

RatingsDirect®

Summary:

**South Bend Redevelopment Authority,
Indiana**

**South Bend; General Obligation;
General Obligation Equivalent
Security**

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Summary:

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Credit Profile

US\$25.0 mil lse rental rev bnds (South Bend) ser 2015 due 02/01/2037

Long Term Rating

AA/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to South Bend Redevelopment Authority, Ind.'s series 2015 lease rental revenue bonds, issued on behalf of South Bend, and reflecting an ad valorem property tax pledge. At the same time, we affirmed our 'AA' rating on existing ad valorem property tax-supported debt issued by and on behalf of the city. The outlook on all the ratings is stable.

A lease between the authority (as lessor) and the South Bend Redevelopment Commission (as lessee) secures the bonds. Lease rentals are payable from ad valorem property taxes on all taxable property in the South Bend Redevelopment District, which is coterminous with the city. The pledge of ad valorem property taxes is subject to the state's circuit-breaker legislation, yet all debt service levies are levied to their full extent, with any circuit-breaker losses first distributed across the city's nondebt service levies. The lease is also payable from certain tax-increment revenues. The city intends to forgo the tax levy and pay debt service with these tax-increment revenues. However, funds equal to the next calendar year's debt service payments are required to be on hand and deposited into a debt fund before the city can make a decision to not levy the tax, which alleviates potential timing and liquidity risk. The rating is based on the ad valorem tax pledge, which we consider stronger than the tax-increment pledge.

The lease is paid by the commission directly to the trustee. Neither rental payments nor the ad valorem tax pledge is subject to appropriation. There is abatement risk, but pursuant to the lease, the commission is required to substitute the leased premise for a different leased premise of equal or greater value if the original leased premise is considered unfit for usage.

Management intends to use bond proceeds to continue the financing of road and street improvements, and to cash fund a debt service reserve fund. Bond proceeds will also fund capitalized interest through the February 2017 interest payment.

The 'AA' rating reflects our assessment of the following strengthening factors for the city, including its:

- Very strong budgetary flexibility with available reserves in excess of 75% of general operating expenditures;
- Adequate budgetary performance, with mostly balanced operations and some minor planned deficits;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures; and

- Strong management, supported by good planning practices.

Limiting credit factors include the city's:

- Weak economy, with below-average incomes and market value per capita, but stability from the presence of several universities, including the University of Notre Dame; and
- Weak debt and contingent liabilities position.

Very strong budget flexibility

In our opinion, South Bend's budgetary flexibility remains very strong, with combined general and nongeneral available funds' reserves exceeding 75% of general operating expenditures for the past few years and no plans to significantly spend them down. Our analysis consider the city's public safety local option income tax fund and county option income tax fund as part of the general fund, given the services rendered in these funds are highly comparable to what we consider basic general fund operations. Additionally, we factor the city's rainy day, county economic development income tax, and loss recovery funds as nongeneral available funds, given the lack of restrictions on their use. Combined, for audited fiscal 2013, the total available reserves (on an accrual basis of accounting) in these funds were \$68.5 million, or 85% of expenditures. On a cash basis, the city reports a slight increase in total available reserves for unaudited fiscal year-end 2014, to be offset by a use of reserves being budgeted for fiscal 2015. The city and county passed an income tax in 2009, which increased budget flexibility and helped the city avoid spending cuts. Though additional revenue-raising flexibility is now limited, in our view, the city has the capacity to reduce expenditures.

Adequate budgetary performance

South Bend's budgetary performance is adequate, with mixed results across the general and total governmental funds, but mostly balanced overall operations. For audited fiscal 2013, the city reported a deficit of 4.2% for the combined general fund and a surplus of 3% for total governmental funds, after adjusting for one-time legal settlement receipts, spending of bond proceeds, and recurring payments in lieu of taxes from enterprise funds. We understand the combined general fund deficit is the result of some staff increases. Unaudited cash results for fiscal 2014 indicate less than a 1% deficit for the combined general fund, and a small surplus for total governmental funds. Deficits are expected across the general fund and total governmental funds for fiscal 2015, though we understand they are mostly due to planned spending, particularly given the depth of reserves. Property taxes, collected semiannually, are the largest single revenue source, typically accounting for just under 50% of total governmental fund revenues.

