

ISSUER COMMENT

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RATING
General Obligation (or GO Related)¹

 Aa3 No Outlook
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St. Joseph County, IN

Annual Comment on St. Joseph County

Issuer Profile

St. Joseph County is located in north central Indiana, bounded on the north by the Michigan state line. The county seat of South Bend is approximately 35 miles east of Lake Michigan and 70 miles northwest of Fort Wayne. The county has a population of 267,618 and a population density of 585 people per square mile. The county's per capita personal income is \$40,433 (2nd quartile) and the May 2016 unemployment rate was 4.8% (3rd quartile).² The largest industry sectors that drive the local economy are health services, retail trade, and manufacturing.

Credit Overview

The credit position for St. Joseph County is strong. Yet, its Aa3 rating is slightly below the median rating of Aa2 for counties nationwide. Notable credit factors include a very healthy financial position, and a manageable pension liability with an extremely small debt burden. It also takes into account a sound socioeconomic profile with an extensive tax base.

Finances: The financial position of the county is robust and is favorable with respect to the assigned rating of Aa3. The net cash balance as a percent of revenues (26.3%) is slightly below the US median. In addition, the available fund balance as a percent of operating revenues (26.3%) is a little weaker than other Moody's-rated counties nationwide but grew modestly between 2011 and 2014.

Debt and Pensions: The debt and pension burdens of St. Joseph County are affordable and are favorable in comparison to its Aa3 rating. The net direct debt to full value (0.2%) is below the US median. Also, the Moody's-adjusted net pension liability to operating revenues (1.2x) is slightly lower than the US median but rose modestly from 2011 to 2014.

Economy and Tax Base: The county has a healthy economy and tax base, which are in line with the assigned rating of Aa3. The total full value (\$15.4 billion) is above the US median. However, the full value per capita (\$57,789) is slightly weaker than other Moody's-rated counties nationwide but increased dramatically between 2011 and 2014. Lastly, the median family income equals just 87.4% of the US level.

Management and Governance: Balanced financial operations are a sign of sound financial management. In this situation, St. Joseph County approximately broke even while the tax base generally grew.

Indiana counties have an institutional framework score ³ of "A," or moderate. Counties have moderate revenue-raising ability. Circuit Breaker legislation limits property tax levies to a percentage of gross assessed value, but counties can seek voter approval for additional

tax revenue. Income taxes comprise 20% to 30% of revenues. Counties have low revenue predictability, as the state has adjusted income tax distributions in the past. Counties have a high ability to adjust expenditures, which mostly consist of public safety and health services. Although counties have mandated costs, they are highly predictable and manageable given limited union presence and moderate pension costs.

Sector Trends - Indiana Counties

Indiana counties will likely benefit from continued recovery in the state's economy, led by manufacturing and professional services. Economic growth will strengthen income tax revenue for counties. Additionally, valuation trends are expected to improve modestly given appreciation in existing property as well as a considerable amount of new construction. Growth in operating and capital expenditures will be moderate. The state has assumed older municipal pension plans, which has shifted some pension cost burdens away from counties.

Exhibit 1

Key Indicators^{4 5}

St. Joseph County, IN

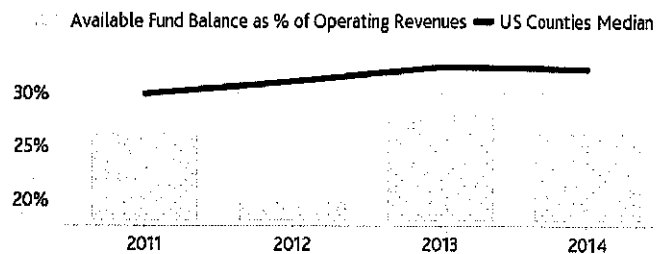
	2011	2012	2013	2014	US Median	Credit Trend
Economy / Tax Base						
Total Full Value	\$1,615M	\$16,068M	\$15,737M	\$15,425M	\$7,427M	Improved
Full Value Per Capita	\$6,056	\$60,230	\$59,008	\$57,789	\$78,398	Improved
Median Family Income (% of US Median)	89.7%	88.6%	87.8%	87.4%	94.2%	Stable
Finances						
Available Fund Balance as % of Operating Revenues	26.2%	19.9%	28.0%	26.3%	32.3%	Stable
Net Cash Balance as % of Operating Revenues	26.2%	19.9%	28.0%	26.3%	36.5%	Stable
Debt / Pensions						
Net Direct Debt / Full Value	2.1%	0.21%	0.19%	0.22%	0.51%	Improved
Net Direct Debt / Operating Revenues	0.42x	0.48x	0.42x	0.49x	0.63x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	N/A	0.41%	0.50%	0.53%	0.97%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	N/A	0.95x	1.12x	1.16x	1.26x	Stable

