

RatingsDirect®

Summary:

**St. Joseph County Redevelopment
District, Indiana**

**St. Joseph County; General Obligation;
General Obligation Equivalent
Security**

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Summary:

St. Joseph County Redevelopment District, Indiana

St. Joseph County; General Obligation; General Obligation Equivalent Security

Credit Profile

US\$8.16 mil spl taxing dist bnds (Saint Joseph County) ser 2016 due 02/01/2038

Long Term Rating A+/Stable New

St Joseph Cnty GO judgement fdg

Long Term Rating A+/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to St. Joseph County, Ind.'s series 2016 special taxing district bonds, issued by the St. Joseph County Redevelopment District. At the same time, we affirmed our 'A+' long-term ratings and underlying ratings (SPURs) on the county's existing series 2014 and 2015B property tax-supported debt and the existing series 2010 redevelopment district debt. The outlook is stable for all ratings.

Securing the series 2016 and outstanding 2010 redevelopment district bonds is an ad valorem property tax on all taxable property within the territorial limits of St. Joseph County Redevelopment District, a special taxing district whose tax base is coterminous with the county's, with the exception of the cities of South Bend and Mishawaka and the towns of Walkerton and Lakeville. While the district has its own taxing ability, it is a department of St. Joseph County, and the district's board and budget, specifically its ability to levy taxes and issue debt, are ultimately under the county's authority. Given the parental relationship of the district under the county, and the district's limited scope of operations, the 'A+' rating reflects the county's credit qualities.

The pledge of ad valorem taxes is subject to Indiana's circuit breaker, which requires taxpayers to pay only up to a statutorily defined share of their property's gross assessed value and can result in a reduction in the district's aggregate tax levy. The levy to cover debt service, however, is statutorily protected, requiring the county to distribute circuit-breaker losses first, across non-debt service funds that receive property taxes, which in our view mitigates any potential effect the circuit breaker could have on debt payments. The general creditworthiness is also believed to be sufficient to cover any impact as a result of limitations with funds on hand; therefore, we do not differentiate the rating from an unlimited-tax general obligation.

We understand the redevelopment district intends to pay debt service with tax increment revenues of the New Carlisle Economic Development Area Allocation Area No. 1, although tax increment revenue has not been pledged toward payment of the bonds. Revenues equal to the next calendar year's payments must be on hand and deposited into the

fund before the county can decide not to levy the ad valorem tax to cover all of its annual lease payment. In our view, this mitigates potential liquidity pressure in the event the ad valorem tax is not levied, and tax increment revenues underperform. Officials will use bond proceeds to finance various improvement projects within the New Carlisle Economic Development Area Allocation Area No. 1.

The county's outstanding 2015B series bonds are secured by lease rentals payable from ad valorem property taxes paid directly to an independent trustee. The levy of taxes to make rental payments is mandatory and not subject to annual appropriation; rental abatement risk is mitigated, in our view, by lease provisions requiring the county to maintain property casualty and business interruption insurance. There were no new projects associated with the bonds; therefore, there was no construction risk.

The 'A+' ratings further reflect the following rating factors for the county:

- Weak economy, with market value per capita of \$55,007 and projected per capita effective buying income at 86.9% of the national level;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Weak budgetary performance, with operating deficits in the general fund and at the total governmental fund level in fiscal 2015;
- Strong budgetary flexibility, with an available cash reserve in fiscal 2015 of 34% of operating expenditures;
- Very strong liquidity, with total government available cash at 38.4% of total governmental fund expenditures and 10.7x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 3.6% of expenditures and net direct debt that is 21.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 75.2% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Weak economy

We consider Saint Joseph County's economy weak. The county has an estimated population of 268,441. The county has a projected per capita effective buying income of 86.9% of the national level and per capita market value of \$55,007. Overall, the county's market value grew by 1.0% over the past year to \$14.8 billion in 2016. The county unemployment rate was 5.0% in 2015.

St. Joseph County is in north-central Indiana, 96 miles southeast of Chicago, where it borders Michigan to the north. The county has a substantial health care, higher-education, and manufacturing presence, and the county seat, South Bend, is home to the University of Notre Dame. Top employers include University of Notre Dame (5,802 employees), Beacon Health System (4,683), South Bend Community School Corp. (3,615), and Saint Joseph Health System (2,626). Although we recognize that the county has a strong university presence, we do not believe that the county-level economic metrics--particularly incomes--are affected enough, given the student population's relatively small share of total county population, to warrant the application of an additional adjustment for having a stabilizing institution.

Adequate management

We view the county's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some but not all key areas.

