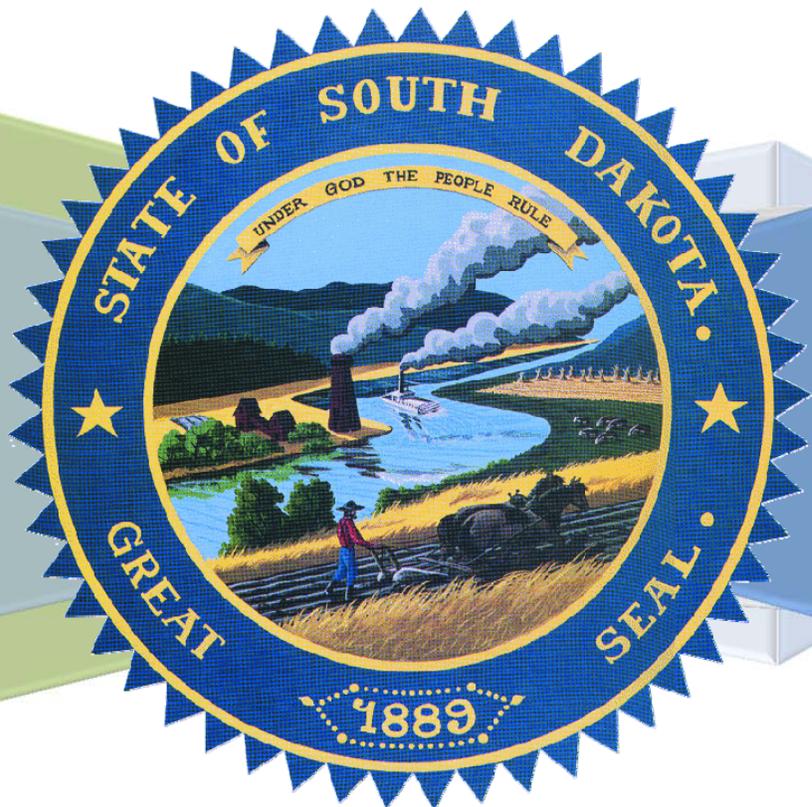


South Dakota Debt Limitation and Management Policy

Bureau of Finance and Management

January, 2016



South Dakota Debt Limitation and Management Policy – Introduction

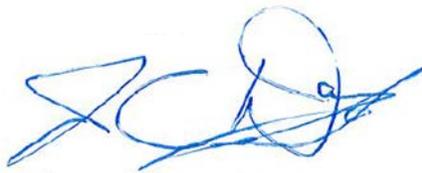
On July 2nd, 2014, Governor Dennis Daugaard signed Executive Order 2014-06 to further strengthen the financial practices of the State of South Dakota. The executive order sets forth three documents that the Bureau of Finance and Management (BFM) shall provide to the Governor by no later than January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

During the 2015 Legislative session, Senate Bill 172 was introduced by the Governor to institutionalize these debt limitations in state law. This legislation passed with unanimous support and was placed into state law on July 1, 2015. State law limits the total outstanding debt held by the South Dakota Building Authority and the vocational education program of the South Dakota Health and Educational Facilities Authority to no more than one and two-tenths percent of South Dakota's gross domestic product and limits total debt service payments to no more than four percent of total ongoing general fund receipts.

The following document provides the limits, metrics, and tools which are used to govern the issuance of new debt, the management of existing debt, and the management of debt service in South Dakota.

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

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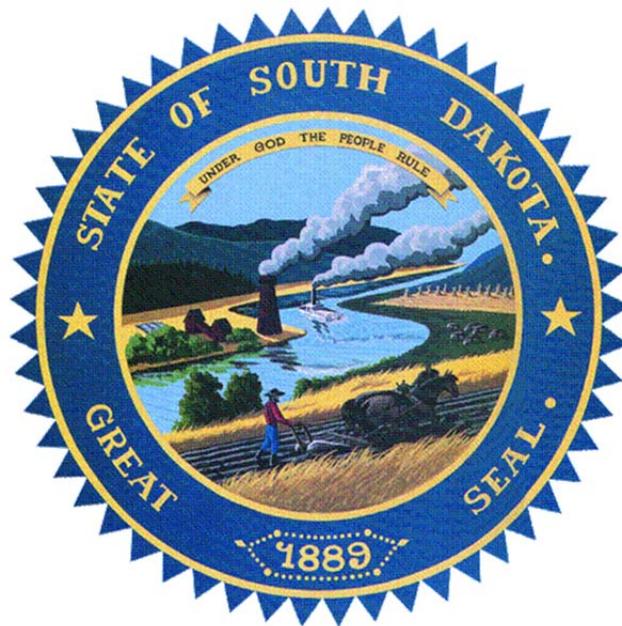
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South Dakota Debt Limitation and Management Policies and Metrics

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. 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 appropriated over \$56.2M in one-time funds to pay off nearly all of the generally funded debt outstanding at that point in time. In state fiscal year 2016, Governor Daugaard is recommending an additional \$42.3M in one-time funds to pay additional outstanding debt within the SDBA and the vocational education program of the SDHEFA. 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 these bonds.

