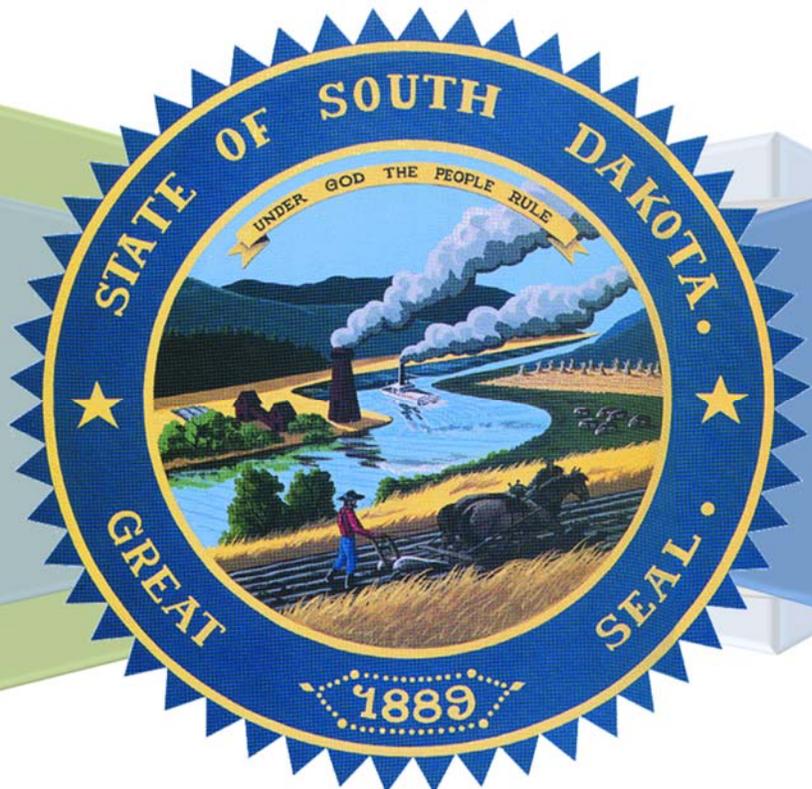


# South Dakota Debt Limitation and Management Policy

Bureau of Finance and Management

January, 2019



# South Dakota Debt Limitation and Management Policy – Introduction

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Governor Kristi Noem is committed to strengthening and building on the state's foundation of fiscal responsibility. On July 2, 2014, Executive Order 2014-06 was signed to strengthen the financial practices of the State of South Dakota. The executive order sets forth three documents that the Bureau of Finance and Management shall provide to the Governor by no later than January 10 of each year.

Section 3 of the executive order requires, "*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).*"

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.

During the 2015 Legislative session, Senate Bill 172 institutionalized the preparation of the Debt Limitation and Management Policy in state law. This legislation passed with unanimous support and was placed into state law on July 1, 2015.

This document includes 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. The following pages contain actual total debt, available debt capacity, total debt service payments, and available debt service payment capacity for FY2017 and FY2018. In addition, the Debt Limitation and Management Policy shows projections for total debt, available debt capacity, total debt service payments, and available debt service capacity for FY2019 through FY2022.

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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Commissioner's Letter

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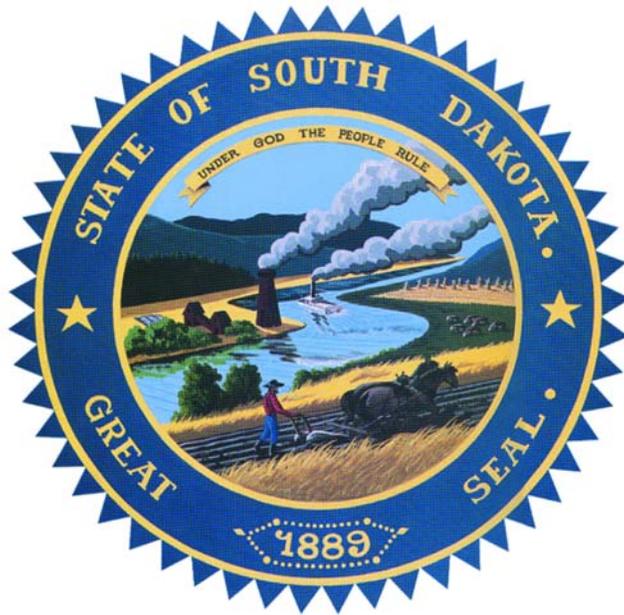
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# South Dakota Debt Limitation and Management Policies and Metrics

