

# MOODY'S

## INVESTORS SERVICE

### New Issue: Moody's revises outlook to stable on Louisville & Jefferson Co. Metro Govt, KY; assigns Aa1 to \$50M GO offerings

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Global Credit Research - 05 Nov 2014

LOUISVILLE & JEFFERSON COUNTY METROPOLITAN GOVERNMENT, KY  
Counties  
KY

#### Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series 2014D	Aa1
<b>Sale Amount</b>	\$11,130,000
<b>Expected Sale Date</b>	11/12/14
<b>Rating Description</b>	General Obligation
General Obligation Notes, Series 2014E	Aa1
<b>Sale Amount</b>	\$19,965,000
<b>Expected Sale Date</b>	11/12/14
<b>Rating Description</b>	General Obligation
General Obligation Refunding Bonds, Series 2014F	Aa1
<b>Sale Amount</b>	\$19,330,000
<b>Expected Sale Date</b>	11/12/14
<b>Rating Description</b>	General Obligation

**Moody's Outlook** STA

#### Opinion

NEW YORK, November 05, 2014 --Moody's Investors Service has revised the outlook to stable from negative on Louisville & Jefferson County Metropolitan Government, KY ("Louisville Metro") and assigned a Aa1 rating to Louisville Metro's \$11.1 million General Obligation Bonds, Series 2014D, \$19.9 million General Obligation Notes, Series 2014E, and \$19.3 million General Obligation Refunding Bonds, Series 2014F. We have affirmed the Aa1 rating on Louisville Metro's \$245.7 million of outstanding GO bonds, including the refunded bonds. Proceeds from the current offerings will fund various capital improvements, equipment purchases, and refund certain maturities of Louisville Metro's Series 2006A GO bonds for an estimated 5% net present value savings. The GO bonds and notes are direct obligations of Louisville Metro and secured by its full faith, credit, and taxing power. The bonds are payable from taxes levied on all taxable property within Louisville Metro without limitation as to rate or amount.

We have also affirmed the Aa2 rating on the Louisville Parking Authority's (River City), KY \$88 million of outstanding lease revenue bonds and revised the outlook on the authority to stable. The lease revenue bonds are ultimately secured by Louisville Metro's obligation to make payments equal to annual debt service on the bonds.

#### SUMMARY RATING RATIONALE

The Aa1 rating reflects Louisville Metro's large and regionally significant tax base, average socioeconomic profile, narrow yet stable operating reserves, and manageable debt burden with plans for additional near term borrowing.

The Aa2 rating reflects the risk of non-payment from Louisville Metro, the authority's stable financial metrics, significant market share of downtown parking, and satisfactory legal provisions.

## OUTLOOK

Revision of the outlook to stable reflects our expectation Louisville Metro's financial operations will remain balanced and operating reserve levels will continue to stabilize in the near term given management's goal and demonstrated willingness to improve unassigned General Fund reserves.

## STRENGTHS

- Diverse, regionally significant economy
- Sizable tax base and institutional presence from the University of Louisville
- Growing General Fund revenues, stabilizing financial operations
- Manageable debt profile

## CHALLENGES

- Narrow reserves for the current rating category, dependence on economically sensitive revenues
- Presence of collective bargaining units
- Above average pension burden

## DETAILED CREDIT DISCUSSION

### OPERATING RESERVES STABILIZE IN FY 2013; BALANCED OPERATIONS EXPECTED TO CONTINUE IN THE NEAR TERM

After four consecutive years of operating deficits, revenue growth from improving economic conditions stabilized Louisville Metro's General Fund financial operations in fiscal 2013. General Fund revenues grew 3% from the prior year to \$605.9 million, enabling Louisville Metro to absorb \$13.7 million of non-recurring legal expenses, contribute the maximum \$9.8 million to the Louisville Arena Authority, and increase its available General Fund balance by \$446,000. At fiscal year-end 2013, Louisville Metro's available General Fund balance improved to \$73.1 million, or 12.1% of revenues. The unassigned balance decreased to \$60.9 million to reflect a smaller 10.1% of revenues. Although Louisville Metro's available General Fund balance relative to annual revenues remains below average for the rating category (12.1% of General Fund revenues), realization of structurally balanced operations in fiscal 2013 is key to the outlook revision to stable. Additionally, we expect continued revenue growth and management's explicit commitment to improve unassigned General Fund reserves will yield stable financial operations in the near term.

