

## Polk County, Texas

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**Credit Profile**

**US\$.83 mil Tax Notes, Series 2010 dated 09/15/2010, due 02/15/2017**

Long Term Rating	A+/Stable	New
Outstanding Tax Notes, Series 2003, 2008, 2009		
Long Term Rating	A+/Stable	Affirmed
Outstanding Tax Notes, Series 2007 (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Outstanding Certificates of Obligation, Series 2007, 2008		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

**Rationale**

Standard & Poor's Ratings Services assigned its 'A+' long-term rating, and stable outlook, to Polk County, Texas' series 2010 tax notes and affirmed its 'A+' long-term rating and underlying rating (SPUR), with a stable outlook, on the county's existing general obligation (GO) debt.

The rating reflects our view of the county's:

- Strong financial performance, indicated by healthy general fund reserves;
- Healthy property tax base growth; and
- Moderate overall debt levels with limited debt-supported capital needs.

The rating reflects our opinion of the county's:

- Somewhat shallow economic base, indicated by adequate wealth and income levels; and
- Above-average unemployment compared with the rest of the state.

The county's full faith and credit pledge secures the notes. The county will make annual debt service payments through the levy of an ad valorem tax on all taxable property in the county. Officials plan to use note proceeds to reimburse the county's general fund for costs incurred

throughout the year for various capital needs. It is the county's practice to issue tax notes annually to reimburse the general fund for capital projects by the fiscal year-end that it incurs those project costs.

Polk County, with a population estimate of 46,000, encompasses 1,095 square miles in east Texas, about 70 miles north of Houston. The local economy centers on manufacturing, retail trade, oil and gas production, and the timber industry. Leading local employers include:

- Georgia Pacific (1,000 employees), wood products;
- Texas Department of Criminal Justice (900);
- Livingston Independent School District (642); and
- Wal-Mart Stores Inc. (400), a supercenter.

County unemployment was 10.0% as of June 2010, slightly higher than the state's 8.2% rate. County median household income levels are an adequate 78% of the national level. Market value, a wealth indicator, is also an adequate \$50,637 per capita.

The county's property tax base has demonstrated steady growth. Assessed value (AV) has increased by 37% since fiscal 2006 to \$2.49 billion in fiscal 2010. Preliminary AV shows further growth to an estimated \$2.79 billion in fiscal 2011. The tax base is diverse with the 10 leading taxpayers accounting for 14% of fiscal 2010 AV. The county levies a combined property tax rate of 62.77 cents per \$100 of AV for operations and maintenance; debt service; and road and bridge maintenance, well below the 80.00-cent state-mandated maximum.

A federally funded and privately operated 526-bed detention facility that opened in 2006 has started to provide the county with additional annual revenues as part of an agreement to construct the facility in Polk County. Originally, officials projected the agreement would generate up to \$1.0 million in annual revenues; the facility's expansion to 1,056 beds in 2007, however, resulted in \$1.6 million of revenues in fiscal 2009. The county is neither responsible for financing nor operating the facility.

The county has historically maintained strong financial operations, indicated by five consecutive years of increasing fund balances. The fiscal year-end 2009 unreserved general fund balance of \$6.08 million equaled a very strong 39% of operating expenditures, up from \$1.70 million, or 16%, in fiscal 2004. The county's policy is to maintain a general fund reserve equal to at least 25% of annual expenditures to mitigate any potential sales or property tax revenue declines. Property taxes (50%), intergovernmental revenues (13%), and sales taxes (13%) generated the bulk of 2009 general fund revenues. Management is projecting to end fiscal 2010 with no significant change to the previous year's general fund balance.

Standard & Poor's deems Polk County's management practices "standard" under its Financial Management Assessment (FMA) methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. In July 2003, the county commissioners' court adopted a general fund balance policy that requires reserves to equal no less than 25% of annual operating expenses. In addition, the county maintains a formal investment policy and distributes monthly reports to the commissioner's court that track revenues and expenditures. Limitations in the county's policies are its lack of a debt management policy and a formal capital improvement plan, as well as its long-term financial projections despite informal capital and financial plans that management addresses during frequent county workshops.

Including all overlapping jurisdictions, the county's overall debt burden is a moderate 5% of fiscal 2010 AV, or \$2,549 per capita. Amortization of debt outstanding is slightly faster than average with officials planning to retire 59% of principal over 10 years and 100% by 2027. The fiscal 2009 debt

service carrying charges were a moderate 13.3% of total governmental expenditures. With the exception of its annual tax note issuance, the county does not plan to issue additional GO debt.

***Outlook***

The stable outlook reflects Standard & Poor's expectation that the county's economy should continue to remain stable despite industry concentration in the oil, gas, and timber industries and that the county should maintain its continued sound financial performance. Management's commitment to maintain reserves provides the county with a cushion against a potential decline in tax revenues.

***Related Criteria And Research***

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

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