STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:
St. John Building Corp., Indiana St. John; General Obligation; General Obligation Equivalent Security

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Summary:

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Credit Profile		
Town of St. John GO		
Long Term Rating	AA/Stable	Upgraded
St. John Bldg Corp, Indiana		
Town of St. John, Indiana		
St. John Bldg Corp (Town of St. John) 1st mtg rfdg bnds		
Long Term Rating	AA/Stable	Upgraded
St. John Bldg Corp (St. John) GO		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its long-term and underlying (SPUR) ratings to 'AA' from 'AA-' on bonds issued by St. John Building Corp., Ind. for the town of St. John based on its local GO criteria released Sept. 12, 2013. The outlook is stable.

The bonds are payable from lease rental payments made by the town to the building corporation. Rental payments are made by the town from ad valorem taxes to be levied by the town on all taxable property located within its boundaries. Lease payments are not subject to annual appropriation, but the pledge of ad valorem taxes is subject to the state's circuit-breaker legislation commencing in 2020.

The rating reflects our assessment of the following factors for the town:

- A very strong economy, with the projected per capita effective buying income at 110% of the U.S. and per capita market value at $109,552. St. John is a rapidly growing residential community of about 14,850 in Lake County, roughly 40 miles southeast of Chicago. The town is a part of the broad and diverse Chicago-Naperville, Ind.-Elgin, Wis. metropolitan statistical area (MSA). Population growth during the last 10 years has been very robust at 77% since the 2000 U.S. Census. Management anticipates that the population will grow by at least 438 a year for the next several years. Residents benefit from employment opportunities locally and throughout Lake County, along with easy access to Chicago's job base. Net assessed value (AV) improved by 5% in 2013 and 1.2% in 2012 to $975 million due to an improving real estate market. Officials expect AV to increase considerably over the next several years due to a planned annexation and continued growth. A number of commercial developments and expansions are underway, and the number and value of building permits issued continue to increase.
- Very strong liquidity, with total government cash and short-term investments at 216% of total governmental funds expenditures and 2,707% of debt service. We believe that the town has strong access to external liquidity.

- Very strong budgetary flexibility, with available general, cumulative capital development, and cumulative capital improvement funds, reported on a cash basis, totaling $2.9 million, or 64% of general fund expenditures in 2013. Management reports that the available reserves increased significantly in 2014 to $3.4 million, or 73% of operating expenditures. The state legislation in early 2013 lifted the property tax levy freeze, pursuant to Lake County introducing a local option income tax. Beginning in 2014, St. John will be eligible to increase its maximum levy by up to 2.5%, or $98,000, based on current estimates (maximum levy growth quotient for Indiana for 2013 was 2.8%). The major portion of the enacted 1.5% tax will go toward property tax relief (1%), while the remainder will be distributed evenly between public safety (0.25%) and economic development (0.25%). According to the most recent estimates, the town will receive $315,000 of public safety funds and $313,000 of economic development funds in 2014.
- The town's budgetary performance is strong; fiscal 2013 (Dec. 31) closed with a general fund surplus of 13% of expenditures and total governmental funds surplus of 16% of total governmental fund expenditures. The town's finances have strengthened considerably following three years of sizable operating surpluses. Over the last several years, finances were hampered by the fact that St. John's property tax levy, along with the levy of all other municipalities in the county, was frozen by the state due to the county's refusal to approve a local option income tax. In addition, several years of delayed property tax distributions affected the town's cash flow, for which the town used interfund borrowing and tax anticipation warrants to manage throughout the year. Management's ability to hold the line on expenditures, along with a significant increase in planning, zoning, and building permits revenues and timely tax collections helped the town produce operating surpluses in recent years. Management expects to produce a smaller general fund surplus of 0.6% as well as a total governmental fund surplus in 2014.
- Management conditions are adequate with standard financial practices. This indicates that the finance department maintains adequate policies in some, but not all, key areas. Management reports on budget performance to the town council regularly, and reports on investments annually. The town does not perform long-term financial planning or long-term capital planning. The town does not have a formal debt management policy, but has an informal target to maintain a cash balance of $1.5 million to $2 million in the general fund; it was in compliance with the target in 2013.
- The debt and contingent liability profile is weak, with total governmental funds debt service at 8% of total governmental funds expenditures and net direct debt at 123% of total governmental funds revenues. The town's overall net debt burden equals 5.4% of market value and amortization is average, with 65% of debt scheduled to be repaid within the next 10 years. The town does not have additional debt plans at this time.
- St. John makes annual contributions to the state-managed Indiana Public Employee Retirement Fund and 1997 Police Officers' and Firefighters' Pension and Disability Fund. Combined annual contributions, as dictated by the state, amounted to $625,000 in 2013, or 7.4% of total governmental fund expenditures. The town doesn't subsidize postretirement benefits.
- We consider the Institutional Framework score for Indiana municipalities strong.

Outlook

The stable outlook reflects our view that the town will maintain very strong budgetary flexibility and liquidity, bolstered by growing revenues over a two-year horizon. If town continues to report structurally balanced operations, at least strong budgetary performance, and the debt score improves, we could again raise the rating. Although unlikely, if town's rapid growth requires management to significantly spend down available reserves such that budgetary flexibility and budgetary performance weaken, we could lower the rating. The town's participation in the broad and diversified Chicago metropolitan area provides stability to the outlook.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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