MINUTES
Bonding Committee

Senator Gary Cammack, Chair
Representative Dean Wink, Vice Chair

First and Final Meeting, 2016 Interim
Friday, November 18, 2016

Room 413 – State Capitol
Pierre, SD

The first and final meeting of the Bonding Committee was called to order by Senator Gary Cammack, Chair, at 4:15 p.m. (CT) on November 18, 2016, in Room 413 of the State Capitol, Pierre, South Dakota.

A quorum was determined by the following members answering the roll call: Senator Gary Cammack, Chair; Representative Dean Wink, Vice Chair; Senators Corey Brown, Phyllis Heinemann, David Omdahl, and Billie Sutton; Representatives Jim Bolin, Brian Gosch, Don Haggar, Spencer Hawley, Roger Hunt, Timothy Johns, and Fred Romkema. Senators Scott Parsley and Jim White were excused.

Staff members present included Fred Baatz, Principal Research Analyst; Lucas Martin, Fiscal Analyst; and Paul Giovanetti, Senior Legislative Secretary.

NOTE: For purpose of continuity, the following minutes are not necessarily in chronological order. Also, all referenced documents distributed at the meeting are attached to the original minutes on file in the Legislative Research Council office. This meeting was web cast live. The archived web cast is available at the LRC web site at http://sdlegislature.gov.

Reception of Annual Reports

South Dakota Housing Development Authority (SDHDA)

Mr. Mark Lauseng, Executive Director, South Dakota Housing Development Authority, presented the Authority's annual report, audited financial statements, a report indicating indebtedness of the Authority, and a list of fees paid to professional service providers (Document #1).

Mr. Lauseng reported that SDHDA has issued $174.7 million in bonds for the First-time Homebuyers Program last year. SDHA also loaned more than $251.1 million to 1,899 first-time homebuyer families in South Dakota. Currently the interest rates for this program range from 2.625% - 4.25%.

The SDHDA has maintained an AAA rating with Standard & Poor's Rating Service and was upgraded to AAA rating by Moody's Rating Service in May 2016.

Mr. Lauseng reported the South Dakota Housing Opportunity Fund (HOF) which was created in the 2013 Legislative Session. During fical year 2016 $2.6 million was allocated which resulted in 393 housing units throughout South Dakota.

Mr. Lauseng reported that for FY16 a total of 118 Governor Houses were sold.

Representative Spencer Hawley asked for what is the current default rate. Mr. Lauseng replied the current delinquency rate on the home loans retained by the authority is 5% and around 1% are foreclosed.

South Dakota Conservancy District

Mr. Mike Perkovich, Program Administrator, Water and Waste Water Funding Program, Department of Environment and Natural Resources, presented The South Dakota Conservancy District Report (Document #2).

This program oversees the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund, and, as of June 30, 2016, has entered into 687 binding State Revolving Fund commitments totaling $1.15 billion.

On September 2, 2016, First National Bank of Sioux Falls informed the Department of Environment and Natural Resources that they will no longer be the trustee. The South Dakota Conservancy District has entered into the request for proposal process and are interviewing new candidates to be the trustee.

Representative Jim Bolin asked if there were any limitations on the projects they fund. Mr. Perkovich replied that they fund a broad category of projects, the entity must have the ability to repay the loan, and be eligible for funding. If the proposed project is for drinking water it cannot be a project for future growth.

Representative Roger Hunt asked why First National Bank of Sioux Falls decided to no longer be the trustee. Mr. Perkovich stated the reasoning provided by First National Bank of Sioux Falls was the decision was made for financial reasons.

South Dakota Value Added Finance Authority

Ms. Terri LaBrie, Finance Director, Department of Agriculture, presented the South Dakota Value Added Finance Authority (VAFA) annual report (Document #3).

The VAFA board consists of seven members all appointed by the Governor, and their mission is to provide lower cost financing for qualifying beginning farmers and agricultural businesses.

The Value Added Finance Authority issued no new bonds in fiscal year 2016.

Senator Gary Cammack asked why there was a spike in 2015 for livestock nutrient management bonds. Ms. LaBrie replied it may have been related to commodity prices.

South Dakota Economic Development Finance Authority

Ms. Cassie Stoeser, Director of Finance, Governor's Office of Economic Development, presented the Economic Development Finance Authority (EDFA) Annual Financial Report (Document #4).

Ms. Stoeser reported that no new bonds were issued in fiscal year 2016 and the bonds are rated AA by Standard and Poor.

South Dakota Building Authority

Mr. Don Templeton, Executive Secretary, South Dakota Building Authority, stated that the Governor and other state officials met with the three bond rating agencies this spring and the state has received a AAA rating from all three agencies.

Mr. Dustin Christopherson, Associate Director, South Dakota Building Authority, gave the report for FY16 (Document #5).

Mr. Christopherson reported that they did not issue any bonds for fiscal year 2016. He reviewed the projects that are under progress and the outstanding bonds.

Representative Hawley asked if the dormitory projects through the Board of Regents is funded through the authority. Mr. Christopherson replied the dorms were funded through a different means.

Representative Bolin asked if the bonds issued received the AAA Rating. Mr. Templeton replied that the state has received the AAA rating and the sub agencies receive a AA+ rating which he estimated to be a difference between five and fifteen basis points.

South Dakota Health and Educational Facilities Authority

Mr. Don Templeton, Executive Director, South Dakota Health and Educational Facilities Authority, gave the report for FY16 (Document #6).

Mr. Templeton reviewed projects related to health care providers. He also reviewed the four school district projects assisted by the authority and the savings provided to the school districts. Currently the authority has $1.4 billion of outstanding bonds.

The South Dakota Health and Educational Authority has issued 240 bonds for $4.2 billion with no defaults. Additionally, the authority has assisted 40 other projects for $74 million.

Senator David Omdahl asked how projects are able to be funded outside of the state of South Dakota. Mr. Templeton replied that SDCL 1-16A-1 and 1-16A-15.1 allow the authority to bond for projects in contiguous states as long as a project has a relationship to an entity located in South Dakota.

Representative Hawley asked if there was a limitation on the amount the authority can issue in bonds for a project. Mr. Templeton replied that there is no limitation on the amount the authority can issue in bonds, however, there is a time limit on the bonds.

Senator Cammack asked with the authority bonding projects outside of the state, if there is a limitation on available capital for projects within South Dakota. Mr. Templeton replied there are no limitations on the funding available for projects within South Dakota.

Representative Bolin asked if the authority has ever turned down a project. Mr. Templeton replied that the authority has turned certain projects down.

REPRESENTATIVE HUNT MOVED, SECONDED BY REPRESENTATIVE BOLIN, THAT THE BONDING COMMITTEE RECEIVE AND ACCEPT THE SOUTH DAKOTA BONDING AUTHORITY REPORTS GIVEN INTO RECORD. The motion prevailed on a roll call vote with 13 AYES and 2 EXCUSED. Those voting AYE: Brown, Heinemann, Omdahl, Sutton, Bolin, Gosch, Haggar, Hawley, Hunt, Johns, Romkema, Wink, Cammack. Those EXCUSED: Parsley, White.

Adjournment

REPRESENTATIVE JOHNS MOVED, SECONDED BY REPRESENTATIVE GOSCH, TO ADJOURN. The motion prevailed on a roll call vote with 13 AYES and 2 EXCUSED. Those voting AYE: Brown, Heinemann, Omdahl, Sutton, Bolin, Gosch, Haggar, Hawley, Hunt, Johns, Romkema, Wink, Cammack. Those EXCUSED: Parsley, White.

The committee adjourned at 4:54 pm