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Ratings

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Summary:

Louisville & Jefferson County Metropolitan Government, Kentucky; Appropriations; General Obligation; Note

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Credit Profile		
US$25.195 mil taxable BANs ser 2017 dtd 12/19/2017 due 12/01/2018		
Short Term Rating	SP-1+	New

Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to Louisville & Jefferson County Metropolitan Government, Ky.'s series 2017A taxable general obligation (GO) bond anticipation notes (BANs) (Butchertown Stadium District Redevelopment Project). At the same time, we affirmed our 'AA+' long-term rating and underlying rating (SPUR) on the metropolitan government's existing GO debt. Finally, S&P Global Ratings affirmed its 'AA' long-term rating and SPUR on the metro government's existing lease bonds. The outlook on all ratings is stable.

The GO bonds are backed by the metro government's full faith and credit, unlimited tax GO pledge. A pledge of lease payments made by the metropolitan government to the parking authority secures the lease bonds.

The series 2017 BANs are a GO of the metropolitan government, secured by its full faith and credit and taxing power, with debt service payable from ad valorem taxes levied without limitation on all taxable property of the metropolitan government. Officials are issuing the $25.2 million in BANs to finance improvements related to the Butchertown Stadium District. The overall project consists of the construction of a 10,000 seat soccer stadium, land acquisition and redevelopment, as well as public infrastructure improvements and amenities. The metropolitan government will not own or operate the stadium, nor is it relying on stadium revenues to pay for debt service.

The short-term rating reflects our criteria for evaluating and rating BANs. In our view, the metropolitan government maintains a very strong capacity to pay principal and interest when the notes come due. It maintains what we view as a low market risk profile because it has strong legal authority to issue long-term debt to take out the notes and it is a frequent debt issuer that regularly provides ongoing disclosure to market participants.

The 'AA+' long-term rating on Louisville and Jefferson County Metro Government's general obligation (GO) bonds reflects the metropolitan government's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and at the total governmental fund level in fiscal 2016;
- Strong budgetary flexibility, with an available fund balance in fiscal 2016 of 12.0% of operating expenditures;

- Very strong liquidity, with total government available cash at 13.9% of total governmental fund expenditures and 1.6x governmental debt service, and access to external liquidity that we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 8.6% of expenditures and net direct debt that is 130.8% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation, but low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Strong economy

We consider the metro government's economy strong. Louisville & Jefferson Metropolitan Government, with an estimated population of 766,081, is located in the Louisville/Jefferson County, KY-IN MSA, which we consider to be broad and diverse. Jefferson County has a projected per capita effective buying income (EBI) of 103.6% of the national level and per capita market value of $89,751. Overall, the county's market value grew by 4.7% over the past year to $68.8 billion in 2016. The county's unemployment rate was 4.4% in 2016.

The metropolitan government is home to UPS' WorldPort hub, with over 22,000 employees and a large health care service sector (with the leading seven providers in the metropolitan area employing nearly 35,000), both of which provide stability. Leading employers after UPS include Jefferson County Public Schools (14,739 employed), Ford Motor Co. (12,990), and Humana Inc. (12,500).

Notable local development includes improvements at the convention center, Omni Hotel construction (a downtown structure consisting of 600 rooms, 225 apartments, meeting rooms, ballrooms, and a grocery), and development of a healthcare campus on the metropolitan government's west side.

Strong management

We view the metro government's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The government performs a line-by-line approach for its budgetary process, relying on multiple years of historical information and utilizes the past three years of historical information. The budget can be amended if needed and budget to actual reports are reported on a quarterly basis.

The government does not have a formal long-term financial plan but does forecast internally general fund revenues and expenses over a 10-year period that include the largest items on both sides. The metro government does not have a formal long-term capital plan. Officials prepare an annual capital improvement budget with proposed capital expenditures for the coming year.

The government has a formal debt management policy, which requires certain thresholds that must be met before issuing debt. It has its own investment policy and reports on its performance and holdings monthly. The reserve policy focuses on the unassigned general fund balance. The policy calls for an unassigned reserve between one and two months of monthly average current year general fund budgeted expenditures; officials believe this is a prudent level of financial resources to protect against service reductions or tax increases because of temporary revenue shortfalls or unanticipated one-time expenditures.

Strong budgetary performance

Louisville & Jefferson Metro Government's budgetary performance is strong in our opinion. The metro government had balanced operating results of 0.4% of expenditures in the general fund and of 0.5% across all governmental funds in fiscal 2016. General fund operating results of the metro government have been stable over the past three years, with a result of 2.1% in 2015 and a result of 0.5% in 2014.

According to the 2018 executive budget, officials plan to add $1 million to the unassigned fund balance in 2017, and $500,000 in 2018.

We expect results for total governmental funds to be similar to previous years' outcomes, and overall, we expect the government's budgetary performance to be strong.

