MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aaa rating with stable outlook to Polk County (IA)'s $37.2 million GO Bonds, Series 2012A, $21.0 million Taxable GO Refunding Bonds, Series 2012B, and $73.0 million GO Refunding Bonds, Series 2012C

Global Credit Research - 21 Jun 2012

Aaa rating affects $266.9 million of post-sale GOULT debt

POLK (COUNTY OF) IA
Counties
IA

Moody's Rating

ISSUE		RATING
General Obligation Bonds, Series 2012A		Aaa
Sale Amount	$37,225,000	
Expected Sale Date	07/09/12	
Rating Description	General Obligation	
General Obligation Refunding Bonds, Series 2012C		Aaa
Sale Amount	$72,960,000	
Expected Sale Date	07/09/12	
Rating Description	General Obligation	
Taxable General Obligation Refunding Bonds, Series 2012B		Aaa
Sale Amount	$21,025,000	
Expected Sale Date	07/09/12	
Rating Description	General Obligation	

Moody's Outlook STA

Opinion

NEW YORK, June 21, 2012 --Moody's Investors Service has assigned a Aaa rating to Polk County's (IA) $37.2 million General Obligation Bonds, Series 2012A, $21.0 million Taxable General Obligation Refunding Bonds, Series 2012B, and $73.0 million General Obligation Refunding Bonds, Series 2012C. Concurrently, Moody's has affirmed the Aaa rating on the county's general obligation unlimited tax obligations, affecting $266.9 million in debt post-sale, and the Aa1 rating on the county's limited tax obligations, affecting $3.1 million of debt post-sale. The ratings carry a stable outlook.

SUMMARY RATINGS RATIONALE

The Series 2012 bonds are secured by Polk County's general obligation unlimited tax pledge. Proceeds of the Series 2012A bonds will refund four state revolving fund loans for expected interest savings, finance grants to fund housing programs, and fund annual capital improvements. Proceeds of the Series 2012B bonds will refund the 2002B GO bonds that financed improvements and renovations to the county's Iowa Events Center while the Series 2012C bonds will refund Series 2006A, 2006B, 2006C and 2006D GO bonds. The refundings are for expected interest savings.

The Aaa rating and stable outlook reflect the county's predominate role as the employment and population hub for the state of Iowa (issuer rating Aaa/stable outlook); satisfactory financial operations that are supported by alternate liquidity and proactive management; and a manageable debt burden with no additional borrowing planned in the near-term. The Aa1 rating on the county's limited tax obligations reflects the limitations of the security, which is the county's General Basic levy that is capped at $3.50 per $1,000 of assessed valuation.

STRENGTHS

- Stabilizing presence of state capital of Des Moines (General Obligation rated Aa1) and role as primary economic hub for central Iowa (Aaa/stable outlook)

- Healthy financial operations with alternate liquidity and demonstrated willingness to adjust operations to meet budgetary constraints

CHALLENGES

- Declines in commercial occupancy rates and valuations in downtown Des Moines resulting in one year of modest tax base valuation decline

- Reliance on gaming revenues for abatement of debt service and to subsidize operations

DETAILED CREDIT DISCUSSION

EMPLOYMENT AND POPULATION HUB FOR STATE; HOME TO STATE CAPITAL

We expect the county's tax base to continue to be stable given the relatively stable regional economy positively impacted by the strong institutional presence of the state capital of Des Moines and ongoing population growth. Polk County is located in central Iowa and is home to a diverse set of employers in the insurance, financial services, and government industries. The county's sizable $31.6 billion full value has grown 2.7% annually on average over the last five years, a figure that incorporates a single year of modest decline (2.1%) in 2011. The modest valuation decline in 2011 largely reflects declines in the value of commercial office space in downtown Des Moines. These declines are partially due to Wellmark Blue Cross/Blue Shield opening a new $194 million headquarters in 2010 and vacating their sizeable office space at the Ruan Center in the process, and the declines are expected to be somewhat mitigated by a recent upswing in the conversion of historic downtown commercial buildings into residential properties. The county has experienced continued population growth with 15.0% growth between 2000 and 2010 and 14.5% growth in the decade prior, with particularly rapid growth in the suburban cities of Ankeny (GO rated Aa2) and Urbandale (GO rated Aa1).

