Tagging Info

Fitch Affirms Polk County, IA's GOs at 'AAA'; Outlook Stable

Ratings Endorsement Policy
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Fitch Ratings-New York-29 October 2014: Fitch Ratings has affirmed the following bonds of Polk County, IA (the county):

--$107 million unlimited tax general obligation (GO) bonds at 'AAA'.

The Rating Outlook is Stable.

SECURITY

Bonds are payable by an unlimited property tax pledge.

KEY RATING DRIVERS

STABLE ECONOMY; HIGH WEALTH: The regional economy benefits from the stability of the state government and its position as a regional insurance and financial center. County residents display a strong economic profile with above average wealth levels coupled with below average unemployment rates.

ROBUST FINANCIAL FLEXIBILITY: The county's financial position is strong, exhibited by solid general fund balances and balanced operations.

MANAGEABLE DEBT; WELL-FUNDED PENSION: Debt levels are moderate with rapid amortization. Non-tax revenues support repayment of almost 60%. Pension obligations are adequately funded and comprise a small portion of expenditures.

RATING SENSITIVITIES

The rating is sensitive to shifts in fundamental credit characteristics. The Stable Outlook reflects Fitch's expectation that such shifts are unlikely.

CREDIT PROFILE

Polk County, the most populous county in the state, enjoys a substantial economic base anchored by the state capital, and its position as a regional financial center.

STATE CAPITAL WITH ROBUST, RESILIANT ECONOMY
Employment within the insurance and financial services sector as a percentage of total employment is nearly three times the national average, and plays a vital role in the region's prosperity. While the financial services and insurance industry experienced contraction on a national basis during the recession, the county did not face similar disruptions. Socioeconomic indicators are solid with per capita income levels at 113% of the state average and 107% of the national average coupled with the July 2014 unemployment rate at 4.3% compared to 4.4% and 6.5% for the state and national averages, respectively.

The tax base is primarily residential and has grown four of the past five years. There are a number of large economic development projects in the county across a number of sectors, including financial services, data centers and logistics. The tax base is well diversified with the top 10 payers accounting for 8% of total assessed valuation.

HIGH FUND BALANCE LEVELS PROVIDE FINANCIAL FLEXIBILITY

The county finished fiscal 2012 with a $5.6 million deficit (3.5% of expenditures) and fiscal 2013 with a surplus of $7.2 million (4.9% of expenditures). The deficit in fiscal 2012 was caused by the planned use of fund balance for one time expenditures and capital funding in advance of a bond sale that took place in early fiscal 2013. The fiscal 2013 surplus was driven by this bond sale, as well as close expenditure management and the benefits of an early retirement program. The county's fiscal 2013 unrestricted fund balance was $39.4 million (26.5% of expenditures and transfers out). The county also has a contingency reserve with $8 million that provides additional flexibility. Approximately 65% of general fund revenues come from property taxes, and 21% comes from intergovernmental sources.

Preliminary results for the fiscal year ended June 30, 2014, show a $3.6 million increase in fund balance. The surplus was from further expenditure management and delayed implementation of several projects. The fiscal 2015 budget features a small decrease in fund balance from wage increases, increased staffing, and the delayed completion of projects from the prior fiscal year.

GAMING REVENUES OFFSET DEBT SERVICE EXPENSES

The county's overall debt burden is moderate at $2,548 per capita and 3.6% of market value, excluding self-supporting debt. Principal amortization is rapid, with 87% of principal retired within 10 years. Voters approved $81 million in debt for a large courthouse project and $50 million for conservation, but this should be manageable within the scope of the county's overall debt profile.

Much of the county's debt service is expected to be supported by non-property tax revenues, including a significant portion from gaming revenues, collected outside the general fund. The county has an agreement for the receipt of gaming revenues from Prairie Meadows, a horse racing and gaming facility owned by the county and leased for operations. The agreement provided the county with roughly level payments from fiscal 2011 to fiscal 2013, followed by guaranteed fixed payment and a percentage of adjusted gross receipts through fiscal 2018. Debt service is fully supported by just the fixed portion of payments through 2018. The 2014 payment is projected to be slightly below the 2013 payment. Fitch believes the county could support debt service from the general fund in the event gaming revenues materially decline, although currently robust reserve levels could go down as a result. Another casino has been approved about 50 miles from the county, but this is not expected to have a large impact on receipts due to its distance and smaller size.

MANAGEABLE RETIREE LIABILIIES

Long term liabilities related to retiree benefits are modest. Employees are in a state-sponsored pension plan, and the county annually funds its full actuarially required contribution. Annual contributions have increased over the last several years but are expected to level off. As of June 30, 2013, the plan is estimated at 77% funded using Fitch's 7% return assumption. The county allows its retirees to participate in its healthcare plan at 100% of the stated premium until the retiree reaches Medicare eligibility (implicit rate subsidy). Overall carrying costs for debt service, pension and other post-employment benefits are a low 11% of government fund expenditures.

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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, S&P/Case-Shiller Home Price Index, IHS Global Insight, 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
U.S. Local Government Tax-Supported Rating Criteria

Additional Disclosure
Solicitation Status