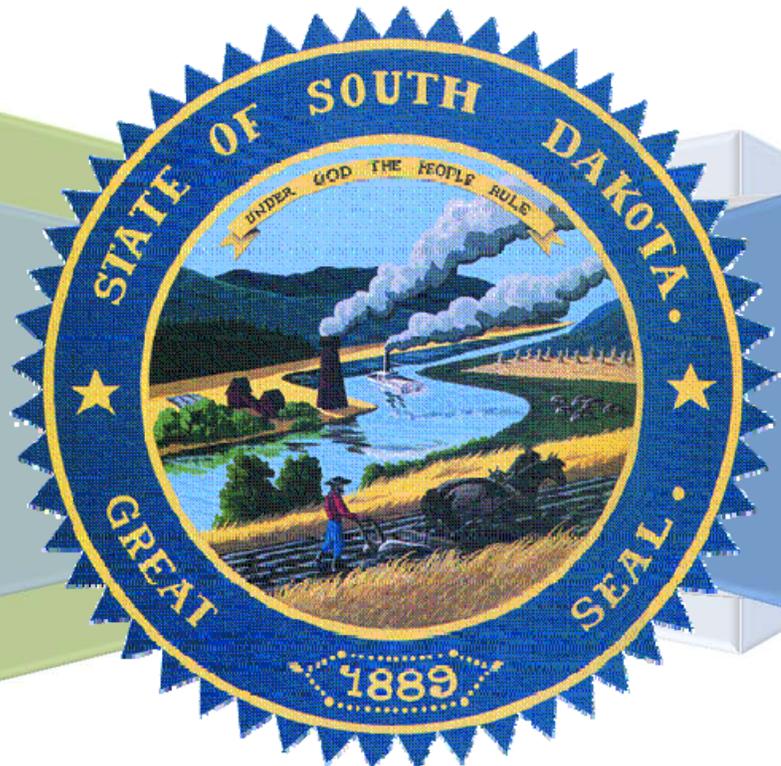


South Dakota Debt Limitation and Management Policy

Bureau of Finance and Management

January, 2015



South Dakota Debt Limitation and Management Policy – Introduction

On July 2nd, 2014, Governor Dennis Daugaard signed [Executive Order 2014-06](#) to further strengthen the financial practices of the State of South Dakota. The executive order sets forth three documents that the Bureau of Finance and Management (BFM) shall provide to the Governor by no later than January 10 of each year.

Section 3 of the executive order states BFM shall set forth, “*Recommended policies pertaining to the issuance, maintenance and servicing of debt of the South Dakota building Authority and the South Dakota health and Educational Facilities Authority (Vocational Education Program only). The policies shall include limits imposed on the total amount of debt to be issued, financial metrics used to govern the servicing of existing or projected future debt service payments, and shall measure compliance with those policies.*”

We are pleased to present the South Dakota Debt Limitation and Management Policy. The following document provides the limits, metrics, and tools which will be used to govern the issuance of new debt, the management of existing debt, and the management of debt service in South Dakota. Additionally, the document will provide measurements of current debt service payments by the State.

Our hope is the information presented in the South Dakota Debt Limitation and Management Policy sets forth a clear picture of the State’s indebtedness through the authorities while further demonstrating the fiscal strength of South Dakota state government.

Sincerely,

Jason Dilges, Chief Financial Officer

Alex Hanson, Chief Budget Analyst
Jim Terwilliger, State Economist
Emily Ward, Senior Budget Analyst
Steven Kohler, Senior Budget Analyst
Kelsey Hanson, Budget Analyst
Lindsey Hildebrand, Budget Analyst
Colin Keeler, Director of Financial Systems

