

RatingsDirect®

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

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Credit Profile		
US\$19.6 mil GO rfdg bnds ser 2013B due 11/01/2024		
<i>Long Term Rating</i>	AA+/Stable	New
US\$9.735 mil GO bnds ser 2013A due 12/01/2032		
<i>Long Term Rating</i>	AA+/Stable	New
US\$9.41 mil GO rfdg bnds ser 2013D dtd 06/18/2013 due 04/01/2020		
<i>Long Term Rating</i>	AA+/Stable	New
US\$0.93 mil taxable GO rfdg bnds ser 2013C due 08/15/2016		
<i>Long Term Rating</i>	AA+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Louisville & Jefferson County Metropolitan Government, Ky.'s series 2013A-D general obligation (GO) bonds. At the same time, Standard & Poor's affirmed its 'AA+' long-term and underlying rating (SPUR) on the metro government's existing GO bonds. Finally, Standard & Poor's affirmed its 'AA' long-term rating and SPUR on the metro government's existing first mortgage revenue bonds and lease bonds, issued by various entities. The outlook on all ratings is stable.

In Standard & Poor's opinion, the 'AA+' long-term rating assigned to the GO debt reflects the following credit characteristics:

- A deep economic base anchored by United Parcel Service of America Inc. (UPS), coupled with a strong health services sector, and thriving entertainment district;
- Strong financial operations guided by strong management policies; and
- A favorable debt profile.

Offsetting these strengths is a reliance on economically sensitive revenues to fund operations, which necessitates maintenance of a deep financial cushion to guard against fluctuations.

The GO bonds are backed by the metro government's full faith and credit, unlimited tax GO pledge. Management intends to use bond proceeds to refund outstanding portions of series 2000A, 2002A, 2004A, and 2004B bonds for interest cost savings. Management also plans to use bond proceeds to fund a new library facility.

The City of Louisville and Jefferson County merged to form the Louisville & Jefferson County Metropolitan Government in 2003. The metropolitan government, which serves as a regional hub for northern Kentucky and southern Indiana, encompasses Jefferson County, the largest government in the state, with an estimated population of 746,906.

The metropolitan economy has historically been steeped in manufacturing, particularly in durable goods such as cars, trucks, and appliances. Thus, the economy is subject to some cyclical, although this has gradually diminished with the rise of jobs in other sectors. On a positive note, Ford Motor Co.'s plant (8,696 employed) was recently expanded to include flexible platforms to produce more car models. General Electric has also expanded to produce high-efficiency products at its plant; it now employs 5,000.

Notable Louisville-area employers include:

- UPS's WorldPort hub, with 20,117 employees and value of \$1.1 billion;
- Jefferson Public Schools, 14,336; and
- Humana, Inc. 11,000.

The thriving health care service sector (with the leading six providers in the MSA employing more than 28,000) provides stability. Jefferson County's unemployment rate peaked at 10.2% in 2010 before falling to a 2012 unemployment rate (estimated as of December 2012) of 7.9%, below the 8.1% national average. Jefferson County's per capita effective buying income level is good in our opinion at 98% of the national average.

Growth in assessed value (AV) slowed but has generally remained positive during the past three years. The AV of the tax base was \$59.5 billion in 2012, a 0.8% year-over-year increase. The fair market value of the tax base was \$62.1 billion, equating to \$83,090 per capita, which we consider very strong. The tax base is very diverse, with the leading 10 taxpayers accounting for just 4% of total AV.

During the past three fiscal years, the metropolitan government's financial position has remained strong despite the challenges of managing a revenue stream reliant on economically sensitive revenues. With the economy reviving, and occupational tax revenues (which account for roughly half of general fund revenues) on a continued uptick since 2010 and outperforming budgeted expectations, officials expect to report structurally balanced financial operations for the fiscal year ended June 30, 2013. The unassigned general fund balance is forecasted to end at least with \$58.9 million (which is roughly 12% of budgeted expenditures), and reflects a one-time use of fund balance to satisfy a recent \$7 million settlement with the firefighters union. The metro government planned to report a 1.5% general fund carryover from fiscal 2013 and earmark it as a committed fund balance for subsequent years capital spending. However, another \$6 million judgment was lodged against the metro government from a separate lawsuit filed by the firefighters union. The metro government tells us this settlement will not be paid from the unassigned fund balance; instead, officials intend to defer their capital plans for one year, and use a portion of the committed carryover fund balance to pay for the judgment. For the upcoming fiscal 2014 general fund budget, the metro government expects to pass a budget that will include an increase to the unassigned fund balance. Looking back at fiscal 2012, the city reported a \$341,799 deficit on its \$585 million budget; the total available fund balance stood at \$67.2 million or 12.6% of expenditures, which we consider strong. Of the available fund balance, \$62.4 million (or a strong 11.7%) was unassigned.