Debt Policies, Measurements, and Benchmarks

Total Maximum Debt Statutory Limitation

As of July 1, 2015, state law requires 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 one and two tenths percent of South Dakota’s gross

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

Based on the statutory limitation of 1.2% of South Dakota's GDP, a total debt of \$550,404,000 would have been allowable under the total maximum debt limit in FY2015. At the end of FY2015, the SDBA and the vocational education program of the SDHEFA had a total combined debt of \$423,906,350, or 0.9% of the 2014 calendar year gross state domestic product. Under this limit, there was \$126,497,650 of available debt capacity, allowing consideration of future capital projects.

Looking towards FY2016 through FY2019, there is one new bond issuance which occurred at the beginning of FY2016. Bonds were issued for \$10.9M to finance an Information System Building at Dakota State University and to finance renovations of a building at the South Dakota School of Mines and Technology, which is included in the metrics on page four. No other issuances are anticipated at the current time through FY2019. Another major component that has been included in the total estimated debt levels is the Governor's recommendation to utilize one-time funds totaling \$42.3M to pay off or prefund four different outstanding bonds. This will lower total principal debt levels by \$38.7M by the end of FY2016 with the remaining \$3.6M dedicated to interest and fees until the call date for each respective bond. Assuming a growth of 3% in South Dakota's nominal GDP and continued timely debt service payments, the projected total debt levels at the end of FY2019 are estimated to be \$335,985,000, which represents 0.7% of South Dakota's GDP, well within the 1.2% limitation.

Total Maximum Debt Service Statutory Limitation

As of July 1, 2015, state law requires the total debt service payments for debt issued and outstanding through the SDBA and the vocational education program of the SDHEFA in South Dakota not to exceed 4.0% of South Dakota's total ongoing general fund revenue for the most recently completed state fiscal year.

Based on the statutory limitation of 4.0% of total ongoing state general fund revenue for debt service payments, a total of \$55,255,398 would have been allowable under the total maximum debt service limit at the end of FY2015. During FY2015, the authorities had total debt service payments of \$36,972,840. This \$37.0 million equates to 2.7% of total ongoing general fund revenue in FY2015.

Looking towards future fiscal years, the only new bond issuance was for \$10.9M at the beginning of FY2016. The authorities are projecting no additional bond issuances for the remainder of FY2016 through FY2019. As mentioned previously, the Governor's recommendation to pay-off or prefund four outstanding bonds will lower principal and interest payments in FY2017 through FY2019 and has been incorporated into the metrics on page four. Current debt service payments are projected to peak in FY2016 at \$39,384,031, which represents 2.7% of projected ongoing general fund revenue. In FY2019, debt service payments are projected at \$32,405,503, or 2.0% of total ongoing general fund revenue. The projections for FY2016 through FY2019 remain well below the statutory limitation of 4.0% for the total debt service limitation.

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 statutory limitations. The table presents the most recent two 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 three years of estimated calculations.

The Governor's recommendation to use \$42.3M in one-time funds to pay-off or prefund four separate bond issuances has been incorporated into the metrics on the following page. The timing is anticipated to occur prior to June 30, 2016. Please note, after the \$42.3M is appropriated and allocated to pre-fund these bonds, the SDBA and the SDHEFA may have to continue to account for this as outstanding debt on their respective financial statements until the official call date is reached for each individual bond.

