agency** estimates \$1,156,137,960 in FY 2011, an increase of \$89,934,752, or 8.4 percent, above the approved FY 2011 amount. The increase is primarily attributable to expenditures for unemployment benefit payments. The State General Fund estimate remains the same as that approved for FY 2011. The request includes 552.0 FTE positions approved by the 2010 Legislature.

Governor's Recommendation

The **Governor** recommends an FY 2011 budget of \$1,156,045,444, an increase of \$89,842,236, or 8.4 percent, above the amount approved by the 2010 Legislature. The Governor's recommendation includes a technical adjustment of \$92,516, all special revenue funds, to the workers' compensation program.

Senate Subcommittee Recommendations

The Senate Subcommittee concurs with the Governor's recommendation.

Senate Subcommittee Report

Agency: Department of Labor

Bill No. ---

Bill Sec. ---

Analyst: Morrow

Analysis Pg. No. ---

Budget Page No. 240

Expenditure Summary	Agency Request FY 2012	Governor Recommendation FY 2012	Senate Subcommittee FY 2012 Adjustments
Operating Expenditures:			
State General Fund	\$ 448,409	\$ 425,989	\$ 0
Other Funds	553,939,246	729,788,246	0
Subtotal	\$ 554,387,655	\$ 730,214,235	\$ 0
Capital Improvements			
State General Fund	\$ 0	\$ 0	\$ 0
Other Funds	818,663	818,663	0
Subtotal	\$ 818,663	\$ 818,663	\$ 0
TOTAL	\$ 555,206,318	\$ 731,032,898	\$ 0
FTE positions	552.0	499.0	0.0
Non FTE Uncl. Perm. Pos.	176.8	176.8	0.0
TOTAL	728.8	675.8	0.0

Agency Request

The **agency** requests an FY 2012 budget of \$554,387,655 for operating expenditures, a decrease of \$601,409,674, or 52.0 percent, from the revised FY 2011 estimate. The decrease is primarily attributable to a reduction in the projected Unemployment Insurance benefits in FY 2012. The request includes 552.0 FTE positions.

The request includes \$448,409 from the State General Fund, an increase of \$6,831, or 1.5 percent, above the revised FY 2011 estimate. The increase is attributable to an increase in Labor Relations Program expenditures for state employee group health insurance, retirement costs, and miscellaneous contractual services.

The request also includes an enhancement request totaling \$151,000, all from special revenue funds, for the replacement of ten vehicles with over 100,000 miles. Absent the enhancement, the estimate is \$554,236,655, a decrease of \$601,560,674, or 52.0 percent, from the revised FY 2011 estimate.

Governor's Recommendation

The **Governor** recommends \$730,214,235 for operating expenditures for FY 2012. This is an increase of \$175,826,580, or 31.7 percent, above the agency's request. The increase is

mainly attributable to the Governor's increase in the Unemployment Insurance Program by \$176,000,000, or 35.8 percent, due to the federal Unemployment Insurance Benefit extension which occurred after the agency submitted the budget request. The recommendation is a decrease of \$425,490,578, or 36.8 percent, below the Governor's FY 2011 recommendation. The decrease is attributable to an overall decrease in unemployment insurance benefits expected to be paid out in FY 2012.

The Governor recommends \$425,989, all from the State General Fund, a decrease of \$22,420, or 5.0 percent, below the agency's FY 2012 request, and \$15,589, or 3.5 percent, below the Governor's FY 2011 recommendation. The Governor recommends a reduction of 53.0 FTE positions. The Governor does not recommend the enhancement request.

Senate Labor Subcommittee Recommendations

The **Senate Subcommittee** concurs with the Governor's recommendations.



Assessing the Critical Functions at DOL

Testimony before Senate Ways & Means Committee

Karin Brownlee, Secretary, Dept of Labor

February 9, 2011

Thank you for the opportunity to visit with you about the state of the Kansas Department of Labor. After being on the job for about three and one-half weeks, I am still on the learning curve but I have many things I have found which I would like to share.

You are each familiar with the scope of work which is performed by the Department of Labor. Our primary function is to respond to Kansans who are out of work and timely provide unemployment compensation insurance (UI) benefits to those who qualify. This work is primarily funded by federal funds. Normally the funds are provided by employers on behalf of their employees (FUTA/SUTA taxes). Because of the significance of the "Great Recession," the federal government has contributed millions more to out of work Kansans through their various programs. Kansans can receive unemployment compensation benefits currently for up to 86 weeks. Only 26 weeks of benefits are provided through the state UI trust fund; the federal government has provided the remainder.

