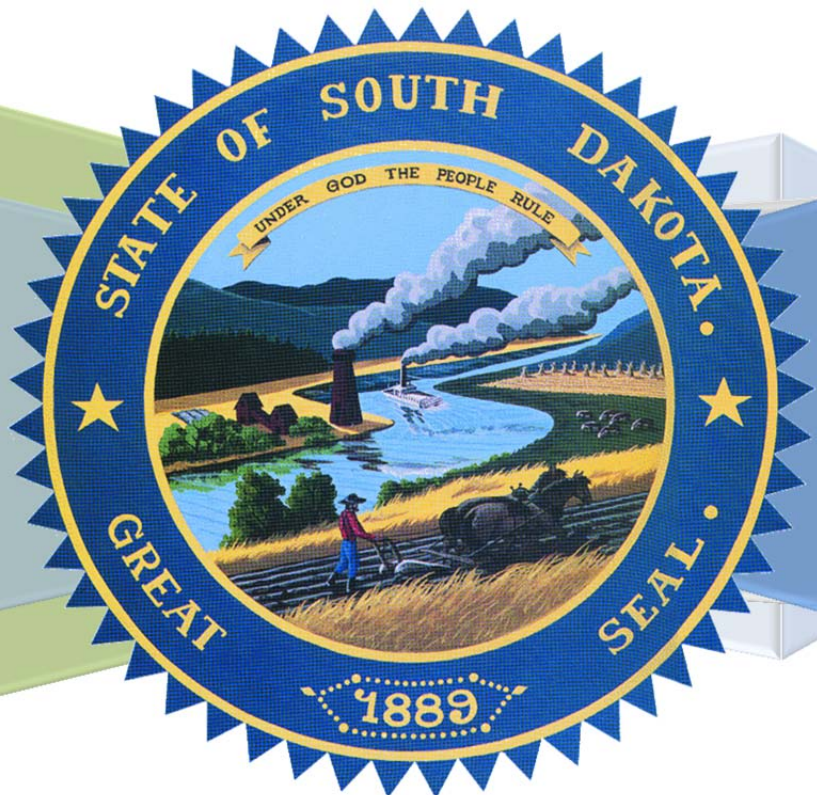


South Dakota Debt Limitation and Management Policy

Bureau of Finance and Management

January, 2018



South Dakota Debt Limitation and Management Policy – Introduction

On July 2, 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,



Liza Clark
Chief Financial Officer

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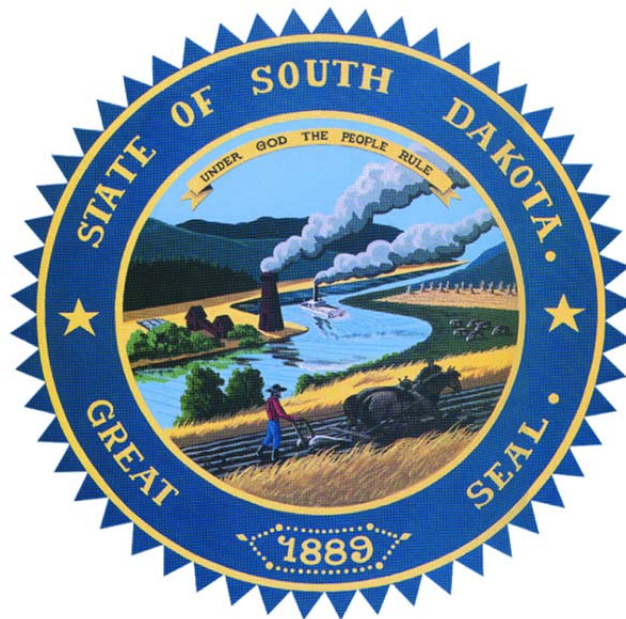
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South Dakota Debt Limitation and Management Policies and Metrics

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. In state fiscal year 2017, \$55.8 M of new bonds were issued for new construction and upgrades to the Animal Disease Research and Diagnostic Laboratory (ADRDL) on the campus of South Dakota State University as well as bonds for the Performing Arts Center at South Dakota State University. The debt service for the ADRDL bonds are financed through fees charged at the lab, increases in animal industry specific fees, and state funds. The debt service for the Performing Arts Center is financed with Higher Education Facilities Funds (HEFF). 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 \$580,248,000 would have been allowable under the total maximum debt limit in FY2017. At the end of FY2017, the SDBA and the vocational education program of the SDHEFA had a total combined debt of \$457,445,000, or 0.9% of the 2016 calendar year gross state domestic product. Under this limit, there was \$122,803,000 of available debt capacity, allowing consideration of future capital projects.

Looking towards FY2018 through FY2021, currently there are not any additional bond issuances expected at this time. 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 FY2021 are estimated to be \$351,610,000, which represents 0.6% 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 \$61,631,759 would have been allowable under the total maximum debt service limit at the end of FY2017. During FY2017, the authorities had total debt service payments of \$40,594,108. This \$40.6M equates to 2.6% of total ongoing general fund revenue in FY2017.

Looking towards future fiscal years, no new issuances are anticipated at this time. Current debt service payments are projected to peak in FY2018 at \$40,616,893, which represents 2.6% of projected ongoing general fund revenue. In FY2021, debt service payments are projected at \$35,805,104, or 2.1% of total ongoing general fund revenue. The projections for FY2018 through FY2021 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.

In addition, at the end of FY 2017, there is \$41.1M of debt that has been pre-funded from appropriations that were passed during the 2014 and 2016 legislative sessions. This debt will be paid in full in future years once call dates are met for the four outstanding pre-funded bonds.

