FitchRatings

FITCH AFFIRMS LOUISVILLE-JEFFERSON COUNTY METRO GOVERNMENT, KY GOS AT 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-06 May 2013: Fitch Ratings has assigned an 'AAA' rating to the following Louisville-Jefferson County Metro Government, KY bonds:

--approximately $9.735 million general obligation (GO) bonds, series 2013A;
--approximately $19.6 million GO refunding bonds, series 2013B;
--approximately $0.9 million taxable GO refunding bonds, series 2013C;
--approximately $9.4 million GO refunding bonds, series 2013D.

The series A bonds will finance acquisition, construction and equipping of a new library branch. The series B, C and D bonds will fund several refunding transactions (details below). The bonds are expected to sell via competition May 30th.

In addition, Fitch affirms the following ratings:

--approximately $305.5 million unlimited tax general obligation (ULTGO) bonds at 'AAA';
--approximately $87.3 million lease revenue refunding bonds, series 2007A at 'AA+'.

The Rating Outlook is Stable.

SECURITY

The GO bonds are secured by the metro government's full faith and credit and its ad valorem taxing power, without limitation as to rate or amount. The lease bonds are payable solely from annual rentals paid by the metro government, subject to annual appropriation. Bondholders have a leasehold interest in a judicial and correctional facility located in downtown Louisville.

KEY RATING DRIVERS

RESILIENT LOCAL ECONOMY: The overall depth and diversity of the local economy is underscored by steadily growing employment levels which contribute to solid socioeconomic characteristics.

STABLE RESERVE LEVELS: The metro government has maintained satisfactory unreserved balances despite nominal operating deficits after transfers in recent years.

FAVORABLE DEBT POSITION: The debt burden is modest, amortization is rapid, and annual transfers for pay-go capital contribute to limited future borrowing plans.

RATING DISTINCTION FOR LEASE REVENUE BONDS: The one-notch rating distinction between the GO and the lease revenue bonds reflects the annual appropriation risk and the essential nature of the leased asset.

CREDIT PROFILE

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 700,000, is the largest and wealthiest in the state.

RESILIENT LOCAL ECONOMY

Population gains and the relatively stable economic picture contributed to steady growth in property values over the past decade. Gains in taxable value slowed during the recent economic downturn. Taxable value returned to modest growth of 0.9% in 2012 after experiencing a small decline of 1% in 2011.

United Parcel Service Inc. serves as the area's leading employer with over 20,000 employees. The health care, 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 may have contributed to the elevated unemployment rate during the recession.

Steady gains in employment, including significant additions at the recently reopened and re-tooled Ford Motor Company assembly plant (IDR of 'BBB-' with a Stable Outlook by Fitch), caused the January 2013 unemployment rate to drop to a moderate 8.2% from the elevated 9.7% recorded a year prior. The January rate is now below both the state (8.7%) and national (8.5%) rates.

STABLE RESERVE LEVELS

Financial performance has generally been stable, with modest annual draws on general fund balance recorded in recent years. The amount of the draws has been smaller than the amount transferred for pay-go capital, however, indicating a measure of expenditure flexibility. In FY12, the general fund operating deficit after transfers amounted to $342,000 or 0.06% of spending, while the transfer for pay-go capital exceeded $5 million.

Unrestricted general fund balance has remained solidly within the range of 10-15% of spending. The 12.3% of spending recorded in FY12 equaled the percentage recorded in FY11, which represented an increase over the 11.5% recorded in FY10.
The metro government's revenue stream is highly reliant upon the economically sensitive occupational tax, which amounts to approximately 53% of general fund revenues. Elevated unemployment levels during the recession led to impaired occupational tax collections, presenting a financial challenge, particularly in FY09 and FY10. Employment has been steadily expanding since the trough recorded in 2009, leading to 13 consecutive quarters of occupational tax growth. Occupational tax receipts had fully recovered from recessionary declines by FY12.

Property taxes, which account for roughly 23% of general fund revenues, declined modestly in concert with the dip in current collection rates to 96% in 2010 and the 1% assessed valuation (AV) decline in 2011. Fitch notes the rebound in collection rates back to 99% levels in 2011 and 2012, combined with a 0.9% increase in AV for 2012 should result in increasing property tax receipts.

Management is working with the state to study the idea of a local-option sales tax of up to 1%, which would be dedicated to voter-approved capital projects. This new revenue stream would require a state-wide constitutional amendment in order to be adopted, and could be on the ballot as soon as November of 2014.
Management has also focused on controlling expenditures, primarily through the elimination of more than 700 vacant positions and the use of mandatory and voluntary furlough days. The fiscal 2013 budget includes the appropriation of $3.3 million of reserves, similar to prior years' amounts. It also includes a limited attrition plan to modestly reduce headcount by 32 positions and no planned furlough days.

The metro government is considering whether or not to appeal a $6.2 million adverse judgment it received last week in connection with its firefighter pension litigation. It will set aside $6.2 million in assigned general fund balance for this purpose in 2013. This should not affect overall results for the fiscal year as an offsetting reduction in pay-go capital expense is planned.

FAVORABLE DEBT POSITION

The current issues will finance a new library branch (series A), as well as several refunding transactions. The series B bonds will advance refund a portion of the GO bonds, series 2004A and 2004B. The series C bonds will current refund the outstanding County of Jefferson, Kentucky GO refunding bonds, series 2000A (taxable). The series D bonds will current refund the outstanding

County of Jefferson, Kentucky GO refunding bonds, series 2002A. All of the refundings yield predominantly upfront savings in 2014 - 2016.

Overall debt burden remains low at $1,050 per capita and 1.0% of full market value. Amortization is rapid with nearly 70% of principal retired within 10 years.

The metro government's modest debt position is partially attributable to the use of annual capital transfers from operations ($5.9 million in FY12). No future borrowing is planned.

Most of the metro government's employees participate in the County Employees' Retirement System (CERS), a state-wide cost-sharing multi-employer plan. A smaller number of public safety employees participate in two single-employer (SE) plans, held over from before the merger of governments. Both SE plans combine for a weak 32% funding level when adjusted by Fitch to reflect a 7% discount rate. The unfunded actuarially accrued liability for both plans is equivalent to a modest 0.04% of full market value. The metro government meets its actuarially determined annual required contribution each year.

Other post-employment benefit (OPEB) costs are limited to a defined monthly stipend for retiree health care and no unfunded liability is recorded. Carrying costs for debt service, pension and OPEB amount to a manageable 22% of spending.

Contact:

Primary Analyst
Arlene Bohner
Director
+1-212-908-0554
Fitch Ratings, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Stephen Friday
Analyst
+1-212-908-0384

Committee Chairperson
Steve Murray
Senior Director
+1-512-215-3729

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors, Bond Counsel, Public Financial Management.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

Applicable Criteria and Related Research
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314