Delivering these benefits requires a robust computer system. The previous administration began planning this new system in 2004 and spent about \$50 million on a computer system which not yet complete. (This project is referred to as the UI Modernization project or UIM.) The last components are to be rolled out this fall. When I came to work at DOL on Jan. 10, the web site actually stated that the section to file for claims could be accessed 7 am to 7 pm, Monday through Friday. My goal is to have these services through our web site 24/7 ASAP. It is frankly quite embarrassing to realize how much has been spent on this system yet still have such inadequate services via the web.

Further, it is quite concerning that the oversight measures of the Legislature are wholly inadequate to prevent such a significant debacle. The monies utilized for this project were Reed Act funds from the federal government which were granted during the last recession and were placed in the Kansas UI Trust fund. This means that we are most likely borrowing more money from the federal government than might be needed due to overspending on this computer project.

To accomplish this goal of 24/7 web services, I have contracted with an IT company who began work Monday, Jan. 31st. This group will assess where the project is currently and determine how to achieve 24/7 service and transition off of the mainframe ASAP. Additionally, they will evaluate the 70 employees in IT to help us shrink to a more appropriate number. I am hoping for twelve or fewer.

In addition to the 70 DOL employees in IT, we have 59 consultants/contractors on site in our IT department supposedly creating the new system. With this kind of manpower, Kansas should be putting computers on the moon. My point: It is ridiculous and I am diligently working to reduce these numbers.

It is important to note here that the reason to accelerate the transition off of the mainframe is the cost in addition to better service. DISC charges to DOL are approximately \$2.238 million/yr which includes \$1.290 million alone for access to the mainframe. It seems a study to determine the actual cost for DISC to provide services to Kansas agencies might be in order. Would we be ahead if we determined this cost and committed SGF funds to pay for these and quit charging agencies not only their cost but what also appears to be a profit margin?

Senate Ways and Means

Date:

Attachment:

02/09/11

The call center is an important tool to be utilized by claimants to file for UI benefits and other services. This has also been impacted by the UIM as Interactive Voice Response (IVR) technology was incorporated into the message heard when calling. This began in mid November and the service to customers dropped dramatically after this. Legislators definitely noticed this drop in service because the calls from constituents requesting your assistance escalated. On Jan. 10th, my first day, there were more than 24,000 "forced disconnected" phone calls in the call center and about 1500 completed calls. I required a solution be implemented to correct this. We started the new system on Jan. 18th and as of Jan. 21st, there were no forced disconnected phone calls. We are driving most of the traffic to the web site (we had to make many changes to this too) where claimants (and employers) can file for first time benefits or present a question electronically. We promise to respond to them within three business days and it appears we are hitting this target.

My second week on the job we discovered a PR/Communications consultant in the building. Upon further checking, we found this group was being paid \$200/hr, not to exceed \$90,000/six months. They had started in 2007 to "market" the UIM and had made changes to the web site and publicized the call center; both projects having abysmal results. Within two hours, they were released from their contract.

In the coming months I will be evaluating our use of floor space. We own a large white house next to the main DOL office at 401 Topeka Blvd which currently houses our legal department. It appears likely that this division can be moved into 401 and this house be shut down. We also have adequate floor space at 1309 Topeka Blvd so it may be possible to move other employees from rented space into this space. The contract for rented space will need to be reviewed.

I have not gotten to review work processes, etc at our Workers Compensation division. This is another significant portion of our workload. I would be glad to update you on this division in the coming weeks.

Overall, I have found this agency needs many changes and there seems to be a culture of lavish spending. I wonder if the legislative budget process discovered any of this in the past few years.

Having said all of this, I wholeheartedly support the Governor's budget for the Department of Labor and would urge your support of it also.

I am working to change the culture at DOL to one that focuses on customer service as our first priority. It is no longer acceptable to allow processes to be broken and not to fix them to better serve Kansans. We will no longer send out the "dumb" letter that advises claimants that their claim was denied when actually their benefits continue to be paid from the federal funding stream. We will no longer automatically reject corporate officers from UI benefits so they can wait two to three months to receive benefits they legitimately deserve. We are reviewing mailing costs and will be doing more to determine what has to go as "paper mail" by law and what does not.

What are my goals? Excellent customer service is my number one goal and running a lean and efficient agency is next. I plan to implement a system of surveying businesses annually to determine how we can improve our service to them. We have top notch economists who produce great workforce related data which could be sold to various business related entities. We also have an Industrial Safety unit with excellent services which could also be marketed to serve more businesses. Lastly, I hope to bring you a zero based budget next year so we can determine if this would enable us to more carefully track our spending.