Improving labor market conditions led a 6.6% increase of occupational license tax revenues in fiscal 2013, Louisville Metro's primary revenue source (55% of fiscal 2013 General Fund revenues), totaling \$332.6 million. Property tax revenues increased 8.2% from the prior year to \$146.4 million from a 5.4% increase of assessed values. Recurring General Fund expenditures remained relatively stable from the prior year. Although public safety accounts for the largest proportion of operating expenditures, management kept police and fire expenses constant in fiscal 2013.

Unaudited fiscal 2014 results indicate further improvement of General Fund reserves supported by continued General Fund revenue growth. Management anticipates ending fiscal 2014 with a total General Fund balance of \$78.6 million, or an improved 12.9% of fiscal 2013 revenues. Projected unassigned General Fund balance is \$62.5 million, a \$1.5 million increase from the prior year, and an improved 10.3% of fiscal 2013 revenues.

The adopted fiscal 2015 General Fund budget is structurally balanced and given revised revenue and expenditure projections, as well as the maximum \$9.8 million contribution to the Louisville Arena Authority, management expects to increase unassigned General Fund reserves to \$63 million at year-end 2015. The Louisville Metro Council implemented a new 2% franchise fee on natural gas customers located within the urban services district and the unincorporated areas of Louisville Metro. The fee is expected to generate \$3 million of new revenue (\$3.6 million of total annual revenue) and will fund an additional 24 police officers. There are 25 collective bargaining units in Louisville Metro and the contract terms for the largest bargaining units (police and fire) are fixed through fiscal 2018. Annual cost increases of the bargaining agreements do not exceed management's projected revenue growth. This is an important consideration for the outlook revision because it adds predictability to a portion of Louisville Metro's largest recurring operating expenditure - personnel. Additional cost savings are expected from

Louisville Metro's favorable negotiation to provide new police personnel hired after July 1, 2014 the same level of insurance benefits as non-public safety/general government personnel.

#### LARGE TAX BASE, IMPROVING ECONOMIC CONDITIONS FOR REGIONALLY SIGNIFICANT ECONOMY

We expect Louisville and Jefferson County Metropolitan Government's ("Louisville Metro") tax base will remain stable in the near term. We anticipate assessed values will continue increasing in the near term given ongoing residential and commercial building activity. Louisville Metro is a merged city/county form of government and a major regional economic center supported by manufacturing, healthcare, and professional services. The University of Louisville (Aa3 stable) provides institutional stability to the region, as well. Louisville Metro's assessed values grew 0.8% annually over the last five years to \$76.5 billion in fiscal 2014 (including values within the metro area and the Urban Service District). Assessed values of Time Warner Cable, Inc. (Baa2 ratings under review for possible upgrade) and Louisville Gas & Electric Company (A3 stable) are excluded from Louisville Metro's 2014 AV because they are under review by the county property valuation administrator and Kentucky Public Service Commission pending their respective merger/acquisition in the last year. We anticipate new residential and commercial development, as well as market value appreciation to offset potentially lower reassessment of Time Warner and LG & E property values. Louisville Metro issued 1,091 residential construction permits as of December 2013, which reflects a 5.6% increase from the prior year. Total permit values increased 34.8% from the prior year to \$793.4 million at the end of December 2013.

Ford Motor Company (Baa3 stable) and the General Electric Company (Aa3 stable) are among Louisville Metro's largest private sector employers and employed more than 15,000 individuals in 2014. Increasing consumer demand for manufactured goods supported Louisville Metro's economic recovery in recent years. Ford and GE, among others, expanded their respective production facilities and added employees in 2012 and 2013. While manufacturing employment leveled off during the last year, implementation of the Affordable Care Act is expected to spur healthcare sector employment in the near term given the volume of unemployed or underemployed individuals in Kentucky and presence of large healthcare providers in the Louisville Metro area.

Jefferson County's population reached 750,828 residents per 2012 US Census estimates, representing a 1.3% increase from the 2010 US Census. Despite its large population, resident wealth levels are average with median family income equal to 95% of the US average, per 2012 American Community Survey data. Louisville Metro's rate of unemployment declined annually since 2010 to 6.4% as of August 2014 and supported by growing a labor force.

#### DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE IN NEAR TERM DESPITE PLANS FOR ADDITIONAL BORROWING

We expect Louisville Metro's direct debt burden of 0.4% of fiscal 2014 assessed valuation and 0.54 times fiscal 2013 operating revenues will remain manageable in the near term, despite plans for additional near term borrowing for deferred maintenance and various capital improvements. The debt profile incorporates state support for 98% of annual debt service on the Series 2007A lease revenue bonds, as well as \$88 million of lease revenue bonds issued by the Louisville Parking Authority. The parking authority debt is ultimately secured by annual appropriation by Louisville Metro, but operating revenues of the authority have yielded sum-sufficient debt service coverage. Principal payout is above average with 77.9% of principal retired in 10 years. Louisville Metro does not have any outstanding variable-rate debt and is not party to any derivative agreements.

