

Research Update:

South Dakota Conservancy District Series 2026A And 2026B State Revolving Fund Program Bonds Rated 'AAA'; Outlook Stable

March 4, 2026

Overview

- S&P Global Ratings assigned its 'AAA' rating to [South Dakota Conservancy District](#) (SDCD)'s \$9.08 million series 2026A taxable state revolving fund (SRF) program bonds and \$190.22 million series 2026B SRF program bonds.
- We also affirmed our 'AAA' rating on SDCD's existing SRF program bonds.
- The outlook is stable.

Rationale

Security

The proceeds from the 2026A and 2026B bonds will be allocated as follows:

- A total of \$209 million of bond proceeds will be allocated to finance both new and existing loans for various utilities involved in the clean water and drinking water programs; and
- Within this amount, \$76.5 million is designated for the clean water SRF, while \$132.5 million is allocated for the drinking water SRF.

Repayments made under pledged loan agreements and other various funds pledged under the master indenture secure the bonds.

SDCD does not issue separate state-match and leveraged series bonds for each program, but it separates each series into a state-match and leveraged portion for each program as applicable. SDCD segregates principal and interest payments from loan agreements: Interest payments secure the bonds' state-match portion, with principal payments and excess interest payments after SDCD pays state-match debt service securing the bonds' leveraged portion.

In relation to the issuance and sale of the series 2026A and 2026B bonds, this will mark the third set of outstanding bonds issued following the amendment of the master trust indenture. A significant change within the amendment is the adjustment of the required projected debt service coverage (DSC) for the additional bonds test, lowering it to 1.05x from 1.20x. Importantly, this amendment does not alter our assessment of the credit quality of the bond program.

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Credit highlights

The program provides loans to finance projects related to water pollution control and drinking water to a diverse mix of utilities throughout the state. The pool benefits from overcollateralization that provides excess annual cash flow to pay SRF bond debt service. Reserves held in program accounts also provide a cushion against potential borrower defaults.

The rating reflects the combination of extremely strong enterprise and financial risk scores, supported by SDCD's:

- Extremely strong market position, reflecting support from multiple levels of government that creates increasing equity;
- Over-collateralization, which we believe to be in line with our strongest assessment, based on the credit quality of the asset pool and consolidated cash flows run at our 'AAA' level stress; and
- Strong financial management policies and practices and a long track record of no borrower defaults; We believe the number of recent loan payment delinquencies are administrative in nature, which does not materially affect our view of the program's financial profile.

Rating above the sovereign

Because we view securitizations backed by pools of public sector assets as highly sensitive to national risk, we cap the rating on the securitization at two notches above the U.S. sovereign rating. However, we do not apply any specific sovereign default stress because our rating on the U.S. is 'AA+'.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that the pool's loan portfolio will remain diverse and that SDCD will continue to manage its loan origination process to provide sound protection against loan-default risk. The outlook also reflects our expectation that SDCD's strong loan portfolio management will likely continue, and that collateralization will likely sustain high DSC of potential defaults and delinquencies.

Downside scenario

While unlikely given DSC from loan revenue provides a strong cushion for potential defaults, we could lower the rating if our view of overcollateralization decreases materially.

Credit Opinion

Enterprise Risk Profile: Extremely Strong

We consider SDCD's enterprise risk score extremely strong due to the combination of low industry risk for municipal pools and an extremely strong market position. The program receives financial support from federal capitalization grants and state matching funds, which leads to increasing equity available for additional loan activity. We believe these factors reflect a high level of government support and mitigate the risk of challenges that could affect demand.

