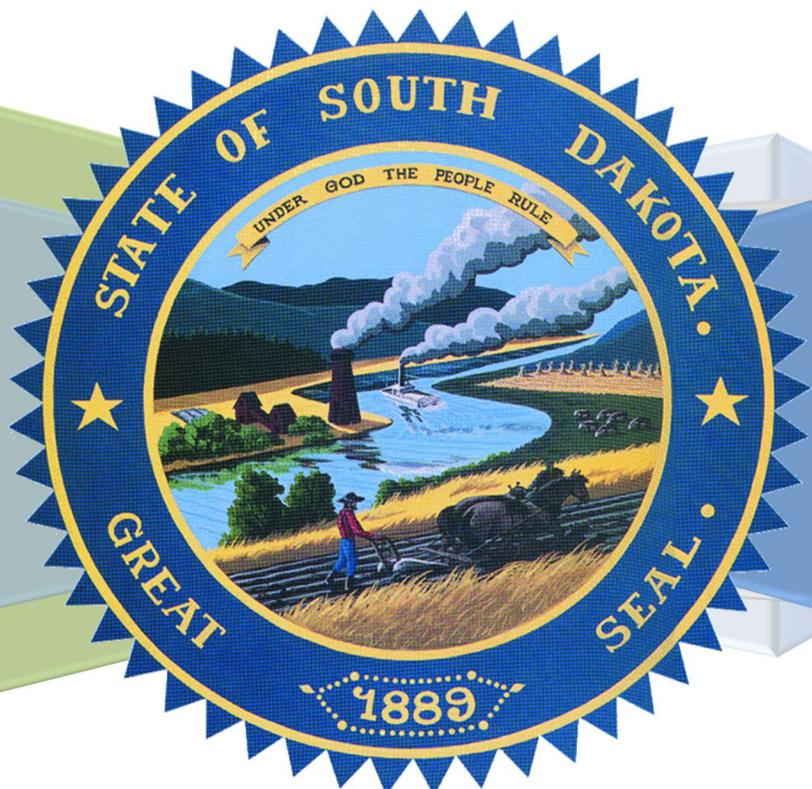


South Dakota Debt Limitation and Management Policy

Bureau of Finance and Management

January, 2020





South Dakota Debt Limitation and Management Policy – Introduction

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 FY2018 and FY2019. 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 FY2020 through FY2023.

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,

A handwritten signature in blue ink that reads "Liza Clark". The signature is written in a cursive, flowing style.

Liza Clark
Chief Financial Officer

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Commissioner's Letter

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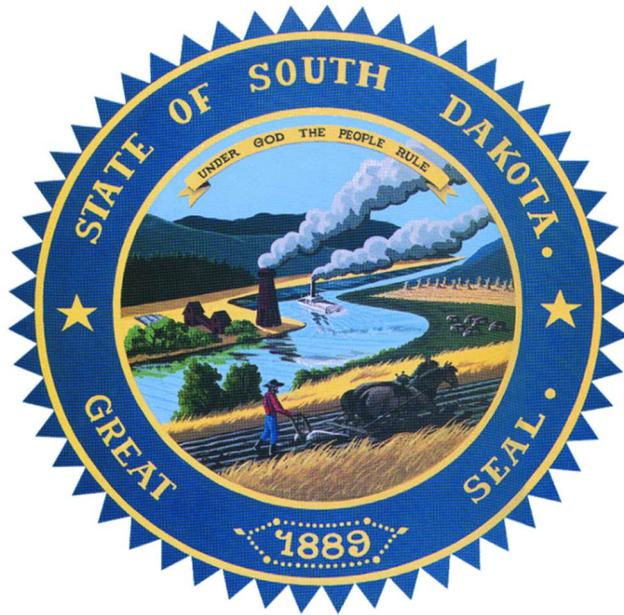
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Bureau of Finance and Management



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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 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 2020, \$72.9M of bonds were refinanced to take advantage of a favorable rate environment. This refinancing resulted in an upfront savings to the state of \$5.1M.

The 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 \$624,178,800 would have been allowable under the total maximum debt limit in FY2019. At the end of FY2019, the SDBA and the vocational education program of the SDHEFA had a total combined debt of \$418,730,000, or 0.8% of the 2018 calendar year gross state domestic product. Under this limit, there was \$205,448,800 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 FY2023 are estimated to be \$350,885,000, 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 \$65,648,132 would have been allowable under the total maximum debt service limit at the end of FY2019. During FY2019, the authorities had total debt service payments of \$39,129,821. This \$39.1M equates to 2.4% of total ongoing general fund revenue in FY2019.

