

South Dakota State Aid Pledge Program

A credit enhancement designed to benefit South Dakota Schools



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South Dakota Health and Educational Facilities Authority

- Created by the State Legislature in 1972 to provide bonding services for the following:
 - Healthcare Facilities
 - Non-Public Higher Education Facilities
 - Technical Education
 - School District Capital Outlay

South Dakota Health and Educational Facilities Authority

- The previous School District Capital Outlay Program ran from 1989 to 2000 and issued over \$39 million to School Districts throughout the state. This program provided a 3 month State Aid intercept, which allowed for an S&P A rating. School Districts made timely debt service payments and the intercept was never used.
- The NEW program is designed to reduce interest costs for school districts by providing credit enhancement. The 2015 Legislature allowed for a State Aid intercept of an entire year. This allowed for an S&P AA+ rating for School Districts that qualify.
- We have worked jointly with the State to achieve the State's current rating of AAA with all 3 major rating agencies, which means better bonding opportunities and lower interest costs for School Districts.

Capital Outlay Summary

- Used to acquire real property, land, buildings, and equipment
SDCL 13-16-6
- Twenty year maximum term
SDCL 13-16-6.2
- Principal on Capital Outlay Certificates may not exceed 3% of the taxable valuation
SDCL 13-16-6
- Three dollars per thousand dollars of taxable valuation in any year authorized to be levied
SDCL 13-16-7

General Obligation Summary

- Authorizes School Districts to issue bonds in accordance to 6-8B
SDCL 13-19-9
- Need 60% of voters to approve a General Obligation Bond Issue
SDCL 6-8B-2
- Fifty year maximum term
SDCL 6-8B-9
- Used to purchase or contract real property, land, buildings, equipment and street or utility improvements
SDCL 6-8B-6

Rating Agencies and Categories

Bond Rating			
<u>Moody's (1,2,3)</u>	<u>S&P (+,-)</u>	<u>Grade</u>	<u>Risk</u>
Aaa	AAA	Investment	Lowest
Aa	AA	Investment	Low
A	A	Investment	Low
Baa	BBB	Investment	Medium
Ba	BB	Junk	High
Caa/Ca	CCC/CC/C	Junk	Highest
C	D	Junk	In Default

