

**Rating Action: Moody's Assigns Aaa to SD Cons. Dist.'s SRF Prog. Bds. Ser. 2020; outlook stable**

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09 Jun 2020

New York, June 09, 2020 -- Moody's Investors Service has assigned a Aaa rating to South Dakota Conservancy District's \$78 million State Revolving Fund Program Bonds, Series 2020 ("2020 Bonds"; together with outstanding bonds, "Bonds"). We are also maintaining the Aaa ratings on all outstanding bonds. The outlook is stable.

**RATINGS RATIONALE**

The program's Aaa rating reflects its strong over-collateralization, a high 45% default tolerance and a good credit quality for the underlying loan portfolio. The rating also incorporates a legal structure that allows for limited cross-collateralization of the clean water (CW) and drinking water (DW) programs (together, the state revolving fund (SRF) program) in the case of a payment deficiency in either program.

A COVID-19 outbreak was reported at the Smithfield Foods plant in Sioux Falls, but it does not negatively affect the SRF program because the Smithfield Foods plant has its own wastewater facility and does not contribute to Sioux Falls wastewater fund revenues. City of Sioux Falls (City; Aa1 issuer rating) is the largest participant in the SRF program, which receives revenue pledges from the City.

We regard the coronavirus (COVID-19) outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for the SRF Program. However, the situation surrounding Coronavirus is rapidly evolving and the longer-term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the Program changes, we will update the rating and/or outlook at that time.

**RATING OUTLOOK**

The stable outlook reflects our continued expectation that the credit strength of the loan portfolio, program asset-to-debt ratio and default tolerance will remain strong and consistent with the Aaa rating.

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

- Not applicable

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

- A significant deterioration in debt service coverage, the program default tolerance or the average portfolio credit quality

**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 2020 Bonds will be used to (1) make new CW loans and fund the undrawn portion of previously awarded loans made to City of Sioux Falls for modernizing its wastewater treatment facility and improving its wastewater as well as storm water systems, and (2) 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 two divisions in the Department of Environment and Natural Resources of the District) is responsible for administering the SRF program.

The SRF program 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. The CW/DW programs are funded by capitalization grants, loan repayments, investment earnings and bond proceeds. This SRF program is a cash flow model.

## METHODOLOGY

The principal methodology used in this rating was Public Sector Pool Programs and Financings Methodology published in April 2020 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM\\_1171420](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1171420). Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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