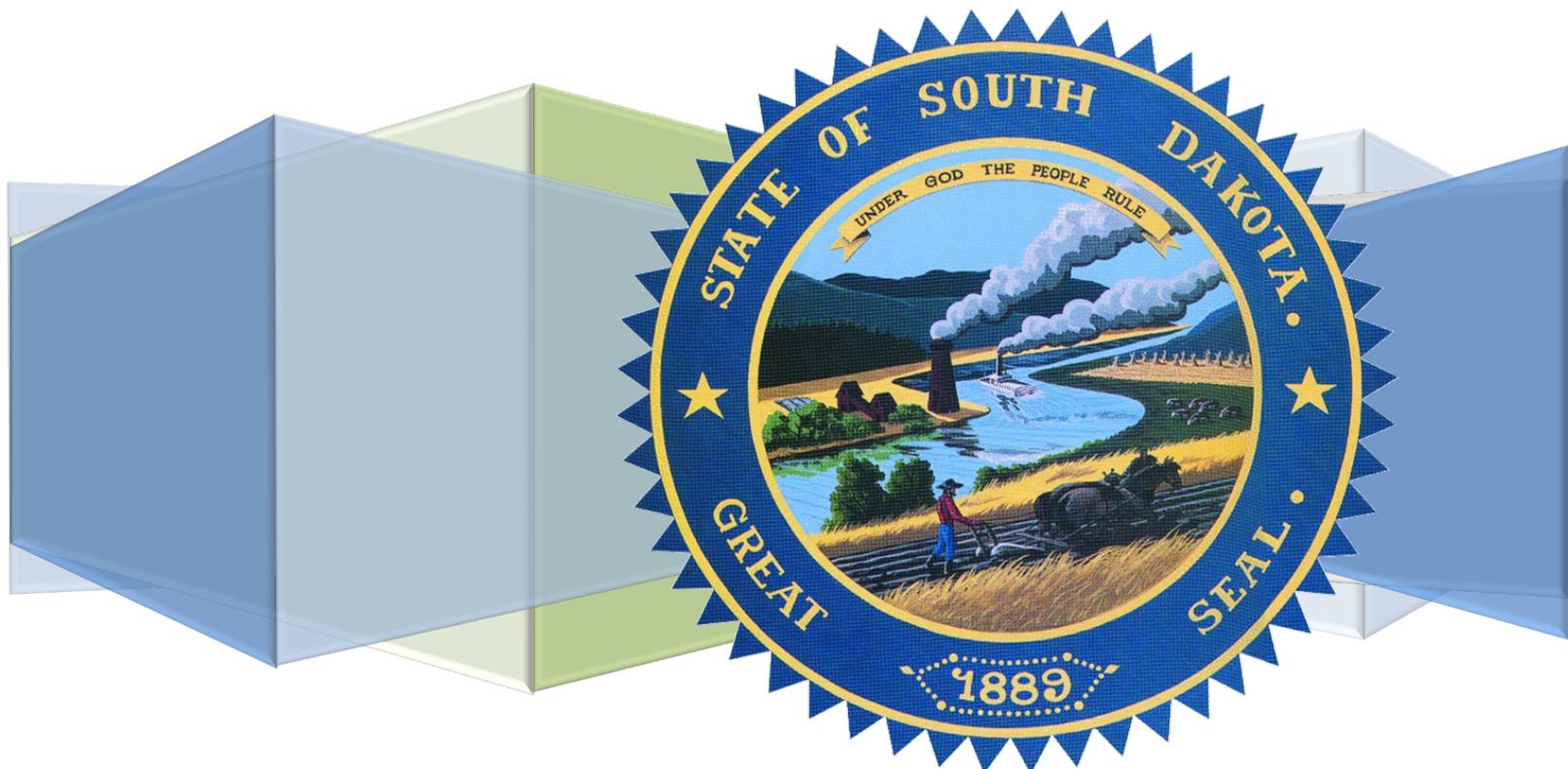


South Dakota Debt Limitation and Management Policy

Bureau of Finance and Management

January 2022



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 FY2020 and FY2021. 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 FY2022 through FY2025.