Louisville & Jefferson County Metropolitan Government's financial management practices are considered "strong" under Standard & Poor's financial management assessment (FMA). An FMA of "strong" indicates that practices are strong, well embedded, and likely sustainable.

We feel the metropolitan government's debt position is favorable. In our view, debt burden is very low at \$996 per

capita and low at 1.2% of market value. GO and appropriation-backed debt amortizes rapidly, with 70% due to be retired in 10 years. Debt service carrying charges are low at 7.7% of 2012 total governmental expenditures.

Employees eligible for pension and retiree healthcare benefits are covered under the County Employees Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Commonwealth of Kentucky. The commonwealth bears the unfunded liability on the CERS system. The metro government's full annual required contribution was \$73.6 million or roughly 10% of total governmental expenditures in fiscal 2012. The metro government's two single-employer defined benefit plans for firefighters and police were closed to new hires in the late 1980s. The metro government made its full annual required contributions totaling \$3.8 million to the plans in fiscal 2012.

Outlook

The stable outlook reflects Standard & Poor's expectation that management will maintain balanced financial operations and its unassigned fund balance as per its formal policies and ordinances. Despite the challenges of the most recent judgment against the metro government, we expect management to rebuild the unassigned fund balance as originally planned, while concurrently managing its capital needs. We do not expect to change the rating within the two-year outlook horizon, given positive occupational tax trends in recent years and management's track record of making timely adjustments. Rating stability is supported by the metro government's stature as the economic hub for the surrounding multi-county area.

Economy

Manufacturing plays a strong role in the local economy, as exemplified by a few notably large manufacturers among the leading employers. UPS is the dominant employer in the metropolitan area and attractive to firms reliant on shipping, further solidifying the metropolitan area's status as a distribution hub. Low business costs should also continue to attract other firms to the area. While a reliance on manufacturing lends some weakness to the employment picture, we believe the area's large health care/services sector counterbalances the risk posed by the cyclical job pattern in this sector.

Civic improvements also lend to the overall economic vitality. In recent years, the metro government has revitalized downtown Louisville and its entertainment and retail establishments, solidifying the metropolitan area's status as an economic center. Notable attractions include the Muhammad Ali Center (offering 93,000 square feet of museum and conference space) and the KFC Yum! Center, a multi-purpose venue home to the University of Louisville men's and women's basketball teams. Kentucky and Indiana are moving forward with their plans to break ground on the Ohio River Bridges project, which includes the construction of two new bridges to improve the transportation network in Louisville and southern Indiana. The \$4.1 billion project recently received federal approval, and construction is expected to begin in 2014.

Financial Management Assessment: Strong

Louisville & Jefferson County Metropolitan Government's financial management practices are considered "strong" under Standard & Poor's FMA. An FMA of "strong" indicates that practices are strong, well embedded, and likely sustainable. The metro government has recently developed various formal policies, and most are implemented or in the process of being implemented. The government develops its budget using various sources of data to support its revenue and expense assumptions. After the initial budget is created, it is the metro government's discretion to update it during the year, with quarterly reports provided to elected officials. The metro government's investment policy mirrors the state statutes, and will be subject to quarterly formal reports and monthly reviews. The metro government has a formal fund balance policy, and during its short history as a unified government, has not violated that policy. Furthermore, officials adopted an ordinance that requires the replenishment of reserves when used for items such as the firefighters settlement. A debt management policy is in place, but does not address swaps, as there are none outstanding. A five-year capital improvement plan was recently developed, and is updated annually with all revenue sources identified.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of May 2, 2013)		
Louisville & Jefferson Cnty Metro Govt GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Louisville & Jefferson Cnty Metro Govt lse		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Louisville & Jefferson Cnty Metro Govt GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/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)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Louisville Pkg Auth of River City (Louisville & Jefferson Cnty Metro Govt) 1st mtg rev bnds ser 2010A-B		
<i>Long Term Rating</i>	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		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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