

# MOODY'S

## INVESTORS SERVICE

### New Issue: Moody's assigns Aa1 to Louisville & Jefferson Co. Metro Gov., KY's \$67.5M GO bonds; outlook stable

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Global Credit Research - 02 Nov 2015

#### Affirms Aa1 on \$237M rated GO debt

LOUISVILLE & JEFFERSON COUNTY METROPOLITAN GOVERNMENT, KY  
Counties  
KY

#### Moody's Rating

ISSUE		RATING
Taxable General Obligation Bonds, Series 2015B		Aa1
<b>Sale Amount</b>	\$12,290,000	
<b>Expected Sale Date</b>	11/11/15	
<b>Rating Description</b>	General Obligation	
General Obligation Bonds, Series 2015A		Aa1
<b>Sale Amount</b>	\$55,165,000	
<b>Expected Sale Date</b>	11/11/15	
<b>Rating Description</b>	General Obligation	

#### Moody's Outlook STA

NEW YORK, November 02, 2015 --Moody's Investors Service has assigned a Aa1 rating to Louisville & Jefferson County Metropolitan Government, KY's \$55.2 million General Obligation Bonds, Series 2015A and \$12.3 million Taxable General Obligation Bonds, Series 2015B. Concurrently, we have affirmed the Aa1 rating on \$237 million of outstanding general obligation debt. The outlook remains stable.

#### SUMMARY RATING RATIONALE

The Aa1 rating reflects Louisville & Jefferson County Metropolitan Government's ("Louisville Metro") large and growing regionally significant tax base, average income levels, stable financial position, improving yet still narrow operating reserves, above average debt profile including an elevated pension burden, and plans for additional borrowing in the near term.

#### OUTLOOK

The stable outlook reflects our view that Louisville Metro's base will remain stable in the near term, as well as our expectation that management will continue to maintain adequate reserves and liquidity.

#### WHAT COULD MAKE THE RATING GO UP

- Multi-year trend of surplus financial operations resulting in a material improvement of operating reserves
- Significant tax base expansion coupled with improved socioeconomic profile
- Substantial reduction of fixed cost burden

#### WHAT COULD MAKE THE RATING GO DOWN

- Reduction of operating reserves or inability to improve reserve levels in line with revenue growth

- Increased fixed cost burden from additional borrowing or further elevation of pension burden
- Material contraction of the tax base
- Significantly weakened socioeconomic profile

#### STRENGTHS

- Large, regionally significant tax base
- Institutional presence from the University of Louisville

#### CHALLENGES

- Below average operating reserves for the rating category
- Exposure to economically sensitive revenue
- Above average debt and elevated pension burden
- Plans for additional borrowing in the near term

#### RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

#### DETAILED RATING RATIONALE

##### ECONOMY AND TAX BASE: GROWTH CONTINUES FOR LARGE, REGIONALLY SIGNIFICANT TAX BASE

We expect Louisville Metro's large \$78.7 billion tax base will remain stable in the near term. Ongoing residential development, primarily in the eastern portion of Jefferson County, as well as strong commercial development throughout Louisville Metro will support moderate growth of full valuation during the next several years. Louisville Metro is a merged city/county form of government approved by voters and created in 2003. Louisville Metro's full valuation grew an average 1.1% annually over the last five years to \$78.7 billion in fiscal 2015, which includes values within the Metro Area and Urban Services District. The tax base is regionally important as many individuals commute from adjacent counties and southern Indiana for employment. The local economy is supported by manufacturing, healthcare, and professional services. The University of Louisville (Aa3 stable) provides institutional stability to the region, as well. Ford Motor Company (Baa3 stable) and the General Electric Company (A1 stable) are among Louisville Metro's largest manufacturing employers (combined workforce of approximately 14,000 in 2014). Although its surging manufacturing sector continues to support economic growth, implementation of the Affordable Care Act has led to strong employment growth in the healthcare and professional services sectors given the presence of several large healthcare-related firms, including Humana Inc. (senior unsecured Baa3, rating under review; approximately 11,000 employees) and Norton Healthcare (10,000 employees).

Louisville Metro issued 1,203 residential construction permits from January 2014 through December 2014, a 10.2% increase from the prior year. Total permit value increased 51.2% from the prior year to \$1.1 billion at the end of December 2014. Top 10 property taxpayers account for a limited 4.9% of 2015 full valuation, with Louisville Gas & Electric Company (A3 stable) representing the largest taxpayer.

Since 2000, Jefferson County's population grew 6.8% to 741,096 residents as of the 2010 US Census. Current estimates indicate a population of 756,832 residents. Resident income levels are average with median family income equal to 95.2% of the US. However, full value per capita is below average for the rating category at \$106,045. Jefferson County's unemployment rate has declined annually since 2010 to 5.3% as of July 2015, supported by its growing labor force, and is below both state and national medians of 5.6%.

##### FINANCIAL OPERATIONS AND RESERVES: INCREASING RESERVES PROVIDE STABLE FINANCIAL POSITION; BALANCED OPERATIONS EXPECTED IN THE NEAR TERM

Louisville Metro's financial position will remain stable in the near term as expanding economic conditions continue to drive revenue growth and management continues to control spending. After a multi-year trend of operating deficits for various one-time expenditures, increasing revenues and limited growth of expenditures led to balanced operations in fiscal 2013 and fiscal 2014. Fiscal 2014 General Fund revenues grew 0.5% from the prior year to \$609.1 million, resulting in a \$3.1 million operating surplus and an available General Fund balance of \$76.7 million,

or 12.6% of revenues. The unassigned balance increased to \$62.5 million or an improved, yet still limited 10.3% of revenues. Operating revenues consist of occupational license taxes (56.2% of fiscal 2014 General Fund revenues) and property taxes (23% of revenues). Improving labor market conditions led to a 2.9% increase of occupational license tax revenues in fiscal 2014 and partially offset a 4.3% reduction of property tax revenues due to property valuation protests filed by Time Warner/Comcast and Louisville Gas & Electric.