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,



Jeffrey D. Partridge
Interim Commissioner
Bureau of Finance and Management

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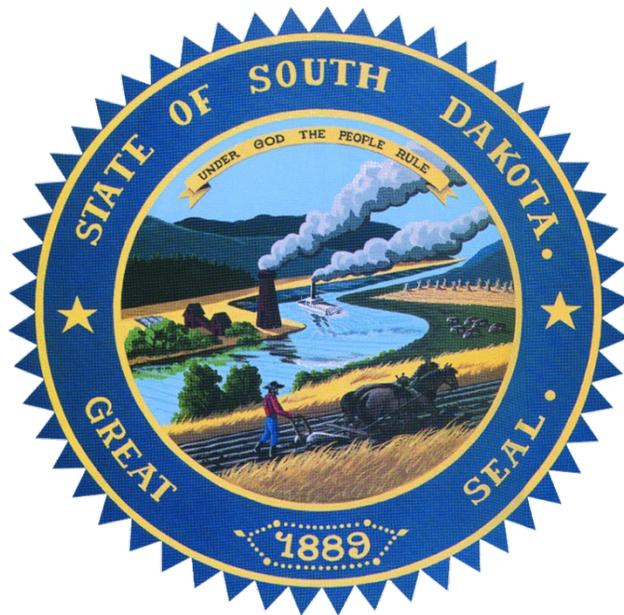
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Bureau of Finance and Management



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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 include an animal disease research and diagnostic laboratory and a precision agriculture center in Brookings. Other examples are improvements to state park visitor centers and building renovations on state university campuses.

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 1.2% 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 \$657,472,800 would have been allowable under the total maximum debt limit in FY2021. At the end of FY2021, the SDBA and the vocational education program of the SDHEFA had a total combined debt of \$407,485,000, or 0.7% of the 2020 calendar year gross state domestic product. Under this limit, there was \$249,987,800 of available debt capacity, allowing consideration of future capital projects.

Assuming continued growth in South Dakota's nominal GDP and continued timely debt service payments, the projected total debt levels at the end of FY2025 are estimated to be \$322,960,000, which represents 0.5% 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 \$77,447,938 would have been allowable under the total maximum debt service limit at the end of FY2021. During FY2021, the authorities had total debt service payments of \$41,930,712. This \$41.9M equates to 2.2% of total ongoing general fund revenue in FY2021. There was \$35,517,227 in available debt service payment capacity, allowing consideration for future projects.