#### ABOVE AVERAGE PENSION BURDEN

Louisville Metro administers closed single-member pension plans for police officers and firefighters, as well as participates in the Kentucky County Employees' Retirement System ("CERS"; a multi-employer cost sharing plan administered by the Commonwealth of Kentucky). We have excluded the liabilities of Louisville Metro's component units from our calculation of Louisville Metro's adjusted net pension liability (ANPL) of the KY CERS.

Louisville Metro's ANPL of the three plans totaled \$1.3 billion at fiscal-year end 2013 and an above average 2.11 times fiscal 2013 operating revenues and 1.63% of fiscal 2014 assessed valuation. The three-year average ANPL totaled \$1.2 billion or 2.0 times fiscal 2013 operating revenues. Although, Louisville Metro's ANPL is above average we expect its pension burden will be manageable given operating budget flexibility from revenue growth and recent changes to the KY County Employees' Retirement System. New participants to the KY CERS will participate in a hybrid defined benefit/defined contribution plan and is expected to reduce employers' pension burden over a long term horizon.

Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported contribution information, or the reported liability

information of the statewide cost-sharing plans, but to improve comparability with other rated entities. For more information on Moody's insights on employee pensions and the related credit impact on companies, governments, and other entities across the globe please visit Moody's on Pension at [www.moody.com/pensions](http://www.moody.com/pensions).

#### LOUISVILLE PARKING AUTHORITY'S STABLE FINANCIAL METRICS, SIGNIFICANT SHARE OF OFF-STREET PARKING CONTINUES IN FY 2013

The Louisville Parking Authority (River City) was established in 1966 by the City of Louisville to facilitate construction of downtown parking facilities as an economic development initiative. Post-merger of the City of Louisville and Jefferson County, the authority functions as an instrumentality of Louisville Metro and the authority's Board of Commissioners includes Louisville Metro's chief financial officer (CFO). The authority also relies on Louisville Metro's financial and human resource systems. Continuation of the authority's direct relationship with Louisville Metro, stable financial metrics, and significant share of available downtown parking are key considerations for the Aa2 rating. The direct relationship reduces the likelihood of non-renewal of the lease agreement and non-payment by Louisville Metro, if parking revenues are insufficient to meet annual debt service requirements.

The authority operates 14 parking garages and six surface lots throughout downtown Louisville, representing approximately 55% of available off-street parking. In addition, substantially all available curbside parking in downtown is metered, and these revenues are additionally pledged. The authority's debt continues to be self-supported from parking revenues, as fiscal 2013 net revenue provided 1.07 times annual debt service coverage and 0.95 times projected coverage of maximum annual debt service (MADS).

Legal provisions under the master trust indenture provide satisfactory bondholder protection. Louisville Metro is obligated to make debt service payments if adequate funds are not on deposit with the trustee in the debt service or debt service reserve funds 15 days prior to a debt service payment date. The debt service reserve is funded at MADS and is cash-funded. Draws on the debt service reserve fund must be replenished in five years. The lease agreement is annually terminable and automatically renewable absent written notification of non-renewal from Louisville Metro 60 days prior to expiration of the lease agreement. Additional bondholder security is provided by a leasehold interest in the authority's parking facilities.

#### KEY STATISTICS

Assessed Value (Full Value), Fiscal 2014: \$76.5 billion

Assessed Value (Full Value) Per Capita, Fiscal 2014: \$101,938

Median Family Income as % of US Median (2012 American Community Survey): 95.0%

Fund Balance as % of Revenues, Fiscal 2013: 9.60%

5-Year Dollar Change in Fund Balance as % of Revenues: -4.40%

Cash Balance as % of Revenues, Fiscal 2013: 12.13%

5-Year Dollar Change in Cash Balance as % of Revenues: 1.25%

Institutional Framework: "A"

5-Year Average Operating Revenues / Operating Expenditures: 0.99x

Net Direct Debt as % of Assessed Value: 0.43%

Net Direct Debt / Operating Revenues: 0.54x

3-Year Average ANPL as % of Assessed Value: 1.57%

3-Year Average ANPL / Operating Revenues: 2.00x

The principal methodology used in the General Obligation rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the Lease backed debt was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

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