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Ratings

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Summary:

St. Joseph County, Indiana; Miscellaneous Tax

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Credit Profile		
St. Joseph Cnty econ dev income tax rev bnds of 2014 due 12/31/2034		
Long Term Rating	A+/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'A+' rating, with a stable outlook, on St. Joseph County, Ind.'s series 2014 county economic development income tax (CEDIT) revenue bonds.

The rating solely reflects revenue from the county's economic development income tax distribution (part of the broader local income tax [LIT]) pledge, including:

- Strong 4.95x coverage of maximum annual debt service (MADS) by the county's pledged economic development income tax distribution revenue, and
- No additional debt plans.

Adequate additional bond test provisions, a weaker flow of funds, a lack of a debt service reserve fund, and adequate income partially offset the above-mentioned strengths.

Security and parity obligations

The series 2014 county economic development income tax (former CEDIT now LIT-economic development) revenue bonds are secured by the county's share of economic development income tax revenue. South Bend's and Mishawaka's portions of CEDIT revenue (29% and 17% of annual debt service, respectively) are also pledged to the repayment of the bonds. South Bend and Mishawaka appropriate a portion of their LIT-economic development revenue (formerly CEDIT) to these bonds. Their actual payments to the county are withheld from their monthly distributions and are calculated according to the interlocal agreement that governs the St. Joseph County Public Safety Communications (PSAP-911) Coalition. While we recognize that the cities' pledges provide an added strength to the revenue stream, we base our 'A+' long-term rating on St. Joseph County's pledge only.

The county also pledged its share of economic development income tax revenue toward debt service repayment on the series 2015 and 2017 master tax-exempt lease/purchase agreements.

Local income tax

St. Joseph County levies the economic development tax at 0.4%. The county's distributive share of income tax revenue is based on the county's total property tax levy in proportion to the aggregate property tax levies of all civil taxing units in St Joseph County.

In 2015, the Indiana General Assembly passed legislation consolidating various LIT (including the EDIT tax) into a single LIT effective Jan. 1, 2017. The new LIT has three separate rate components based on the intended use of the funds: the expenditure rate (maximum 2.50%) used to raise funds for school corporations, civil taxing units, certified shares, public safety, and economic development; the property tax relief rate (maximum 1.25%), which could be levied to reduce property tax liabilities and fund property tax credits; and the special purpose rate, which could be established by special legislation to fund specific projects. For 2018, St. Joseph County's economic development income tax was categorized as an economic development distribution under the expenditure rate component of the LIT. Under the new law, the council has the ability to increase income tax (expenditure rate component) to up to 2.5%; officials have no plans to change the tax rate at this time.

In our opinion, the new-LIT statute adds certain risks. The council has the option to allocate income taxes to different allowable expenditure categories or to provide property tax relief while ensuring that allocations for debt service meet the 1x coverage requirement. If at some point the council decides to allocate the LIT revenue into different allowable categories, it could result in the full amount of income taxes not being allocated specifically toward debt service; although, the full amount of revenue is still legally pledged to bondholders.

Another risk is that the council is permitted to reduce the income rate if desired. It can reduce the rate only to the extent that revenue at the reduced tax rate would still provide at least 1.25x MADS coverage. This presents an added risk, especially considering that the county does not have full control over preventing a decrease in the tax rate, yet we believe that a significant decrease in the tax rate is highly unlikely. This is due in part to many of the underlying taxing units in the county having debt outstanding secured by the same income taxes, and that each unit relies heavily on this revenue for operations. St. Joseph County uses economic development revenue to pay debt service on the bonds and to support economic development projects.

The county's distributive share of income tax revenue is based on the county's total property tax levy in proportion to the aggregate property tax levies of all civil taxing units in the county. The state certifies income taxes in the fall (several months before the start of the next distribution year) based on previous years' tax returns; revenue is distributed in monthly installments during the following calendar year. The certified revenue is guaranteed and cannot be reduced during the year.

Coverage, revenue history, and debt plans

Using the county's 2018 certified distributive share of $11.4 million, the economic development distribution share of LIT revenue provided strong 4.95x MADS coverage (occurring in 2020) on the 2014 bonds and 2015 and 2017 lease obligations. The county's economic development distribution share of LIT revenue, as a portion of the total countywide income tax revenue, has remained stable.

The county's economic development income tax distribution has been growing at a 3.5% median rate annually for the past several years. Officials do not have any debt issuance plan; therefore, absent any unforeseen economic shocks, coverage should remain at least adequate in the near term.

Legal provisions and flow of funds

For the county to issue additional bonds with a parity CEDIT pledge, projected CEDIT revenue preceding the issuance of any additional bonds must provide at least 1.5x annual coverage of then-outstanding bonds and the proposed bonds. We view the additional bond test provisions as adequate because it allows the county to use projected revenue, rather than historical. The 2014 bonds are not supported by a debt service reserve fund, which we view as a weakness as well, in light of a weaker flow of funds.

Economy

St. Joseph County is in north-central Indiana, 96 miles southeast of Chicago. It is the fifth-most populous county in the state and has an estimated population of 269,357. St. Joseph County has a substantial health care and higher education presence. Top employers include University of Notre Dame (5,802 employees), Beacon Health System (4,683), South Bend Community School Corp. (3,615), and St. Joseph Health System (2,626).

Notre Dame is a large, four-year, highly residential research university with estimated enrollment of 12,300. While its importance to the regional economy cannot underestimated, we don't think that the county-level economic metrics--particularly incomes--are depressed by a presence of student population, which is a relatively small share of total county population.

While the county's employment profile is solid and the growth trajectory is positive, its economic indicators have historically been below average levels across the U.S. The county has a projected per capita effective buying income of 86.0% of the national level and per capita market value of $56,628.

Direct purchase

The county's 2017 and 2015 master tax-exempt lease/purchase agreements were privately placed and purchased by U.S. Bancorp Corp. The bond documents do not include acceleration or any other provisions that could negatively affect the county's liquidity position, in our opinion.

Outlook

The stable outlook reflects our expectation that St. Joseph County's economic development LIT distribution will remain more than sufficient to pay the debt service on the 2014 bonds and all parity obligations in the near future and will continue to provide very strong coverage. Consequently, we do not anticipate changing the rating within the two-year outlook horizon.

Downside scenario

We could lower the rating if tax certifications decrease, or if the county were to issue additional debt, leading to much lower coverage on the 2014 bonds.

Upside scenario

If the county's economic indicators strengthen and coverage remains very strong, we could consider a higher rating.

Related Research

- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Special Tax Bonds: U.S. Recovery Underpins The Sector's Stability, Sept. 14, 2015

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.