October 8, 2014

Mr. James Feeney
South Dakota Conservancy District
Department of Environment and Natural Resources
Joe Foss Building
523 East Capitol
Pierre, South Dakota 57501

Dear Mr. Feeney:

I wish to inform you that Moody’s Rating Committee has assigned a Aaa rating to South Dakota Conservancy District State Revolving Program Taxable Revenue Bonds Series 2014A and Revenue Bonds 2014B. We have also affirmed Aaa ratings to all outstanding State Revolving Fund Program Bonds. The rating outlook is stable.

In assigning our ratings, we relied on draft documents provided to us. In order to maintain our rating we need to receive a complete set of final executed documents as soon as possible and will require current financial and portfolio information on an ongoing basis.

Moody’s will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody’s through normal print and electronic media and in response to verbal requests to Moody’s Rating Desk.

If you have any questions regarding the rating or the information required to maintain the rating, please do not hesitate to contact me at (212) 553-4461.

Sincerely,

Ping Hsieh
Vice President - Senior Analyst

Cc: Jessica Cameron Mitchell, Public Financial Management, Inc.
New Issue: Moody's Assigns Aaa Rating to South Dakota Conservancy District
State Revolving Fund Program Bonds Series 2014

Global Credit Research - 03 Oct 2014

STATE REVOLVING FUND PROGRAM, SD
State Revolving Funds
SD

Moody’s Rating

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<td>Revenue Bonds, Series 2014B</td>
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<td>Sale Amount</td>
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Taxable Revenue Bonds, Series 2014A | Aaa |
Sale Amount | $9,000,000 |
Expected Sale Date | 10/07/14 |
Rating Description | Revenue: Pool |

Moody’s Outlook | STA

Opinion

NEW YORK, October 03, 2014 --Moody’s Investors Service has assigned Aaa ratings to South Dakota Conservancy District’s State Revolving Fund Program $9 million Taxable Revenue Bonds, Series 2014A and $60 million Revenue Bonds, Series 2014B (the “2014 Bonds”). We are also affirming Aaa ratings on all outstanding bonds. The outlook is Stable.

Summary Rating Rationale

The Aaa rating is based on the strong overcollateralization and high default tolerance levels which enable the SRF program to withstand substantial losses without impairing its ability to pay debt service.

Strengths:

* The SRF program can sustain a significant but highly unlikely 56.8% of loans defaulting through their final maturity.

* Strong debt service coverage through bond maturity, with a minimum coverage of 1.50x for the Clean Water Program (CW) and 1.75x for the Drinking Water (DW) Program.

* Borrowers in the loan pool have solid credit quality

* Clean Water and Drinking Water SRF programs are cross-collateralized, allowing shortfalls in debt service in one program to be supported, on a subordinate basis, by revenues from the other program

* Management has a strong track record of successfully managing the state’s SRF program

Challenges:

* Concentrated borrower pool, with top 5 borrowers account for approximately 43.3% of total loans outstanding but
the high default tolerance of the program mitigates this risk.

* Potential loss of investment in downgraded Guaranteed Investment Contracts (GICs) and unrated South Dakota Cash Flow Fund could pressure the program going forward. However,

various stress tests demonstrate that the program could withstand substantial investment losses.

Detailed Credit Discussion

Use of Proceeds: Bond proceeds from 2014 Bonds will be used to (a) finance new loans to certain political subdivisions and owners of public water supply systems in South Dakota and (b) pay costs of issuance.

Legal Security: The Bonds are special obligations of the District payable solely from revenues and funds pledged under the Mater Indenture which primarily consist of bond proceeds, loan repayments and excess revenues including amounts in the Cumulative Excess Fund.

Interest Rate Derivatives: None.

Loan Portfolio

A key element of the rating assessment is the size and credit quality of the portfolio of loans held by the District. Loans to 244 borrowers, totaling $566.6 million, are pledged to the outstanding SRF bonds. Borrowers in the loan portfolio have solid credit quality. The largest participant is City of Sioux Falls, with a variety of security pledges including sewer revenue which consists of approximately 24% of aggregate loans outstanding. The top 5 borrowers comprise approximately 43% of the aggregate pledged loans outstanding. Concentration risk is mitigated by the high default tolerance of the program. We expect the program will continue to grow, while maintaining the overall credit quality of the loan pool.

Each borrower in the program typically pledges system revenues, although GO, special assessment and sales tax pledges may also be used to secured loans. Borrowers are required to demonstrate 1.1x net revenue coverage of loan repayments while borrowers who pledge sales tax revenues must have 1.2x coverage, which lends additional strength to the pool.

Loans may be de-pledged if future debt service coverage is projected to be 1.2x. However it is not expected that the program would significantly de-pledge loans from the pool. In the unlikely event that loans are de-pledged, it would most likely be done to remove non-performing or weaker loans from the pool.

Program can withstand substantial loan defaults

The District has significant amount of assets pledged to support its bonds outstanding. As of June 30, 2014, the program had $396.8 million of loans, $128.3 million of funds in the Cumulative Excess Fund, $41.4 million in other funds and $195.7 million of outstanding bonds. The program can tolerate a substantial but highly unlikely loan default rate of 56.8% and still meet debt service obligation timely.

Preliminary cash flow projections demonstrate a minimum debt service coverage of 1.50x for the CW program and 1.75x for the DW program. The SRF program has an additional bonds test of 1.2x coverage.

Management

The SRF program is administered by the Board of Water and Natural Resources (the "Board"). No borrowers have defaulted in the state's SRF program to date and there was no delinquency as of September 22, 2014. The Board reviews all applicants for clean water and drinking water loans and maintains the state's Intended Use Plan which lists all SRF eligible projects. The Board also manages the state's Water Facilities Plan, which identifies other funding sources, such as Federal Rural Development Program funds. This is important for maintaining the SRF's competitiveness, since multiple funding sources are available to South Dakota communities.

Investments

As of June 30, 2014, the District currently held approximately $169.8 million of funds invested in GICs provided by AIG Matched Funding Corp (Baa1/Stable; 78.6%) and MBIA Inc. (Ba1/Negative; 0.8%), the South Dakota Cash Flow Fund (an unrated state investment pool; 6.8%), US Treasuries (8.5%) and one money market fund (5.3%). Although funds invested in lower rated GICs and the unrated South Dakota Cash Flow Fund may pose a long-term risk to the program, the very strong coverage and default tolerance level of the program sufficiently mitigate this risk. In calculating the program's default tolerance and debt service coverage, approximately 50% of the principal
invested in the downgraded GICs and 100% of the principal invested in the unrated South Dakota Cash Flow Fund have been excluded.

Outlook

The stable outlook is based solid borrower pool credit quality and strong debt service coverage levels.

What could change the rating - UP

None

What could change the rating - DOWN

A considerable deterioration in the financial position or credit quality of the program could result in a downgrade.

Key Indicators of the Program (as of June 30, 2014 unless otherwise noted):

Program Structure: Cash flow; Closed loop

Minimum Debt Service Coverage: 1.5x for CW program and 1.75x for DW program

Default Tolerance: 56.8%

Outstanding Bonds: $195.71 million

Outstanding Loans: $396.77 million

Program Asset-to-Debt Ratio: 2.89x (2.45x net of Moody's adjustments)

Number of Borrower: 242

Percentage of Top 5 Borrowers: 43.33%

Percentage of Borrowers with Less Than 1% of Loans Outstanding: 40.65%

The principal methodology used in this rating was U.S. State Revolving Fund Debt published in March 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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Analysts

Ping Hsieh
Lead Analyst
Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody’s Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
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