The county's largest employers and taxpayers have remained relatively stable throughout the recent economic downturn. Wells Fargo (long term senior unsecured rated Aa3 and bank financial strength rated C+ with a negative outlook) is the county's largest employer with 12,900 employees. The company recently divested itself of a business line that was primarily located within Des Moines, reducing its workforce in downtown Des Moines by 1,000 people but offsetting personnel declines by shifting positions from other locations to its Des Moines metropolitan offices. Principal Financial (senior unsecured debt rated (P)Baa1/stable outlook; 6,547 employees; 1.1% of tax base) is the county's largest taxpayer and is headquartered in Des Moines. Principal has seen a modest decline in its employment recently, as it has phased out its health insurance division. The impact is expected to be modest as the health insurance division is a relatively small component of Principal's operations. A notable example of expansion in the county is John Deere (long-term issuer rating A2/stable outlook) in Ankeny (Aa2). The company has experienced significant recent growth in its farm equipment operations, adding nearly 500 positions in the last 24 months, and is building a new 300,000 square foot facility to house an expanded crop sprayer manufacturing facility. The county's median family income trends higher than the state and nation, totaling 114.0% of the state and 111.8% of the nation according to 2006-2010 estimates from the American Community Survey. Additionally, the county's unemployment rate of 5.8% continued to trend on par with the state and below the nation in March 2012.

FINANCIAL OPERATIONS REMAIN SOUND WITH PRESENCE OF HEALTHY RESERVES AND ALTERNATE LIQUIDITY

We expect the county's finances to remain stable given proactive management practices and the presence of alternate liquidity. The county has a board-adopted General Fund policy of maintaining an ending cash balance of between 20% and 25% of expenditures in reserve, and its reserves remain in alignment with this policy. The county ended fiscal 2011 with a modest $400,000 operating surplus, bringing General Fund reserves to $39.3 million, or a healthy 25.6% of revenues. Alternate liquidity is available in the Contingency Reserve Fund, with fiscal 2011 reserves of $8.8 million bringing combined available reserves to a strong $48.1 million, or 31.3% of combined revenues. The Contingency Reserve Fund is available to support deficit operations in the General Fund and receives regular transfers of the county's gaming revenues from Prairie Meadows Racetrack and Casino in Altoona (Aa3).

Fiscal 2012 is expected to end with a $2.3 million operating deficit in the General Fund, which officials plan to cover with a transfer of a like amount from the Contingency Reserve Fund, which will leave the General Fund balance at the close of fiscal 2012 comparable to fiscal 2011's ending balance. The county is seeing depressed revenues due to the reduction of placement of federal prisoners in the county jail and depressed interest earnings, as well as approximately $700,000 of one-time costs associated with early retirement and voluntary termination packages implemented mid-fiscal year. Going forward, the approximately 62 positions reduced by these packages will generate $500,000 in annual savings to the county. In fiscal 2013, the county is making additional adjustments to reinstate structural balance. The fiscal 2013 budget reflects reduced expenditures relative to fiscal 2012. Additionally, the county plans to renegotiate several contracts to generate savings and adjust the cost of their permits and other fees. Officials expect to end fiscal 2013 with a $1.3 million operating deficit, which will be replenished by the Contingency Reserve Fund, and expect to restore structural balance to the General Fund by fiscal 2015 at the latest.

PRAIRIE MEADOWS ENTERPRISE RISK MITIGATED BY LIMITED FINANCIAL OBLIGATIONS OF COUNTY AND STABILITY OF ENTERPRISE OPERATIONS