Fiscal 2016 ended with positive results in both the general fund and in the total governmental funds. The general fund result reflects our adjustments for routine transfers. Transfers in to the general fund are mainly reimbursements coming from special revenue and other governmental funds. Transfers out of the general fund are for debt service and grant matches in the other governmental funds. The largest expenditure category in the general fund is for public safety expenses, which accounted for roughly 33% of adjusted expenditures in 2016. We adjusted total governmental fund expenditures downward to reflect bond proceed spending.

Overall, during fiscal 2016, the metropolitan government experienced revenue growth in all its major tax revenue categories. Taxes account for 79% of total general fund revenues. Occupational taxes and property taxes are the largest sources of tax revenue, accounting for 57% and 22%, respectively. Property tax revenue was up in fiscal 2016, mainly due to growth in assessments. Occupational taxes were up due to positive economic trends in the job market and personal income growth.

Steady economic growth during fiscal 2017 supports the overall growth in tax revenue that was budgeted in the 2017 budget and estimates for year-end results. Property assessments were up about 3% in 2017. Employee withholdings, net profits, and insurance premiums grew by a combined 4% in 2017. However, the metropolitan government's public safety expenses are likely to grow year-over-year in 2017. The police force is being expanded, which is at least partly driving expenditure growth.

The metropolitan government traditionally has budgeted the maximum guaranteed amount of debt service to support its share of the construction of the Louisville Arena in downtown Louisville and we expect this to continue. The obligation was recently renegotiated and the metropolitan government's annual contribution rises to $10.8 million.

We expect future pension costs will also continue to rise, potentially significantly, which could pose a challenge for the metropolitan government. Various solutions to the poor funding levels in the CERS, which is a cost-sharing multiple-employer defined benefit pension plan administered by KRS, an agency of the Commonwealth of Kentucky, are being considered by the commonwealth, including a phase-in to higher contributions levels, but no final decision has yet been made. The metropolitan government is considering various strategies to accommodate the increased contributions, on both the revenue and expenditure sides of the budget.

While we expect the metropolitan government's performance to remain strong, it could be weakened in the future if we believe the pension situation takes on additional severity.

Strong budgetary flexibility

Louisville & Jefferson Metropolitan Government's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2016 of 12.0% of operating expenditures, or $81.0 million.

The available fund balance consists of the unassigned fund balance, which was $67.9 million in 2016, plus $13.0 million of assigned amounts, which are considered available.

The metropolitan government's unassigned general fund balance is estimated to increase in 2017 to $68.9 million or an estimated 12.2% of cash basis expenditures, from $67.9 million in 2016. For fiscal 2018, the budget adds $500,000 to the unassigned fund balance to $69.4 million, which is 11.6% of budgeted expenditures. Given the trends in the metropolitan government's budget, and our expectation of at least adequate performance, we expect budgetary flexibility to remain strong through fiscal 2018.

Very strong liquidity

In our opinion, Louisville & Jefferson Metropolitan Government's liquidity is very strong, with total government available cash at 13.9% of total governmental fund expenditures and 1.6x governmental debt service in 2016. In our view, the metropolitan government has strong access to external liquidity if necessary.

We adjusted cash by deducting $38.37 million of unspent bond proceeds. Year over year, cash across the primary government decreased slightly in 2016, but we note that investments increased from $58 million in 2015 to $96 million in 2016.

The metropolitan government has shown strong access to external liquidity, having regularly issued GO bonds for the past 20 years. We do not expect the metropolitan government's cash position to change much over the next two years, with respect to its total governmental expenditures and debt service. There are no contingent liabilities that would threaten the metropolitan government's liquidity.

Very weak debt and contingent liability profile

In our view, Louisville & Jefferson Metropolitan Government's debt and contingent liability profile is very weak. Total governmental fund debt service is 8.6% of total governmental fund expenditures, and net direct debt is 130.8% of total governmental fund revenue. Overall net debt is low at 2.0% of market value, which is in our view a positive credit factor.

Note proceeds will provide interim financing for improvements related to the Butchertown Stadium District. This $30 million project centers around the construction of a 10,000 seat soccer stadium, and bond proceeds will pay for land acquisition and redevelopment as well as public infrastructure improvements and amenities. The metropolitan government will not own or operate the stadium, nor is it relying on stadium revenues to pay for debt service.

The BANs and the future takeout GO bonds are within the metropolitan government's legal debt limit. The full authorization for the project is $30 million, and the remaining $5 million will be issued either when the GO takeout bonds are issued, or as part of fiscal 2019 issuance for other various capital projects.

The metropolitan government plans to issue roughly $30 million in economic development bonds for various projects in West and South/Southwest Louisville neighborhoods and $60 million of debt in fiscal 2019 to fund paving, sidewalks, technology, and other routine maintenance projects.

