

SOUTH DAKOTA HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

South Dakota State Aid Pledge Program

Program Description

Old Program

The South Dakota Health and Educational Facilities Authority issued 24 different School District Capital Outlay Certificates totaling over \$39 million between 1989 and 2000. The old program was rated “A” by Standard & Poor’s and contained a three month State Aid Intercept provision. All prior certificate issues have been paid in full. The State Aid Intercept provision was never used, as all school districts made timely debt service payments.

Overview of the New Program

During its 2015 session, the South Dakota Legislature adopted Senate Bill 191 authorizing an expanded State Aid Pledge Program. The purpose of the Program is to reduce interest costs for qualifying South Dakota school districts by providing credit enhancement for qualified certificate borrowing. The Program allows school districts to pledge Title 13 State Aid payments as additional security for qualified certificate issues. Under the Program, districts whose qualified certificates would ordinarily receive a rating in the “A” category or lower could expect a rating increase to the “AA+” level, with a corresponding decrease in interest rates. Note that participation in the Program is entirely voluntary. A school district that participates in the Program is referred to in this document as a Participant.

Program Administration

The Program will be administered by the South Dakota Health and Educational Facilities Authority (the “Authority”). Participants should understand that the Authority will not act as the issuer of any qualified certificates. That is, each Participant will issue its own qualified certificates just as it ordinarily would. The sole function of the Authority under the Program will be to approve applications from qualifying school districts and to monitor the state aid pledge mechanics as described below.

How the Program Operates

- A Participant will issue qualified certificates as it normally does, either in a public offering or in a direct placement with a bank or other lender. Qualified certificates issued under the Program are referred to in this document as Enhanced Certificates.
- The Enhanced Certificates will be issued under a Certificate Resolution in a form provided by the Authority, and the Participant will also enter into a State Aid Pledge Agreement which will contain the terms of the state aid pledge.
- The Participant will designate a commercial bank as Paying Agent, and will be required to deposit each semiannual payment of principal and/or interest on the Enhanced Certificates

with the Paying Agent by the fifteenth day of the month prior to the date on which it is due to be paid to the EC holders (each such date will be referred to as a "Deposit Date"). For example, if a principal and interest payment is due to EC holders on August 1, the Participant will be required to deposit the payment with the Paying Agent on July 15.

- If the Paying Agent does not receive a principal and/or interest payment from a Participant on the required Deposit Date, it will immediately provide notice of the delinquency to the Participant, the Authority, the Department of Education, the State Auditor, and the Bureau of Finance and Management. Upon receipt of the delinquency notice, the Authority will contact the Participant directly to confirm the delinquency and to request an immediate cure.
- If the Paying Agent does not receive the delinquent payment by the close of business on the second business day following the Deposit Date, the Authority will send an intercept notice to the Participant, Department of Education, State Auditor and Bureau of Finance and Management.
- Upon receipt of the intercept notice, the Department of Education will take the actions necessary to intercept State Aid otherwise payable to the Participant and cause the delinquent amount to be deposited with the Paying Agent on or before the date on which payment is due to the Enhanced Certificate holders.
- Any amount of State Aid which is intercepted pursuant to these procedures will be deducted from the annual amount of State Aid that would otherwise be payable to the Participant under Title 13.

Program Application

A school district may apply to participate in the program by completing an application form and appending the required information. The Application Form is attached to this document as *Exhibit I*, but may be amended from time to time by the Authority. The Authority recommends that interested school districts contact the Authority for the most current application form.

Program Qualifications

In order to participate in the Program, a school district must demonstrate compliance with the following qualifications:

- The maximum capital outlay levy of a Participant (based on its most recent aggregate taxable valuation) must generate annual proceeds in an amount sufficient to provide at least 1.25 times coverage of the maximum annual debt service of (i) any previously issued qualified certificates (whether or not covered by the Program), plus (ii) the Enhanced Certificates proposed to be issued under the Program.
- The amount of state aid received by the Participant in the most recently audited full fiscal year must provide at least 2.0 times coverage of the maximum annual debt service on (i) any previously issued Enhanced Certificates, plus (ii) the additional Enhanced Certificates proposed to be covered by the Program. The Authority may require higher debt service coverage in the case of Participants whose enrollments have shown declines in recent years.
- The Participants must not be in default on any other indebtedness.

Program Fees

The Authority will charge an application fee equal to the greater of 0.125% of the proposed issue or \$3,000, not to exceed \$10,000. (For example, a \$4,000,000 Certificate issue has an application fee of \$5,000). Participants will also be responsible for paying the rating agency fee and the Paying Agent's fee associated with any certificates issued under the Program, as well as all other issuance costs.

Other Program Features and Requirements

- A Participant may designate the bond counsel firm and bank or underwriting firm it intends to use for its Enhanced Certificates.
- The Authority has prepared a form of Certificate Resolution and related documents that are required to be used by Participants. Copies of these forms may be obtained by contacting the Authority.
- Participants are responsible for paying all issuance costs and annual maintenance costs associated with each issue of Enhanced Certificates under the Program.
- Enhanced Certificates may be issued at any time during a Participant's fiscal year, but principal payments must be scheduled to occur annually on August 1, with interest payments occurring semiannually on each August 1 and February 1.
- Principal amortization must be structured so as to provide substantially level annual debt service.

Additional Information

For additional information about the Program, interested school districts are invited to contact the Authority directly:

Don Templeton, Executive Director	605-224-9200	don.templeton@sdhefa.com
Dustin Christopherson, Associate Director	605-224-9200	dustin.christopherson@sdhefa.com

Exhibit I
South Dakota State Aid Pledge Program
Application

School District:	Business Manager:
Address:	Phone: Email Address:
Principal Amount of Proposed Capital Outlay Issue:	Proposed Issuance Date and Final Maturity :
Brief Description of Use of Proceeds:	
Paying Agent:	Paying Agent ACH Number:
Bond Counsel:	Underwriter/Lender:
<p>Additional Information to be Attached :</p> <ul style="list-style-type: none"> • Audited Financial Statements of the school district for the three most recent audited fiscal years • For each outstanding issue of the school district's capital outlay certificates: <ul style="list-style-type: none"> - Copy of the authorizing resolution - Copy of the Official Statement or other offering materials - Amortization Schedule • Estimated sources and uses of funds for the proposed new issue • Schedule of monthly state aid receipts for each of the past three full school years • Capital outlay levy and receipts for each of the past five calendar years • Total assessed valuation of the school district for each of the past five calendar years 	