

July 27, 2017

James Feeney
South Dakota Conservancy District
Joe Foss Building
523 East Capitol
Pierre, SD 57501-3182

Dear Jim:

We wish to inform you that Moody's Investors Service has assigned Aaa ratings to South Dakota Conservancy District's State Revolving Fund Taxable Revenue Bonds, Series 2017A and Revenue Bonds, Series 2017B (the "2017 Bonds"). We are also maintaining the Aaa ratings on all outstanding bonds. The outlook is stable.

Credit ratings issued by Moody's Investors Service, Inc. and its affiliates ("Moody's") are Moody's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities and are not statements of current or historical fact. Moody's credit ratings address credit risk only and do not address any other risk, including but not limited to: liquidity risk, market value risk, or price volatility.

This letter uses capitalized terms and rating symbols that are defined or referenced either in *Moody's Definitions and Symbols Guide* or *MIS Code of Professional Conduct* as of the date of this letter, both published on www.moodys.com. The Credit Ratings will be publicly disseminated by Moody's through normal print and electronic media as well as in response to verbal requests to Moody's Rating Desk. Moody's related research and analyses will also be published on www.moodys.com and may be further distributed as otherwise agreed in writing with us.

Moody's Credit Ratings or any corresponding outlook, if assigned, will be subject to revision, suspension or withdrawal, or may be placed on review, by Moody's at any time, without notice, in the sole discretion of Moody's. For the most current Credit Rating, please visit www.moodys.com.

Moody's has not consented and will not consent to being named as an expert under applicable securities laws, such as section 7 of the Securities Act of 1933. The assignment of a rating does not create a fiduciary relationship between Moody's and you or between Moody's and other recipients of a Credit Rating. Moody's Credit Ratings are not and do not provide investment advice or recommendations to purchase, sell or hold particular securities. Moody's issues Credit Ratings with the expectation and understanding that each investor will make its own evaluation of each security that is under consideration for purchase, sale or holding.

Moody's adopts all necessary measures so that the information it uses in assigning a Credit Rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently validate or verify information received in the rating process. Moody's expects and is relying upon you possessing all legal rights and required consents to disclose the information to Moody's, and that such information is not subject to any restrictions that would prevent use by Moody's for its ratings process. In assigning the Credit Ratings, Moody's has relied upon the truth, accuracy, and completeness of the information supplied by you or on your behalf to Moody's. Moody's expects that you will, and is relying upon you to, on an ongoing basis, promptly provide Moody's with all information necessary in order for Moody's to accurately and timely monitor the Credit Ratings, including current financial and statistical information.

Under no circumstances shall Moody's have any liability (whether in contract, tort or otherwise) to any person or entity for any loss, injury or damage or cost caused by, resulting from, or relating to, in whole or in part, directly or

July 27, 2017

James Feeney
South Dakota Conservancy District
Joe Foss Building
523 East Capitol
Pierre, SD 57501-3182

indirectly, any action or error (negligent or otherwise) on the part of, or other circumstance or contingency within or outside the control of, Moody's or any of its or its affiliates' directors, officers, employees or agents in connection with the Credit Ratings. **ALL INFORMATION, INCLUDING THE CREDIT RATING, ANY FEEDBACK OR OTHER COMMUNICATION RELATING THERETO IS PROVIDED "AS IS" WITHOUT REPRESENTATION OR WARRANTY OF ANY KIND. MOODY'S MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH INFORMATION.**

Any non-public information discussed with or revealed to you must be kept confidential and only disclosed either (i) to your legal counsel acting in their capacity as such; (ii) to your other authorized agents acting in their capacity as such with a need to know that have entered into non-disclosure agreements with Moody's in the form provided by Moody's and (iii) as required by applicable law or regulation. You agree to cause your employees, affiliates, agents and advisors to keep non-public information confidential.

If there is a conflict between the terms of this rating letter and any related Moody's rating application, the terms of the executed rating application will govern and supercede this rating letter.

Should you have any questions regarding the above, please do not hesitate to contact the analyst assigned to this transaction, Ping Hsieh at 212-553-4461.

Sincerely,

Moody's Investors Service Inc.

Moody's Investors Service Inc.

CREDIT OPINION

26 July 2017

New Issue

Rate this Research >>

Contacts

Ping Hsieh 212-553-4461
 VP-Sr Credit Officer
 ping.hsieh@moodys.com

Kendra M. Smith 212-553-4807
 MD-Public Finance
 kendra.smith@moodys.com

South Dakota Conservancy District

New Issue: Moody's Assigns Aaa to South Dakota State Revolving Fund Series 2017 A&B; outlook stable

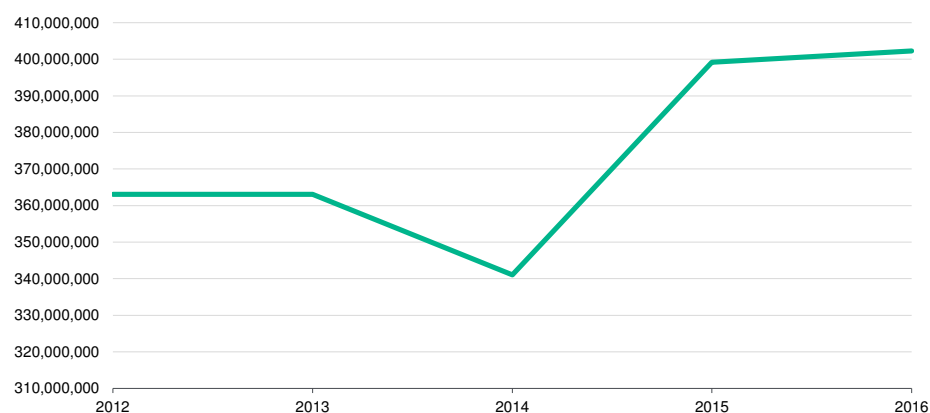
Summary Rating Rationale

Moody's Investors Service has assigned Aaa ratings to South Dakota Conservancy District's State Revolving Fund Program \$17 million Taxable Revenue Bonds, Series 2017A and \$78 million Revenue Bonds, Series 2017B (the "2017 Bonds"). We are also maintaining the Aaa ratings on all outstanding bonds. The outlook is stable.

