S&P Global
Ratings

RatingsDirect®

Summary:

South Bend Redevelopment Authority, Indiana
South Bend; Miscellaneous Tax

Primary Credit Analyst:
Anna Uboytseva, Chicago (1) 312-233-7067; anna.uboytseva@spglobal.com

Secondary Contact:
Taylor Budrow, Chicago 312-233-7082; taylor.budrow@spglobal.com

Table Of Contents

1853080 | 302253518

Summary:

South Bend Redevelopment Authority, Indiana South Bend; Miscellaneous Tax

Credit Profile		
South Bend Redev Auth, Indiana		
South Bend, Indiana		
South Bend Redev Auth (South Bend) (Century Center Proj)		
Long Term Rating	AA-/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'AA-' rating on the South Bend Redevelopment Authority, Ind.'s series 2013 lease rental revenue refunding bonds (Century Center Project), supported by the South Bend Redevelopment Commission and issued on behalf of South Bend. The outlook is stable.

The authority was created, pursuant to Indiana Code 36-7-14.5, as a separate body, corporate and politic, and as an instrumentality of the City of South Bend for the purpose of financing and leasing local public improvements to the South Bend Redevelopment Commission, which governs the City of South Bend Redevelopment District. The boundaries of the district are coterminous with the boundaries of the city.

The rating reflects security provided by lease rental payments received from the commission. The lease rentals due under the lease are payable by the commission from St. Joseph's hotel-motel revenues on an annual basis not to exceed $600,000, pursuant to Indiana Code 5-1-14-4 and a resolution adopted by the St. Joseph County Hotel-Motel Tax Board of Managers. The lease rental payments are not subject to annual appropriation.

The 'AA-' ratings reflect our view of:

- A large hotel-motel tax base, driven by several colleges, including the University of Notre Dame, that leads to regular demand for lodging;
- Good debt service coverage (DSC) providing 1.5x coverage of maximum annual debt service (MADS); and
- No additional debt plans.

An offsetting consideration for the rating is the inherent volatility of hotel-motel tax revenues.

The hotel-motel tax is levied at the maximum 6% rate and available for the convention center, convention and visitors bureau operations, and capital needs, including the $600,000 pledge. Management used the bond proceeds to refund the series 2008 bonds for interest cost savings and to shorten the final maturity by one year.

The hotel-motel tax base covers all of St. Joseph County (its population in 2016 was 268,441), which includes the cities of South Bend and Mishawaka. The county is about 90 miles east of Chicago in northern Indiana and serves as a regional center. Occupancy rates primarily reflect the county's major colleges, including the University of Notre Dame and various medical institutions and conventions held at the Century Center in downtown South Bend. Management reports continued increase in occupancy levels.

Hotel-motel tax revenues increased by 38% between 2011 and 2016 after falling by 10.6% and 15.5% in 2008 and 2009, respectively, reflecting the recession's effects on revenues. Debt service on the bonds is essentially level until the last year (2026) when debt service drops off. The $600,000 pledge covered MADS by a good 1.5x. The pledge of $600,000 represents just 12% of the total $4.9 million hotel-motel tax collection in 2015.

There is no additional bonds test, but the bonds have a first lien on the $600,000 pledge of hotel-motel tax revenues. A debt service reserve (DSR) fund is intended to be funded with a surety bond through BAM Insurance at the lessor of 125% average annual debt service, MADS, or 10% of par. The size of the DSR is estimated to be funded at MADS at $398,506. It is our understanding that there are no current plans to issue any additional debt.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that the hotel-motel tax revenues will remain sufficient to produce at least good debt service coverage; as such, we do not anticipate changing the rating during the two-year timeframe of the outlook. The county's status as a regional center and the presence of several colleges, including the University of Notre Dame, that drive hotel-motel demand, lend stability to the rating.

Downside scenario

If the all-in coverage drops unexpectedly and stabilizes at a lower level, we could consider a downgrade.

Upside scenario

The upside scenario is limited, given the limited nature of the pledge of just $600,000 of hotel-motel tax revenue.

Related Research

Special Tax Bonds: U.S. Recovery Underpins The Sector's Stability, Sept. 14, 2015