

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns an initial Aa1 to Sioux Falls, SD's junior lien sales and use tax bonds

02 Apr 2025

New York, April 02, 2025 -- Moody's Ratings (Moody's) has assigned an initial Aa1 junior lien rating to the City of Sioux Falls, SD's Sales Tax Revenue Bonds, Series 2025A with an estimated proposed par amount of \$23.4 million. We affirmed the ratings on the city's Aa1 issuer and outstanding senior lien sales and use tax bonds. Following the sale, the city will have roughly \$180 million in debt.

RATINGS RATIONALE

The Aa1 issuer rating reflects the city's healthy local economy that serves as the largest economic center in the state. Resident income and full value per capita are healthy but trail similarly rated peers. The rating also incorporates the city's strong financial operations, with healthy fund balance and liquidity, low long-term liabilities, and modest fixed costs.

The city's Aa1 senior lien special tax rating is the same level as its issuer rating because the pledged revenue provides sound debt service coverage at roughly 4x in fiscal 2023. Coverage is likely to remain above 3x even with the city's plans to issue additional special tax debt in the coming months.

The city's Aa1 junior lien special tax rating is the same level as its issuer rating because the pledged revenue provides sound debt service coverage at roughly 4x in fiscal 2024. Coverage is likely to remain robust even with the city's plans to issue additional special tax debt in the coming months. Governance is a driver of this initial rating.

RATING OUTLOOK

We do not typically assign an outlook to local governments with this amount of debt.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Improvement in resident income levels and full value per capita to levels above 120% and \$200,000 respectively

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Significant declines in available fund balance and liquidity
- Material increase in long-term leverage and fixed costs

LEGAL SECURITY

The City's outstanding sales tax revenue bonds are payable solely from the revenues derived from the city's 1% second penny tax. Sales tax revenue bonds issued by the city in years prior to 2025 are secured by a senior lien on such taxes and bonds issued in calendar year 2025 and later will be secured by a junior lien on such taxes (other than certain senior lien sales tax bonds issued for refunding purposes).

USE OF PROCEEDS

The Series 2025A bonds will finance a portion of the renovations of an existing recreation center, construction of a new outdoor pool, a new recreation facility, and on-site amenities, and, subject to availability of funds, pay the costs of demolition of the existing pool and park-related structures.

PROFILE

Located in southeast South Dakota along the Iowa (Aaa stable) and Minnesota (Aaa stable) borders, Sioux Falls is the county seat of Minnehaha County (Aa1) and the most populous city in the state. The population is estimated at around 200,000.

METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425429>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at <https://ratings.moodys.com/rmc-documents/435880>.

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