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Ratings

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Summary:

St. Joseph County Redevelopment District, Indiana

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

Primary Credit Analyst:
Errol R Arne, New York (1) 212-438-2379; errol.arne@spgglobal.com

Secondary Contact:
Taylor Budrow, Chicago + 1 (312) 233 7082; taylor.budrow@spglobal.com

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Credit Profile		
US$10.5 mil spl taxing dist bnds (Saint Joseph County) ser 2019 due 02/01/2038		
Long Term Rating	A+/Stable	New
St. Joseph Cnty GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
St. Joseph Cnty Redev Dist, Indiana		
St. Joseph Cnty, Indiana		
St. Joseph Cnty Redev Dist (St. Joseph Cnty) GO equiv (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to St. Joseph County, Ind.'s series 2019 special taxing district bonds, issued by the St. Joseph County Redevelopment District ("District"). At the same time, we affirmed our 'A+' long-term and underlying ratings (SPURs) on the District's series 2016 redevelopment district bonds and on the county's existing property tax-supported debt. The outlook on all ratings is stable.

Security

Securing the series 2019 and existing 2016 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 with the county, and the district's limited scope of operations, the 'A+' rating reflects the county's creditworthiness.

The pledge of ad valorem taxes is subject to Indiana's circuit breaker legislation, which requires taxpayers to pay only up to a statutorily defined share of their property's gross assessed value (AV) 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 nondebt 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 effect as a result of limitations with funds on hand. Therefore, we do not differentiate the rating from an unlimited-tax general obligation.

The redevelopment district intends to pay debt service with tax increment revenues of the New Carlisle Economic Development Allocation Area Nos. 1 and 2, 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 payments. In our view, this mitigates potential liquidity risk in the event the ad valorem tax is not levied, and tax-increment revenues underperform. Officials will use the bond proceeds to finance a portion of the county's share of the Double Tracking Project in relation the Northern Indiana Commuter Transportation District.

Credit summary

St. Joseph County is in the north central part of Indiana, which has seen its population increase every decade since the 1980's to more than 270,000 residents. South Bend is the county seat, which is served by the University of Notre Dame that plays a major part in driving the local economy with respect to employment and collection of income-tax revenues. With respect to property taxes, a state law enacted in 2008, also known as "circuit-breaker", essentially created tax cuts for property owners , but also decreased tax revenues for governmental units. St. Joseph County and Lake County were given additional time to prepare for the impact, because it had a material amount of debt issued prior to 2008 that needed to be paid off from property taxes. This exemption is set to expire at the end of the calendar year and the county is going to lose a material amount of additional property tax revenues beginning in 2020, and in each year thereafter through 2024, with lowering amounts expected through the same period.

The county has been building up its reserves for the past few years, with the exception of 2018, as well as making adjustments to its expenses where it can without affecting services provided. According to management, recent increases in property tax assessments have lowered the expected drop in revenues to almost half of what was projected back in 2017. There have also been a large number of property tax appeals that could take a many years to sort out. We don't anticipate changing our rating over the next few years, especially if the county navigates its way around the expected loss of reserves by maintaining its strong reserve position, albeit on a cash basis. If it fails to do so and reserves decline to a level that we no longer consider on par with those of similarly rated peers, it could negatively affect the rating.

The rating reflects our opinion of the county's:

- Adequate economy, with projected per capita effective buying income (EBI) at 82.3% and market value per capita of $60,771, although that is advantageously gaining from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2018;
- Strong budgetary flexibility, with an available cash reserve in fiscal 2018 of 29% of operating expenditures;
- Very strong liquidity, with total government available cash at 45.3% of total governmental fund expenditures and 12.0x governmental debt service, and access to external liquidity that we consider strong;

- Very strong debt and contingent liability profile, with debt service carrying charges at 3.8% of expenditures and net direct debt that is 26.0% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Strong institutional framework score.