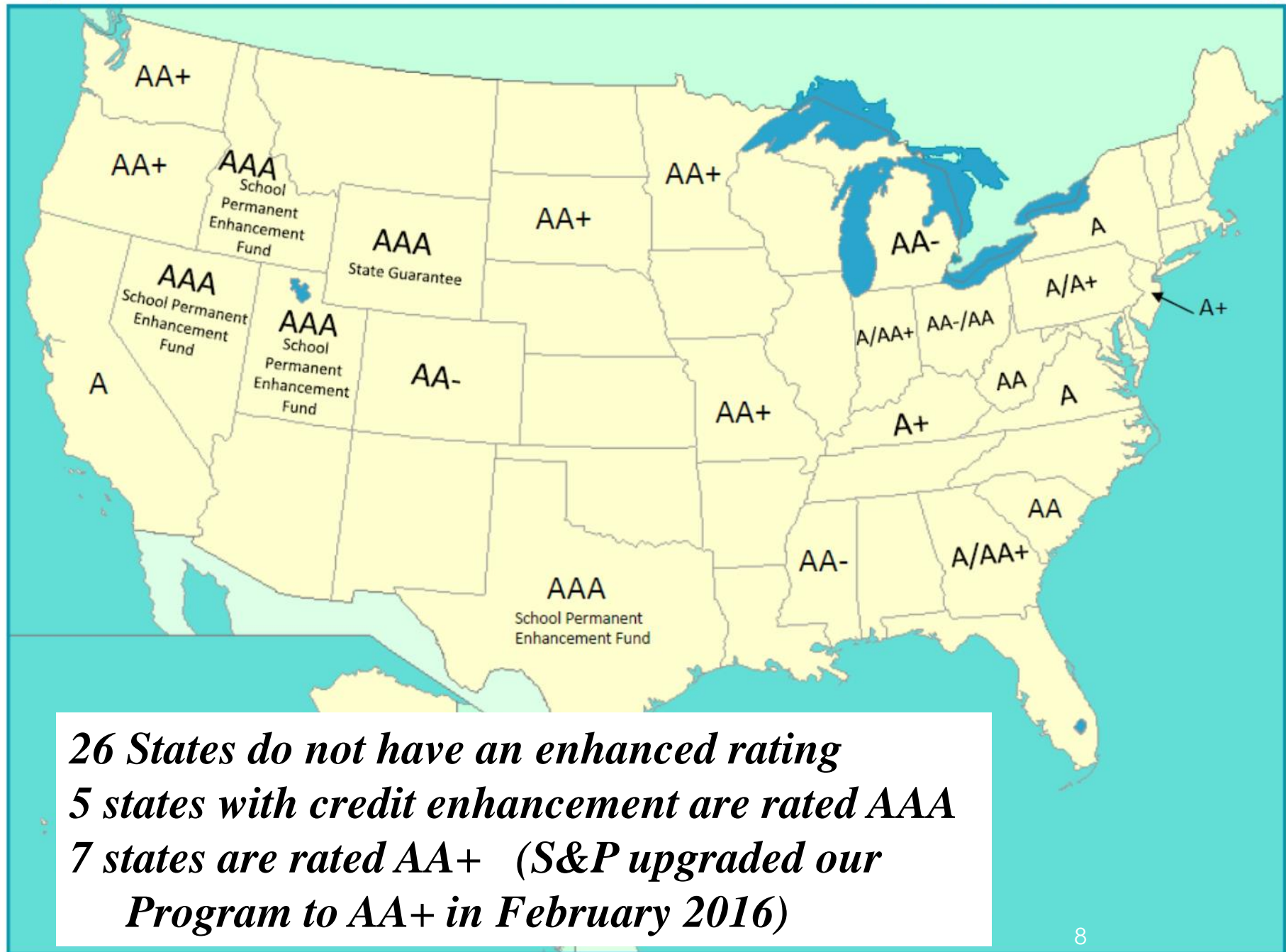
Ratings History

State of South Dakota

Standard & Poor's State of South Dakota upgrades

- Upgraded to AA from AA- in 2006
- Upgraded to AA+ from AA in 2011
- Upgraded to AAA from AA+ in May of 2015

Map of Standard & Poor's School District Credit Enhancement Ratings



Background of the New Program

- In 2015 Senate Bill 191 expanded the ability to intercept State Aid Payments
- Standard & Poor's upgraded the State rating to AAA in May of 2015
- In February 2016 Standard & Poor's assigned an AA+ rating to the South Dakota Credit Enhancement Program designed for qualified school districts
- Qualifications include:
 - At least 1.25 times coverage of existing and proposed maximum annual debt service
 - State aid received must provide at least 2.0 times coverage of existing and proposed maximum annual debt service
 - The school districts will issue the certificates and have their choice of bond counsel, investment banker and paying agent

Benefits of the New Program

- AA+ Standard & Poor's rating for any School District that qualifies
- Reduced interest costs:

Example of:

Interest Costs of a \$5,000,000 tax-exempt 20 year loan

Interest cost at A+ = \$1,495,780 (NIC = 2.66%)

Interest cost at AA+ = \$1,406,845 (NIC = 2.52%)

