MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 rating to Louisville-Jefferson County Metro Govt.'s (KY) General Obligation Bonds Series 2013A, Series 2013B, Series 2013C, and Series 2013D; outlook revised to negative

Global Credit Research - 15 May 2013

Aa1 rating and negative outlook affects $239.3 million in Moody's-rated outstanding parity debt

LOUISVILLE & JEFFERSON COUNTY METROPOLITAN GOVERNMENT, KY
Counties
KY

Moody's Rating

ISSUE		RATING
General Obligation Refunding Bonds, Series 2013B		Aa1
Sale Amount	$18,340,000	
Expected Sale Date	05/30/13	
Rating Description	General Obligation	
General Obligation Refunding Bonds, Series 2013C		Aa1
Sale Amount	$710,000	
Expected Sale Date	05/30/13	
Rating Description	General Obligation	
General Obligation Refunding Bonds, Series 2013D		Aa1
Sale Amount	$9,165,000	
Expected Sale Date	05/30/13	
Rating Description	General Obligation	
General Obligation Bonds, Series 2013A		Aa1
Sale Amount	$9,830,000	
Expected Sale Date	05/30/13	
Rating Description	General Obligation	

Moody's Outlook NEG

Opinion

NEW YORK, May 15, 2013 --Moody's Investors Service has assigned a Aa1 rating on Louisville-Jefferson County Metropolitan Government's (KY) $9.8 million General Obligation Bonds, Series 2013A, $18.3 million General Obligation Refunding Bonds, Series 2013B, $710,000 Taxable General Obligation Refunding Bonds, Series 2013C, and $9.2 million General Obligation Refunding Bonds, Series 2013D. Concurrently, we have affirmed the Aa1 rating on the city's $201.3 million in outstanding parity debt. The city has approximately $41.6 million in outstanding parity debt that is not rated by Moody's, but is included in our analysis. Proceeds from the Series 2013A bonds will fund the construction of a new southwest library facility. Proceeds from the Series 2013B, Series 2013C, and Series 2013D bonds will refund certain maturities of the city's outstanding general obligation debt for an estimated net present value savings of 10% of refunded bonds and will not extend the original maturity.

SUMMARY RATING RATIONALE

The bonds are direct general obligations of Louisville-Jefferson County Metropolitan Government (KY) and the full faith, credit, and taxing power of Louisville-Jefferson Metropolitan Government are irrevocably pledged for the prompt payment of the principal of, premium, if any, and interest on the bonds. The bonds are payable from taxes levied on all taxable property of Louisville-Jefferson Metropolitan Government without limitation as to rate or amount. The Aa1 rating reflects the city's sizable tax base, below average socioeconomic profile, narrow reserve levels, and modest debt burden without plans for additional near term borrowing. The negative outlook reflects a general trend of weakening reserve levels coupled with the anticipated reduction of the city's unassigned General Fund balance in fiscal 2013.

STRENGTHS

*Sizable tax base, regional economic center

*Modest debt burden

CHALLENGES

*Narrow financial reserves, below median for current rating category

*Dependence on economically sensitive revenue sources

DETAILED CREDIT DISCUSSION

SIZABLE TAX BASE EXHIBITS MODEST GROWTH

Louisville-Jefferson County Metropolitan Government is a merged city/county form of government and a major regional economic center with a diverse economy, based in manufacturing, healthcare, and financial and other professional services. Louisville-Jefferson County Metro Government's assessed values increased to $62.6 billion in fiscal 2013, a 1.5% increase over the prior year with recent tax base expansion spurred by growth in the manufacturing sector. Large employers in the Louisville-Jefferson County Metro area include United Parcel Service Incorporated (Aa3/stable; 19,219 employees), Humana Incorporated (Baa3/stable; 11,000 employees), Ford Motor Company (Baa3/stable; 8,696 employees), and General Electric Company (Aa3/stable; 5,000 employees). Additional large institutional employers within and adjacent to Louisville-Jefferson County Metro Government include Fort Knox (23,000 employees), Jefferson County School District Finance Corporation (lease revenue rated Aa2/negative), and the University of Louisville (revenue rated Aa2/stable). Officials anticipate fiscal year 2014 values will grow 1.5% to 2.0%. The March 2013 Moody's Economy report anticipates the economic recovery of Louisville-Jefferson County Metro and the greater Louisville Metropolitan Statistical Area will be modest over the next few months but will gain traction by mid-2013 with healthcare and local government fueling expansion. Longer term growth, despite low business costs and the presence of a large research university driving payroll growth in the life sciences, will closely track the U.S. average due to below average household income, an inability to retain university graduates, and an outsized dependence on manufacturing. Wealth indicators for Jefferson County are slightly below average with American Community Survey data indicating per capita and median family income levels equivalent to 97.2% and 94.6% of national averages, respectively. Unemployment for the county was 8.3% in March 2013, slightly below the state (8.6%) and the above the nation (7.6%) for the same period. We believe Louisville-Jefferson County Metro Government's tax base will continue to expand at a modest pace over the near term.