South Dakota Debt Limitation and Management Policy Metrics

	Actual		Estimated			
	Fiscal Year End 2014	Fiscal Year End 2015	Fiscal Year End 2016 *	Fiscal Year End 2017	Fiscal Year End 2018	Fiscal Year End 2019
Total SDBA & Voc Ed Program Debt						
South Dakota Building Authority Debt	\$ 255,886,951	\$ 289,601,350	\$ 254,428,320	\$ 241,430,000	\$ 229,640,000	\$ 217,625,000
SDHEFA - Vocational Education Program Debt	101,475,000	134,305,000	125,845,000	123,560,000	120,995,000	118,360,000
Total SDBA & Voc Ed Program Debt	\$ 357,361,951	\$ 423,906,350	\$ 380,273,320	\$ 364,990,000	\$ 350,635,000	\$ 335,985,000
Total Maximum Debt Policy	CY2013	CY2014	CY2015	CY2016	CY2017	CY2018
South Dakota Nominal GDP	\$ 44,673,000,000	\$ 45,867,000,000	\$ 47,243,010,000	\$ 48,660,300,300	\$ 50,120,109,309	\$ 51,623,712,588
Debt as % of state Gross Domestic Product	0.8%	0.9%	0.8%	0.8%	0.7%	0.7%
Total Maximum Debt Capacity (1.2% of Nominal state GDP)						
Total Maximum Debt Limit	\$ 536,076,000	\$ 550,404,000	\$ 566,916,120	\$ 583,923,604	\$ 601,441,312	\$ 619,484,551
Available Debt Capacity	\$ 178,714,049	\$ 126,497,650	\$ 186,642,800	\$ 218,933,604	\$ 250,806,312	\$ 283,499,551
Debt Service Payments	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
SDBA Principal	\$ 16,394,550	\$ 13,860,601	\$ 13,733,030	\$ 12,998,320	\$ 11,790,000	\$ 12,015,000
SDBA Interest & Fees	16,512,310	16,461,415	17,394,389	15,276,823	12,155,819	11,770,645
SDBA Total Debt Service Pmts	32,906,860	30,322,016	31,127,419	28,275,143	23,945,819	23,785,645
SDHEFA (Voc Ed) - Principal	1,545,000	1,665,000	2,065,000	2,285,000	2,565,000	2,635,000
SDHEFA (Voc Ed) - Interest and Fees	5,083,858	4,985,824	6,191,612	6,123,601	6,059,244	5,984,859
SDHEFA (Voc Ed) - Total Debt Service Pmts	6,628,858	6,650,824	8,256,612	8,408,601	8,624,244	8,619,859
Total Debt Service - SDBA/Voc Ed Prgm	\$ 39,535,718	\$ 36,972,840	\$ 39,384,031	\$ 36,683,745	\$ 32,570,062	\$ 32,405,503
Total Maximum Debt Service Policy	FY2014	FY2015	FY2016 Revised	FY2017	FY2018	FY2019
Ongoing General Fund Revenue	\$ 1,353,797,245	\$ 1,381,384,943	\$ 1,441,501,024	\$ 1,492,578,431	\$ 1,539,390,267	\$ 1,592,168,214
Debt Service as % Ongoing GF Revenue	2.9%	2.7%	2.7%	2.5%	2.1%	2.0%
Total Maximum Debt Service Capacity (4.0% of Ongoing Total General Fund Revenue)						
Total Maximum Debt Service Payments Limit	\$ 54,151,890	\$ 55,255,398	\$ 57,660,041	\$ 59,703,137	\$ 61,575,611	\$ 63,686,729
Available Debt Service Payments Capacity	\$ 14,616,172	\$ 18,282,558	\$ 18,276,010	\$ 23,019,393	\$ 29,005,548	\$ 31,281,225

* Includes \$10.9 M issuance on 7-8-15 through the South Dakota Building Authority. Assumes a principal payoff or pre-fund of \$32.3 M within the SDBA and \$6.4 M within the vocational education program of the SDHEFA prior to 6-30-16 per the Governor's recommendation.

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 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 table are comparisons of net tax-supported debt per capita and as a percentage of both Personal Income (PI) and state Gross Domestic Product (GDP). A more in-depth look at the figures within the table below shows 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 2013 PI	Net Tax-Supported Debt as % of 2013 GDP
South Dakota[^]	AAA/Aa2/AA+	\$547	1.2%	1.0%
Alaska	AAA/Aaa/AAA	\$1,489	3.0%	1.9%
Delaware	AAA/Aaa/AAA	\$2,438	5.5%	3.6%
Georgia	AAA/Aaa/AAA	\$1,043	2.8%	2.3%
Indiana	AAA/Aaa**/NR	\$474	1.2%	1.0%
Iowa	AAA*/Aaa**/NR	\$250	0.6%	0.5%
Maryland	AAA/Aaa/AAA	\$1,889	3.5%	3.3%
Missouri	AAA/Aaa/AAA	\$606	1.5%	1.3%
North Carolina	AAA/Aaa/AAA	\$739	1.9%	1.6%
Texas	AAA/Aaa/AAA	\$406	1.0%	0.7%
Utah	AAA/Aaa/AAA	\$1,060	3.0%	2.2%
Virginia	AAA/Aaa/AAA	\$1,356	2.8%	2.5%
Wyoming	AAA*/NR/NR	\$50	0.1%	0.1%
50 State Average	--	\$1,419	3.1%	2.7%

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

*S&P Issuer credit rating.

** Moody's Issuer Credit rating.

Source: Moody's 2015 State Debt Medians and BMO Capital Markets.