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Tagging Info

Fitch Affirms St. Joseph County, IN's LT Bonds at 'AA-'; Outlook Stable

Ratings Endorsement Policy
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Fitch Ratings-New York-23 January 2015: Fitch Ratings takes the following rating action on St. Joseph County, Indiana (the county):

--Approximately $1.6 million limited tax bridge refunding bonds, series 2009, affirmed at 'AA-'.

The Rating Outlook is Stable.

SECURITY

The bonds are limited obligations of the county payable from property taxes collected and deposited in the major bridge fund and cumulative bridge fund (the funds).

KEY RATING DRIVERS

ECONOMY BENEFITS FROM UNIVERSITY PRESENCE: The county's employment and tax base has some concentration in education, health services, and manufacturing. The University of Notre Dame is a strong source of stability as the county continues to face ongoing economic challenges, including tax base erosion and improving but still above-average unemployment.

SOUND FINANCES: The rating reflects the county's general credit quality. Financial operations are sound featuring strong reserves and active management to align revenues and expenditures in the face of legislation reducing property tax revenues.

MANAGEABLE DEBT PROFILE: The county's debt profile is mixed. Rapid amortization, prudent pension and other post-employment benefits (OPEB) funding and manageable capital needs are balanced against moderate to high overall debt levels.

SOLID COVERAGE: Debt service coverage on the bonds and parity debt based on 2013 receipts was a strong 2.1x. The additional bonds test (ABT) and the county's practice of amortizing debt quickly both protect against overleveraging.

RATING SENSITIVITIES

CONTINUED STRONG RESERVES: The rating is sensitive to shifts in fundamental credit characteristics including the county's strong reserve position and solid debt service coverage levels. The Stable Outlook reflects Fitch's expectation that such shifts are unlikely.

CREDIT PROFILE

St. Joseph County is located in north central Indiana, near the Michigan border, approximately 80 miles east of Chicago. South Bend, the county seat, is the fourth largest city in Indiana and home to Notre Dame University with enrollment of approximately 11,000 students. County population levels have been stable, with the county's 2013 population at 266,709.

ECONOMY BENEFITS FROM UNIVERSITY PRESENCE

The University of Notre Dame, the county's largest employer with approximately 5,300 employees, provides stabilization. A university-led consortium of high-tech companies that continues to invest in a nano-technology business incubator (Innovation Park at Notre Dame) bodes well for the county's longer term economic prospects.

County unemployment rates, while improving, are still above the state and national averages. The county unemployment rate was 6.3% as of November 2014, down from 7.6% a year prior, but still higher than state (5.8%) and national (5.5%) rates. County employment increased by a solid 2.6% over the same time period, outperforming the national growth rate but below the state. County income levels are lower than those of the state and nation, though closer to state levels. The county's poverty rate (18.6%) is higher than the state and national rate of 15.9%, most likely due to the high student population.

Taxable assessed value, totaling $7.6 billion in 2014, has declined by 6.2% since 2012 but appears to be stabilizing with 2015 values projected to be slightly higher. The county tax base is diverse with little concentration among the top taxpayers. Total property tax collections are strong, averaging 99% over the last three years.

SOLID DEBT SERVICE COVERAGE

In December 2014, the security on the series 2009 bonds and parity bonds was amended to include funds in the cumulative bridge fund in addition to the major bridge fund. Combined 2013 receipts of $2.4 million in 2013 provided 2.1x coverage on the bonds and parity bonds compared to 1.4x coverage from just the major bridge fund. Coverage is projected to remain stable through maturity (Dec. 30, 2016) of the series 2009 bonds.

The ABT is adequate with the requirement that revenues to be deposited into the funds must be at least equal to 150% of debt service on all outstanding parity bonds and any proposed parity issue.

PRUDENT FINANCIAL MANAGEMENT IN FACE OF REVENUE CHALLENGES

A credit positive is the county's ability to yield solid reserve levels despite revenue volatility associated with the state's 2007 'circuit breaker' legislation. The county has responded prudently to challenges presented by the 'circuit-breaker', and has maintained sound financial operations despite decreases to property tax revenues triggered by the law. The legislation limits property taxes to a percentage of gross assessed value, depending upon the class of property. The county's response has included a mix of expenditure cuts and a permanent increase in income taxes to help compensate for the revenue shortfall.

AMPLE RESERVES MAINTAINED

The general fund ending balance (cash basis) increased to $7.9 million (13% of spending) in 2013 from $3.9 million (5.5% of spending) in 2012. The county prudently maintains a rainy day fund balance outside the general fund totaling $6.3 million, an additional 10.4% of spending in 2013.

County estimates for 2014 indicate an increase in the general fund ending balance to $9 million or 14.2% of spending. The rainy day fund remains unchanged at $6.3 million, providing combined reserves totaling a healthy 24.2% of general fund spending. Fitch believes continued stability in ending fund balances appear reasonable given the county's history of prudent financial management.

MANAGEABLE DEBT PROFILE

Overall debt levels are mixed, with debt per capita at a moderate $1,879 and debt-to-full value above-average at 6.6%, a reflection of the decline in the tax base. Debt levels should decline given rapid amortization, modest future borrowing and a projected slight increase in valuation.

The county provides pension benefits through well-funded county and state-administered plans and pays 100% of its required contributions. In addition, a county plan provides OPEB benefits, a moderate burden of 2% of 2013 general fund disbursements. Overall debt service, pension, and OPEB costs are manageable at approximately 17% of 2013 expenditures.

Contact:

Primary Analyst
Karen Wagner
Director
Fitch Ratings, Inc.
+1-212-908-0230
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Bernard Fischer
Director
+1-212-908-9167

Committee Chairperson:
Amy Laskey
Managing Director
+1-212-908-0568

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, Corelogic Case-Shiller Index, IHS Global Insight, and National Association of Realtors.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

Additional Disclosure
Solicitation Status