Adequate economy

We consider the county's economy adequate. St. Joseph County, with an estimated population of 270,115, is in the South Bend-Mishawaka MSA, which we consider to be broad and diverse. The county has a projected per capita EBI of 82.3% of the national level and per capita market value of $60,771. Overall, the county's market value grew by 5.0% over the past year to $16.4 billion in 2019. The county unemployment rate was 3.6% in 2018.

St. Joseph County is in north-central Indiana, 96 miles southeast of Chicago. It has a substantial health care and higher education presence. Top employers include South Bend Community School Corp. (3,615 employees), University of Notre Dame (3,500), Msm Holdco LLC (3,100), St. Joseph Regional Medical Group (3,000), and Beacon Health System (1,900). The largest employers have been stable the past five years and we expect them to remain unchanged over the next five years. Officials do not anticipate any material effects from the national tariffs.

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 the presence of a student population, given the student population's relatively small share of total county population.

We expect the county's AV to continue to have moderate growth in each of the next few years.

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.

Key aspects of the county's practices are:

- Formal three-year historical budget trend analysis that the county performs and updates annually for both revenue and spending with the help of a financial adviser. In addition, regular efforts are made to determine whether budgeted revenues or expenditures will deviate from long-term trends in the next couple years.
- The county council receives cash reports monthly and budget reports quarterly; management identifies variances between budget and actual expenditures on the expenditure side.
- The county's financial adviser develops fund-specific multi-year financial forecasts for all major funds and updates them semi-annually and this includes major capital funds as well.
- The county follows state investment guidelines and authorizes the treasurer to make those investments on the county's behalf. Investment updates are provided to the council annually.
- There is no separate debt management policy, but the county adheres to state guidelines.
- There is no formal fund balance or reserve policy, but management strives to maintain at least two months of operating expenditures and, during the past few years, has built up further reserves to offset the circuit-breaker exemption.

Adequate budgetary performance

St. Joseph County's budgetary performance is adequate, in our opinion. The county had deficit operating results in the general fund of 3.6% of expenditures, but a surplus result across all governmental funds of 4.3% in fiscal 2018.

Our analysis relies on unaudited, Dec. 31 fiscal year-end cash reports that the county submits to the state. These reports mirror the state's uniform system of accounting and reporting that all local governments are required to follow.

Our analysis also combines the county's general, county option income tax, and local option income tax public safety funds (referred to together as the general fund).

The county (along with Lake County) were granted additional time to prepare for the effect on property tax caps as a result of the circuit-breaker legislation that took effect in 2008. St. Joseph County was granted an exemption that will expire beginning with the fiscal 2020 year (Dec. 31).

County officials are projecting an additional loss of property tax revenues of about $3 million on top of what it is currently losing for fiscal 2019 (which was about $7.5 million) and is preparing to use $2 million, or nearly 3% of operating general fund expenses in fiscal 2020, although that might change as the county gets closer to adopting budget later this calendar year.

For fiscal 2019, the county projects that it will add to its available cash balance reserves by approximately $2.2 million, or nearly 3% of operating expenses, once the year ends, and management attributes this mainly to an increase in the local option income tax revenues.

For fiscal 2018, the general fund had a deficit of $3.1 million, or 3.6% of operating expenses which reduced its balance to $16.8 million, or nearly 20% of operating expenses. Officials cite the use of reserves was due to a one-time transfer to its health insurance fund that had been in a negative cash position. Management has made adjustements to its self-insurance health care and doesn't expect this to occur again in the near term. In addition, there were also additional amounts used for safety purchases, including a new ambulance.

Revenues from taxes and intergovernmental represent about 75% of total general fund revenues and we expect this revenue stream to remain stable for the next few years.

We anticipate that results for the total governmental funds in fiscal 2019 to be similar to that of previous years.

Strong budgetary flexibility

St. Joseph County's budgetary flexibility is strong, in our view, with an available cash reserve in fiscal 2018 of 29% of operating expenditures, or $24.4 million. The cash reserve includes $16.8 million (19.8% of expenditures) in the general fund and $7.5 million (8.9% of expenditures) that is outside the general fund, but legally available for operations. Negatively affecting budgetary flexibility, in our view, is St. Joseph County's use of cash accounting, which reduces clarity about the amount of funds that are truly available.

