

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings assigns Aaa to SD Conservancy District SRF Program Bonds Series 2024A; outlook stable**

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08 Aug 2024

New York, August 08, 2024 -- Moody's Ratings (Moody's) has assigned Aaa to the proposed \$162.55 million South Dakota Conservancy District, State Revolving Fund Program Bonds, Series 2024A (2024 Bonds; together with outstanding bonds, Bonds). Additionally, we maintain Aaa ratings on all outstanding Bonds. The outlook is stable.

#### RATINGS RATIONALE

The Aaa rating reflects the State Revolving Fund's (SRF) strong finance position, evidenced by a high 2024 over-collateralization level of 2.32x, a very high 39% default tolerance (DTA), strong debt service coverage and a satisfactory loan portfolio quality. It further reflects the cross-collateralization of the clean water (CW) and drinking water (DW) programs in the case of a payment deficiency in either program. City of Sioux Falls (City; Aa1 issuer rating) is the largest participant in the SRF program (12%), with a CW revenue pledge from the City.

#### RATING OUTLOOK

The stable outlook reflects that the SRF will continue to maintain the strong financial position, characterized by a high over-collateralization level, the 39% DTA and the loan portfolio quality.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Not applicable

#### FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- A substantial decrease in the DTA to below 25% in conjunction with a significant deterioration in the pledged loan portfolio's credit quality, particularly in the credit quality of City of Sioux Falls

## LEGAL SECURITY

The Bonds are special obligations of the District, payable solely from specific revenues and funds pledged under a Fifth Amended and Restated Master Trust Indenture (Master Indenture), including moneys and investments in funds established under the Master Indenture and outstanding loans of the clean water program and drinking water program.

## USE OF PROCEEDS

Proceeds of the 2024 Bonds, together with other available funds, will be used by the District to (1) make loans to borrowers for the financing of eligible water and sewer projects and (b) pay costs of issuance.

## PROFILE

The District is a governmental agency and body politic and corporate with authority to exercise powers specified in the State Act. The District develops water resource policy for the state of South Dakota and provides financing to other public and private entities for the construction and improvement of water, wastewater and solid waste facilities. Specifically, the Division of Financial and Technical Assistance (one of the five divisions in the Department of Agriculture and Natural Resources of the District) is responsible for administering the SRF program.

The SRF provides revolving loan funds to make loans to political subdivisions of the State of South Dakota and owners of public water supply systems under the DW program as well as other borrowers for sewer, water and other authorized purposes under the CW program. Both programs are funded by capitalization grants, loan repayments, investment earnings and bond proceeds. SD SRF is a cash flow model. As of 6/30/2024, there were about \$452 million of SRF Bonds outstanding.

## METHODOLOGY

The principal methodology used in this rating was Public Sector Pool Programs and Financings Methodology published in April 2020 and available at <https://ratings.moodys.com/rmc-documents/66017>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## REGULATORY DISCLOSURES

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