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Background

Article XIII, § 2 of the South Dakota Constitution states, “*For the purpose of defraying extraordinary expenses and making public improvements, or to meet casual deficits or failure in revenue, the state may contract debts never to exceed with previous debts in the aggregate one hundred thousand dollars...*” In light of this constitutional debt limit, the South Dakota Building Authority (SDBA) and South Dakota Health and Educational Facilities Authority (SDHEFA) were created to allow the State to finance capital projects and facility construction projects. The authorities are empowered to acquire, construct, complete, remodel, maintain, and equip buildings and other facilities as the Legislature by law declares to be in the public interest. To finance such projects, the authorities are empowered to issue and sell bonds or other forms of indebtedness in such amounts as the authorities may determine, to refund and refinance their indebtedness as often as is advantageous in the public interest to do so, to pledge any and all income of the authorities and any revenues derived from such facilities or any combination thereof, to secure the payment of such bonds and other forms of indebtedness, and to redeem such bonds or indebtedness. Additionally, the authorities may also issue interim notes to finance any of the projects or perform any of the duties authorized under enacted legislation, including planning, architectural and engineering fees, acquisition of land, and purchase of equipment.

Over the course of the State’s history, debt has been issued through the authorities for a wide variety of projects. Examples of recent projects financed with debt range from a law enforcement training building in Pierre to buildings for post-secondary education campuses across the state to a behavioral health center in Yankton. During the 2014 Legislative Session, the Legislature passed [HB1206](#) and appropriated over \$56.2M in one-time funds to pay down nearly all of the generally funded debt outstanding at that point in time. The remaining debt within the authorities is primarily financed through program specific user fees, such as state park entrance fees or student fees. Although the majority of the current outstanding debt is not paid with appropriated general funds through the annual budget process, the state still has a moral obligation to assure proper debt service of any bonds issued through the SDBA and the Vocation Education program of the SDHEFA.

Debt Policies, Measurements, and Benchmarks

Total Maximum Debt Policy

It is the policy of the State of South Dakota that the total principal amount of debt issued and outstanding through the SDBA and the Vocational Education program of the SDHEFA in South Dakota shall not exceed 1.2% of South Dakota’s gross

state domestic product (GSDP) for the most recently completed calendar year as calculated by the Bureau of Economic Analysis.

Using the figure of 1.2% of the GSDP of South Dakota as a metric, a total figure of \$560,784,000 would have been allowable under the total maximum debt policy. As of the end of FY2014, the SDBA and the Vocational Education program of the SDHEFA had a total combined debt of \$357,361,951, a figure of 0.8% of the 2013 calendar year gross state domestic product. Under this metric, there was \$203,422,049 of available debt capacity, allowing consideration of future capital projects.

Looking forward, the authorities are projecting \$18,500,000 of additional debt to be issued in February of 2015. This issuance results in a projection which is 0.8% of gross state domestic product at the end of FY2015. Additionally, a total debt of \$351,190,000 is currently projected for FY2018. Using this total debt figure and a projected gross state domestic product of \$52,597,277,709, the two authorities would have a total debt of 0.7% of GSDP. This 0.7% figure complies with the established benchmark of 1.2% for the total maximum debt policy.

Total Maximum Debt Service Policy

It is the policy of the State of South Dakota that the total debt service payments for debt issued and outstanding through the SDBA and the Vocational Education program of the SDHEFA in South Dakota shall not exceed 4.0% of South Dakota's total ongoing general fund revenue for the most recently completed state fiscal year.

Using the figure of 4.0% of total ongoing state general fund revenue as a metric, a total of \$54,151,890 would have been allowable under the total maximum debt service policy. As of the end of FY2014, the authorities had a total combined debt service payment of \$39,535,718. This \$39.5M equates to 2.9% of total ongoing general fund revenue in FY2014.

Looking towards future fiscal years, the authorities are projecting to have \$18,500,000 of additional debt to be issued in February of 2015. This issuance results in a projection for total debt service payments of \$36,972,839, or 2.7%, of total ongoing general fund revenue. Additionally, projections currently show \$32,878,211 of debt service payments in FY2018, which equates to 2.1% of total ongoing general fund revenue. This 2.1% figure complies with the established benchmark 4.0% for the total maximum debt service policy.

