FITCH AFFIRMS LOUISVILLE-JEFFERSON COUNTY METRO GOVT, KY GOS AT 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-05 November 2014: Fitch Ratings has assigned an 'AAA' rating to the following Louisville-Jefferson County Metro Government, KY bonds:

--Approximately $11.1 million general obligation (GO) bonds, series 2014D;
--Approximately $19.9 million GO notes, series 2014E;
--Approximately $19.3 million GO refunding bonds, series 2014F.

The series D bonds will finance acquisition, construction and equipping of various public projects. The series E notes will finance the acquisition, installation and maintenance of equipment and vehicles for various departments. The series F bonds will fund an advance-refunding transaction expected to yield savings of over $1 million through final maturity. All bonds are expected to sell via competition November 12.

In addition, Fitch affirms the following ratings:

--Approximately $260 million unlimited tax general obligation (ULTGO) bonds at 'AAA';
--Approximately $74 million lease revenue refunding bonds, series 2007A at 'AA+'.

The Rating Outlook is Stable.

SECURITY
The GO bonds are supported by the metro government's full faith and credit and its ad valorem taxing power, without limitation as to rate or amount. The lease bonds are payable solely from annual rentals paid by the metro government, subject to annual appropriation. Bondholders have a leasehold interest in a judicial and correctional facility located in downtown Louisville.

KEY RATING DRIVERS

RESILIENT LOCAL ECONOMY: The overall depth and diversity of the local economy is underscored by steadily growing employment levels which contribute to solid socioeconomic characteristics.

STABLE RESERVE LEVELS: The metro government has maintained satisfactory unreserved balances despite nominal operating deficits after transfers in recent years.

FAVORABLE DEBT POSITION: The debt burden is modest, amortization is rapid, and small annual transfers for pay-go capital contribute to limited future borrowing plans.

RATING DISTINCTION FOR LEASE REVENUE BONDS: The one-notch rating distinction between the GO and the lease revenue bonds reflects the annual appropriation risk and the essential nature of the leased asset.

CREDIT PROFILE
The city of Louisville and Jefferson County merged in January 2003 to form the combined metro government, replacing the former city and county governments. The metro government area, with a combined population of over 750,000, is the largest and wealthiest local government in the state.

RESILIENT LOCAL ECONOMY

Population gains and the relatively stable economic picture contributed to steady growth in property values over the past decade. Gains in taxable value slowed during the recent economic downturn. Taxable value returned to growth of 0.9% in 2012 and 5.4% in 2014 after experiencing a small decline of 1% in 2011. Strong permit and development activity is expected to support continued steady tax base growth. For 2014 several large taxpayer appeals are pending but not expected to materially change taxable values.

United Parcel Service Inc. serves as the area's leading employer with over 20,000 employees. The health care, higher education and government sectors account for most of the remaining top employers in the diverse local economy. The manufacturing sector is also prominent, accounting for a greater percentage of total employment than the national average, which may have contributed to the elevated unemployment rate during the recession.

Sustained steady gains in employment, including significant additions at the recently reopened and re-tooled assembly plant for Ford Motor Company (Fitch IDR of 'BBB-', Positive Outlook), has caused unemployment rates to drop to a moderate 6.4% in August 2014 from peaks of 10% over the past few years. The August 2014 rate is now on par with the state (6.5%) and national (6.3%) rates.

STABLE RESERVE LEVELS

Financial performance has generally been stable, with modest annual draws on general fund balance recorded in recent years. Management adopted a strategy to rebuild balances which resulted in a small surplus in 2013 and is on target for a small surplus for fiscal (FY) 2014. The amount of the draws has been smaller than the amount transferred for pay-go capital, however, indicating a measure of expenditure flexibility. In FY2012, the general fund net operating deficit after transfers amounted to $342,000 or 0.06% of spending. Transfers out are largely for debt service with a small amount for pay-go capital. Rebounding revenues and close expenditure controls maintained balance and a small $446,000 general fund surplus in 2013.

