

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

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.

Rating Outlook

Stable

Analysts

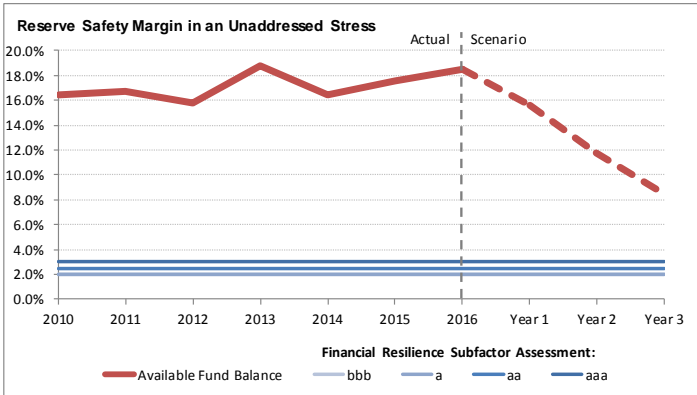
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Louisville-Jefferson County Metro Government (KY)

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 |

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

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 \(May 2017\)](#)

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.

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