FITCH RATES LOUISVILLE-JEFFERSON COUNTY METRO GOVT, KY GOS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-30 October 2015: Fitch Ratings has assigned an 'AAA' rating to the following Louisville-Jefferson County Metro Government, KY bonds:

--Approximately $55.2 million tax-exempt general obligation (GO) bonds, series 2015A;
--Approximately $12.3 million taxable GO bonds, series 2015B.

Proceeds will finance various public projects including a new library branch; vehicle acquisition, installation and maintenance; and an affordable housing program. Bonds are expected to sell via competition Nov. 10.

In addition, Fitch affirms the following ratings:

--Approximately $270 million unlimited tax general obligation (ULTGO) bonds at 'AAA', specific series detailed at the end of this release;
--Approximately $42.8 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 GO bonds are supported 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 shown balanced operations and maintained satisfactory unreserved balances in recent years.

FAVORABLE DEBT POSITION: The debt burden is modest, amortization is rapid, and small 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.

RATING SENSITIVITIES
Inability to maintain structural balance and satisfactory reserve levels could pressure the ratings.

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 750,000, is the largest and wealthiest local government 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. Taxable value stagnated during the recent economic downturn. Taxable value returned to growth of 0.9% in 2012 and 5.4% in 2014 before dipping 2.2% in 2015. Strong permit and development activity is expected to support continued steady tax base growth.

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.

Unemployment rates have dropped to a moderate 5.4% in July 2015 from peaks of 10% over the past few years. The July 2015 rate is now slightly below the state (5.7%) and national (5.6%) rates.

STABLE RESERVE LEVELS

Financial performance has generally been stable, with balanced general fund operations recorded in recent years. Unrestricted general fund balance has remained solidly within the range of 10%-15% of spending, with 12.7% recorded in fiscal year (FY) 2014. Management projects another modest net general fund operating surplus and similar reserve levels for FY2015. The FY2016 budget includes a small fund balance appropriation of $450 thousand. Fitch expects continued structural budget balance given management's close controls, conservativeness and positive economic trends.

The metro government's revenue stream is highly reliant upon the economically sensitive occupational tax, which amounts to approximately 56.2% of 2014 general fund revenues. Occupational tax receipts had fully recovered from recessionary declines by FY2012 and increased a strong 6.6% in FY2013 and 2.9% in FY2014. Employee withholdings, which comprise the majority of occupational taxes, are reported to be up 6% in FY2015.

Property taxes are the second largest source of revenue, accounting for roughly 23% of general fund revenues. A 4.6% increase in assessed value for FY2016 triggered a tax rate rollback, consistent with the 4% growth cap on existing real property.

A proposal for a local-option sales tax to fund capital is scheduled to be considered by the state legislature in 2016. This new revenue stream would require a state-wide constitutional amendment in order to be adopted and also would require voter-approval.

FAVORABLE DEBT POSITION

Overall debt burden remains low at $948 per capita and 0.9% of market value. Amortization is rapid with 77% of principal retired within 10 years.

Future borrowing includes a roughly $120 million GO tax increment financing for a hotel project in the near term and a smaller approximately $20 million-$30 million borrowing for equipment and general capital in 2017.

In 2008, the metro government agreed to pay up to $309 million on behalf of the Louisville Arena Authority to repay debt issued for the project. The agreement includes annual minimum and maximum payments of $6.5 million and $10.8 million which vary through 2039. Management has consistently included required payments in annual budgets including the current year maximum of $9.8 million in FY2015. Fitch does not expect the arena payments to impact annual budgetary balance.

Most of the metro government's employees participate in the County Employees' Retirement System (CERS), a state-wide cost-sharing multi-employer plan. CERS' funded level is low at 59.8% and 62.6% for hazardous and non-hazardous duty employees, respectively. A smaller number of public safety employees participate in two single-employer (SE) plans, held over from before the merger of governments. The SE plans combine for a weak approximately 39.7% funding level in 2014, or an estimated 37.7% when adjusted by Fitch to reflect a 7% discount rate. The unfunded actuarially accrued liability for both plans is de minimis. 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 19% of total governmental spending.

Fitch affirms the 'AAA' ratings on the following series of metro government ULTGO bonds:

--GO bonds series 2006A;
--GO refunding bonds series 2009A;
--GO refunding bonds series 2009B;
--GO refunding bonds series 2009C (taxable);
--GO refunding bonds series 2009D (AMT);
--GO bonds series 2009E;
--GO bonds series 2009F (taxable);
--GO bonds series 2010;
--GO bonds (taxable QECB-direct pay) series 2010C;
--GO refunding bonds series 2010D;
--GO refunding bonds (taxable) series 2010E;
--GO bonds series 2013A;
--GO refunding bonds series 2013B;
--GO refunding bonds (taxable) series 2013C;
--GO refunding bonds series 2013D;
--GO bonds series 2014D;
--GO notes series 2014E;
--GO refunding bonds series 2014F.

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

Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to less than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by Jan. 20, 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

In addition to the sources of information identified in the applicable criteria specified below, this action was informed by information from CreditScope, IHS Global Insight, and Zillow Group.

Applicable Criteria
Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869942
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314