Increased occupational license tax revenues from several large, one-time filings, as well as a favorable budget variance with respect to public safety personnel expenditures should improve Louisville Metro's unassigned General Fund reserves beyond the budgeted \$63 million at year-end 2015.

The adopted fiscal 2016 General Fund budget is structurally balanced and the maximum \$9.8 million contribution to the Louisville Arena Authority Inc. (Ba3 stable). Management anticipates a 1.6% increase of General Fund revenues over fiscal 2015 estimates, including a 4% increase of property taxes, and expects a modest \$500,000 increase of the unassigned General Fund balance. 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 police and fire bargaining agreements do not exceed management's projected revenue growth, adding predictability to personnel expenditures, the largest recurring operating expense for Louisville Metro.

#### Liquidity

Louisville Metro's liquidity is expected to remain healthy in the next year. At year-end 2014, the General Fund reported net cash and investments of \$64.2 million, representing a narrow yet adequate 10.5% of revenues. The city's operating fund (consisting of the General Fund and Debt Service Fund) reported net cash and investments of \$66.1 million or 10.9% of total operating revenues.

#### DEBT AND PENSIONS: AVERAGE DEBT PROFILE WITH ELEVATED PENSION BURDENS

With a 0.6% direct debt burden and net direct debt equal to 0.74 time fiscal 2014 operating revenues, we expect Louisville Metro's debt profile will remain manageable in the near term. The debt burden incorporates state support for 98% of annual debt service on the Series 2007A lease revenue bonds, as well as \$80.7 million of lease revenue bonds issued by the Louisville Parking Authority (River City) (Aa2). 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.

Total fixed costs, which include debt service and pension contributions, of \$133.7 million in fiscal 2014 accounted for a considerable 21.7% of total operating expenditures. Management anticipates issuing approximately \$100 million of additional GO bonds in the next three months. A significant increase of Louisville Metro's fixed cost burden could lead to downward pressure on the city's credit profile.

#### Debt Structure

All of Louisville Metro's outstanding debt is fixed rate and amortizes over the long term. Principal payout is slow compared to the median for the rating category with 72.4% of principal retired in 10 years.

#### Debt-Related Derivatives

Louisville Metro does not have any outstanding variable-rate debt and is not party to any derivative agreements.

#### Pensions and OPEB

Louisville Metro administers closed single-member pension plans for police officers and firefighters and 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) attributed to the KY CERS.

The three-year average ANPL of the three plans was \$1.3 billion at fiscal-year end 2014, which represents an above average 2.15 times fiscal 2014 operating revenues and 1.7% of fiscal 2015 full valuation. Although, Louisville Metro's ANPL is above average we expect its pension burden will be manageable given operating budget flexibility from revenue growth.

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, government, and other entities across the globe, please visit Moody's on Pensions at [www.moody.com/pensions](http://www.moody.com/pensions).

#### MANAGEMENT AND GOVERNANCE: FORMAL FINANCIAL POLICIES; ADEQUATE FINANCIAL FLEXIBILITY DESPITE PRESENCE OF COLLECTIVE BARGAINING UNITS

Louisville Metro's formal financial policies and experienced management will provide continued operating stability in the next year. The city has formal policy to maintain one to two months of budgeted General Fund expenditures within a separate financial stabilization fund. Despite a large union presence, annual cost increases of the largest bargaining units (police and fire) do not exceed projected revenue growth. Louisville Metro is governed by a 26-member Metro Council elected to staggered four-year terms and a Mayor elected to a four-year term.

Kentucky cities have an institutional framework score of "Aa" or strong. Cities generally have notable flexibility to increase revenues and moderate flexibility to reduce expenditures. Operating revenues primarily consist of property taxes and occupational license taxes, including local income taxes and business net profits taxes. Although property tax rates are constrained by a constitutional cap based on population, cities typically have ample taxing margin under the cap. A statutory framework allows cities and counties to increase their annual property tax levy up to 4% without voter approval or risk of voter recall. Revenue predictability is moderate and reflects the economically sensitive occupational license taxes. Operating expenditures consist of predictable fixed costs related to personnel, capital expenditures, and debt service. Expenditure reduction flexibility is moderate because cities typically provide a broader scope of essential or mandated services than counties.

#### KEY STATISTICS

- Full Value, Fiscal 2015: \$78.7 billion
- Full Value Per Capita, Fiscal 2014: \$106,045
- Median Family Income as % of US Median (2012 American Community Survey): 95.2%
- Operating Fund Balance as % of Revenues, Fiscal 2014: 12.8%
- 5-Year Dollar Change in Fund Balance as % of Revenues: 0.20%
- Cash Balance as % of Revenues, Fiscal 2014: 10.9%
- 5-Year Dollar Change in Cash Balance as % of Revenues: 2.50%
- Institutional Framework: "Aa"
- 5-Year Average Operating Revenues / Operating Expenditures: 1.00x
- Net Direct Debt as % of Full Value: 0.58%
- Net Direct Debt / Operating Revenues: 0.74x
- 3-Year Average ANPL as % of Full Value: 1.68%
- 3-Year Average ANPL / Operating Revenues: 2.15x

#### OBLIGOR PROFILE

The Louisville & Jefferson County Metropolitan Government is a merged city/county form of government approved by voters and created in 2003. The city's 2010 US Census population of 741,906 residents reflects a 6.8% increase since 2000.

#### LEGAL SECURITY

The bonds 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.

#### USE OF PROCEEDS

Proceeds from the current offerings will fund various capital improvements and equipment purchases.

## PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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