

Louisville-Jefferson County Metro Government, Kentucky

General Obligation Bonds New Issue Report

Ratings

New Issues

Tax-Exempt General Obligation Bond
Anticipation Notes (Center City
Project), Series 2015A F1+

Taxable General Obligation Bonds
(Center City Project), Series 2015B AAA

Outstanding Debt

Unlimited Tax General Obligation
Bonds AAA

Lease Revenue Refunding Bonds
(Jefferson County Capital Projects
Corp.) AA+

Rating Outlook

Stable

New Issue Details

Sale Information: \$86,375,000 Tax-Exempt General Obligation Bond Anticipation Notes (Center City Project), Series 2015A, and \$23,165,000 Taxable General Obligation Bonds (Center City Project), Series 2015B, expected to sell via competition on Dec. 8.

Security: The full faith and credit of Louisville-Jefferson County Metro Government (the metro government) and its ad valorem taxing power, without limitation as to rate or amount.

Purpose: To finance the metro government's share of project costs relating to the development of the Center City project.

Final Maturity: Dec. 1, 2017 (series 2015A); Dec. 1, 2045 (series 2015B).

Key Rating Drivers

Resilient Local Economy: The overall depth and diversity of the local economy are underscored by steadily growing employment levels that contribute to solid socioeconomic characteristics.

Stable Financial Position: The metro government has shown balanced operations and maintained satisfactory unreserved balances in recent years.

Favorable Debt Position: The debt burden is modest and amortization is rapid. Small annual transfers for pay-as-you-go capital contribute to limited future borrowing plans.

Strong Market Access: The 'F1+' rating on the bond anticipation notes (BANs) reflects Fitch Ratings' expectation that the metro government's strong credit quality would afford favorable market access for the already authorized long-term bonds, which will provide ultimate financing for the BANs.

Rating Sensitivities

Stable Financial Position: Inability to maintain structural balance and satisfactory reserve levels could pressure the ratings.

Related Research

Fitch Rates Louisville-Jefferson County
Metro Gov., KY GOs 'AAA' & BANs 'F1+';
Outlook Stable (December 2015)

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Rating History — GOs

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	12/3/15
AAA	Affirmed	Stable	10/30/15
AAA	Affirmed	Stable	11/5/14
AAA	Affirmed	Stable	5/6/13
AAA	Affirmed	Stable	1/7/13
AAA	Affirmed	Stable	1/11/11
AAA	Affirmed	Stable	10/25/10
AAA	Affirmed	Stable	9/1/10
AAA	Affirmed	Stable	5/28/10
AAA	Revised	Stable	4/30/10
AA+	Affirmed	Stable	10/22/09
AA+	Affirmed	Stable	5/15/09
AA+	Affirmed	Stable	11/21/08
AA+	Affirmed	Stable	2/27/07
AA+	Assigned	Stable	10/10/06

Rating History — BANS

Rating	Action	Outlook/ Watch	Date
F1+	Assigned	—	12/3/15

Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to fewer than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by Jan. 20, 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

Related Criteria

[Exposure Draft: U.S. Tax-Supported Rating Criteria \(September 2015\)](#)

[Tax-Supported Rating Criteria \(August 2012\)](#)

[U.S. Local Government Tax-Supported Rating Criteria \(August 2012\)](#)

[Rating U.S. Public Finance Short-Term Debt \(November 2015\)](#)

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. Taxable value stagnated during the recent economic downturn. It returned to growth of 0.9% in fiscal 2012 and 5.4% in fiscal 2014 before dipping 2.2% in fiscal 2015. Strong permit and development activity is expected to support continued steady tax base growth.

United Parcel Service Inc. is the area's leading employer, with over 20,000 employees. The healthcare, 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.

The unemployment rate dropped to a low 4.4% in August 2015 from peaks of 10.0% over the past few years. The August 2015 rate is now slightly below the state (4.9%) and national (5.2%) rates.

Stable Reserve Levels

Financial performance has generally been stable, with balanced general fund operations recorded in recent years. Unrestricted general fund balance has remained solidly within the range of 10%–15% of spending, with 12.7% recorded in fiscal 2014. Management projects another modest net general fund operating surplus and similar reserve levels for fiscal 2015. The fiscal 2016 budget includes a small fund balance appropriation of \$450,000. Fitch expects continued structural budget balance given management's conservative close controls and positive economic trends.

The metro government's revenue stream is highly reliant on the mildly economically sensitive occupational tax, which amounts to approximately 56.2% of 2014 general fund revenues. Occupational tax receipts had fully recovered from recessionary declines by fiscal 2012 and increased a strong 6.6% in fiscal 2013 and 2.9% in fiscal 2014. Employee withholdings, which comprise the majority of occupational taxes, are reported to be up 6% in fiscal 2015.

