Louisville-Jefferson County Metro Government, Kentucky

New Issue Report

Ratings

Issuer Default Rating	AAA

New Issues

$66,490,000 Tax-Exempt General Obligation Bonds, Series 2017A	AAA
$5,050,000 Taxable General Obligation Bonds, Series 2017B	AAA

Outstanding Debt

Special Obligation Bonds	AA+
General Obligation Bonds	AAA

Rating Outlook

Stable

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New Issue Summary

Sale Date: Oct. 10 via competitive sale.

Series: Tax-Exempt General Obligation Bonds, Series 2017A, and Taxable General Obligation Bonds, Series 2017B.

Purpose: 2017A bonds: to fund various capital projects and purchases. 2017B bonds: to finance affordable housing through the Louisville Creating Affordable Residences for Economic Success (CARES) program.

Security: General obligation.

Analytical Conclusion

The ’AAA’ ratings reflect the metro government’s low long-term liabilities and strong revenue and expenditure frameworks, as well as Fitch Ratings’ expectation that the government will maintain a high level of financial flexibility through economic cycles. The one-notch distinction between the ’AAA’ Issuer Default Rating (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 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.

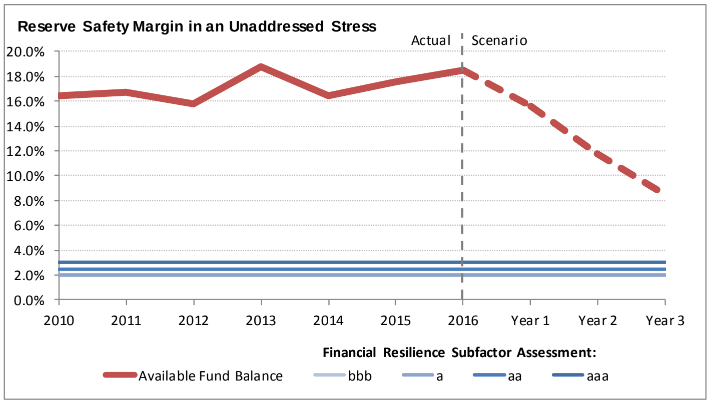
Rating Sensitivities

Financial Management: The ratings are sensitive to ongoing budget management that maintains financial flexibility sufficient to address periods of economic downturn.

Louisville-Jefferson County Metro Government (KY)

Scenario Analysis

v. 2.0 2017/03/24



Analyst Interpretation of Scenario Results:

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 (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.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(1.0%)	1.1%	2.4%
Inherent Budget Flexibility	High		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2010	2011	2012	2013	2014	2015	2016	Year 1	Year 2	Year 3
Total Revenues	558,555	574,962	584,778	596,655	606,982	648,714	675,954	669,194	676,308	692,796
% Change in Revenues	-	2.9%	1.7%	2.0%	1.7%	6.9%	4.2%	(1.0%)	1.1%	2.4%
Total Expenditures	516,801	526,330	534,740	531,950	557,864	570,909	606,353	618,480	630,849	643,466
% Change in Expenditures	-	1.8%	1.6%	(0.5%)	4.9%	2.3%	6.2%	2.0%	2.0%	2.0%
Transfers In and Other Sources	47,628	14,297	3,866	9,202	2,128	2,558	3,101	3,070	3,103	3,179
Transfers Out and Other Uses	95,572	67,286	54,246	73,462	48,108	66,878	70,206	71,611	73,043	74,504
Net Transfers	(47,944)	(52,989)	(50,380)	(64,259)	(45,979)	(64,321)	(67,105)	(68,540)	(69,940)	(71,325)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	(6,190)	(4,357)	(342)	446	3,138	13,484	2,496	(17,826)	(24,481)	(21,995)
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	(1.0%)	(0.7%)	(0.1%)	0.1%	0.5%	2.1%	0.4%	(2.6%)	(3.5%)	(3.1%)
Unrestricted/Unreserved Fund Balance (General Fund)	70,190	73,117	72,728	73,140	76,684	90,614	99,129	81,304	56,822	34,827
Other Available Funds (Analyst Input)	30,532	26,138	20,020	40,353	22,804	21,451	26,225	26,225	26,225	26,225
Combined Available Funds Balance (GF + Analyst Input)	100,722	99,255	92,748	113,493	99,488	112,065	125,355	107,529	83,047	61,052
Combined Available Fund Bal. (% of Expend. and Transfers Out)	16.4%	16.7%	15.7%	18.7%	16.4%	17.6%	18.5%	15.6%	11.8%	8.5%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	9/29/17
AAA	Revised	Stable	4/30/10
AA+	Assigned	Stable	1/8/04

Related Research

Fitch Rates Louisville-Jefferson County Metro Government (KY) GO Bonds 'AAA'; Outlook Stable (September 2017)

Related Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2017)

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 area's unemployment rate has historically trended 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 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 ongoing 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. The cap limits 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 5.6% in fiscal 2016 and 4.0% 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 the 4% levy cap must be approved by voters, 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 2.5% compensation increases in their contracts and non-unionized employees typically receive 2.0%. 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 with an original amount of $309 million on behalf of the Louisville Arena Authority to repay debt issued for the arena project. The agreement includes maximum 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 affect 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 one-half of the total $1.9 billion liability burden is in the form of Fitch-adjusted 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 49%, assuming a 6% discount rate.

Operating Performance

The metro government has maintained a high level of available fund balance through the recession and subsequent recovery relative to potential revenue declines depicted by the Fitch Analytical Sensitivity Tool (FAST) in a moderate economic downturn. For details, see Scenario Analysis, page 2.

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 further projects to add $1 million to unrestricted general fund balance in fiscal 2017, and $500,000 in fiscal 2018.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.