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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. The authorities are empowered to acquire, construct, complete, remodel, maintain, and equip buildings and other facilities as the Legislature declares by law 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 an animal disease research and diagnostic laboratory in Brookings. In state fiscal year 2019, \$30.8M of new bonds were issued for new construction for the Raven Precision Agriculture Center on the campus of South Dakota State University and for upgrades to the DakotaDome at the University of South Dakota.

The debt service for the Raven Precision Agriculture Center bonds are financed with an increase to agriculture specific fees and state funds. The debt service for the DakotaDome renovation is financed with private donations from the University of South Dakota Foundation. 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 \$597,757,200 would have been allowable under the total maximum debt limit in FY2018. At the end of FY2018, the SDBA and the vocational education program of the SDHEFA had a total combined debt of \$405,960,000, or 0.8% of the 2017 calendar year gross state domestic product. Under this limit, there was \$191,797,200 of available debt capacity, allowing consideration of future capital projects.

Looking towards future fiscal years, 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 FY2022 are estimated to be \$360,620,000, 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 \$63,736,234 would have been allowable under the total maximum debt service limit at the end of FY2018. During FY2018, the authorities had total debt service payments of \$40,616,893. This \$40.6M equates to 2.5% of total ongoing general fund revenue in FY2018.

Looking towards future fiscal years, no new issuances are anticipated at this time. Debt service payments peaked in FY2018 at \$40,616,893, which represented 2.5% of ongoing general fund revenue. In FY2022, debt service payments are projected at \$37,712,073 or 2.1% of total ongoing general fund revenue. The projections for FY2019 through FY2022 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 four years of estimated calculations.

In addition, at the end of FY2018, there is \$3.6M 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 outstanding pre-funded bonds.