Highlights include standard revenue and expenditure assumptions for annual budgeting; quarterly reports to the county council showing year-to-date revenues, expenditures, and cash balances by fund; a formal investment policy with annual reporting on investment balances and performance; and five-year financial projections, which the county has commissioned a financial advisor to prepare and which we understand are updated annually and shared with the council. The county does not have a formalized long-term capital plan or a debt management policy, and though it has an informal fund balance target of keeping 15%-20% minimum balances as a percentage of expenditures in its main operating funds, some of the main operating funds are not in compliance.

Weak budgetary performance

Saint Joseph County's budgetary performance is weak in our opinion. The county had operating deficits of 1.8% of expenditures in the general fund and of 1.9% across all governmental funds in fiscal 2015.

Our analysis above combines the county's general, county option income tax, and local option income tax public safety funds (together referred to as the "general fund"). The county has been challenged to bring expenditures in line with revenue in recent years due in part to Indiana's circuit breaker credits. The county's circuit breaker credits have steadily increased since they were implemented for 2010 tax bills. The credits have pressured the general fund budget, along with increased expenditures elsewhere in the budget. For calendar 2016, management indicates that the county will again see a reduction of the combined general fund balance of approximately \$2.2 million. However, fiscal 2017 results are expected to be positive, with a \$1.3 million surplus projected across the combined general funds.

Management cited budgetwide expenditure cuts as reasons for the projected turnaround in performance. We could see some improvement in total governmental fund performance with recent and planned budget adjustments; however, total governmental funds have shown a slight imbalance in recent years.

Strong budgetary flexibility

Saint Joseph County's budgetary flexibility is strong, in our view, with an available cash reserve in fiscal 2015 of 34% of operating expenditures, or \$30.7 million. The cash reserve includes \$13.7 million (15.4% of expenditures) in the general fund and \$16.9 million (19% of expenditures) that is outside the general fund but legally available for operations. Negatively affecting budgetary flexibility, in our view, is Saint Joseph County's use of cash accounting, which reduces clarity about the amount of funds that are truly available.

In addition to the general fund, the county has additional reserves available to support operations in its "rainy day," economic development income tax, and cumulative capital development funds. With the aforementioned use of reserves anticipated for the current year in the general fund, we believe reserves could fall below 30% of expenditures, though they are currently strong enough that we expect them to remain above 15% of expenditures through the next few fiscal years.

Very strong liquidity

In our opinion, Saint Joseph County's liquidity is very strong, with total government available cash at 38.4% of total governmental fund expenditures and 10.7x governmental debt service in 2015. In our view, the county has strong access to external liquidity if necessary.

Given that the county has issued debt several times within the past 20 years and we have no reason to think market access has diminished or will diminish, we believe the county has strong access to external liquidity. The county has a

single private placement, its series 2014 limited-tax bridge refunding bonds (issued December 2014 with \$2.6 million currently outstanding), though the transaction documents include no acceleration provisions that we believe could be a source of liquidity risk. We do not consider the county's investment practices to be aggressive; the county holds its investments primarily in highly rated municipal bonds, government agency securities, and certificates of deposit.

Very strong debt and contingent liability profile

In our view, Saint Joseph County's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.6% of total governmental fund expenditures, and net direct debt is 21.2% of total governmental fund revenue. Overall net debt is low at 2.4% of market value, and 75.2% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

We understand the county has no additional debt plans at this time.

Saint Joseph County's pension contributions totaled 3.3% of total governmental fund expenditures in 2015. The county made its full annual required pension contribution in 2015.

The county contributes to the Public Employees' Retirement Fund and the Police Retirement and Benefit Plans. The St. Joseph County Police Retirement Plan is 74% funded with a net pension liability of \$13.5 million. The St. Joseph County Police Benefit Plan is overfunded. The county also contributes a small portion of healthcare premiums to select eligible retirees; we understand the pay-go contribution toward the benefits is minimal. The county also contributes a small portion of health care premiums to select eligible retirees, we understand the liability associated with these benefits is minimal.

Strong institutional framework

The institutional framework score for Indiana counties is strong.

Outlook

The stable outlook reflects our expectation that St. Joseph County will retain its strong budgetary flexibility and will make meaningful progress in addressing the budgetary pressure evident in recent years' budgetary performance. We do not expect to change the ratings within the two-year time frame.

Upside scenario

If the county's economic metrics are stable, including market value per capita and projected income indicators, and the county can show proof of sustainable improvement in the financial position and budgetary performance, we could consider a higher rating.

Downside scenario

If the county cannot adequately address the budget pressures, resulting in ongoing and material operating deficits and corresponding reductions in operating reserves, we could lower the ratings.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- 2015 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of November 4, 2016)

St Joseph Cnty GO (ASSURED GTY)

Unenhanced Rating

A+(SPUR)/Stable

Affirmed

St Joseph Cnty Jail Bldg Corp, Indiana

St. Joseph Cnty, Indiana

St Joseph Cnty Jail Bldg Corp (St. Joseph Cnty) GO equiv (BAM)

Unenhanced Rating

A+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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