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July 27, 2017

James Feeney
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Joe Foss Building
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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.

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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.

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
26 July 2017

New Issue

Rate this Research

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South Dakota Conservancy District

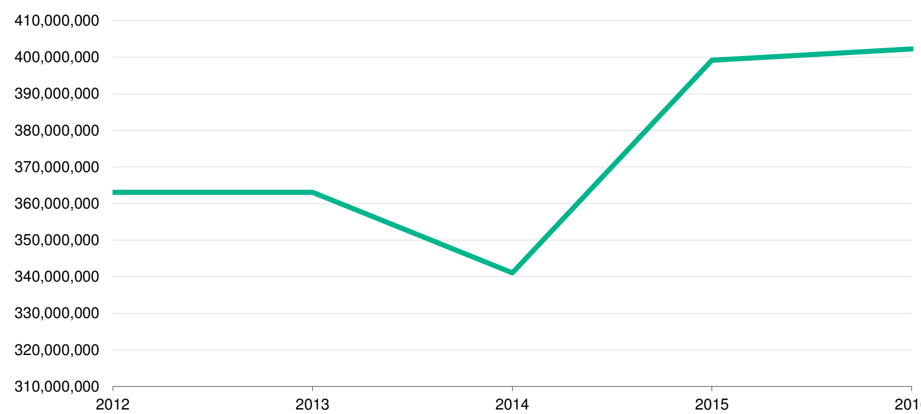
New Issue: Moody's Assigns Aaa to South Dakota State Revolving Fund Series 2017 A&B; outlook stable

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 10%	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

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 reciporcal 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.moodys.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

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