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Ratings

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Summary:

Polk County, Iowa; General Obligation

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Credit Profile		
US$120.0 mil GO cap loan nts ser 2024A due 06/01/2044		
Long Term Rating	AAA/Stable	New
US$53.2 mil GO bnds ser 2024B due 06/01/2031		
Long Term Rating	AAA/Stable	New
Polk Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to Polk County, Iowa's anticipated $120 million series 2024A general obligation (GO) capital loan notes and $53 million series 2024B GO bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the county's GO debt outstanding.
- The outlook is stable.

Security

The county's unlimited ad valorem property taxing power secures its GO debt. The county will loan series 2024A and 2024B bond proceeds to the Des Moines Airport Authority to fund a portion of the costs of constructing a new terminal. While the county's GO pledge secures the bonds, airport net revenue is the intended payment source. Key loan agreement provisions supporting our expectation of timely debt service payments include:

- A requirement of the airport to deposit funds to cover principal and interest payments 15 months before such payments are due, thus allowing sufficient time for the county to increase its debt service levy, if needed;
- A rate covenant requiring the airport to set rates and charges sufficient to provide maximum annual debt service (MADS) coverage no less than 1.25x (the notes' final year balloon payments are levelized for the rate covenant calculation);
- A requirement for the airport to maintain at least 400 days' cash on hand, with a springing debt service reserve requirement should liquidity fall below that level at year-end; and
- A 1.25x MADS additional bonds test using historical revenue.

The county will use the series 2024B bond proceeds to fund various capital projects.

Credit overview

Supporting Polk County's 'AAA' rating are factors, including its broad and diverse economic base anchored by the state capital, Des Moines, a long run of budgetary outperformance and strong financial management policies and practices we believe mitigate the risk of material financial deterioration, despite lingering inflationary cost pressures and a rising debt burden.

Rising property values driven by strong and continued economic growth in the county have, along with significant federal pandemic aid, supported the county in posting very strong surpluses during the past two years. With available reserves now more than 70% of expenditures for fiscal 2023, the county plans drawdowns 2024 through 2026 to bring reserves back in line with its 20%-25% of expenditures target set by its fund balance policy. So long as the county's long-term forecast continues to demonstrate a return of balanced operations that we view as credible, and so long as available reserves remain no less than the range required by the fund balance policy, we believe the county's finances will remain supportive of the 'AAA' rating.

Key rating factors include the county's:

- Broad and deep economic base anchored by the state capital, with consistent and recently very strong annual property value growth as the Des Moines metropolitan area continues to add population and jobs;
- Budgetary performance we expect to moderate given plans to spend down reserves. While the county plans to substantially reduce the available general fund balance, we expect available reserves to remain very strong, given a general fund balance policy targeting 20%-25% of expenditures plus a sizeable contingency reserve sitting outside of the general fund and available to support operations;
- Very strong financial management and strong institutional framework; and
- Rising debt burden given current and planned debt additions, however fixed cost pressure from pensions and other postemployment benefits (OPEBs) is low.

Environmental, social, and governance

We consider environmental risk elevated compared with Polk County's peers due to the Des Moines River and other watersheds that render portions of the county susceptible to flooding. The county continues to make investments to improve resiliency to flooding through various conservation and watershed management programs and projects. In addition, Des Moines has heightened its focus on river-levee maintenance and streambed restoration in recent years. We consider the county's social and governmental risks credit neutral.

Outlook

The stable outlook reflects our expectation that the county's long-term forecast will continue to demonstrate a return to balanced operations that we view as credible, following the planned three-year period of reserve draws through fiscal 2026. It further reflects our expectation that the county's borrowing plans will proceed relatively in line with those identified in its current capital plan.

Downside scenario

If the county issues more debt than currently planned during the medium term, leading to a materially weakened debt and liabilities assessment, or if it does not return to balanced operations while maintaining available general fund reserves no less than the level set by its fund balance policy, we could lower the rating.

