

RatingsDirect®

Summary:

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

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Credit Profile

US\$55.165 mil tax-exempt GO bnds ser 2015A due 12/01/2035		
<i>Long Term Rating</i>	AA+/Stable	New
US\$12.29 mil taxable GO bnds ser 2015B due 12/01/2045		
<i>Long Term Rating</i>	AA+/Stable	New
Louisville & Jefferson Cnty Metro Govt GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Louisville & Jefferson County Metropolitan Government, Ky.'s series 2015A general obligation (GO) bonds and 2015B taxable 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 lease bonds, issued by the Louisville Parking Authority of River Metro government. 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 'AA+' long-term rating on Louisville and Jefferson County Metro Government's general obligation (GO) bonds reflects the metro 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;
- Adequate budgetary performance, with a slight operating surplus in the general fund but an operating deficit at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 11.1% of operating expenditures;
- Very strong liquidity, with total government available cash of 16.5% of total governmental fund expenditures and 2.3x governmental debt service, as well as access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges of 7.2% of expenditures, net direct debt that is 107.9% of total governmental fund revenue, and low overall net debt at less than 3% of market value, but a large pension and other postemployment benefit (OPEB) liability; and
- A strong institutional framework score.

Strong economy

We consider the metro government's economy to be strong. Louisville & Jefferson County Metro Government, with an estimated population of 756,832, is located in the Louisville, Ky.-Jefferson County, Ind. MSA, which we consider to be broad and diverse. The metro government has a projected per capita effective buying income of 100.5% of the national level and per capita market value of \$84,702. Overall, the metro government's market value fell by 1.3% over the past year to \$64.1 billion in 2014. The county unemployment rate was 6.1% in 2014.

The metro government is home to UPS' WorldPort hub, with over 20,000 employees and a large health care service sector (with the leading seven providers in the metropolitan area employing nearly 30,000), both of which provide stability. Leading employers include Humana (12,371 employed), Norton Healthcare (10,245), and Ford Motor Co. (8,987).

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 FMA score was changed to "good" from "strong" reflecting a clarification of the metro government's long-term capital planning, which is not formally published in a capital improvement plan. In addition, the metro government does not produce a formal long-term financial forecast although it forecasts both revenues and expenditures for a 10-year period. The metro government has formal debt, investment, and reserve policies. The reserve policy amount is between one and two months of monthly average current year general fund budgeted expenditures. The board receives monthly investment reports and quarterly budget reports. Revenue and expenditure assumptions are based on both historic trends and external sources of information.

Adequate budgetary performance

Louisville & Jefferson County Metro Government's budgetary performance is adequate in our opinion. It had slightly surplus operating results in the general fund of 0.5% of expenditures, but a 2.5% deficit across all governmental funds in fiscal 2014. General fund operating results of the metro government have been stable over the past three years, with a surplus of 0.1% of expenditures in 2013 and a deficit of 0.1% in 2012.

We adjusted both revenues and expenditures to include recurring transfers and to offset capital expenditures paid from bond proceeds. The metro government expects a fiscal 2015 (ended June 30) surplus, led by positive revenue variances, that could be larger than budgeted, and we expect expenditures will be consistent with prior years. The 2016 general fund budget is balanced and includes a nearly \$500,000 increase to the unassigned fund balance.

The metro government annually budgets the maximum guaranteed amount of debt service to support its share of the construction of the Louisville Arena in downtown Louisville. The metro government budgeted \$9.8 million, the maximum annual guaranteed amount, in 2015 and 2016.

Strong budgetary flexibility

Louisville & Jefferson County Metro Government's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 of 11.1% of operating expenditures, or \$67.6 million. The metro government has been gradually

replenishing its unassigned fund balance to meet its formal fund balance policy, after a one-time use of the reserve in 2011. The metro government adopted an ordinance calling for gradual replenishment of the unassigned fund balance, which the metro government is meeting by adding nearly \$500,000 annually to the unassigned fund balance until the reserve requirement is met. This was included in the 2015 budget and is also in the fiscal 2016 budget.

Very strong liquidity

In our opinion, Louisville & Jefferson County Metro Government's liquidity is very strong, with total government available cash at 16.5% of total governmental fund expenditures and 2.3x governmental debt service in 2014. In our view, the metro government has strong access to external liquidity if necessary.

We have adjusted the metro government's available cash to exclude unspent bond proceeds. The metro government issues GO debt annually to meet its capital needs and demonstrates strong access to external liquidity. The metro government has no direct-purchase debt outstanding. We expect that the metro government will maintain very strong liquidity in the current and following year.

Adequate debt and contingent liability profile

In our view, Louisville & Jefferson County Metro Government's debt and contingent liability profile is adequate. Total governmental fund debt service is 7.2% of total governmental fund expenditures, and net direct debt is 107.9% of total governmental fund revenue. Overall net debt is low at 1.8% of market value, which is in our view a positive credit factor. Factored into the metro government's debt profile are its obligations to Louisville Arena debt as well as its lease obligations.

In our opinion, a credit weakness is Louisville & Jefferson County Metro Government's large pension and OPEB liability. Louisville & Jefferson County Metro Government's combined pension and OPEB contributions totaled 11.1% of total governmental fund expenditures in 2014. The metro government made its full annual required pension contribution in 2014.

The metro government participates in the County Employees Retirement System (CERS), administered by the Board of Trustees of the Kentucky Retirement Systems. The CERS plan, which is 63% funded, provides retirement, disability, and death benefits to plan members. The metro government has no postemployment benefit liabilities. In the late 1980s, the metro government closed its police and firefighters plans, but it continues to contribute to those plans.

Strong institutional framework

The institutional framework score for Kentucky class 1 through 5 cities and class 6 cities with revenues and expenditures greater than \$75,000 is strong.

Outlook

The stable outlook reflects our expectation that Louisville & Jefferson County Metro Government's at least adequate budgetary performance and strong budgetary flexibility will remain consistent, and that liquidity will remain very strong, supported by balanced budgets. The metro government's deep and diverse economic base, coupled with a strong management team that has been maintaining budget stability, further support our view that the organization will maintain its long-term budget stability.

Downside scenario

A lower rating is possible if the metro government's finances were to fall out of balance, leading to a deterioration in its financial flexibility.

Upside scenario

A higher rating is possible if the metro government's economy score were to improve to a level we feel is very strong although we do not anticipate this occurring over the outlook's two-year time frame.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of October 30, 2015)		
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 & Jefferson Cnty Metro Govt) 1st mtg rev bnds (Louisville & Jefferson Cnty Metro Govt) ser 2013A due 06/		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Louisville Pkg Auth of River City (Louisville & Jefferson Cnty Metro Govt) 1st mtg rfdg rev bnds (Louisville & Jefferson Cnty Metro Govt) ser 2013B du		
<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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