FITCH RATES LOUISVILLE-JEFFERSON COUNTY METRO GOVERNMENT'S (KY) $25.2MM BANS 'F1+'

Fitch Ratings-New York-16 November 2017: Fitch Ratings has assigned an 'F1+' rating to the following Louisville-Jefferson County Metro Government, KY bond anticipation notes (BANs):

--$25.2 million general obligation (GO) BANs series 2017A.

The 2017A notes are being issued to finance the costs of the acquisition and redevelopment of brownfields and adjacent properties in the Butchertown Stadium District Development Area. The notes are scheduled to sell competitively on Nov. 28 and will mature on Dec. 1, 2018.

In addition, Fitch has affirmed the following ratings:

--The metro government's Issuer Default Rating (IDR) at 'AAA';
--Approximately $498 million unlimited tax GO bonds at 'AAA';
--Approximately $37.4 million lease revenue refunding bonds, series 2007A, issued by the Jefferson County Capital Projects Corp., KY, at 'AA+'.

The Rating Outlook is Stable.

SECURITY
The bonds and notes are general obligations of the metro government, payable from an ad valorem tax on all taxable property within the metro government without limitation as to rate or amount. The lease revenue bonds are special obligations of the Jefferson County, Kentucky, Capital Projects Corporation, payable from appropriated lease rental payments received from the metro government.

ANALYTICAL CONCLUSION

The 'AAA' ratings reflect the metro government's low long-term liabilities, strong revenue and expenditure frameworks, and Fitch's expectation that the metro government will maintain a high level of financial flexibility throughout economic cycles. The one-notch distinction between the 'AAA' IDR and the 'AA+' special obligation rating reflects the slightly higher degree of optionality associated with the appropriation. The 'F1+' short-term rating corresponds to the metro government's 'AAA' IDR, supporting strong market access for the long-term debt that will take out the BANs.

Economic Resource Base
The city of Louisville and Jefferson County merged in January 2003 to form the combined metro government, replacing the former city and county governments. The metro government area, with a combined population of over 760,000, is the largest and wealthiest local government in the state.

KEY RATING DRIVERS

Revenue Framework: 'aa'
Fitch projects solid revenue growth below U.S. economic performance, but above the level of inflation. The metro government has a substantial degree of control to independently raise revenues.

Expenditure Framework: 'aa'
Growth in expenditures should continue to be roughly in line with revenue growth, while the metro government has a solid degree of flexibility to control its main expenditure items.

Long-Term Liability Burden: 'aaa'
The metro government's long-term liability burden, including overall debt and pension liability, is very low.

Operating Performance: 'aaa'
The metro government has the highest level of gap-closing capacity and is expected to manage through economic downturns while maintaining a strong level of fundamental financial flexibility.

RATING SENSITIVITIES
Financial Management: The 'AAA' rating is sensitive to ongoing budget management that maintains financial flexibility sufficient to address periods of economic downturn.

CREDIT PROFILE

Population gains and a relatively stable economic picture contributed to steady growth in property values over the past decade. While taxable assessed value was flat during the downturn, it returned to growth over the past several years, increasing 5.4% in fiscal 2017 and 5.6% in fiscal 2018. The unemployment rate historically trends lower than the state and national rate.

UPS is the area's leading employer, with over 20,000 employees. The healthcare, higher education and government sectors account for most of the remaining top employers in the diverse local economy. The manufacturing sector is also prominent, accounting for a greater percentage of total employment than the national average, which contributed to an elevated unemployment rate during the recession.

Revenue Framework
The metro government is largely reliant on a variety of occupational taxes, which include an employee withholdings tax, a net profits tax, and a tax on insurance premiums (a combined 57% of fiscal 2016 general fund revenue). The metro government's property tax levy accounts for approximately 22% of revenue.

The metro government's historical revenue growth has been at a rate below U.S. GDP, but slightly higher than inflation. Fitch believes that this level of growth is likely to continue given expected continued growth in the metropolitan area. Under Kentucky's House Bill 44 (H.B. 44), the property tax levy on existing property is limited to 4% increases, although new development is excluded from the cap. H.B. 44 also limits the metro government's downside risk, as the cap is only on the total levy and not the rate, allowing the metro government to keep property tax revenue constant year over year despite potential property value declines. The metro government has also seen solid growth in its various occupational taxes, which grew at a combined 5.6% rate in fiscal 2016 and 4% in fiscal 2017.

Fitch believes that the 4% levy cap, in conjunction with the government's ability to increase fees and other locally controlled revenues, leaves the metro government with a substantial ability to independently increase revenue. Property tax increases above 4% levy cap must be approved by voters as per H.B. 44.

Expenditure Framework
The metro government's main expenditure item is public safety (55% of fiscal 2016 general fund expenditures).

Expenditures have risen in line with revenues, leading to a strong trend of balanced operations. This rate of growth is expected to continue as the majority of growth is tied to labor force salary expenses, which are generally expected to increase with inflation. Unionized employees generally have cost of living compensation increases in their contracts. Elected officials have budgeted for some increases in public safety and other expenditures related to the opioid epidemic and an increasing homicide rate.

The metro government has a solid degree of flexibility with its main expenditure items. Carrying costs are moderate, with pension, other post-employment benefits, and debt service costs accounting for 14% of 2016 governmental fund expenditures.

The metro government also has a contingent liability on behalf of the Louisville Arena Authority to repay debt issued for the arena project. The agreement includes annual payments of $10.8 million from fiscal 2019 until the bonds are defeased. Management has consistently included and made required payments in annual budgets. Fitch does not expect the arena payments to impact annual budgetary balance.

Long-Term Liability Burden

Overall long-term liabilities are very low, with debt and unfunded pension liabilities at only 5% of personal income. About half of the total $1.9 billion liability burden is in the form of Fitch-adjusted unfunded pension liabilities. The metro government participates in the cost-sharing defined benefit County Employee Retirement System (CERS) and two single employer defined benefit plans for police and firemen, making 100% of the actuarially based contribution. Fitch calculates the combined adjusted ratio of assets to liabilities to be a low 49% assuming a 6% discount rate.

Operating Performance

The metro government has maintained a high level of available fund balance throughout the recession and subsequent recovery relative to potential revenue declines as depicted by the Fitch Analytical Sensitivity Tool (FAST) in a moderate economic downturn. Fitch expects that available general fund and capital project fund reserves (18.5% of expenditures in fiscal 2016 and no less than 15.7% of spending dating back to fiscal 2010) would remain well above the 'aaa' reserve safety margin level in a moderate recessionary period. Moreover, Fitch expects that the government would make use of its strong budget controls in response to revenue deterioration.

The metro government has made consistent efforts to maintain a high level of financial flexibility in the recent economic recovery. Management ended fiscal 2016 with $67.9 million of unassigned general fund balance, slightly higher than projected and in line with fiscal 2015. Management is further projecting to add $1 million to unrestricted general fund balance in fiscal 2017 and $500,000 in fiscal 2018.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria
U.S. Public Finance Short-Term Debt Rating Criteria (pub. 01 Nov 2017)
https://www.fitchratings.com/site/re/905637
U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017)
https://www.fitchratings.com/site/re/898466