

**CREDIT OPINION**

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## Update

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**St. Joseph (County of) IN**

Update - Moody's Affirms St. Joseph County, IN's GO at Aa2

**Summary Rating Rationale**

Moody's Investors Service has affirmed the Aa2 rating St. Joseph County, IN's General Obligation (GOLT) Mental Health Revenue Refunding Bonds, Series 2012 bonds and upgraded to Aa2 from A1 the rating on St. Joseph County Redevelopment District, IN's (Special Taxing District Refunding Bonds of 2010) GOLT bonds. This rating action affects \$4.6 million in rated debt.

The Aa2 GOLT rating is rated on parity with Moody's internal assessment of the county's hypothetical general obligation unlimited tax (GOULT) rating. Both GOLT bonds have ample margin under their rate limitations, providing flexibility in the event of assessed valuation declines. The Aa2 rating considers the county's large tax base that is home to University of Notre Dame du Lac, IN (Aaa stable); low resident income indices; satisfactory financial operations with solid reserves; and manageable debt and pension burdens.

**Credit Strengths**

- » Institutional presence of Notre Dame du Lac, IN (Aaa stable)
- » Moderate exposure to unfunded pension liabilities

**Credit Challenges**

- » Relatively weak socio-economic characteristics
- » Limited revenue raising ability

**Rating Outlook**

Outlooks are usually not assigned to local governments credits with this amount of debt.

**Factors that Could Lead to an Upgrade**

- » Sustained maintenance and growth of operating reserves and liquidity
- » Material improvement in the county's demographic profile

**Factors that Could Lead to a Downgrade**

- » Weakening of the county's tax base and/or residential income indices
- » Deterioration of operating reserves and/or liquidity
- » Material increases in fixed costs

## Key Indicators

Exhibit 1

St. Joseph (County of) IN	2011	2012	2013	2014	2015
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 16,154,747	\$ 16,068,370	\$ 15,737,031	\$ 15,424,863	\$ 15,708,199
Full Value Per Capita	\$ 60,564	\$ 60,230	\$ 59,008	\$ 57,789	\$ 58,778
Median Family Income (% of US Median)	89.7%	88.6%	87.8%	87.4%	88.0%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 185,319	\$ 189,149	\$ 181,087	\$ 168,448	\$ 170,571
Fund Balance as a % of Revenues	16.7%	20.6%	24.9%	21.7%	18.2%
Cash Balance as a % of Revenues	16.7%	20.6%	24.9%	21.7%	18.2%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 33,570	\$ 33,647	\$ 29,535	\$ 34,505	\$ 30,214
Net Direct Debt / Operating Revenues (x)	0.2x	0.2x	0.1x	0.2x	0.1x
Net Direct Debt / Full Value (%)	0.2%	0.2%	0.2%	0.2%	0.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.4x	0.4x	0.4x	0.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.4%	0.5%	0.5%	0.6%

Source: Moody's Investors Service, Audited Financial Statements, US Census data

## Detailed Rating Considerations

### Economy and Tax Base: Large Tax Base with University Presence

We expect St. Joseph's tax base to remain relatively stable due to the institutional presence of higher education institutions. Located approximately 140 miles north of Indianapolis (Aaa negative) and 90 miles east of Chicago (Ba1 negative), the county is home to several colleges and universities, including the University of Notre Dame du Lac, IN (Aaa stable/ 5590 employees), which lends considerable stability to the regional economy. The county's \$15.9 billion (gross assessed valuation) tax base experienced growth of 1.0% in the most recent year with a five year average annual decline of 0.4%. Resident income levels are below average, with median family income at 88% of the US. As of March 2017, the county's unemployment rate of 3.9% was above both the state (3.8%) and nation (4.6%).