Property taxes are the second largest source of revenue, accounting for roughly 23% of general fund revenues. A 4.6% increase in assessed value for fiscal 2016 triggered a tax rate rollback, consistent with the 4% growth cap on existing real property. A new 2% franchise fee levied on all natural gas sales was budgeted to raise \$3.6 million in fiscal 2015 to offset increased public safety spending.

A proposal for a local-option sales tax to fund capital is scheduled to be considered by the state legislature in 2016. This new revenue stream would require a constitutional amendment and statewide voter approval.

General Fund Financial Summary

(\$000, Audited Fiscal Years Ended June 30)

	2010	2011	2012	2013	2014
Property Tax Revenue	141,716	138,778	135,293	146,395	140,115
Other Tax Revenue	292,400	304,471	311,922	332,642	342,161
Total Tax Revenue	434,116	443,249	447,215	479,037	482,276
License and Permits	11,058	11,168	11,605	11,311	12,751
Fines and Forfeits	2,172	3,198	3,312	4,109	4,594
Charges for Services	59,319	59,573	64,749	54,563	58,514
Intergovernmental Revenue	28,886	33,339	27,919	25,776	24,567
Other Revenue	23,004	24,435	29,978	21,859	24,280
General Fund Revenue	558,555	574,962	584,778	596,655	606,982
General Government	23,437	24,667	24,091	24,326	24,506
Public Safety Expenditures	286,171	292,203	296,169	299,379	321,234
Public Works Expenditures	68,349	66,618	65,556	62,100	54,308
Health and Social Services Expenditures	18,577	18,593	18,861	16,408	16,376
Culture and Recreation Expenditures	24,540	23,127	25,791	23,726	26,439
Debt Service Expenditures	496	426	862	1,304	1,644
Other Expenditures	95,231	100,696	103,410	104,707	113,357
General Fund Expenditures	516,801	526,330	534,740	531,950	557,864
General Fund Surplus	41,754	48,632	50,038	64,705	49,118
Transfers In	11,780	4,297	3,866	9,202	2,129
Other Sources	35,848	10,000	—	—	—
Transfers Out	95,572	67,286	54,246	73,461	48,108
Net Transfers and Other	(47,944)	(52,989)	(50,380)	(64,259)	(45,979)
Net Surplus/(Deficit)	(6,190)	(4,357)	(342)	446	3,139
Total Fund Balance	79,627	75,270	74,929	75,374	78,513
As % of Expenditures, Transfers Out and Other Uses	13.0	12.7	12.7	12.5	13.0
Unrestricted Fund Balance	70,190	73,117	72,728	73,140	76,685
As % of Expenditures, Transfers Out and Other Uses	11.5	12.3	12.3	12.1	12.7

Note: Numbers may not add due to rounding.

Favorable Debt Position

The overall debt burden remains low at \$1,092 per capita and 1.0% of market value. Amortization is rapid, with 77% of principal retired within 10 years, excluding the BANs.

The current issues will fund the metro government’s share of costs relating to the Center City project, which includes the construction of a 600-room hotel, 225 rental apartment units, grocery and retail stores, and public infrastructure, including parking and amenities. Officials expect to receive significant support from incremental tax revenues. However, the rating is based on the metro government’s unlimited tax GO pledge. Planned future borrowing includes approximately \$20 million–\$30 million for equipment and general capital in 2017.

Most of the metro government’s employees participate in the County Employees’ Retirement System (CERS), a statewide cost-sharing multi-employer plan. CERS’ funded level is low at 59.8% and 62.6% for hazardous and nonhazardous duty employees, respectively. 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 combined for a weak, approximately 39.7% funding level in fiscal 2014, or an estimated 37.7% 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 healthcare, and no unfunded liability is recorded. Carrying costs for debt service, pension and OPEB amount to a manageable 19% of total governmental spending.

Debt Statistics

(\$000)

This Issue	109,540
Outstanding Direct Debt	486,009
Self-Supporting	(45,967)
Total Net Direct Debt	440,042
Overlapping Debt	390,204
Total Overall Debt	830,246

Debt Ratios

Net Direct Debt Per Capita (\$) ^a	579
As % of Market Value ^b	0.5
Overall Debt Per Capita (\$) ^a	1,092
As % of Market Value ^b	1.0

^aPopulation: 760,026 (2015). ^bMarket value: \$56,608,302,000 (2015). Note: Numbers may not add due to rounding.

Contingent Liability Not a Budget Pressure

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 arena project. The agreement includes annual minimum and maximum payments of \$6.5 million and \$10.8 million, respectively, which vary through 2039. Management has consistently included and made required payments in annual budgets, including the current year maximum of \$9.8 million in fiscal 2016. Fitch does not expect the arena payments to impact annual budgetary balance.

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