Credit Opinion

Very strong economy anchored by the state capital, bolstered by recent robust property value growth

The county's economy, anchored by the state capital of Des Moines, is very strong. Following a period that saw record building activity, county officials report that high interest rates have softened real estate transaction volume and postponed some planned industrial development within the county. In addition, the downtown Des Moines office market remains beset by higher vacancies related to the shifting workplace environment following the onset of the COVID-19 pandemic. Highlighting this is the downsizing of the Wells Fargo workforce in the county, with employment down to about 11,000 as the bank has fully exited its former downtown office space. County officials report strong demand for housing in the downtown area, and despite these disruptions, county economic growth has been robust overall.

County property value growth has been extremely strong. Taxable (assessed) value increased 21% during the past five years through fiscal 2025, while market values increased 43% during that span and 22% in the most recent year alone. We view the county's fairly large population and the stabilizing presence of the state capital as mitigating factors to the county's economic metrics that are somewhat low relative to its similarly-rated peers.

Budgetary flexibility to remain very strong despite plans for substantial drawdowns to bring reserves in line with policy

A stable and predictable property-tax heavy operating revenue mix, prudent and conservative budgeting practices, and continual tax base growth have contributed to 11 consecutive operating surpluses through fiscal 2023. In addition to routine and recently very strong surpluses, the county's significant federal pandemic aid received have brought its available general fund balance to $170 million and 73% of expenditures in fiscal 2023.

For fiscal 2024, the county plans a substantial spenddown of its general fund balance. The largest portion of the reduction will be the expenditure of one-time pandemic aid received in fiscal 2023. Excluding one-time items, the county expects to post a roughly $10 million operating surplus in fiscal 2024. For fiscal 2025, to accommodate increased debt service costs and move the general fund balance closer to the targeted level, the county plans to reduce its operating tax rate while increasing its debt service tax rate. This will result in a forecasted $22 million fund balance drawdown.

The county's five-year forecast indicates another drawdown in fiscal 2026 as the operating tax rate remains reduced to accommodate the higher debt service rate. Following the planned drawdowns, the county forecasts its unrestricted general fund balance to remain no lower than the level required by its fund balance policy. Because we include the county's unrestricted contingency reserve in our calculation of available fund balance, we expect reserves to remain stronger than 25% of expenditures. The contingency reserve had $18.5 million at fiscal year-end 2023, sits outside of the general fund, and has not been drawn on in recent years.

Net of $181 million in investments maturing in greater than one year and $17 million in unspent bond proceeds, the county had $125.8 million in liquidity at fiscal year-end 2023, and we expect it to maintain very strong liquidity.

In March 2018, the county entered into two guaranty agreements related to debt issued for the Iowa Events Center

(IEC) Hotel Corp., which is a component unit of the county. The county provided its guarantee for $4.8 million of series C-2 certificates and $8.1 million of series E certificates issued by IEC Hotel Corp. To date, the county guarantee has not been called upon. The series E guarantee does not contain any accelerations provisions. The C-2 guarantee contains an acceleration provision if the county rating decreases below investment grade or if the county pays six consecutive deficiency payments on behalf of IEC Hotel. Due to the guarantee's size relative to the county's budget (less than 2% of governmental fund expenditures), and the remoteness of the rating trigger; we do not view this obligation as a contingent-liquidity risk.

Very strong financial management with a strong financial management assessment

The county uses at least five years of historical data and external sources when budgeting. Management provides the county board with quarterly reports on budget-to-actual results and investment earnings, and the board can make semiannual budget amendments. The county produces financial forecasts for the budget plus five years. It maintains five-year capital plans across all departments that identify projects, sources, and fund use. Its reserve policy calls for maintaining cash-based reserves of 20%-25% of expenditures; the policy addresses replenishment in case of draws on the contingency reserve, which is outside the general fund.

The county also has a formal debt-management policy that establishes debt-affordability metrics. The county's history of strong financial performance, as evidenced by its embedded financial management policies and practices.

