FITCH AFFIRMS ST. JOSEPH COUNTY, IN'S LT BONDS AT 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-12 October 2016: Fitch Ratings has affirmed the following St. Joseph County, Indiana bonds at 'AA-':

- $780,000 limited tax (LT) bridge refunding bonds, series 2009;
-Issuer Default Rating (IDR).

The Rating Outlook is Stable.

SECURITY
The bonds are limited obligations of the county payable from property taxes collected and deposited in the major bridge fund and cumulative bridge fund (the funds).

KEY RATING DRIVERS

The 'AA-' ratings are based on St. Joseph's very low long-term liability burden and solid expenditure cutting flexibility, somewhat offset by limited revenue growth prospects and the county's lack of independent legal ability to raise revenues. Management has generally supported financial flexibility during times of economic recovery and has positioned the county to maintain adequate gap closing abilities, although Fitch believes that operations could become stressed at times of economic downturn.

Economic Resource Base
St. Joseph County is located in north central Indiana, near the Michigan border, approximately 80 miles east of Chicago. South Bend, the county seat, is the fourth largest city in Indiana. The county is also home to the University of Notre Dame, which serves as a strong source of stability as taxable assessed value (AV) trends have recently rallied after multiple years of declines. The tax base has some concentration in education, health services, and manufacturing. County population levels have been stable, with the county's 2015 population at 268,441.

Revenue Framework: 'bbb' factor assessment
Fitch expects revenue performance to be generally in line with the rate of inflation, due to state tax caps that hinder the ability of the county to capture economic growth through its revenue system and limit the legal ability of the county to raise additional revenues.

Expenditure Framework: 'aa' factor assessment
The county's rate of expenditure growth is expected to be in-line with revenue growth. Expenditure flexibility is solid due to moderate carrying costs for debt service, pension, and other post-employment obligations and solid workforce control.

Long-Term Liability Burden: 'aaa' factor assessment
The long-term liability burden including pension liabilities and overall debt is low relative to personal income.

Operating Performance: 'a' factor assessment
Gap-closing capacity is adequate due to solid expenditure flexibility and rainy day fund reserves. Management makes efforts to support financial flexibility at times of economic recovery.

RATING SENSITIVITIES

Improved Revenue Prospects: The rating is sensitive to the county's limited legal ability to raise revenues and limited revenue growth prospects. Changes to the county's state mandated taxing authority could improve the rating.

CREDIT PROFILE

The county benefits from a strong local base anchored in higher education and manufacturing. The University of Notre Dame is the county's largest employer and is credited for stabilizing the local economy through investment in high-tech companies and through the creation of a large business incubator (Innovation Park at Notre Dame).

Wealth indicators are below average with median household income and per capita personal income below state and national levels. However, wealth metrics are likely negatively skewed due to the large student population. Unemployment rates are consistently above state and national averages.

Revenue Framework

The majority of the county's revenues are derived from income taxes which equal approximately 58% of total operating revenues. The second largest revenue raising category is property taxes, which comprise 19% of operating revenues.

The county's natural pace of revenue growth, absent of government policy action, is expected to be slow with year over year gains in line with the rate of inflation. General fund revenues calculated on a compound annual growth rate (CAGR) basis over the ten years through 2014 performed positively at 2.2%, despite the implementation of a circuit breaker property tax cap in 2009, which caused a decrease in property tax revenue in FY 2009 and FY 2010.

While the circuit breaker tax cap limits property tax growth, revenue growth may occur in county's other operating funds -- the local option income tax (LOIT), county income tax (COIT), and county economic development income tax funds (CEDIT) -- where income taxes are collected. Overall, Fitch believes that county will benefit from modest property and income tax gains, with results generally approximating the level of inflation.

The county's legal ability to independently raise revenues is limited. While the county has the ability to increase its local income tax rates from the current rate, this would require the support of multiple governmental bodies within the county's jurisdiction, and is therefore not in the county's independent legal control. The circuit breaker tax cap guarantees that property tax rates in overlapping districts are limited to a percentage of gross AV depending on the property classification. Property taxes are limited to 1% of AV of homestead property, 2% for other residential property, and 3% for commercial and industrial properties.

The county has the ability to raise charges for fees and services without requiring voter approval, but the revenue impact of this would be negligible.

Expenditure Framework

The largest portion of the city's operating expenditures is used for personnel-related costs and equates to approximately 80% of operational spending.

Fitch expects the county's natural pace of spending growth to be in line with to marginally above expected revenue growth, given expectations for the county's revenue stream and the nature of its spending obligations. The county's expenditures are largely driven by labor force salary increases and employee benefits costs. The average increase in employee salaries and benefits has approximated the pace of inflation.

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In addition to the sources of information identified in the applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/site/re/879478