Financial Risk Profile: Extremely Strong

SDCD achieves overcollateralization through annual revenue structured in excess of annual debt service costs and surplus revenue generated from prior-year cash flow. The cash flow pattern historically hovers at 'AAA' level default stress and consistently passes the largest obligor test. We believe the program will continue to pass at the 'AAA' level. For the combined clean and drinking water programs, minimum annual DSC generally exceeds 1.2x; it strengthens during the course of the debt amortization schedule. SDCD currently has about \$202 million of available cash and investments in various funds. SDCD's investment pool includes roughly \$66 million of investments guaranteed by AIG group. If it cannot draw cash from various investments to make timely debt service payments, available cash flow from annual loan repayments provides enough of a cushion, in our view, that bond payments would not necessarily be impaired. SDCD uses portions of these funds to make additional loans, so loan revenue recycles back into the program to provide additional DSC. There have been no loan defaults and a limited number of delinquencies during the past 12 months. Loan delinquencies typically result from administrative errors by borrowers and are cured quickly. Loan agreements require the borrowers pledging utility revenue to maintain 1.1x DSC and a 1.1x rate covenant. Sales tax pledges require 1.2x DSC.

The pool's cross-collateralization mechanism helps cushion the pool further from loan default risk. If loan interest payments are insufficient to pay debt service on the bonds' state-match portion, SDCD can use excess interest payments from the clean or drinking water program. If loan principal payments are insufficient to pay debt service on the bonds' leveraged portion, SDCD can use excess principal and interest payments from the clean or drinking water program. Federal law does not allow the use of loan principal payments for the bonds' state-match payments; this is why the cross-collateralization mechanism does not permit excess loan principal payments for the bonds' state-match debt service.

We consider SDCD's financial management policies and practices strong. SDCD management prepares and updates its intended use plan annually, including the project priority list. It ranks projects and funds them in order of priority. SDCD staff evaluates the creditworthiness of potential borrowers, and borrowers must meet minimum DSC depending on the security. Once funded, annual reporting loan requirements include financial statement and DSC certificates. Recent loan delinquency levels are above those of similarly rated peers, although these do not pressure the program's cash flows.

SDCD has an investment management policy in its master trust indenture. The policy generally restricts investments to U.S. Treasuries and agencies, certificates of deposit, money market funds, and other investments either collateralized or with investment-grade counterparties.

Credit Snapshot

- Program description: The State of South Dakota created SDCD in 1959 for planning, developing, and managing the use and conservation of water resources. The seven-member Board of Water and Natural Resources governs SDCD; the board sets certain policies for the South Dakota Department of Agriculture and Natural Resources, including water policies and the state water plan. SDCD is authorized to lend to, or purchase loan obligations of, political entities and nonprofit entities within the state. The clean and drinking water SRFs were created pursuant to state statutes to carry out the provisions of the federal Clean Water and Safe Drinking Water Acts. In support of the SRF programs, the district receives federal capitalization grants and meets match requirements using bond proceeds.
- The flow of funds: It is such that principal and interest payments received from the loan obligations are segregated, the interest payments secure the state match portion of the bonds, with principal payments and excess interest

payments (after state match debt service is paid) securing the leveraged portion of the bonds. However, if loan interest payments are insufficient to pay debt service on the state match portion of the bonds, excess interest payments from the clean or drinking water program can be used. If loan principal payments are insufficient to pay debt service on the leveraged portion of the bonds, excess principal and interest payments from either the clean or drinking water program can be used.

- Summary statistics: As of Dec. 31, 2025, there are \$449 million in outstanding clean water SRF bonds and \$296 million in outstanding drinking water SRF bonds. These bonds are supported by approximately \$2.245 billion in clean and drinking water loans, which facilitate bond repayment. Borrower repayments, along with interest earnings from both unrestricted and restricted reserves, yield an average DSC ratio of 1.37x. The borrower portfolio comprises loans to about 237 distinct entities. The largest borrower, Sioux Falls, has \$352 million in outstanding loans, accounting for 15.7% of the total loans currently outstanding.

Ratings List

New Issue Ratings

US\$190,220,000 South Dakota Conservancy District, South Dakota, State Revolving Fund Program Bonds, Revenue Bonds, Series 2026B, dated: Date of Delivery, due: August 1, 2056

Long Term Rating AAA/Stable

US\$9,080,000 South Dakota Conservancy District, South Dakota, State Revolving Fund Program Bonds, Taxable Revenue Bonds, Series 2026A, dated: Date of Delivery, due: August 1, 2056

Long Term Rating AAA/Stable

Ratings Affirmed

Water & Sewer

South Dakota Conservancy Dist, SD State Revolving Fund Clean Water & Drinking Water Program AAA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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