

RatingsDirect®

Summary:

Louisville & Jefferson County Metro Government

Louisville Parking Authority Of River City; Appropriations; General Obligation

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Credit Profile

US\$87.16 mil GO bnds (City Ctr Proj) ser 2016 due 12/01/2047

Long Term Rating AA+/Stable New

US\$63.145 mil GO bnds ser 2016A due 12/01/2036

Long Term Rating AA+/Stable New

US\$32.8 mil 1st mtg rfdg bnds (Louisville & Jefferson Cnty Metro Govt) ser 2016B due 12/01/2039

Long Term Rating AA/Stable New

Louisville & Jefferson Cnty Metro Govt GO

Long Term Rating AA+/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Louisville & Jefferson County Metropolitan Government (Metro), Ky.'s series 2016 general obligation (GO) center city project bonds and to the series 2016A GO bonds. At the same time we assigned our 'AA' long-term rating to Louisville Parking Authority of River City (PARC), Ky.'s series 2016B first mortgage revenue refunding bonds, issued for Metro.

Furthermore, we affirmed our 'AA+' long-term rating on Metro's outstanding GO debt and 'AA' long-term rating on outstanding PARC debt. The outlook is stable.

A pledge of the government's full-faith-credit-and-resources and an agreement to levy ad valorem property taxes without limitation as to rate or amount secure the bonds. It is our understanding that bond proceeds for the series 2016 will be used to finance the development of the center city project including the construction of a hotel, rental apartments, a grocery store, retail and public infrastructure, and amenities to be located in the central business district. It is our understanding that bond proceeds for the series 2016A will be used to finance capital projects approved in the fiscal year 2017 budget, which includes street improvements, facility infrastructure improvements, and equipment purchases.

The PARC series 2016B bonds are secured by and payable on a parity with certain outstanding bonds issued under an indenture solely from:

- A first mortgage lien on the various public parking garages constituting a part of the consolidated project financed by PARC;
- The revenues and rents derived from an annually renewable lease whereby the consolidated project is leased to Louisville Metro at rentals sufficient to amortize all outstanding parity bonds;

- The net revenues from the operation of the consolidated project;
- The net revenues derived from Louisville Metro's on-street parking meters, which are pledged by Louisville Metro to secure its obligations under the Lease; and
- Contractual revenues from several corporate sources, including, but not limited to, the PARC agreements, all of which have been assigned to the trustee.

The metropolitan government has leased certain parking facilities throughout the Louisville metro area from the parking authority since 1985. The metropolitan government has continuous and exclusive options to renew the lease annually on July 1 of each year for a period of one year, and thereafter annually through June 30, 2046. Under terms of the lease, the metropolitan 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. The rental payments consist of net revenues generated by the authority's operation of parking facilities. The lease automatically renews on July 1 of each year in the absence of the metropolitan government's written notice of intent not to renew the lease. A debt service reserve is funded at 125% of average annual debt service.

Our rating on PARC is one notch below the 'AA+' rating on Metro GO debt to reflect the risk of appropriation. It is our understanding that PARC will use bond proceeds to refinance the series 2009A bonds for interest cost savings only.

The 'AA+' rating reflects our assessment of the following factors for the government:

- 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 methodology;
- Strong budgetary performance, with an operating surplus in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2015;
- Strong budgetary flexibility, with an available fund balance in fiscal 2015 of 13.1% of operating expenditures;
- Very strong liquidity, with total government available cash at 21.3% of total governmental fund expenditures and 2.8x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 7.6% of expenditures and net direct debt that is 101.0% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Strong economy

We consider the city's economy strong. Louisville & Jefferson Metro Government, with an estimated population of 764,731, is in the Louisville/Jefferson County, Ky.-Ind. MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 100.3% of the national level and per capita market value of \$85,879. Overall, the city's market value grew by 2.4% over the past year to \$65.7 billion in 2015. The county unemployment rate was 4.9% in 2015.

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). It's anticipated that the increase in assessments will lead to a rollback of the tax rate for Metro as budgeted for Fiscal 2017--the second year in a row and consistent with the 4% maximum cap.

Strong management

We view the city's management as strong, with good financial policies and practices under our Financial Management Assessment 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 and has many years of historical information and utilizes the last 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. Included in its annual budget document, which is publicly available, are capital projects that require future appropriations to continued subsequent phases, which are typically part of a five-year rolling plan that is held internally.