South Dakota Debt and Debt Service Measurements

The following table presents measurements on both total debt and total debt service payments for the SDBA and the Vocational Education program of the SDHEFA. The financial information within the table demonstrates how South Dakota is in compliance with the newly established total maximum debt policy and the total maximum debt service policy. The table presents the most recent five years of history of total debt levels and debt service payments for the SDBA and the Vocational Education program of the SDHEFA as well as four years of estimated calculations.

South Dakota Debt Limitation and Management Policy Metrics

| | Actual | | Estimated | | | |
|---|-------------------------|-------------------------|---------------------------|-------------------------|-------------------------|-------------------------|
| | Fiscal Year End 2013 | Fiscal Year End 2014 | Fiscal Year End 2015 * | Fiscal Year End 2016 | Fiscal Year End 2017 | Fiscal Year End 2018 |
| Total SDBA & Voc Ed Program Debt | | | | | | |
| South Dakota Building Authority Debt | \$ 233,281,501 | \$ 255,886,951 | \$ 278,101,350 | \$ 265,238,320 | \$ 251,870,000 | \$ 239,655,000 |
| SDHEFA - Vocational Education Program Debt | 102,810,000 | 101,475,000 | 118,310,000 | 116,245,000 | 113,930,000 | 111,535,000 |
| Total SDBA & Voc Ed Program Debt | \$ 336,091,501 | \$ 357,361,951 | \$ 396,411,350 | \$ 381,483,320 | \$ 365,800,000 | \$ 351,190,000 |
| Total Maximum Debt Policy | CY2012 | CY2013 | CY2014 | CY2015 | CY2016 | CY2017 |
| South Dakota Nominal GDP | \$ 43,758,000,000 | \$ 46,732,000,000 | \$ 48,133,960,000 | \$ 49,577,978,800 | \$ 51,065,318,164 | \$ 52,597,277,709 |
| Debt as % of Gross State Domestic Product | 0.8% | 0.8% | 0.8% | 0.8% | 0.7% | 0.7% |
| Total Maximum Debt Capacity (1.2% of Nominal GSDP) | | | | | | |
| Total Maximum Debt Limit | \$ 525,096,000 | \$ 560,784,000 | \$ 577,607,520 | \$ 594,935,746 | \$ 612,783,818 | \$ 631,167,333 |
| Available Debt Capacity | \$ 189,004,499 | \$ 203,422,049 | \$ 181,196,170 | \$ 213,452,426 | \$ 246,983,818 | \$ 279,977,333 |
| Debt Service Payments | FY2013 | FY2014 | FY2015 * | FY2016 | FY2017 | FY2018 |
| SDBA Principal | \$ 19,075,000 | \$ 16,394,550 | \$ 13,860,601 | \$ 12,863,030 | \$ 13,368,320 | \$ 12,215,000 |
| SDBA Interest & Fees | 12,246,960 | 16,512,310 | 16,461,414 | 16,548,378 | 16,011,292 | 12,840,538 |
| SDBA Total Debt Service Pmts | 31,321,960 | 32,906,860 | 30,322,015 | 29,411,408 | 29,379,612 | 25,055,538 |
| SDHEFA (VocEd) - Principal | 1,795,000 | 1,545,000 | 1,665,000 | 2,065,000 | 2,315,000 | 2,395,000 |
| SDHEFA (VocEd) - Interest and Fees | 5,114,458 | 5,083,858 | 4,985,824 | 5,543,805 | 5,489,503 | 5,427,673 |
| SDHEFA (VocEd) - Total Debt Service Pmts | 6,909,458 | 6,628,858 | 6,650,824 | 7,608,805 | 7,804,503 | 7,822,673 |
| Total Debt Service - SDBA/Voc Ed Prgm | \$ 38,231,418 | \$ 39,535,718 | \$ 36,972,839 | \$ 37,020,213 | \$ 37,184,115 | \$ 32,878,211 |
| * Assumes no new SDBA issuances and a bond issuance of \$18.5 million for the vocational education program in February of 2015. | | | | | | |
| Total Maximum Debt Service Policy | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 |
| Ongoing General Fund Revenue | \$ 1,258,177,217 | \$ 1,353,797,245 | \$ 1,381,085,998 | \$ 1,441,242,907 | \$ 1,495,205,710 | \$ 1,548,340,784 |
| Debt Service as % Ongoing GF Revenue | 3.0% | 2.9% | 2.7% | 2.6% | 2.5% | 2.1% |
| Total Maximum Debt Service Capacity (4.0% of Ongoing Total General Fund Revenue) | | | | | | |
| Total Maximum Debt Service Payments Limit | \$ 50,327,089 | \$ 54,151,890 | \$ 55,243,440 | \$ 57,649,716 | \$ 59,808,228 | \$ 61,933,631 |
| Available Debt Service Payments Capacity | \$ 12,095,671 | \$ 14,616,172 | \$ 18,270,601 | \$ 20,629,503 | \$ 22,624,113 | \$ 29,055,420 |