### Financial Operations and Reserves: Satisfactory Financial Operations

The county's reserves are expected to experience a slight reduction, though remain solid based on currently planned draws and projected return to balance operations in fiscal 2018. Available fund balance across all operating funds (General, Debt Service, County Option Income Tax, County Economic Development Income Tax, County Health, County Park and Recreation, and Rainy Day Funds) totaled \$311 million, or 18.2% of operating revenues, at the close of fiscal 2015. Unaudited results for fiscal 2016 indicates growth across its operating funds of \$1.9 million bringing the county's fund balance to \$33.0 million or 19.6% of operating revenues. For fiscal 2017, the county has budgeted for a \$1.4 million reduction in its General Fund balance due to declining property tax revenues associated with the Circuit Breaker legislation. The county is currently developing a multi-year plan for expenditure reductions and revenue enhancements in order to return to balanced operations in fiscal 2018.

The county's primary source of operating revenues were property and income taxes which comprised 71.5% of operating revenues in fiscal 2015.

### LIQUIDITY

Available cash and investments in the county's operating funds totaled \$311 million, or a satisfactory 18.2% of operating revenues, at the close of fiscal 2015.

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**Debt and Pensions: Modest Debt and Pension Burdens**

At 0.2% and 2.2% of full value (gross assessed value), respectively, St. Joseph's direct and overall debt burdens are low relative to comparably rated credits. Debt service comprised a very low 1.9% of county operating revenues in fiscal 2015. The county's fixed costs (combined debt service and retirement expenditures) totaled \$9.8 million, which equaled a modest 5.7% of operating revenues. At this time, the county plans on borrowing \$18 million for the South Shore railroad projects and \$10 million for energy efficiency projects in the next year. Both of these issuances would be general obligation debt.

**DEBT STRUCTURE**

All of the county's outstanding debt is fixed rate and amortizes over the long term.

**DEBT-RELATED DERIVATIVES**

The county is not a party to any interest rate swap or derivative agreements.

**PENSIONS AND OPEB**

The county participates in three separate pension plans: Indiana Public Employees' Retirement System (INPRS), County Police Retirement Plan, and the County Police Benefit Plan. The INPRS is an agent multiple employer public retirement system. The county's contribution to the plans totaled \$6.6 million or 3.9% of operating revenues in fiscal 2015.

The county's three-year average Moody's adjusted net pension liability (ANPL), our measure of a local government's pension burden, is a strong 0.5 times operating revenues in fiscal 2015. However, the single-year ANPL of \$109.3 million in fiscal 2015 is up 49% from fiscal 2014's ANPL of \$73.5 million. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended replace the county's reported contribution information, but to improve comparability with other rated entities. We determined the county's share of liability for their plans in proportion to its contributions to the plan and covered payroll.

**Management and Governance: Moderate Institutional Framework**

Indiana counties have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property taxes are subject to limitations under Circuit Breaker legislation, and counties rely on income tax distributions from the state, which can be unpredictable. Counties have a high ability to adjust expenditures, which mostly consist of public safety and health service costs, given limited public sector union presence.

Though the county does not have a formal General Fund balance policy, management seeks to maintain General Fund reserves 25% of expenditures, although a formal plan has not been established to achieve this goal.

**Legal Security**

The 2010 bonds are payable from tax increment revenues generated from the district's Economic Development Area No. 3 (EDA No. 3) and the county's share of Economic Development Income Taxes (EDIT). Debt service is ultimately secured by the county's pledge revenues from a Special Benefits Tax levied on all taxable property within the redevelopment district. The district is coterminous with the county except for the Cities of South Bend (Aa3 NOO) and Mishawaka, the county's two largest cities, and the Towns of Walkerton and Lakeville.

The Series 2012 bonds are secured by the county's dedicated limited ad valorem property tax levy, levied under the Mental Health Levy Act, subject to circuit breaker limitations.

**Use of Proceeds**

Not applicable.

**Obligor Profile**

Located approximately 140 miles north of Indianapolis (Aaa negative) and 90 miles east of Chicago (Ba1 negative), St. Joseph County lies along I-80/90, encompassing 467 square miles.

**Methodology**

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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