CORRECTION: FITCH RATES LOUISVILLE-JEFFERSON COUNTY METRO GOV. (KY) GOS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-07 September 2016: (This is a correction of a press release published on Sept. 1, 2016. It amends the amount of the series 2016 general obligation bonds and includes the $63.1 million general obligation bonds series 2016A, which was omitted from the original release.)

Fitch Ratings has assigned a 'AAA' rating to the following Louisville-Jefferson County Metro Government, KY obligations:

--$91.3 million general obligation (GO) bonds, series 2016
-- $63.1 million general obligation (GO) bonds, series 2016A

The 2016 bonds are being issued to refund the series 2015A Bond Anticipation Notes. The 2016A bonds are being issued to finance various capital projects within the metro government's 2016-17 capital project budget. The bonds are scheduled to sell competitively on September 13th.

In addition, Fitch has affirmed the following ratings:

--the metro government's Long-Term Issuer Default Rating (IDR) at 'AAA';
--Approximately $339.6 million unlimited tax general obligation (GO) bonds at 'AAA';
--Approximately $42.8 million lease revenue refunding bonds, series 2007A, issued by the Jefferson County Capital Projects Corp., KY, at 'AA+';
--Approximately $86.5 million tax-exempt GO bond anticipation notes (BANs) (center city project) series 2015A at 'F1+' (being refunded with the current issuance).

SECURITY

The bonds are a general obligation 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.

KEY RATING DRIVERS

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.

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 750,000, is the largest and wealthiest local government in the state.

Revenue Framework: 'aa' factor assessment

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' factor assessment
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' factor assessment
The metro government's long-term liability burden, including overall debt and pension liability, is very low.

Operating Performance: 'aaa' factor assessment
The metro government has exceptionally strong gap-closing capacity and is expected to maintain a high level of financial flexibility even during times of economic decline.

RATING SENSITIVITIES

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

Change in Economic Conditions: The 'AAA' rating is sensitive to changes in the local economy, particularly changes in the operations of United Parcel Service Inc. (UPS), which is the largest employer.

CREDIT PROFILE

Population gains and a relatively stable economic picture contributed to steady growth in property values over the past decade. While taxable property value was flat during the downturn, it returned to growth over the past several years, increasing 5.4% in FY 2017. 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 56% of FY 2015 general fund revenue). The metro government's property tax 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), property value increases are rolled back to a 4% growth limit, although new development is excluded from the cap, which caps the metro government's natural property tax revenue growth. 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 5.5% in FY 2016.

The metro government can increase the property tax levy by up to 4% annually. Increases above 4% must be approved by voters as per H.B. 44. Fitch believes that the 4% 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.

Expenditure Framework
The metro government's main expenditure items are for police (26% of FY 2015 general and debt service fund expenditures), corrections (8%), fire service (8%), and debt service (9%). The remainder is for various other general governmental services.

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 generally to increase with inflation, with unionized employees generally having 2.5% cost of living adjustments in their contracts and non-unionized employees typically receiving 2%.

Carrying costs are modest for the metro government, with pension, other post-employment benefits, and debt service costs accounting for only 15% of 2015 governmental fund expenditures. The metro government has budgeted several items in its FY 2017 budget that it could potentially have flexibility with, including $12.5 million to transfer to the capital projects fund, the hiring of 40 new firefighters, 122 new police recruits, and $1 million to add to available general fund balance.

The metro government also has a contingent liability of $309 million on behalf of the Louisville Arena Authority to repay debt issued for the arena project. The agreement includes annual maximum payments of $10.8 million through FY 2040. 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 4% of personal income. About $638 million of the total $1.4 billion liability burden is in the form of unfunded pension liabilities. No new direct debt is expected in the medium term.

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 47% assuming a 7% 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 depicted by the Fitch Analytical Sensitivity Tool (FAST) in a moderate economic downturn. Fitch expects that available general fund and capital project fund reserves (17.6% of expenditures in fiscal 2015 and no less than 15.7% of spending dating back to fiscal 2009) would remain well above the 'aaa' reserve safety margin level, even in an unaddressed 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 available reserves in the recent economic recovery. Management projects to end FY 2016 with $66.6 million of unassigned general fund balance, in line with FY 2015, and has budgeted to add an additional $1 million in FY 2017.

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Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/site/re/879478

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