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 a monthly basis the performance and holdings. The reserve policy amount is between one and two months of monthly average current year general fund budgeted expenditures so as to maintain 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 city had surplus operating results in the general fund of 2.1% of expenditures, but a slight deficit result across all governmental funds of negative 0.9% in fiscal 2015. General fund operating results of the city have been stable over the last three years, with a result of 0.5% in 2014 and 0.1% in 2013.

We expect the government's budgetary performance to remain strong as officials are projecting to have a surplus in its general fund (on an unassigned basis) in 2016 (June 30) of approximately 1% and adopted a surplus budget of 1.5% for fiscal 2017. Results for total governmental funds are expected to be similar to previous years' outcomes.

According to the 2015 audit, occupational tax revenues represent nearly 56% of total general fund revenues while property tax revenues generated 22%. Both occupational and residential taxes increased by 6% and 4%, respectively, over 2014 results. We anticipate these revenue streams to remain stable over the next two years.

The 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 will most likely keep this approach through 2019 when the budget amount is \$9.8 million.

Strong budgetary flexibility

Louisville & Jefferson Metro Government's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 of 13.1% of operating expenditures, or \$83.4 million.

We expect the government's budgetary flexibility to remain strong as officials are projecting to have a surplus of nearly

1% for fiscal 2016 and adopted a 1.5% general fund surplus for fiscal 2017, which should at least keep the reserves in a strong position.

Very strong liquidity

In our opinion, Louisville & Jefferson Metro Government's liquidity is very strong, with total government available cash at 21.3% of total governmental fund expenditures and 2.8x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

The government has been issuing GO bonds for the past 20 years. We do not expect the government's cash position to change much over the next two years with respect to its total governmental expenditures and debt service.

Adequate debt and contingent liability profile

In our view, Louisville & Jefferson Metro Government's debt and contingent liability profile is adequate. Total governmental fund debt service is 7.6% of total governmental fund expenditures, and net direct debt is 101.0% of total governmental fund revenue. Overall net debt is low at 1.7% of market value, which is in our view a positive credit factor.

Management has confirmed it has no alternative financings. It is our understanding that the government may issue a similar amount of GO debt related to capital improvements in fiscal 2018 as it did in fiscal 2017.

In our opinion, a credit weakness is Louisville & Jefferson Metro Government's large pension and OPEB obligation. Louisville & Jefferson Metro Government's combined required pension and actual OPEB contributions totaled 10.4% of total governmental fund expenditures in 2015. Of that amount, 7.1% represented required contributions to pension obligations, and 3.4% represented OPEB payments. The city made its full annual required pension contribution in 2015. The funded ratio of the largest pension plan is 70%.

Utilizing updated reporting standards in accordance with Governmental Accounting Standard Board (GASB) Statement No. 67 & 68, Metro's net pension liability as of June 2015 was \$2.6 billion. The plan is funded at 70%, which we consider low. The government has made 100% of its actuarially determined contribution (ADC) for the past three years and expects to do so going forward. We do not anticipate any increases in costs over the next several years to cause budgetary pressure given recent increase of funding percentage to 70% from 63%.

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 provides retirement, disability, and death benefits to plan members. The metro government has no postemployment benefit liabilities once an employee retires. 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 is strong.

Outlook

The stable outlook reflects our view that the metro government will maintain its very strong liquidity profile and strong budgetary flexibility, budgetary performance and management profile, and as such do not expect to revise the rating

within the two-year outlook period.

Downside scenario

If the budgetary flexibility score fell to a level we consider adequate or if the debt profile fell to a level that we consider weak, the rating could be pressured.

Upside scenario

If the economy score improves to a level we consider very strong and the debt profile improves to a level we consider strong and if long-term financial and capital plans are solidified, the rating could be raised.

| Ratings Detail (As Of August 31, 2016) | | |
|---|------------------|----------|
| 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) taxable 1st mtg rev bnds (Louisville & Jefferson Cnty Metro Govt) ser 2016 | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Louisville Pkg Auth of River City (Louisville & Jefferson Cnty Metro Govt) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Louisville Pkg Auth of River City (Louisville & Jefferson Cnty Metro Govt) APPROP | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |
| Louisville Pkg Auth of River City (Louisville & Jefferson Cnty Metro Govt) APPROP | | |
| <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.

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.globalcreditportal.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.

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