South Dakota's Debt Measurements vs. Other Highly Rated States

The following table provides debt measurements of South Dakota and compares South Dakota's metrics against other states which have a credit rating of AAA/Aaa. This data is prepared by Moody's and is an independent comparative study of all AAA/Aaa states. As such, the figures below should not be compared to the total debt and the total debt service payment policies and metrics established for the SDBA and the Vocational Education program of SDHEFA. As a part of the South Dakota Debt Limitation and Management Policy, this table will be updated annually to provide a quick comparison of South Dakota versus states across the nation which are viewed to have the highest credit rating. Included in this first table are comparisons of net tax-supported debt as a percentage to both Personal Income (PI) and Gross State Domestic Product (GSDP). Finally, a more in-depth look at the figures within the table below show how South Dakota is in a position of relative strength when compared to other states which are AAA/Aaa rated.

| State | Most Recent Credit Ratings S&P/Moody's/Fitch | Net Tax-Supported Debt per Capita | Net Tax-Supported Debt as % of 2012 PI | Net Tax-Supported Debt as % of 2012 GSDP |
|---------------------------------|--|-----------------------------------|--|--|
| South Dakota[^] | AA+*/Aa2/AA+ | \$391 | 0.9% | 0.8% |
| Alaska | AAA/Aaa/AAA | \$1,591 | 3.2% | 2.2% |
| Delaware | AAA/Aaa/AAA | \$2,485 | 5.7% | 3.5% |
| Georgia | AAA/Aaa/AAA | \$1,064 | 2.9% | 2.5% |
| Indiana | AAA/Aaa/NR | \$533 | 1.4% | 1.2% |
| Iowa | AAA*/Aaa**/AAA | \$275 | 0.6% | 0.6% |
| Maryland | AAA/Aaa/AAA | \$1,791 | 3.4% | 3.3% |
| Missouri | AAA/Aaa/AAA | \$668 | 1.7% | 1.6% |
| North Carolina | AAA/Aaa/AAA | \$806 | 2.1% | 1.7% |
| Texas | AAA/Aaa/AAA | \$614 | 1.5% | 1.2% |
| Utah | AAA/Aaa/AAA | \$1,187 | 3.4% | 2.6% |
| Virginia | AAA/Aaa/NR | \$1,302 | 2.7% | 2.4% |
| Wyoming | AAA*/NR/NR | \$54 | 0.1% | 0.1% |
| 50 State Average | -- | \$1,436 | 3.2% | 2.9% |

[^] South Dakota has no GO debt ratings. However, South Dakota Authority debt has an issuer rating of AA+ by S&P, an Aa2 rating by Moody's for South Dakota Authority debt, and has an implied GO rating of AA+ by Fitch.

*S&P Issuer credit rating.

** Moody's Issuer Credit rating.

Source: Moody's 2014 State Debt Medians and BMO Capital Markets State of the States Scorecard.