## South Dakota Debt Limitation and Management Policy Metrics

	Actual		Estimated			
	Fiscal Year End 2017	Fiscal Year End 2018*	Fiscal Year End 2019	Fiscal Year End 2020	Fiscal Year End 2021**	Fiscal Year End 2022
<b>Total SDBA &amp; Voc Ed Program Debt</b>						
South Dakota Building Authority Debt	\$ 328,245,000	\$ 283,845,000	\$ 299,345,000	\$ 284,405,000	\$ 265,910,000	\$ 250,580,000
SDHEFA - Vocational Education Program Debt	129,200,000	122,115,000	119,310,000	115,675,000	112,905,000	110,040,000
<b>Total SDBA &amp; Voc Ed Program Debt</b>	<b>\$ 457,445,000</b>	<b>\$ 405,960,000</b>	<b>\$ 418,655,000</b>	<b>\$ 400,080,000</b>	<b>\$ 378,815,000</b>	<b>\$ 360,620,000</b>
<b>Total Maximum Debt Policy</b>	<b>CY2016</b>	<b>CY2017</b>	<b>CY2018</b>	<b>CY2019</b>	<b>CY2020</b>	<b>CY2021</b>
South Dakota Nominal GDP	\$ 48,492,900,000	\$ 49,813,100,000	\$ 51,307,493,000	\$ 52,846,717,790	\$ 54,432,119,324	\$ 56,065,082,903
Debt as % of Gross State Domestic Product	0.9%	0.8%	0.8%	0.8%	0.7%	0.6%
<b>Total Maximum Debt Capacity (1.2% of Nominal State GDP)</b>						
Total Maximum Debt Limit	\$ 581,914,800	\$ 597,757,200	\$ 615,689,916	\$ 634,160,613	\$ 653,185,432	\$ 672,780,995
Available Debt Capacity	\$ 124,469,800	\$ 191,797,200	\$ 197,034,916	\$ 234,080,613	\$ 274,370,432	\$ 312,160,995
<b>Debt Service Payments</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>
SDBA Principal	\$ 14,278,320	\$ 14,705,000	\$ 15,255,000	\$ 14,940,000	\$ 14,885,000	\$ 15,330,000
SDBA Interest & Fees	16,901,514	16,367,767	15,063,865	15,340,387	14,716,900	13,819,495
SDBA Total Debt Service Pmts	31,179,834	31,072,767	30,318,865	30,280,387	29,601,900	29,149,495
SDHEFA (VocEd) - Principal	3,040,000	3,355,000	2,805,000	2,860,000	2,770,000	2,865,000
SDHEFA (VocEd) - Interest and Fees	6,374,274	6,189,126	6,005,956	5,908,973	5,802,154	5,697,578
SDHEFA (VocEd) - Total Debt Service Pmts	9,414,274	9,544,126	8,810,956	8,768,973	8,572,154	8,562,578
<b>Total Debt Service - SDBA/Voc Ed Prgm</b>	<b>\$ 40,594,108</b>	<b>\$ 40,616,893</b>	<b>\$ 39,129,821</b>	<b>\$ 39,049,360</b>	<b>\$ 38,174,054</b>	<b>\$ 37,712,073</b>
<b>Total Maximum Debt Service Policy</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>
Ongoing General Fund Revenue	\$ 1,540,793,973	\$ 1,593,405,861	\$ 1,639,249,462	\$ 1,694,667,251	\$ 1,727,722,669	\$ 1,776,899,319
Debt Service as % Ongoing GF Revenue	2.6%	2.5%	2.4%	2.3%	2.2%	2.1%
<b>Total Maximum Debt Service Capacity (4.0% of Ongoing Total General Fund Revenue)</b>						
Total Maximum Debt Service Payments Limit	\$ 61,631,759	\$ 63,736,234	\$ 65,569,978	\$ 67,786,690	\$ 69,108,907	\$ 71,075,973
Available Debt Service Payments Capacity	\$ 21,037,651	\$ 23,119,341	\$ 26,440,157	\$ 28,737,330	\$ 30,934,853	\$ 33,363,900

\* At the end of FY2018, \$3.6 million of the \$406.0 million total debt has been pre-funded, which will be paid in full at future call dates.

\*\* 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 2016 PI	Net Tax-Supported Debt as % of 2016 GDP
<b>South Dakota<sup>^</sup></b>	<b>AAA/Aaa/AAA</b>	<b>\$694</b>	<b>1.5%</b>	<b>1.3%</b>
Delaware	AAA/Aaa/AAA	\$2,587	5.5%	3.5%
Georgia	AAA/Aaa/AAA	\$986	2.4%	1.9%
Indiana	AAA/Aaa/AAA	\$295	0.7%	0.6%
Iowa	AAA/Aaa/AAA	\$219	0.5%	0.4%
Maryland	AAA/Aaa/AAA	\$2,164	3.7%	3.4%
Missouri	AAA/Aaa/AAA	\$532	1.2%	1.1%
North Carolina	AAA/Aaa/AAA	\$611	1.5%	1.2%
Tennessee	AAA/Aaa/AAA	\$312	0.7%	0.6%
Texas	AAA/Aaa/AAA	\$410	0.9%	0.7%
Utah	AAA/Aaa/AAA	\$772	1.9%	1.5%
Virginia	AAA/Aaa/AAA	\$1,515	2.9%	2.6%
<b>50 State Median</b>	<b>--</b>	<b>\$987</b>	<b>2.3%</b>	<b>2.1%</b>

<sup>^</sup> 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 2018 State Debt Medians and The Bond Buyer.