Savings \$ 88,935

Interest Costs of a \$20,000,000 tax-exempt 20 year loan

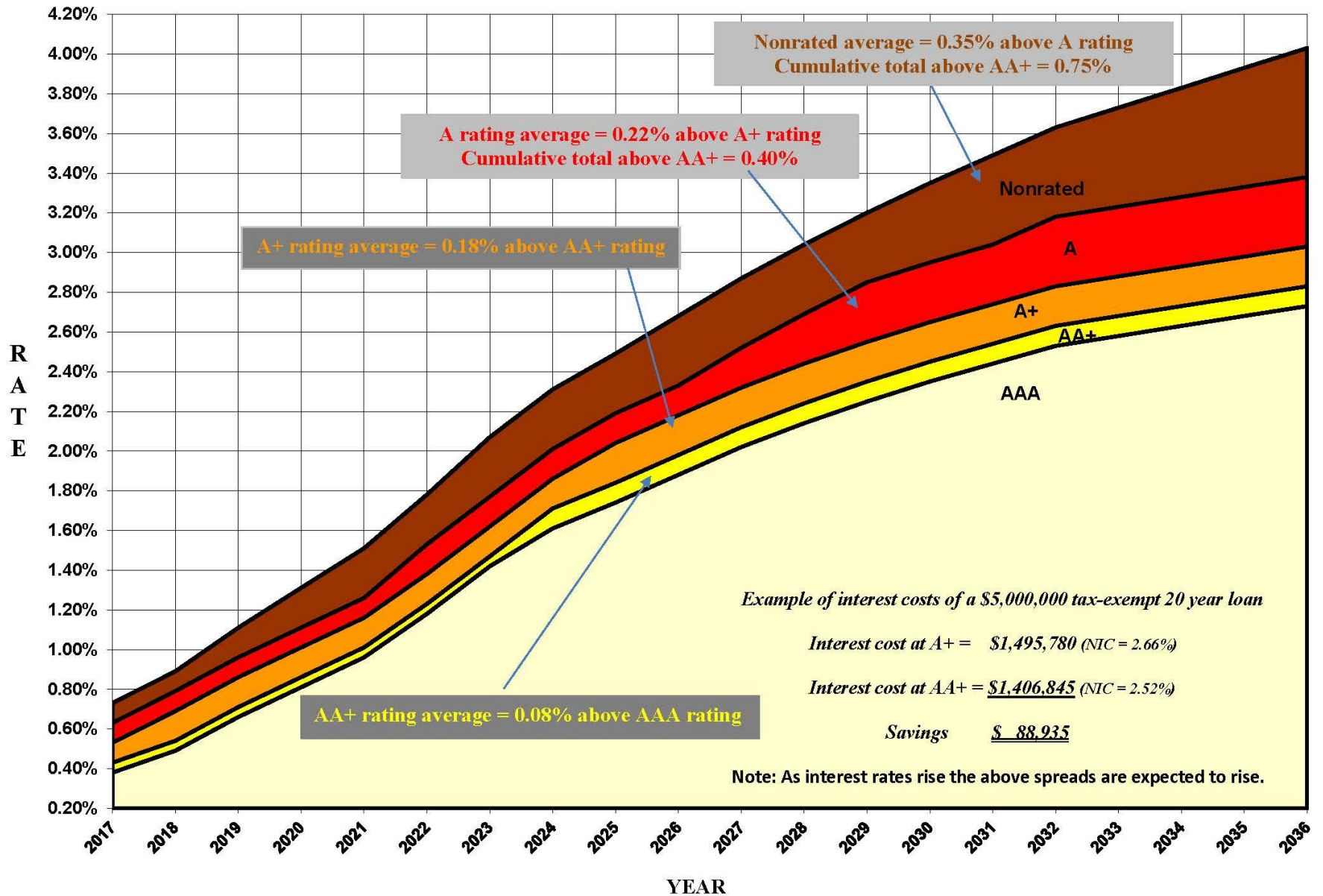
Interest cost at A+ = \$6,857,400 (NIC = 3.02%)

Interest cost at AA+ = \$6,466,977 (NIC = 2.86%)

