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Summary:

Polk County, Iowa; General Obligation

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Credit Profile		
US$110.425 mil GO rfdg & GO bnds ser 2010A-C due 06/01/2025		
Long Term Rating	AAA/Stable	New
Polk Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Polk Cnty GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating, and stable outlook, to Polk County, Iowa's series 2010A general obligation (GO) refunding bonds and series 2010B and 2010C GO bonds and affirmed its 'AAA' long-term rating and underlying rating (SPUR), with a stable outlook, on the county's existing GO debt.

The rating reflects our view of the county's:

- Strong and diverse local economy, anchored by the Des Moines, Iowa metropolitan area;
- Continued economic diversification with growth in the financial services, insurance, and health care sectors;
- Very strong fund balances and conservative budgeting practices; and
- Low debt burden.

Officials plan to use series 2010A bond proceeds to refund the county's series 2002A bonds outstanding for interest cost savings and series 2010B bond proceeds to renovate the veteran memorial auditorium to accommodate additional capacity for a convention center. They also intend to use series 2010C bond proceeds to finance various capital improvement projects countywide. The county's full faith and credit pledge secures the bonds.

Polk County forms the base of the Des Moines metropolitan area, which is a growing and diversified regional economic center in central Iowa. A number of firms in the insurance, financial services, and business services sectors anchor the county's substantial employment base. Leading employers with more than 5,000 employees are:

- Wells Fargo & Co.(11,600 employees),
- Iowa (8,900),
- Principal Financial Group (8,169),
- Iowa Health System (6,470), and
- Des Moines Public Schools (4,745).

Manufacturing -- exemplified by notable employers such as Firestone Agricultural Tire Co. and Deere & Co., which employ roughly 2,800 combined -- has a modest presence in the county.

Polk County's population, which has increased by approximately 15% since the 2000 U.S. Census, is an estimated

429,439. The substantial employment base is a powerful draw, as are the outcomes of substantial economic development projects occurring in Des Moines ('AAA' GO debt rating) and West Des Moines, Iowa (AAA); these projects have resulted in a wide array of retail outlets, commercial development, and various civic projects. Consequently, the county has experienced steady economic growth. Polk County's economic indicators are slightly better than state and national averages. For 2009, median household effective buying income was a strong 113% and a good 104% of state and national averages, respectively. County unemployment, which averaged 6.5% as of September 2010, was slightly above the state's 6.3% rate; and it is consistently below the nation's rate.

Over the past five years, annual market value growth has averaged 6.1%; and total market value was nearly $31.7 billion for assessment year 2009, or, in our opinion, a strong $73,985 per capita. The assessed value of the county's property tax base is $18 billion.

In our opinion, Polk County management has continued to maintain very strong fund balance reserves. As of June 30, 2009, the county had an unreserved general fund balance of $35.7 million, or a very strong 27.7% of expenditures. In fiscal 2009, the county reported a drawdown of $2.7 million. Management attributes the use of reserves mainly to the start-up cost related to the recent opening of the county's new jail facility. Given the economic slowdown, the recent trend of declining investment interest income has pressured the county's general fund financial operation. The county's investment interest income, which was $5.1 million in fiscal 2008, has declined significantly; and reports have the total at just $356,000 in fiscal 2010. Due to one-time revenues from the sale of the county interim jail for $800,000 and about $1 million from Federal Emergency Management Agency reimbursements, the county was able to offset the reduction in investment interest income in 2010.

Management is currently projecting break-even operations for fiscal 2010. According to management, in fiscal 2011, approximately $700,000 of expenditures mitigate the effect of declining investment interest income on the county. Despite the measures taken, management is still planning to report a roughly $1 million drawdown in fiscal 2011.

County officials have adjusted their investment interest income projections in the out-years of the long-term financial forecast, and they expect to make the necessary expenditure reductions to regain structural balance by 2012. The county's fund balance policy calls for reserves equivalent to 20%-25% of expenditures on a cash budgetary basis, and management expects to adhere to this policy. As an additional liquidity source, the county maintains a contingency fund of approximately $5 million to help support general operations.

Standard & Poor's considers Polk County's financial management practices "strong" under its Financial Management Assessment (FMA) methodology, indicating practices are strong, well imbedded, and likely sustainable.

The county's overall debt burden is, in our opinion, a low $1,224 per capita, or 1.7% of market value. Carrying charges, as a percent of total governmental funds expenditures less capital outlay, were also, in our opinion, a low 6% in fiscal 2009. Debt amortization is above average with officials planning to retire roughly 69% of county debt over 10 years and 100% over 20 years. The county plans to issue approximately $3.8 million of debt to support its annual capital improvement projects.

The county does not offer its retirees other postemployment benefits. Retirees, however, can remain in the county's health insurance plan up to the age of 65; but they are responsible for paying a portion of the insurance premium. Based on the county's 2007 actuarial valuation, its additional cost for allowing retirees to participate in the health insurance plan was approximately $11.9 million. The county's annual required contribution to address its implied liability was $1.1 million, and management addressed this through pay-as–you-go financing. The county provides pension benefits through a cost-sharing, multiple-employer, defined-contribution benefit pension plan administered by Iowa. In 2009, the county's contributions equaled the contractually required contributions set by the state.

Outlook

The stable outlook reflects Standard & Poor's expectation that management will likely take the necessary steps to regain structural balance by fiscal 2012 and maintain reserves in compliance with the fund balance policy. If general fund reserves were to decline below the county's fund balance policy, the rating could be pressured. The county's strong and diverse local area economy, anchored by the Des Moines metropolitan area, provides further rating stability.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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