In FY2025, debt service payments are projected at \$38,023,525 or 1.8% of total ongoing general fund revenue based on continued growth in ongoing general fund revenue. The projections for FY2022 through FY2025 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 two most recent 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 2020*	Fiscal Year End 2021**	Fiscal Year End 2022	Fiscal Year End 2023	Fiscal Year End 2024	Fiscal Year End 2025
Total SDBA & Voc Ed Program Debt						
South Dakota Building Authority Debt	\$ 296,540,000	\$ 315,615,000	\$ 305,615,000	\$ 285,940,000	\$ 265,500,000	\$ 244,405,000
SDHEFA - Vocational Education Program Debt	115,675,000	91,870,000	89,415,000	86,432,000	82,679,000	78,555,000
Total SDBA & Voc Ed Program Debt	\$ 412,215,000	\$ 407,485,000	\$ 395,030,000	\$ 372,372,000	\$ 348,179,000	\$ 322,960,000
Total Maximum Debt Policy	CY2019	CY2020	CY2021	CY2022	CY2023	CY2024
South Dakota Nominal GDP	\$ 53,939,900,000	\$ 54,789,400,000	\$ 61,001,430,000	\$ 65,070,880,000	\$ 67,810,990,000	\$ 70,998,040,000
Debt as % of Gross State Domestic Product	0.8%	0.7%	0.6%	0.6%	0.5%	0.5%
Total Maximum Debt Capacity (1.2% of Nominal state GDP)						
Total Maximum Debt Limit	\$ 647,278,800	\$ 657,472,800	\$ 732,017,160	\$ 780,850,560	\$ 813,731,880	\$ 851,976,480
Available Debt Capacity	\$ 235,063,800	\$ 249,987,800	\$ 336,987,160	\$ 408,478,560	\$ 465,552,880	\$ 529,016,480
Debt Service Payments	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
SDBA Principal	\$ 15,460,000	\$ 21,725,000	\$ 19,075,000	\$ 19,675,000	\$ 20,440,000	\$ 21,095,000
SDBA Interest & Fees	13,077,778	11,633,558	11,477,218	10,994,497	10,263,225	9,581,407
SDBA Total Debt Service Pmts	28,537,778	33,358,558	30,552,218	30,669,497	30,703,225	30,676,407
SDHEFA (VocEd) - Principal	2,860,000	2,770,000	2,455,000	2,983,000	3,753,000	4,124,000
SDHEFA (VocEd) - Interest and Fees	5,908,973	5,802,154	3,793,096	3,481,795	3,361,974	3,223,118
SDHEFA (VocEd) - Total Debt Service Pmts	8,768,973	8,572,154	6,248,096	6,464,795	7,114,974	7,347,118
Total Debt Service - SDBA/Voc Ed Prgm	\$ 37,306,751	\$ 41,930,712	\$ 36,800,314	\$ 37,134,292	\$ 37,818,199	\$ 38,023,525
Total Maximum Debt Service Policy	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Ongoing General Fund Revenue	\$ 1,699,623,137	\$ 1,936,198,459	\$ 1,962,651,970	\$ 1,975,868,924	\$ 2,039,027,011	\$ 2,104,159,204
Debt Service as % Ongoing GF Revenue	2.2%	2.2%	1.9%	1.9%	1.9%	1.8%
Total Maximum Debt Service Capacity (4.0% of Ongoing Total General Fund Revenue)						
Total Maximum Debt Service Payments Limit	\$ 67,984,925	\$ 77,447,938	\$ 78,506,079	\$ 79,034,757	\$ 81,561,080	\$ 84,166,368
Available Debt Service Payments Capacity	\$ 30,678,174	\$ 35,517,227	\$ 41,705,765	\$ 41,900,465	\$ 43,742,881	\$ 46,142,843
<p>* At the end of FY2020, \$3.8 million of the \$412.2 million total debt was pre-funded, which will be paid in full at future call dates.</p> <p>** FY2021 includes paying off the SDBA Series 2010B bonds in the amount of \$3,610,000 and the Voced Series 2010A and 2010B in the amounts of \$14,580,000 and \$6,455,000 which are not included in the Debt Service Payments as they are prefunded.</p>						

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 of June 2021.

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 as of June 2021.

State	Most Recent Credit Ratings Moody's	Net Tax-Supported Debt per Capita	Net Tax-Supported Debt as % of 2020 PI	Net Tax-Supported Debt as % of 2020 GDP
South Dakota[^]	Aaa	\$482	0.8%	0.8%
Delaware	Aaa	\$3,400	6.0%	4.4%
Florida	Aaa	\$710	1.3%	1.4%
Georgia	Aaa	\$987	1.9%	1.7%
Indiana	Aaa	\$233	0.5%	0.4%
Iowa	Aaa	\$157	0.3%	0.3%
Maryland	Aaa	\$2,410	3.5%	3.5%
Missouri	Aaa	\$413	0.8%	0.8%
North Carolina	Aaa	\$581	1.2%	1.1%
South Carolina	Aaa	\$415	0.9%	0.9%
Tennessee	Aaa	\$266	0.5%	0.5%
Texas	Aaa	\$365	0.7%	0.6%
Utah	Aaa	\$866	1.7%	1.4%
Virginia	Aaa	\$1,746	2.8%	2.7%
Washington	Aaa	\$2,627	3.8%	3.3%
50 State Median	--	\$1,039	1.9%	2.0%

[^] 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 2020 State Debt Medians.