GENERAL FUND BALANCE EXPECTED TO REMAIN NARROW WITH EXPECTED USE OF RESERVES IN FISCAL 2013

Louisville-Jefferson County Metro Government drew down reserves a cumulative $10.9 million from fiscal year-end 2010 to fiscal year-end 2012, resulting in a total General Fund balance of $74.9 million (a narrow 12.7% of revenue), of which $62.4 million was unassigned, or a more limited 10.6% of revenue. Fiscal 2012 General Fund revenues were $23.6 million below budget, net of approximately $32.4 million of inter-agency receipts collected by the Louisville-Jefferson County Metro Revenue Commission which fund General Fund operations, but are excluded from the fund financial statements. Metro Government's occupational license tax receipts were approximately 7.8% over final budget and property tax revenues were approximately 3% under final budgeted levels. Fiscal 2012 General Fund expenditures were approximately $73.5 million below budget, net of $20.1 million in debt service that is actually reported below the line as a transfer out to the Debt Service Fund. Actual General Fund expenditures were below budget largely due to controlled departmental spending. Fiscal 2012 General Fund operations were largely supported by occupational license taxes (53.0%), an economically sensitive revenue source consisting of local payroll taxes and business net profits taxes, as well as property taxes (23%).

The Metro Government incurred a one-time settlement related to firefighter overtime pay in calendar 2012. Initially, management anticipated satisfying the settlement in fiscal 2012; however, the $7 million settlement was accrued on July 1, 2012 and will therefore be reflected in the forthcoming fiscal 2013 audited financial reports. Management anticipates ending fiscal 2013 with an estimated $58.9 million unassigned General Fund balance, a narrower 10.0% of fiscal 2012 total General Fund revenues and a $3.5 million decline from the prior year's unassigned General Fund balance. In addition to the $7 million settlement related to firefighter overtime pay rendered in calendar 2012, Metro Government incurred an additional $6.2 million judgment in April 2013 related to firefighter overtime pay and management reports the Louisville Arena Authority has contacted Metro Government requesting the government contribute the maximum $9.8 million payment to the authority for debt service on the bonds issued for construction of an arena in downtown Louisville. Pursuant to the ordinance, the city is required to make a minimum $6.5 million payment to the authority on an annual basis, but, if asked by the authority, shall contribute up to $9.8 million annually through fiscal 2019. From fiscal 2020 through fiscal 2029, the Metro Government's minimum payment increases to $7.2 million and the maximum payment increases to $10.8 million. Metro Government annually budgets the minimum payment due to the authority and is informed on or before October 1 of each year whether the minimum or maximum payment will be required. This is the first occurrence the authority has sought the additional $3.3 million from the Metro Government, but management indicates it will be asked to contribute the maximum payment in fiscal 2014, as well. Through the end of March 2013, Metro Government spent approximately 71.4% of budgeted General Fund expenditures (inclusive of expenditures funded through inter-agency receipts) and collected approximately 77% of budgeted General Fund revenues (net of inter-agency receipts) reflecting a 5.2% increase from March 2012 revenue collections. Management indicates that favorable revenue collections in excess of budget, coupled with controlled departmental spending, will enable the Metro Government to pay the firefighter overtime judgment and the $3.3 million additional payment to the arena authority. We believe Metro Government's narrow General Fund reserves, which are below the median for the current rating category, are a credit weakness and note a continued use of reserves may lead to downward pressure on the rating.

MODEST DEBT BURDEN EXPECTED TO CONTINUE GIVEN LACK OF ADDITIONAL NEAR TERM BORROWING

Louisville-Jefferson County Metro Government's debt burden is modest with a direct debt burden of 0.5% (1.1% overall), expressed as a percentage of fiscal year 2013 assessed valuation. Payout of principal is rapid with 74.9% of principal repaid in ten years. The Metro Government does not have any outstanding variable-rate debt and is not party to any derivative agreements. The Metro Government, through the Jefferson County Capital Projects Corporation, has two series of outstanding lease revenue bonds, Series 1992A and Series 2007A. Approximately 98% of the annual debt service on the Series 2007A bonds is paid by the Commonwealth of Kentucky's (lease revenue rated Aa3/negative) Administrative Office of the Courts and is excluded from the Metro Government's debt burden. In addition, approximately $98 million in lease revenue bonds issued by the Louisville Parking Authority, ultimately secured by an annual appropriation by the Metro Government, but historically supported from operating revenues from the authority's parking facilities and meters are also considered self-supporting and excluded from the Metro Government's debt burden. Officials indicate no plans to issue additional debt in the near term. We believe the Metro Government's debt profile will remain manageable in the near term given the lack of plans for additional near term borrowing.

OUTLOOK

The negative outlook reflects a general trend of weakening reserve levels coupled with the anticipated reduction of the city's unassigned General Fund balance in fiscal 2013.

WHAT COULD MAKE THE RATING GO - UP

*Significant tax base expansion coupled with improved socioeconomic indices

*Trend of operating surpluses yielding bolstered financial reserves

WHAT COULD MAKE THE RATING GO - DOWN

*Continued erosion of financial reserves

*Significant tax base contraction

*Substantial increases in debt burdens absent corresponding tax base growth

KEY STATISTICS

FY 2013 Assessed Valuation: $62.6 billion

FY 2013 Assessed Value Per Capita: $83,784

Direct Debt Burden: 0.5%

Overall Debt Burden: 1.1%

Principal Payout (10 years): 74.9%

FY 2012 Total General Fund balance: $74.9 million (12.7% of revenues)

FY 2012 Unassigned General Fund balance: $62.4 million (10.6% of revenues)

Post-sale total GOULT debt outstanding: $280.9 million

RATING METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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