South Dakota Debt Limitation and Management Policy Metrics

	Actual			Estimated			
	Fiscal Year End 2016	Fiscal Year End 2017*		Fiscal Year End 2018**	Fiscal Year End 2019	Fiscal Year End 2020	Fiscal Year End 2021***
Total SDBA & Voc Ed Program Debt							
South Dakota Building Authority Debt	\$ 286,748,320	\$ 328,245,000		\$ 283,845,000	\$ 270,310,000	\$ 256,265,000	\$ 238,705,000
SDHEFA - Vocational Education Program Debt	132,240,000	129,200,000		122,115,000	119,310,000	115,675,000	112,905,000
Total SDBA & Voc Ed Program Debt	\$ 418,988,320	\$ 457,445,000		\$ 405,960,000	\$ 389,620,000	\$ 371,940,000	\$ 351,610,000
Total Maximum Debt Policy							
South Dakota Nominal GDP	\$ 47,356,000,000	\$ 48,354,000,000		\$ 49,804,620,000	\$ 51,298,758,600	\$ 52,837,721,358	\$ 54,422,852,999
Debt as % of Gross State Domestic Product	0.9%	0.9%		0.8%	0.8%	0.7%	0.6%
Total Maximum Debt Capacity (1.2% of Nominal state GDP)							
Total Maximum Debt Limit	\$ 568,272,000	\$ 580,248,000		\$ 597,655,440	\$ 615,585,103	\$ 634,052,656	\$ 653,074,236
Available Debt Capacity	\$ 149,283,680	\$ 122,803,000		\$ 191,695,440	\$ 225,965,103	\$ 262,112,656	\$ 301,464,236
Debt Service Payments							
SDBA Principal	\$ 13,733,030	\$ 14,278,320		\$ 14,705,000	\$ 13,535,000	\$ 14,045,000	\$ 13,950,000
SDBA Interest & Fees	17,394,389	16,901,514		16,367,767	14,411,613	13,870,694	13,282,950
SDBA Total Debt Service Pmts	31,127,419	31,179,834		31,072,767	27,946,613	27,915,694	27,232,950
SDHEFA (VocEd) - Principal	2,065,000	3,040,000		3,355,000	2,805,000	2,860,000	2,770,000
SDHEFA (VocEd) - Interest and Fees	6,191,612	6,374,274		6,189,126	6,005,956	5,908,973	5,802,154
SDHEFA (VocEd) - Total Debt Service Pmts	8,256,612	9,414,274		9,544,126	8,810,956	8,768,973	8,572,154
Total Debt Service - SDBA/Voc Ed Prgrm	\$ 39,384,031	\$ 40,594,108		\$ 40,616,893	\$ 36,757,569	\$ 36,684,667	\$ 35,805,104
Total Maximum Debt Service Policy							
Ongoing General Fund Revenue	\$ 1,438,386,820	\$ 1,540,793,973		\$ 1,569,789,073	\$ 1,622,489,585	\$ 1,668,418,189	\$ 1,716,897,778
Debt Service as % Ongoing GF Revenue	2.7%	2.6%		2.6%	2.3%	2.2%	2.1%
Total Maximum Debt Service Capacity (4.0% of Ongoing Total General Fund Revenue)							
Total Maximum Debt Service Payments Limit	\$ 57,535,473	\$ 61,631,759		\$ 62,791,563	\$ 64,899,583	\$ 66,736,728	\$ 68,675,911
Available Debt Service Payments Capacity	\$ 18,151,442	\$ 21,037,651		\$ 22,174,670	\$ 28,142,014	\$ 30,052,061	\$ 32,870,807

* At the end of FY2017, \$41.1 million of the \$457.4 million total debt has been pre-funded, which will be paid in full at future call dates.
 ** FY2018 includes paying off the Series 2008 bonds in the amount of \$29,695,000 which is not included in the Debt Service Payments as it is prefunded.
 *** FY2021 includes paying off the Series 2010B bonds in the amount of \$3,610,000 which is not included in the Debt Service Payments as it is prefunded.

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 2015 PI	Net Tax-Supported Debt as % of 2015 GDP
South Dakota[^]	AAA/Aaa/AAA	\$641	1.4%	1.2%
Delaware	AAA/Aaa/AAA	\$2,544	5.4%	3.5%
Georgia	AAA/Aaa/AAA	\$992	2.5%	2.1%
Indiana	AAA/Aaa/AAA	\$310	0.8%	0.6%
Iowa	AAA/Aaa/AAA	\$228	0.5%	0.4%
Maryland	AAA/Aaa/AAA	\$2,122	3.8%	3.5%
Missouri	AAA/Aaa/AAA	\$579	1.4%	1.2%
North Carolina	AAA/Aaa/AAA	\$659	1.6%	1.4%
Tennessee	AAA/Aaa/AAA	\$322	0.8%	0.7%
Texas	AAA/Aaa/AAA	\$383	0.8%	0.7%
Utah	AAA/Aaa/AAA	\$924	2.1%	1.7%
Virginia	AAA/Aaa/AAA	\$1,486	2.9%	2.6%
50 State Median	--	\$1,006	2.5%	2.2%

[^] South Dakota has no General Obligation debt ratings. However, South Dakota has an issuer rating of AAA by S&P, a Aaa issuer rating by Moody's, and has an implied General Obligation rating of AAA by Fitch. Source: Moody's 2017 State Debt Medians and The Bond Buyer.