Our analysis of the metropolitan government's debt profile includes its long-term obligation to the arena authority, consisting of $9.8 million in fiscal 2018 and increasing to $10.8 million in annual payments beginning in fiscal 2019. We have also adjusted the metropolitan government's debt to recognize self-support of PARC (Parking Authority of River City) first mortgage bonds by its component unit enterprise fund revenues. This is annual appropriation debt, and under terms of the lease, the metro government agrees to pay rental payments sufficient to pay debt service on the bonds, plus the costs to operate, maintain, and insure the leased facilities. PARC revenues include on-street parking meter revenues and contractual revenues from several corporate sources.

Management has confirmed it has no alternative financings.

In our opinion, a credit weakness is Louisville & Jefferson Metropolitan Government's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Louisville & Jefferson Metropolitan Government's combined required pension and actual OPEB contributions totaled 6.9% of total governmental fund expenditures in 2016. The metropolitan government made its full annual required pension contribution in 2016. The funded ratio of the largest pension plan is 70.0%.

The government participates in the Metropolitan Government Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). Once an eligible employee retires, OPEBs are covered by the CERS program as provided by KRS. Retiree health insurance benefits are not protected under the inviolable contract provisions of the Kentucky revised statutes. The Kentucky general assembly could suspend or reduce retiree healthcare benefits. Additionally, recent state-funded reports, which analyzed the poorly-funded Kentucky state pension funds, indicate various plans, including the CERS non-hazardous portion of the plan, have been operating with negative cash flow for several years. It is very likely that Kentucky governments will be faced with substantially larger annual pension contributions, but there are currently no formal plans in place to address the large obligations. The fiscal 2016 contribution to CERS was $48.0 million. The net pension liability was $669.5 million at June 30, 2016, which increased $145.8 million year over year.

In addition, the metropolitan government operates two single-employer defined-benefit pension and retiree healthcare benefit plans covering eligible police officers and firefighters. The plans were closed in 1986 and 1989 but it continues to contribute to those plans. Retirees in these plans may purchase healthcare insurance at their own cost, and are eligible to receive reimbursement from the metropolitan government up to certain limits. In 2016, the metropolitan government paid $936,263 in OPEB reimbursements to eligible employees. Its contribution in fiscal 2016 to the policemen's retirement fund was $1.98 million. The police pension plan has a net pension liability of $10.6 million and the plan fiduciary net position as a percentage of the total pension liability is 38%. The contribution to the firefighters' pension fund was $2.91 million in 2016. The firefighters' pension fund has a net pension liability of $14.4 million and the plan fiduciary net position as a percentage of the total pension liability is 37%.

Strong institutional framework

The institutional framework score for Kentucky first-class cities is strong.

Outlook

The stable outlook reflects our view that the metropolitan government will maintain its very strong liquidity profile and strong budgetary flexibility, budgetary performance, and management profile.

Downside scenario

Although unlikely in our view, if the metropolitan government's budgetary flexibility and budgetary performance were compromised as it addresses the ongoing pension funding issues at CERS, by growing pension contributions and potentially stagnating revenue growth, suggesting that it was heading toward structural imbalance, the rating could be lowered within the outlook's two-year horizon.

Upside scenario

Though we don't anticipate either situation occurring during the outlook horizon, if the metropolitan government's income and wealth levels sustainably grow to very strong levels and the debt profile improves to a level we consider strong, the rating could be raised.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of November 20, 2017)		
Louisville & Jefferson Cnty Metro Govt GO		
Long Term Rating	AA+/Stable	Affirmed
Louisville Pkg Auth of River City, Kentucky		
Louisville & Jefferson Cnty Metro Govt, Kentucky		
Louisville Pkg Auth of River City (Louisville & Jefferson Cnty Metro Govt)		
Long Term Rating	AA/Stable	Affirmed
Louisville Pkg Auth of River City (Louisville & Jefferson Cnty Metro Govt) taxable 1st mtg rev bnds (Louisville & Jefferson Cnty Metro Govt) ser 2016		
Long Term Rating	AA/Stable	Affirmed
Louisville Pkg Auth of River City (Louisville & Jefferson Cnty Metro Govt) APPROP		
Long Term Rating	AA/Stable	Affirmed
Louisville Pkg Auth of River City (Louisville & Jefferson Cnty Metro Govt) APPROP		
Long Term Rating	AA/Stable	Affirmed
Louisville Pkg Auth of River City (Louisville & Jefferson Cnty Metro Govt) APPROP		
Long Term Rating	AA/Stable	Affirmed
Louisville Pkg Auth of River City (Louisville & Jefferson Cnty Metro Govt) 1st mtg rfdg bnds (Louisville & Jefferson Cnty Metro Govt) ser 2016B due 12		
Long Term Rating	AA/Stable	Affirmed
Louisville Pkg Auth of River City (Louisville) 1st mtg rev bnds ser 2002 dtd 12/01/2002 due 06/01/2003-2018 2020 2022 2026 2029 2032		

Ratings Detail (As Of November 20, 2017) (cont.)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.