Very strong liquidity

Supporting the city's finances is liquidity we consider very strong, with total government available cash equal to 35% of adjusted total governmental fund expenditures and 274% of debt service expenditures. We believe South Bend has exceptional access to external liquidity. It has issued bonds frequently during the past 15 years, including bonds backed by ad valorem property, hotel and motel, and income taxes, plus water and sewer revenue bonds. South Bend does not have direct bank loans with provisions that we consider permissive in terms of a potential draw on cash on hand.

Strong management conditions

We view the city's management conditions as strong, with good financial practices that lead to steady operations. Officials review several years of historical data when forming the budget, and much of its revenues are certified in

advance by the Department of Local Government Finance. The council sees monthly reports that contain budget-to-actuals and investment holdings. Long-term financial forecasting is now part of the budget process, and is annually updating a long-term capital improvement plan. The city has debt and investment policies, and has adopted reserve policies for all its funds, including a minimum 25% of expenditures policy for the general fund.

Weak economy

We consider South Bend's economy weak, with projected per capita effective buying income of 66% of the U.S. and total market value (gross assessed value less tax-exempt property) of \$4.4 billion, or \$43,836 per capita. South Bend is home to several colleges and universities, most notably the University of Notre Dame, which employs about 5,920 and has a student body of about 12,000. This presence is a stabilizing factor for the economy, and suppresses, to an extent, both incomes and market value per capita. Traditionally, county unemployment has tracked higher than that of the state and the nation, and averaged 8.8% in 2013.

Weak debt and contingent liability profile

In our opinion, the city's debt and contingent liability profile is weak, with total governmental funds debt service at 12.9% of total governmental fund-adjusted expenditures and with net direct debt at 91% of total governmental fund-adjusted revenue. Potential future debt issues in 2015 include about \$11 million in income and hotel/motel tax-secured obligations to finance park improvements and energy efficiencies. We do not expect these possible future obligations to affect our assessment of the debt and contingent liability profile, however.

South Bend makes annual contributions to the state-managed Indiana Public Employee Retirement Fund and 1977 Police Officers' and Firefighters' Pension and Disability Fund. The city's contributions to these funds in 2013 were equal to state requirements and amounted to \$6.6 million, or 4.6% of adjusted total governmental funds' expenditures. The city sponsors a retiree health care plan, and pays 70% of police and fire member premiums. Civilian employees can buy into the plan, but must cover 100% of premiums. The city uses a pay-as-you-go approach to retiree health care, with costs totaling \$702,000 in 2013. Combined, these costs were 5% of total governmental funds spending. Management does not anticipate significant increases in annual pension and retiree health care costs in the near future.

Strong institutional framework

We consider the Institutional Framework score for Indiana municipalities strong.

Outlook

The stable outlook reflects our view of South Bend's consistently very strong available reserve position, enhancing its budgetary flexibility. We anticipate that budgetary performance will remain adequate or better, supported by strong management, thus ensuring maintenance of very strong budgetary flexibility.

If the city were to significantly spend down its available reserves, whether for operating purposes or many large-scale projects, we could potentially lower the rating. Though unlikely within the two-year outlook horizon, stronger incomes, combined with employment diversification and expansion, could lead to a higher rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Indiana Local Governments

Ratings Detail (As Of March 12, 2015)		
South Bend Bldg Corp, Indiana		
South Bend, Indiana		
South Bend Bldg Corp (South Bend) GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
South Bend Redev Auth, Indiana		
South Bend, Indiana		
South Bend Redev Auth (South Bend) lse rental rev rfdg bnds (Morris Performing Arts Proj) ser 2008 due 08/01/2008-02/01/2017		
<i>Long Term Rating</i>	AA/Stable	Affirmed
South Bend Redev Auth (South Bend) GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
South Bend Redev Dist, Indiana		
South Bend, Indiana		
South Bend Redev Dist (South Bend) spl taxing dist rfdg bnds (South Bend) ser 2014 due 01/01/2022		
<i>Long Term Rating</i>	AA/Stable	Affirmed

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