Unrestricted general fund balance has remained solidly within the range of 10%-15% of spending. The 12.1% of spending recorded in FY2013 equaled the percentage recorded in FY2011 and FY2012, which represented an increase over the 11.5% recorded in FY2010. Management projects similar reserve levels for FY2014. FY2015 includes a new franchise fee levied on all natural gas sales within the urban service district and unincorporated areas of the county. The fee is expected to generate $3 million of new general fund revenue and offset increased public safety spending. Fitch expects continued structural budget balance given management's close controls, conservativeness and positive economic trends.

The metro government's revenue stream is highly reliant upon the economically sensitive occupational tax, which amounts to approximately 55.8% of 2013 general fund revenues. Elevated unemployment levels during the recession led to reduced occupational tax collections, presenting a financial challenge, particularly in FY2009 and FY2010. Employment has been steadily expanding since the trough recorded in 2009, leading to over 15 consecutive quarters of occupational tax growth. Occupational tax receipts had fully recovered from recessionary declines by FY2012 and increased a strong 6.6% in FY2013 with 2.9% projected for FY2014.

Property taxes, which account for roughly 25% of general fund revenues, declined modestly in concert with the dip in current collection rates to 96% in 2010 from over 99.5% in 2008 and the 1% assessed valuation (AV) decline in 2011 but have rebounded soundly. The rebound in collection rates to 99% levels in 2011-2013, combined with a 6.3% increase in AV 2012-2013, resulted in a 1.6% increase in property tax receipts in fiscal 2013.

Management is continuing to work with the state to study the idea of a local-option sales tax of up to 1%, which would be dedicated to voter-approved capital projects. This new revenue stream would require a state-wide constitutional amendment in order to be adopted, and could be on the ballot as soon as 2015.

Management has focused on solving systemic budget issues in order to maintain balance between limited revenue growth and rising expenditures. Actions have included elimination of more than 700 vacant positions, the use of mandatory and voluntary furlough days, and labor settlements at or below the rate of revenue growth.

FAVORABLE DEBT POSITION

Overall debt burden remains low at $951 per capita and 1% of full market value. Amortization is rapid with nearly 70% of principal retired within 10 years.

The metro government's modest debt position is partially attributable to the consistent use of small annual capital transfers from the general fund ($4 million in FY2013). Future borrowing includes approximately $10 million in a GO note in 2015 to fund equipment purchases, approximately $6 million in a GO bond for a library project, and a tax increment financing for a hotel project.

In 2008 the metro government agreed to pay up to $309 million on behalf of the Louisville Arena Authority to repay debt issued for the project. The agreement includes annual minimum and maximum payments of $6.5 million and $10.8 million which vary through 2039. Management has consistently included required payments in annual budgets including the current year maximum of $9.8 million in FY2015. Fitch does not expect the arena payments to impact annual budgetary balance.

Most of the metro government's employees participate in the County Employees' Retirement System (CERS), a state-wide cost-sharing multi-employer plan. CERS' funded level is low at 56% and could require increased employer contributions. A smaller number of public safety employees participate in two single-employer (SE) plans, held over from before the merger of governments. The SE plans combine for a weak approximately 34% funding level in 2013 when adjusted by Fitch to reflect a 7% discount rate. The unfunded actuarially accrued liability for both plans is de minimis. The metro government meets its actuarially determined annual required contribution each year.

Other post-employment benefit (OPEB) costs are limited to a defined monthly stipend for retiree health care and no unfunded liability is recorded. Carrying costs for debt service, pension and OPEB amount to a manageable 18% of total governmental spending.

Contact:

Primary Analyst
Bernhard Fischer
Director
+1-212-908-9167
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Arlene Bohner
Senior Director
+1-212-908-0554

Committee Chairperson
Amy Laskey
Managing Director

+1-212-908-0568

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors, Bond Counsel, Public Financial Management.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012)

Applicable Criteria and Related Research:
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314
Global Credit Card ABS Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=748920
Global Structured Finance Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=754389
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.