We expect the county's flexibility to remain strong despite a recent usage of available reserves in fiscal 2018. The expectation is for the county to add to its available reserves in fiscal 2019 by $2.2 million, which should bring reserves close to 30% of operating expenses.

The county has been adding to its available reserves over the past few years, knowing that it will be losing additional property tax revenues beginning in fiscal 2020 and the expectation is for the next few budgets to adopt deficits. We don't expect any material depletion of reserves over the next two years that would have the reserves fall to a level that we feel would be below those of similarly rated peers.

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 use of reserves anticipated (especially in the general and cumulative capital development plans), we believe reserves could fall below 30% of expenditures, however, they are currently strong enough that we expect them to remain above 15% of expenditures through the next two fiscal years.

We have removed the negative qualitative adjustment, whereby we felt that the council's willingness to raise revenues was limited. Beginning in 2020, the council did raise the property tax rate after a period where council rejected cumulative capital development property tax rate increases in 2015 and 2017. We will monitor this and if we feel there is an unwillingness in the future, we could apply this adjustment.

Very strong liquidity

In our opinion, St. Joseph County's liquidity is very strong, with total government available cash at 45.3% of total governmental fund expenditures and 12.0x governmental debt service in 2018. In our view, the county has strong access to external liquidity if necessary.

The county has been issuing GO for the past 20 years and more recently has issued debt backed by income taxes. The previous private placement transaction has been defeased and the county currently has no alternative financings. We do not consider the county's investment practices to be aggressive; investments are held primarily in highly rated municipal bonds, government agency securities, and certificates of deposit.

Very strong debt and contingent liability profile

In our view, St. Joseph County's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.8% of total governmental fund expenditures, and net direct debt is 26.0% of total governmental fund revenue. Overall net debt is low, in our view, at 1.9% of market value, which we consider a credit strength.

The county has no additional debt plans at this time.

St. Joseph County's pension contributions totaled 3.8% of total governmental fund expenditures in 2018. The county made 103% of its annual required pension contribution in 2018.

The county makes annual contributions to the Indiana Public Employee Retirement Fund (PERF) and 1977 police officers' and firefighters' pension and disability funds, both cost-sharing, multiple-employer, defined-benefit pension plans administered by the state.

We believe the current rate of return assumptions built into the valuations is reasonable at 6.75%. Its largest plan, PERF, was 79% funded in 2018. The county continues to pay 100% of its required pension contributions (which are actuarially determined) to this plan. Consequently, we expect pension pressures in the state to be minimal.

The county also subsidizes other postemployment benefits (OPEB) to eligible retirees and makes contributions on a pay-as-you-go basis. The total outstanding OPEB liability from all current and former employees is estimated to be $112.6 million, according to the OPEB report submitted to the Dept. of Local Government Finance in January 2017.

The combined required pension and actual OPEB contributions totaled 4% of total governmental fund expenditures in 2018.

Strong institutional framework

The institutional framework score for Indiana counties is strong.

Outlook

The stable outlook reflects our expectation that St. Joseph County will make the necessary adjustments to maintain at least balanced operations in its general fund while maintaining, if not adding to its strong available reserves to offset a material loss of its operating revenues in each of the next few years as a result of the expiration of the circuit-breaker exemption. We don't expect to change the rating during our two-year outlook period.

Upside scenario

Assuming all else equal, if management navigates through the loss of additional revenues due to the expiration of the circuit-breaker exemption, and sustains budgetary performance at a strong level while building its available reserves to a very strong position, we could consider an upgrade.

Downside scenario

Assuming all else equal, if management cannot navigate through the loss of additional revenues due to the expiration of the circuit-breaker exemption, and its budgetary performance and available reserves deteriorate to a level that we no longer consider commensurate with those of similarly rated peers, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria
- 2018 Update Of Institutional Framework For U.S. Local Governments