

## **EVENT NOTICE**

July 15, 2022

### **NOTICE TO BONDHOLDERS OF A RATING CHANGE**

This event notice is provided pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934 (the "Rule") with respect to the issue(s) with the following six-digit CUSIP Prefix:

**Polk County, Texas (the "County") – CUSIP 731452**

**Outstanding Obligations of the County's (the "Obligations"):**

**General Obligation Refunding Bonds, Series 2017  
General Obligation Refunding Bonds, Series 2020**

On July 13, 2022, S&P Global Ratings ("S&P") upgraded the underlying rating on the Obligations listed above from A+ to AA-. Please see the attached report from S&P for an explanation.

For additional information, please contact S&P Global Ratings.

# RatingsDirect®

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## Summary:

# Polk County, Texas; General Obligation

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## Summary:

# Polk County, Texas; General Obligation

### Credit Profile

US\$6.045 mil tax nts ser 2022 dtd 08/01/2022 due 02/15/2029

<i>Long Term Rating</i>	AA-/Stable	New
Polk Cnty GO		
<i>Long Term Rating</i>	AA-/Stable	Upgraded
Polk Cnty GO (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

## Rating Action

S&P Global Ratings raised its long-term and underlying ratings to 'AA-' from 'A+' on Polk County, Texas' general obligation (GO) bonds outstanding. At the same time, S&P Global Ratings assigned its 'AA-' long-term rating to the county's anticipated \$6 million series 2022 tax notes. The outlook is stable.

The upgrade reflects our view of the county's consistently positive operating results that have increased its already very strong available fund balance, as well as the county's ongoing assessed value (AV) growth.

Principal and interest on the bonds are payable from an ad valorem tax levied annually, within the limits prescribed by law, against all taxable property within Polk County. Counties in Texas are limited to a maximum allowable ad valorem tax rate of 80 cents per \$100 of AV with the portion dedicated to debt service limited to 40 cents of the total 80 cents maximum tax rate. For fiscal 2022, the county's total tax rate is well below the maximum at 63.76 cents per \$100 of taxable AV, including 8.7 cents for debt service. Despite state statutory tax rate limitations, we do not differentiate between the county's limited-tax debt and its general creditworthiness, because the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources, which supports our view of the county's overall ability and willingness to pay debt service.

Note proceeds will fund improvements to county buildings, and the acquisition of road maintenance equipment and materials, public safety equipment, and computer equipment and software.

## Credit overview

With general fund surpluses in each of the past eight fiscal years, the county has built upon its already very strong available fund balance, which now exceeds 70% of expenditures. The county's budget has benefited from population growth and the residential development that has come with it, as taxable AV increased 75% over the past decade and property tax collections are the county's largest revenue source. We expect the county will continue to exhibit strong budgetary performance, and we believe it has sufficient reserves to weather any near-term economic headwinds. We, therefore, do not expect to change the rating over the two-year outlook period.

The rating also reflects our view of the county's:

- Adequate income and average market value per capita metrics, with a growing population and property tax base;
- Consistently positive operating performance and maintenance of available reserves well above its 25% minimum policy;
- Standard financial management policies and practices, and strong institutional framework; and
- Very strong debt profile with rapid amortization and modest additional debt plans. Pension and other postemployment benefits (OPEB) costs are not an immediate source of credit pressure.

### **Environmental, social, and governance**

In our view, the county's environmental, social, and governance risks are neutral considerations in our credit rating analysis.

## **Stable Outlook**

### **Downside scenario**

We could lower the rating if financial performance deteriorates, either due to economic pressures or other structural reasons, leading to sustained and significant drawdowns in the county's reserves.

### **Upside scenario**

We could consider a positive rating action if economic indicators improve to levels that we consider to be on par with those of higher-rated peers while maintaining its very strong reserve position, and management formalize financial management policies and planning practices further.

## **Credit Opinion**

### **Adequate income and average market value per capita metrics, with growing property tax base**

Polk County is 70 miles northeast of Houston along U.S. Highway 59 (US-59), with the City of Livingston serving as the county seat. The largest employers include: Georgia-Pacific (1,000 employees), the Texas Department of Criminal Justice (691), Alabama-Coushatta Tribe of Texas (684), Livingston Independent School District (600). The county's population increased more than 10% the past decade, according to the 2020 US census figures. With the ongoing population growth, the county's taxable AV increased as well, averaging 4.6% annual growth the past five years. County officials indicate several subdivisions are in development, with commercial development following the residential growth. Officials indicate the county also stands to benefit as US-59 is transitioned to Interstate 69. While S&P Global Economics assesses the risk of a recession in the next 12 months at between 35%-45% (see, "Economic Outlook U.S. Q3 2022: The Summer Of Our Discontent," published June 27, 2022, on RatingsDirect), we believe the county's AV will likely continue to grow during the outlook period given the lagging nature of AV measurement and the growth the county is experiencing.