The program's Aaa rating reflects its strong over-collateralization, a very high 55% default tolerance and a good A-range credit quality for the underlying loan portfolio. The stable outlook reflects our continued expectation that the credit strength of the portfolio, program asset-to-debt ratio and default tolerance will remain strong and consistent with the Aaa rating.

Exhibit 1

Outstanding loans of SD State Revolving Fund



Source: Moody's Investors Service and SD Conservancy District

Credit Strengths

- » The SRF program can sustain a significant but highly unlikely 55% of loans defaulting through their final maturity.
- » Strong debt service coverage through bond maturity, with a minimum coverage of 1.39x for the Clean Water Program (CW) and 1.22x for the Drinking Water (DW) Program.
- » Solid portfolio credit quality
- » Clean Water and Drinking Water SRF programs are cross-collateralized at the bottom, 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

Credit 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) could pressure the program going forward. However, various stress tests demonstrate that the program could withstand substantial investment losses.

Rating Outlook

The stable outlook reflects our continued expectation that the credit strength of the 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

- » None

Factors that Could Lead to a Downgrade

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

Key Indicators

Exhibit 2

(Year Ending 06/30)	2016	2015	2014	2013	2012
Total of bonds outstanding	228,645,000	243,175,000	195,710,000	207,505,000	212,730,000
Default tolerance	55%	57%	57%	52%	52%
Number of borrowers	288	246	242	205	237
Percentage of pool top 5	41%	41%	43%	50%	46%
Percentage of pool below top 5	45%	41%	41%	39%	40%
Total loans outstanding	402,272,675	399,213,600	341,050,614	363,100,092	363,100,092

Source: Moody's Investors Service and SD Conservancy District

Recent Developments

Incorporated in sections below.

Detailed Rating Considerations

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Loan Portfolio

The size and credit quality of the portfolio of loans held by the District is a key rating consideration. Loans to 207 borrowers, totaling \$417 million, are pledged to the outstanding SRF bonds. Average credit quality of the borrowers in the loan portfolio is solid.

The largest participant is City of Sioux Falls (Aa2), with a variety of security pledges which consists of approximately 24% of aggregate loans outstanding. The top 5 borrowers comprise approximately 41% of the aggregate pledged loans outstanding. Concentration risk is mitigated by the high default tolerance of the program and the high rating of Sioux Falls. We expect the program will continue to grow, while maintaining the overall credit quality of the loan pool.

Underlying Credit Quality and Default Tolerance - SRF program can withstand substantial loan defaults

The District has significant amount of assets pledged to support its bonds outstanding. As of March 31, 2017, the program had \$417 million of loans and an additional \$228 million in other funds pledged to \$213 million of outstanding bonds. The program can tolerate a substantial but highly unlikely loan default rate of 55% and still meet debt service obligation timely.

The portfolio credit quality is in the A-range. As security for loan obligations, borrowers 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 maintain an 1.2x coverage, which lends additional strength to the pool. No borrowers in the SRF program have defaulted to date and there was no delinquency as of March 2017.

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.

LIQUIDITY

The SRF program's liquidity position is strong, as evidenced by the high 55% default tolerance and the strong debt service coverage. The program's asset-to-debt ratio as of March 31, 2017 was 2.57x (net of analyst adjustments).

Preliminary cash flow projections demonstrate a minimum debt service coverage of 1.39x for the CW program and 1.22x for the DW program. The SRF program has an additional bonds test of 1.2x coverage.

Legal Framework, Covenants and Debt Structure

DEBT STRUCTURE

The Bonds will bear interest at fixed rates to their maturity or earlier redemption dates.

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

Not a material consideration to this rating action.

Management and Governance

South Dakota Conservancy District (the "District") was created for the purpose of planning, developing and managing the use and conservation of the water resources within the state of South Dakota. The District is governed by the Board of Water and Natural Resources (the "Board"). Employees of the State Department of Environment and Natural Resources serve as the staff of the District and administers the SRF program.

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.

Legal Security

The Bonds are special obligations of the District, payable solely from specific revenues and funds pledged under the Master Indenture.

Use of Proceeds

Proceeds of the 2017 A&B Bonds will be used to make or purchase new clean water (CW) and drinking water (DW) loans, refund certain District's outstanding bonds and pay cost of issuance.

Obligor Profile

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 as well as other borrowers for sewer, water and other authorized purposes. Previously, the District was making CW and DW loans under separate resolutions.

The Master Indenture was amended in 2004 to combine CW and DW programs into one resolution and to provide a limited degree of cross-collateralization in the form of reciprocal subordinated lending arrangements between the CW and DW programs. This SRF program is a cash flow model.

Methodology

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

Ratings

Exhibit 3

State Revolving Fund Program, SD

Issue	Rating
Taxable Revenue Bonds, Series 2017A	Aaa
Rating Type	Underlying LT
Sale Amount	\$16,715,000
Expected Sale Date	08/03/2017
Rating Description	Revenue: Pool
Revenue Bonds, Series 2017B	Aaa
Rating Type	Underlying LT
Sale Amount	\$78,260,000
Expected Sale Date	08/03/2017
Rating Description	Revenue: Pool

Source: Moody's Investors Service

© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER

1083738