Rising debt burden but planned airport support somewhat mitigates pressure the county's budget and taxpayers

With its substantial current and planned additional debt issuances, the county's debt burden is rising. The series 2024B bonds are structured with a balloon payment in the first year, which the county will cover using its debt levy capacity following recent years' lower than typical debt issuances. The series 2024A bonds' final year balloon payment relates in part to the purpose and security--airport bonds often carry 30-year amortization but GO bonds in Iowa can only carry a 20-year maturity. The county will likely refinance the final year balloon maturities after the call date.

Net of bonds maturing in 2024 and 2025, the county will add about $163 million in additional debt, per current plans. This includes the remaining $236 million in voter authorization for the airport project. Our analysis includes the net additional debt and we do not believe this level of borrowing will inhibit the county's ability to maintain the current rating.

Manageable pension costs and other postemployment benefits

Pension and OPEB costs are modest as a share of total spending and are not likely to accelerate significantly during the next few years, especially due to the pension plans' strong funding. Although the county funds OPEB on a pay-as-you-go basis, exposing it to potential cost acceleration, we expect medium-term costs will likely remain only a small share of total spending and, therefore, not a significant budgetary pressure.

The county participates in the Iowa Public Employees' Retirement System (IPERS), a multiple-employer, defined-benefit pension plan that use reasonable assumptions, which was 90% funded at June 30, 2023. The county's proportionate share of the plan's net pension liability was $27.7 million.

The county's OPEB liability consists of an implicit rate subsidy due to retirees staying on the county's plan while paying active premiums. The OPEB liability was $20.1 million at June 30, 2023, and the county makes OPEB payments on a pay-as-you-go basis.

The county's actuarially determined pension contributions exceeded 100% of our static funding and minimum-funding-progress metrics in the most recent year, indicating progress toward reducing the unfunded pension liability. While we believe certain plan assumptions, including IPERS' level-percent amortization basis and 7% discount rate, will contribute to slower funding progress over time, we expect the county's retirement benefit obligations to remain affordable.

Strong institutional framework

The institutional framework score on Iowa municipalities is strong.

Rating above the sovereign

The county's debt is eligible to be rated above the sovereign, because we believe the county can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013, U.S. local governments are considered moderately sensitive to country risk. Locally derived revenue secures the county's GO bonds. This limits the possibility of negative sovereign intervention. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and there is no history of negative government intervention.

Polk County, Iowa--key credit metrics				
	Most recent	**Historical information**		
		2023	**2022**	**2021**
Very strong economy				
Projected per capita EBI % of U.S.	88			
Market value per capita ($)	129,131			
Population			506,830	498,525
County unemployment rate(%)			2.7	
Market value ($000)	65,447,418	51,472,259		
Ten largest taxpayers % of taxable value	5.9			
Strong budgetary performance				
Operating fund result % of expenditures		13.7	13.4	4.9
Total governmental fund result % of expenditures		6.8	10.9	3.4
Very strong budgetary flexibility				
Available reserves % of operating expenditures		72.7	46.5	45.2
Total available reserves ($000)		170,076	138,650	106,597
Very strong liquidity				
Total government cash % of governmental fund expenditures		33	2	39
Total government cash % of governmental fund debt service		423	40	529
Very strong management				
Financial Management Assessment	Strong			

Polk County, Iowa--key credit metrics (cont.)				
	Most recent	Historical information		
		2023	2022	2021
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		7.8	5.9	7.4
Net direct debt % of governmental fund revenue	84			
Overall net debt % of market value	3.2			
Direct debt 10-year amortization (%)	69			
Required pension contribution % of governmental fund expenditures		2.9		
OPEB actual contribution % of governmental fund expenditures		0.0		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2022 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of April 17, 2024)		
Polk Cnty taxable GO cap loan nts ser 2020B due 06/01/2024		
Long Term Rating	AAA/Stable	Affirmed
Polk Cnty GO rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.