**Standard financial management policies and practices supporting strong operating performance**

Polk County management uses conservative assumptions to generate its annual budget, examining five years of historical trend data to project revenues and expenditures for the following fiscal year. Input from departmental officials is used to anticipate any potential deviations from current trends. Budget-to-actual results are provided to the governing body monthly, with amendments possible as needed. The county maintains a formal investment policy under Texas statutes and it presents quarterly investment updates to the governing body. In addition, the county's formal reserve policy, implemented for budget stability and cash flow purposes and to which it has historically adhered, requires the maintenance of an unassigned general fund balance equal to 25% of expenditures. The county also developed a formal debt-management policy that we consider unsophisticated. Long-term capital and financial planning are done on an informal basis. We note the county took steps to help mitigate its exposure to cyber-security risks.

**Consistently strong operating results and maintenance of very strong reserves**

The county has consistently produced strong operating results, with general fund surpluses in each of the past eight fiscal years. Our budgetary performance calculations include adjustments for recurring transfers and one-time capital projects. Property taxes accounted for about 62% of general fund revenues during this time, with sales taxes (14%) representing the next most significant revenue source. The county's fiscal 2022 general fund budget is balanced, and management indicates actual results are tracking well relative to the budget. The county will also receive about \$10 million from the American Rescue Plan Act, which will primarily support water system and broadband infrastructure projects. With the county's consistently positive operating results, it has built its available fund balance position to well above its 25% minimum. We expect the county will continue to exhibit strong budgetary performance while maintaining very strong available reserves and liquidity over the outlook period.

We note that the county has six privately placed debt obligations, accounting for about 20% of the county's direct debt outstanding. However, we do not consider these private placements to be contingent liquidity risks, as the bond documents do not include any nonstandard events of default or acceleration of principal as a remedy for default.

**Low debt burden as a percent of market value, with rapid amortization and modest additional debt plans**

After this issuance, the county will have about \$20 million in direct-debt outstanding, including capital leases. Our view of the county's debt profile is improved by the county's rapid amortization rate and low overall net debt as a percent of market value. While the county anticipates issuing tax notes each year for small capital projects and equipment purchases, we do not expect our characterization of the county's debt profile will change as principal amortization will likely outpace the additional issuance.

**Pension and OPEB costs are not an immediate credit pressure**

We do not consider pension and OPEB liabilities as a source of credit pressure given the well-funded status of the pension plan.

The county participates in the following plans:

- Texas County & District Retirement System (TCDRS): 88% funded, with a net pension liability equal to \$4.9 million, measured using a 7.6% discount rate.

- The county also offers OPEB in the form of health care to eligible retirees through the Polk County Retiree Benefits Trust plan. The plan is 26% funded with a net liability of \$9.2 million.

For more information, see "Pension Spotlight: Texas," published Feb. 25, 2020, on RatingsDirect.

### Strong institutional framework

The institutional framework score for Texas counties is strong.

Polk County, Texas--Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
<b>Weak economy</b>				
Projected per capita EBI % of U.S.	73.9			
Market value per capita (\$)	76,424			
Population		52,140	50,908	50,188
County unemployment rate(%)		8.0		
Market value (\$000)	3,984,734	3,623,694	3,618,425	
Ten largest taxpayers % of taxable value	10.2			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		9.5	5.4	4.8
Total governmental fund result % of expenditures		7.2	8.1	4.9
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		74.3	57.4	62.0
Total available reserves (\$000)		15,694	13,676	12,415
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		92.1	57.8	60.7
Total government cash % of governmental fund debt service		682.5	537.0	445.6
<b>Adequate management</b>				
Financial Management Assessment	Standard			
<b>Very strong debt and long-term liabilities</b>				
Debt service % of governmental fund expenditures		13.5	10.8	13.6
Net direct debt % of governmental fund revenue	58.4			
Overall net debt % of market value	2.3			
Direct debt 10-year amortization (%)	100.0			
Required pension contribution % of governmental fund expenditures		5.3		
OPEB actual contribution % of governmental fund expenditures		3.9		
<b>Strong institutional framework</b>				

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

## **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2020 Update Of Institutional Framework For U.S. Local Governments

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.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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**Polk Co (General Obligation Debt) / Rating History**

**In most cases, the MAC's rating history began on 12/20/2007.  
Please see ratings agency websites for complete history.**

<b>As Of Date</b>	<b>Company</b>	<b>Action</b>	<b>Rating</b>	<b>Outlook</b>
07/13/2022	Standard & Poor's	Upgrade	AA-	Rating Outlook Stable
04/07/2020	Standard & Poor's	Affirmed	A+	Stable
06/22/2017	Moody's	Outlook Revised	A2	Stable
06/18/2015	Moody's	Downgrade	A2	Negative
08/06/2014	Standard & Poor's	Outlook Added	A+	Stable
04/23/2010	Moody's	Upgrade	A1	No Outlook
08/06/2008	Standard & Poor's		A+	
12/20/2007	Moody's		A3	No Outlook
12/20/2007	Standard & Poor's		A-	