The county owns a racetrack and casino that is operated by Prairie Meadows Racetrack and Casino, Inc. ("Prairie Meadows") under a lease that extends through the end of 2018. In addition to the racetrack, Prairie Meadows currently is authorized to operate up to 2,000 slot machines and 65 game tables; additionally, it recently built a 168 room hotel on the site that opened February 24, 2012, The hotel is expected to generate net income of $2 million annually and increase gaming receipts. The racetrack had troubled operations previously, resulting in the racetrack operator entering Chapter 11 bankruptcy in November 1991. The racetrack operator had outstanding lease revenue bonds that were backed by the county. Due to an automatic stay under Section 362(a) of the Bankruptcy Code, funds paid by the county to the operator for debt service on the bonds were delayed, leading the county to default on the bonds in December 1991. Officials note that the county no longer guarantees debt issued by Prairie Meadows. The county also has limited financial obligations under the current lease, which extends through 2018. The county is obligated to pay the first $4.5 million annually of taxes on the property, but incurs no operational costs or responsibilities under the lease. In turn, the county receives a fixed $26 million annual contribution from Prairie Meadows through 2013 and receives a fixed $10.4 million annual contribution from 2014 through 2018 in addition to 5% of adjusted gross receipts (equivalent to $9.5 million in fiscal 2011) and an additional 1% of adjusted gross receipts in excess of $225 million. In fiscal 2011, Prairie Meadows Racetrack and Casino held unrestricted cash of $58.1 million, or 39.7% of net revenues after gaming taxes. Adjusted gross receipts have been stable recently, with 2009 through 2011 receipts of $193.1 million, $186.6 million, and $189.9 million, respectively. We believe, given the absence of county-backed Prairie Meadows debt and Prairie Meadows' stable operations, enterprise risk is substantially mitigated.

STABLE OPERATIONS AT IOWA EVENTS CENTER WITH RELIANCE ON GAMING REVENUES FOR DEBT SERVICE

In 1996, the county assumed responsibility for Veteran's Memorial Auditorium and Convention Complex from the City of Des Moines and in 2002, the county financed construction of Wells Fargo Arena and Hy Vee Hall. These four properties comprise the Iowa Events Center, and the county contracts out operations of the facilities. The Convention Complex currently is not actively in use and Veteran's Memorial Auditorium has recently undergone substantial improvements to enable hosting of large conventions, among other events. Officials report that the Wells Fargo arena consistently operates at a profit, while the other properties tend to operate at a modest loss. The Iowa Events Center as a whole realized a modest $255,000 operating surplus in fiscal 2011, but incurred small operating losses in the four prior fiscal years, partly due to the interruption of events given construction in progress at Veteran's Memorial Auditorium. The county currently has $155.9 million of General Obligation debt outstanding related to the Iowa Events Center, with level annual debt service of approximately $14.5 million. While the bonds contain the county's GOULT pledge, the county currently expects to pay debt service on nearly all of the debt with gaming revenues paid to the county from Prairie Meadows pursuant to the lease agreement. Notably, the current debt outstanding extends beyond the end of the county's lease with Prairie Meadows, with the final principal payment due in 2023 and the current lease extending though the end of 2018. While this planned repayment structure poses some risk given that revenue streams from Prairie Meadows are not defined past 2018, officials expect that the lease with Prairie Meadows will be renewed given the substantial capital investment the operator has made at Prairie Meadows and the presence of solid gaming operations. Additionally, as the bonds are backed by the county's GOULT pledge, the county could levy for debt service payments if the lease were not renewed.

MANAGEABLE DEBT BURDEN WITH NO NEAR-TERM BORROWING PLANNED

We believe the county's debt burden will remain manageable given the lack of future borrowing plans and above-average retirement of debt, with 77.7% to be retired in the next ten years. Inclusive of the current transactions, the county's debt position is average at 0.8% of full value for direct debt and 1.7% overall. Officials report no additional borrowing plans through the end of fiscal 2013. All of the county's debt is fixed rate and there is no exposure to interest rate swap agreements.

WHAT COULD CHANGE THE RATING - DOWN

-Material operational imbalances, negatively affecting General Fund or enterprise fund reserves

-Substantial deterioration of taxable values, pressuring the county's largest revenue stream

KEY STATISTICS

2010 Census population: 430,640 (15% growth since 2000)

2011 Full Value: $31.6 billion (2.7% 5-year average annual growth)

2011 Full value per capita: $73,385

Polk County Unemployment (March 2012): 5.8% (5.7% IA; 8.4% US)

2006-2010 Median Family Income: 114.0% of IA; 111.8% of US

Debt Burden: 1.7% (0.8% direct)

Principal amortization (10 years): 77.7%

FY11 General Fund balance: $39.3 million (25.6% of General Fund revenues)

Post-sale GO Unlimited Tax debt: $266.9 million

Post-sale GO Limited Tax debt: $3.1 million

RATING METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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