



## RATING ACTION COMMENTARY

# Fitch Affirms Louisville-Jefferson County Metro Govt.'s (KY) GOs and IDR at 'AAA'; Outlook Stable

Fri 06 Aug, 2021 - 1:25 PM ET

Fitch Ratings - New York - 06 Aug 2021: Fitch Ratings has affirmed the ratings on the following Louisville-Jefferson County Metro Government, KY bonds:

--\$406.9 million general obligation bonds at 'AAA';

--Approximately \$25.6 million lease revenue refunding bonds, series 2007A, issued by the Jefferson County Capital Projects Corp. (KY) at 'AA+'.

In addition, Fitch has affirmed the Louisville-Jefferson County Metro Government Issuer Default Rating (IDR) at 'AAA'.

The Rating Outlook is Stable.

## SECURITY

The bonds are GOs of the metro government, payable from an ad valorem tax on all taxable property within the metro government without limitation as to rate or amount.

## **ANALYTICAL CONCLUSION**

The 'AAA' rating reflects the metro government's low long-term liabilities, strong revenue and expenditure frameworks, and Fitch's expectation that the metro government will maintain a high level of financial flexibility throughout economic cycles.

## **ECONOMIC RESOURCE BASE**

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 767,000, is the largest local government in the state.

## **KEY RATING DRIVERS**

### **Revenue Framework: 'aa'**

Fitch expects solid revenue growth, below U.S. economic performance but above the level of inflation. The metro government has an ample degree of control to independently raise revenues.

### **Expenditure Framework: 'aa'**

Growth in expenditures should continue to be in line with, to marginally above, revenue growth, while the metro government has solid flexibility to control its main expenditure items.

### **Long-Term Liability Burden: 'aaa'**

The metro government's long-term liability burden, including overall debt and pension liability, is low.

### **Operating Performance: 'aaa'**

The metro government has superior gap-closing capacity and is expected to manage through the current economic downturn, while maintaining a high level of fundamental financial flexibility.

### **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Not applicable.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Deterioration in the metro government's expenditure flexibility, including an increase in carrying costs as a percentage of governmental expenditures to consistently above 20%;

--Lower expectations for revenue growth prospects to a level in line with inflation.

### **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit

<https://www.fitchratings.com/site/re/10111579>.

## **CURRENT DEVELOPMENTS**

### Louisville-Jefferson County Coronavirus Impact

The metro government's revenue fell by over \$13 million (1.7%) in fiscal 2020 (June 30 fiscal year end) compared to fiscal 2019. This was largely due to declines in occupational taxes and charges for services, but was partially offset by increases in property tax revenue. Management reduced general fund expenditures by almost \$65 million (9.6%) compared to fiscal 2019 expenditures, primarily due to shifting over \$40 million of expenditures being reimbursed by CARES Act funds.

The metro government also saw expenditure savings due to limited incarcerations to minimize the inmate population. Combined with the CARES Act reimbursement, this resulted in the metro government having a surplus of almost \$45 million, increasing available reserves to approximately \$150 million (22% of expenditures). This includes committed general fund reserves of \$26 million for COVID-19 response and an \$8 million increase in reserves committed for fiscal 2021 general purposes.

For fiscal 2021, the metro government's revenue outpaced the original budget, leading management to revise its forecast in May to reflect expectations for \$15.5 million in additional revenue. Management now expects a surplus in fiscal 2021 which it anticipates using to fund several initiatives in the fiscal 2022 budget. The metro government increased its fiscal 2022 revenue expectations from \$652 million to \$658 million.

The metro government has been allocated approximately \$388 million in American Rescue Plan Act funds and has appropriated around \$30 million thus far, mostly on pandemic-related funding (housing, food stability, and safety items). Management is formulating a plan to utilize the rest of the allocation.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

### ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

### RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Louisville-Jefferson County Metro Government (KY) [General Government]	LT IDR	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
● Louisville-Jefferson County Metro Government (KY) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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**APPLICABLE CRITERIA**

[U.S. Public Finance Tax-Supported Rating Criteria \(pub. 04 May 2021\) \(including rating assumption sensitivity\)](#)

**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

## FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

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Jefferson County Capital Projects Corp. (KY)

EU Endorsed, UK Endorsed

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