Looking towards future fiscal years, no new issuances are anticipated at this time. Debt service payments in FY2019 were \$39,129,821, which represented 2.4% of ongoing general fund revenue. In FY2023, debt service payments are projected at \$37,073,318 or 2.0% of total ongoing general fund revenue. The projections for FY2020 through FY2023 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 FY2019, there is \$5.0M of debt that has been pre-funded from appropriations. 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 2018	Fiscal Year End 2019*	Fiscal Year End 2020	Fiscal Year End 2021**	Fiscal Year End 2022	Fiscal Year End 2023
Total SDBA & Voc Ed Program Debt						
South Dakota Building Authority Debt	\$ 283,845,000	\$ 299,420,000	\$ 296,540,000	\$ 276,955,000	\$ 260,525,000	\$ 243,615,000
SDHEFA - Vocational Education Program Debt	122,115,000	119,310,000	115,675,000	112,905,000	110,040,000	107,270,000
Total SDBA & Voc Ed Program Debt	\$ 405,960,000	\$ 418,730,000	\$ 412,215,000	\$ 389,860,000	\$ 370,565,000	\$ 350,885,000
Total Maximum Debt Policy	CY2017	CY2018	CY2019	CY2020	CY2021	CY2022
South Dakota Nominal GDP	\$ 49,738,700,000	\$ 52,014,900,000	\$ 53,575,347,000	\$ 55,182,607,410	\$ 56,838,085,632	\$ 58,543,228,201
Debt as % of Gross State Domestic Product	0.8%	0.8%	0.8%	0.7%	0.7%	0.6%
Total Maximum Debt Capacity (1.2% of Nominal state GDP)						
Total Maximum Debt Limit	\$ 596,864,400	\$ 624,178,800	\$ 642,904,164	\$ 662,191,289	\$ 682,057,028	\$ 702,518,738
Available Debt Capacity	\$ 190,904,400	\$ 205,448,800	\$ 230,689,164	\$ 272,331,289	\$ 311,492,028	\$ 351,633,738
Debt Service Payments	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
SDBA Principal	\$ 14,705,000	\$ 15,255,000	\$ 15,460,000	\$ 15,975,000	\$ 16,430,000	\$ 16,910,000
SDBA Interest & Fees	16,367,767	15,063,865	13,077,778	13,421,888	12,517,198	11,809,784
SDBA Total Debt Service Pmts	31,072,767	30,318,865	28,537,778	29,396,888	28,947,198	28,719,784
SDHEFA (VocEd) - Principal	3,355,000	2,805,000	2,860,000	2,770,000	2,865,000	2,770,000
SDHEFA (VocEd) - Interest and Fees	6,189,126	6,005,956	5,908,973	5,802,154	5,697,578	5,583,534
SDHEFA (VocEd) - Total Debt Service Pmts	9,544,126	8,810,956	8,768,973	8,572,154	8,562,578	8,353,534
Total Debt Service - SDBA/Voc Ed Prgm	\$ 40,616,893	\$ 39,129,821	\$ 37,306,751	\$ 37,969,042	\$ 37,509,776	\$ 37,073,318
Total Maximum Debt Service Policy	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Ongoing General Fund Revenue	\$ 1,593,405,861	\$ 1,641,203,288	\$ 1,695,308,964	\$ 1,723,389,607	\$ 1,765,727,209	\$ 1,818,096,305
Debt Service as % Ongoing GF Revenue	2.5%	2.4%	2.2%	2.2%	2.1%	2.0%
Total Maximum Debt Service Capacity (4.0% of Ongoing Total General Fund Revenue)						
Total Maximum Debt Service Payments Limit	\$ 63,736,234	\$ 65,648,132	\$ 67,812,359	\$ 68,935,584	\$ 70,629,088	\$ 72,723,852
Available Debt Service Payments Capacity	\$ 23,119,341	\$ 26,518,311	\$ 30,505,608	\$ 30,966,542	\$ 33,119,312	\$ 35,650,534

* At the end of FY2019, \$5.0 million of the \$418.7 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. This data is prepared by Moody's and is an independent comparative study of all 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 rated.

State	Most Recent Credit Ratings Moody's	Net Tax-Supported Debt per Capita	Net Tax-Supported Debt as % of 2017 PI	Net Tax-Supported Debt as % of 2017 GDP
South Dakota[^]	Aaa	\$618	1.3%	1.1%
Delaware	Aaa	\$3,206	6.5%	4.3%
Florida	Aaa	\$812	1.7%	1.8%
Georgia	Aaa	\$996	2.3%	1.9%
Indiana	Aaa	\$270	0.6%	0.5%
Iowa	Aaa	\$207	0.4%	0.4%
Maryland	Aaa	\$2,343	3.8%	3.6%
Missouri	Aaa	\$487	1.1%	1.0%
North Carolina	Aaa	\$531	1.2%	1.0%
South Carolina	Aaa	\$503	1.2%	1.2%
Tennessee	Aaa	\$305	0.7%	0.6%
Texas	Aaa	\$389	0.8%	0.7%
Utah	Aaa	\$792	1.9%	1.5%
Virginia	Aaa	\$1,502	2.7%	2.5%
50 State Median	--	\$1,068	2.2%	2.1%

[^] 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 2019 State Debt Medians.