

Summary:

Rock County, Wisconsin; General Obligation

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US\$5.815 mil GO prom nts dtd 06/15/2010 due 09/01/2019		
Long Term Rating	AA/Stable	New
Rock Cnty GO		
Long Term Rating	AA/Stable	Affirmed

Rationale

The 'AA' long-term rating assigned to Rock County, Wis.' general obligation (GO) promissory notes reflects the following credit characteristics:

- A diversifying economic base with a decreasing reliance on manufacturing employment,
- Economic indicators that Standard & Poor's Ratings Services considers at least adequate;
- A general fund balance we consider to be very strong combined with good financial management practices, and
- A moderate debt burden, in our opinion, with rapid principal amortization.

Somewhat offsetting these characteristics is a fairly significant drop in the general fund balance that occurred in 2008. Before 2008, the ending unreserved general fund balance had typically been at a level that represents at least 48% of expenditures. However, in 2008, the ending unreserved balance was drawn down by \$5 million, to 31% of expenditures, due to one-time flood-related expenditures. Because the budget remains in structural balance, we do not view this as a negative credit factor at this time.

The 2010 bonds will be issued as recovery zone economic development bonds, subject to a 45% interest subsidy payable to the county from the federal government. The county will levy gross of this subsidy and offset a portion of its debt service levy only with funds on hand. The county will use the bond proceeds for various capital projects.

Rock County is located about 30 miles south of Madison, Wis., on the border of Wisconsin and Illinois. The county is traversed by Interstate 90, which provides it with a direct link to Madison, Wis. and Chicago, Ill. The county's population grew 9% during the 1990s and is estimated to have grown another 4% since 2000 to about 159,000 today. The county's largest communities are its seat, Janesville (AA-/Stable GO debt rating) and Beloit (A+/Stable). Equalized value grew at a compound annual rate of 4.7% from 2005-2009, to an estimated market value of \$10.6 billion, which we view as a strong \$66,552 per capita. The tax base is also very diverse, with the 10 largest taxpayers accounting for only 3.4% of assessed valuation.

Although historically dominated by automotive and other manufacturing, the county's employment base is diversifying. Additional growth in recent years has been fueled by development along Interstate 90. The larger employers are a combination of manufacturing and services, and include the following:

- Mercy Health System, 3,767 employees;
- Beloit Health System, 1,847;
- Janesville School District, 1,512;

- Rock County, 1,174;
- Beloit School District, 894;
- Hendrickson Holdings (various construction businesses), 857; and
- GHC Specialty Brands (safety and materials handling equipment), 831.

The unemployment rate has typically remained slightly above national averages, but increased recently to 12.5% in 2009; for March 2010, it was 12.8%.

In 2009, General Motors Corp.'s (GM) Janesville manufacturing plant, which in 2008 employed about 2,500, closed. Another 1,000 were employed at local automotive parts plants that do business with GM. Employment at the GM plant was close to 5,300 in 1997, but had been substantially decreased since then. Although the plant's loss will deal a hard blow to the city's employment base, its impact on the city's finances is expected by the county to be manageable. The plant represents less than 1% of equalized valuation and pays less than \$530,000 of property taxes to the county.

Median household effective buying income is considered good at 93% of the national average while per capita effective buying income is considered adequate at 87% of the national average.

Despite a reduction in the general fund balance for the previous two audited years, we still consider the general fund balance to be very strong. From 2004-2006, the general fund balance remained at a level that was at least 48% of expenditures. However, in 2007, the general fund balance decreased by \$2.5 million, due primarily to lower sales tax revenue collections and a planned spend down of the balance. Then, in 2008, the general fund balance went down by another \$5 million due primarily to flood-related spending. On Dec. 31, 2008, the unreserved general fund balance was \$13.6 million, or what we still consider a very strong 31.3% of expenditures.

For 2009, the county expects to post a \$13.7 million undesignated general fund balance, and the 2010 budget is balanced without the use of reserves.

The county's total expenditure base for its governmental funds is \$140 million, the largest special revenue funds being for human services and developmentally disabled services. Total expenditures for these two funds are approximately \$70 million and both are allocated property tax revenues from the county's general operating levy. The general fund provides budgeted operating support for these two funds as well, which cover operating deficits and bring the fund balances to zero at the end of each fiscal year.

The county's financial management practices are considered "good" under Standard & Poor's Financial Management Assessment (FMA). An FMA of good indicates that financial management practices exist in most areas, although all may not be formalized or monitored regularly by county officials. Highlights of these policies are as follows:

- Comprehensive review of revenue and expenditure assumptions when the budget is being formulated;
- The existence of financial projections for two years after the current fiscal year as well as a five-year capital improvement plan, both of which are updated annually;
- A formal investment policy with monthly reporting of investment holdings and earnings to elected officials, and
- A formal fund balance policy that stipulates a minimum undesignated general fund balance to represent 10%-17% of the combined expenditures for general, special revenue, and enterprise funds.

The county's overall debt burden is moderate at \$2,305 per capita and 3.5% of equalized value. Debt service

typically represents a low 4%-8% of operating expenditures, and all of the county's debt is retired by 2019. Additional debt should be issued annually in accordance with the county's capital improvement program.

Outlook

The stable outlook reflects our expectation that the county will maintain its very strong financial operations as its economy continues to grow and diversify. However, we will continue to monitor the reductions in the general fund balance; if a structural imbalance ensues, this could affect the rating.

Additional Revenue Flexibility

A fair amount of the revenue-raising flexibility the county has is due to the county's decreasing property tax operating rate, which for fiscal 2010 provides \$7.1 million of unused levy under the county's 5.845-mill operating rate limit. The county also operates under a levy cap imposed by the state, which has been in place since 2005, but still has \$5.9 million of capacity under that limit.

A half-cent sales tax, which the county began to collect in April 2007, has generated about \$10 million annually since 2008, but the county's 2010 budget assumes a drop of 10% to \$8.8 million. The county budgets a portion of revenues generated from sales taxes for support of general fund operations, but all excess funds are used for capital projects.

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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