Source: Moody's

Exhibit 2

Available fund balance as a percent of operating revenues grew from 2011 to 2014

Available Fund Balance as a Percent of Operating Revenues

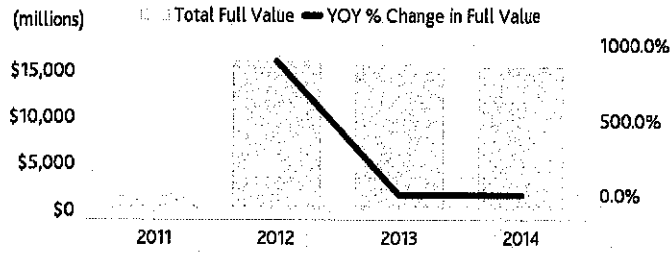


Source: Issuer financial statements; Moody's

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Exhibit 3

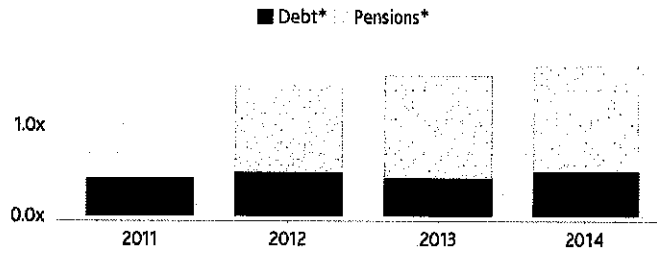
Full value of the property tax base increased between 2011 and 2014
 Total Full Value



Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Exhibit 4

Moody's-adjusted net pension liability to operating revenues grew from 2011 to 2014
 Net Direct Debt and Adjusted Net Pension Liability / Operating Revenues



*Debt is represented as Net Direct Debt / Operating Revenues. Net Direct Debt is defined as gross debt minus self supporting debt. Pensions are represented as ANPL / Operating Revenues. ANPL is defined as the average of Moody's-adjusted Net Pension Liability in each of the past three years.

Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Endnotes

- 1 The rating referenced in this report is the government's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally a security backed by the full faith and credit pledge and total taxing power of the local government. See [Local Government GO Pledges Vary Across States](#), for more details. GO-related ratings include issuer ratings, which are GO-equivalent ratings for governments that do not issue GO debt. GO-related ratings also include ratings on other securities that are notched or otherwise related to what the government's GO rating would be, such as annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantee or enhancement programs or bond insurance.
- 2 The per capita personal income data and unemployment data for all counties in the US census are allocated to quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile. The first quartile consists of the top 25% of observations in the dataset, the second quartile consists of the next 25%, and so on. The median per capita personal income for US counties is \$46,049 for 2014. The median unemployment rate for US counties is 4.7 % for May 2016.
- 3 The institutional framework score measures a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(January 2014\)](#) for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). The population figure used in the Full Value Per Capita ratio is the most recently available, most often sourced from either the US Census or the American Community Survey. Similarly, the Median Family Income data reported as of 2012 and later is always the most recently available data and is sourced from the American Community Survey. The Median Family Income data prior to 2012 is sourced from the 2010 US Census. The Full Value figure used in the Net Direct Debt and Moody's-adjusted Net Pension Liability (3-year average ANPL) ratios is matched to the same year as audited financial data, or if not available, lags by one or two years. Certain state-specific rules also apply to Full Value. For example, in California and Washington, assessed value is the best available proxy for Full Value. Certain state specific rules also apply to individual data points and ratios. Moody's makes adjustments to New Jersey local governments' reported financial statements to make it more comparable to GAAP. Additionally, Moody's ANPLs reflect analyst adjustments, if any, for pension contribution support from non-operating funds and self-supporting enterprises. Many local government pension liabilities are associated with its participation in the statewide multiple-employer cost-sharing plans. Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Medians – Growing Tax Bases and Stable Fund Balances Support Sector's Stability \(March 2016\)](#). The medians conform to our US Local Government General Obligation Debt rating methodology published in January 2014. As such, the medians presented here are based on the key metrics outlined in the methodology and the associated scorecard. The appendix of this report provides additional metrics broken out by sector, rating category, and population. We use data from a variety of sources to calculate the medians, many of which have differing reporting schedules. Whenever possible, we calculated these medians using available data for fiscal year 2014. However, there are some exceptions. Population data is based on the 2010 Census and Median Family Income is derived from the 2012 American Community Survey. Medians for some rating levels are based on relatively small sample sizes. These medians, therefore, may be subject to potentially substantial year-over-year variation. Our ratings reflect our forward looking opinion derived from forecasts of financial performance and qualitative factors, as opposed to strictly historical quantitative data used for the medians. Our expectation of future performance combined with the relative importance of certain metrics on individual local government ratings account for the range of values that can be found within each rating category. Median data for prior years published in this report may not match last year's publication due to data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals.

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