Savings \$ 390,423

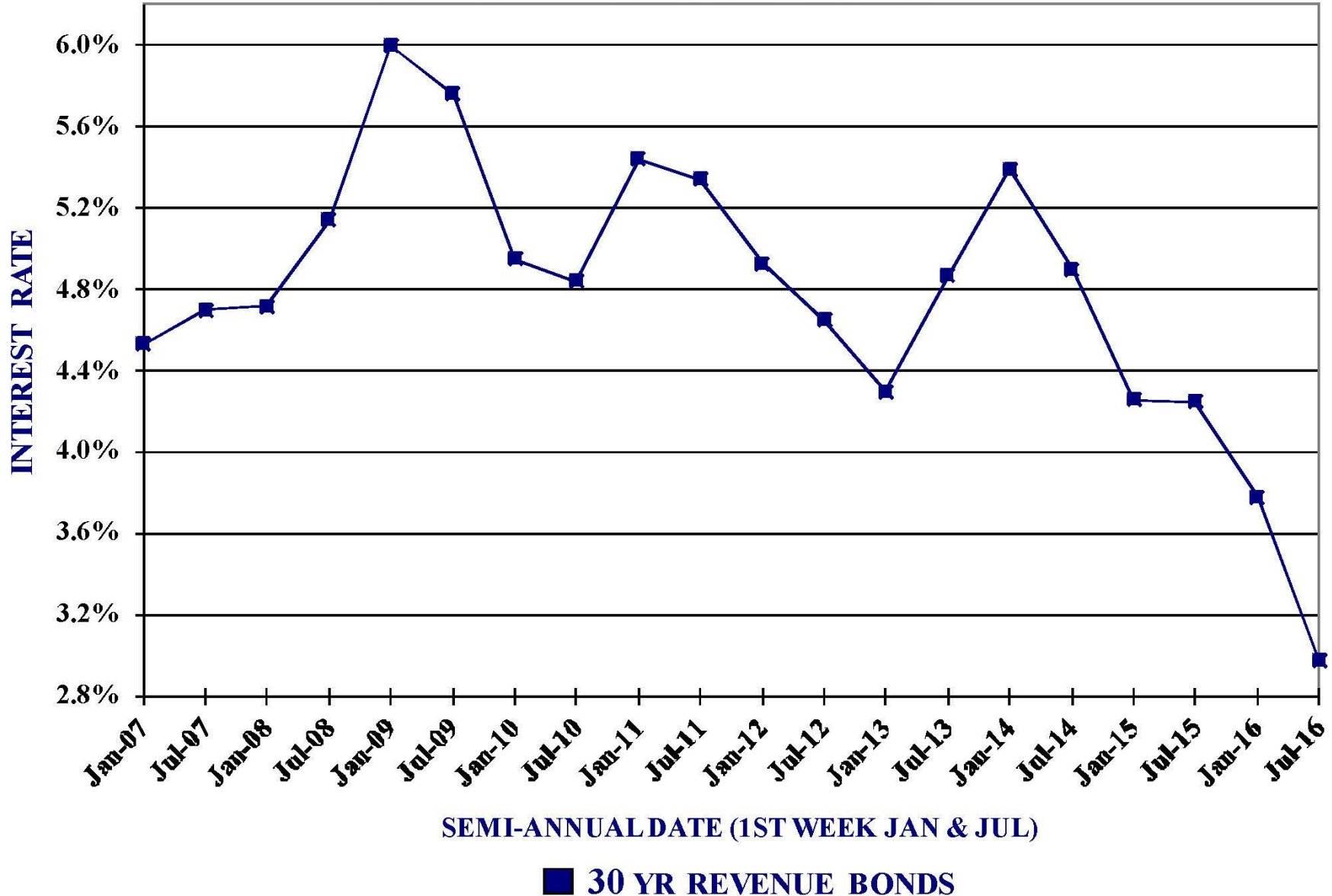
Average General Obligation Tax Exempt Bank Qualified Rates

As of March 3, 2016



Bond Buyer's Revenue Index

Interest Rates from 2007 to 2016



Bond Buyer's Revenue Index

August 1, 2015 through July 21, 2016

