

# RatingsDirect®

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## Summary:

# Lexington-Fayette Urban County Government, Kentucky; General Obligation

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## Summary:

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### Credit Profile

US\$11.615 mil various purp GO bnds ser 2013A due 10/01/2025		
<i>Long Term Rating</i>	AA/Stable	New
US\$5.6 mil various purp GO rfdg bnds ser 2013B due 07/01/2025		
<i>Long Term Rating</i>	AA/Stable	New
Lexington-Fayette Urban Cnty Govt GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services has assigned its 'AA' long-term rating to Lexington-Fayette Urban County Government Ky.'s series 2013A and 2013B general obligation (GO) various purpose bonds. We also affirmed the 'AA' long-term rating and underlying rating (SPUR) on the government's existing bonds and bonds supported by the government. The outlook on all ratings is stable.

The rating reflects our assessment of the government's:

- Diverse economic base anchored by the University of Kentucky;
- Good income and very strong market value per capita indicators;
- Unassigned general fund reserves that are at strong levels; and
- Low to moderate debt levels.

We believe the government's inconsistent general fund results somewhat limits these credit factors; however, results for fiscal 2012 were positive.

The government's unlimited-tax, full faith and credit GO pledge secures the series 2013A and 2013B bonds. It is our understanding that officials plan to use series 2013A bond proceeds to fund various road and street projects and use series 2013B bond proceeds to refund the series 2004C, 2005C, and 2006B bonds for interest-cost savings.

Lexington-Fayette Urban County Government is a consolidated city-county government that reported an estimated population of 301,569 for 2011, which is slightly higher than the 2010 U.S. census population of 295,803. The urban county is approximately 30 miles east of Frankfort, the state capital, and 80 miles east of Louisville. The local economy is diverse. The University of Kentucky is the largest employer (with approximately 12,278 employees and 27,700 students). Other leading employers include the county government, Fayette County Schools, and Xerox. Countywide employment remains well diversified among the trade, transportation and utilities (23%), education and health services (17%), professional and business services (16%), and leisure and hospitality (14%) sectors. Lexington-Fayette (metropolitan statistical area) unemployment has averaged 6.8% through the first 11 months of 2012, which is down

from the 2011 average of 7.9% and is materially lower than the state for the same periods at 8.4% and 9.5%, respectively.

Lexington Fayette's median household and per capita effective buying income is, in our opinion, good, at 92% and 101%, respectively, of the national average. Overall, the urban county's assessed value has been stable (except for a slight drop of 1.2% in 2010, which has since been recovered) for a 2012 value of \$27.5 billion, which equates to \$91,195 per capita and we consider very strong. Management expects assessed value to remain flat for the next few years.

Overall, the government's financial profile remains strong (total general fund reserves were nearly 15% of operating expenditures as of the last audit--June 30, 2012) despite some inconsistent results in the general fund, which included two deficits within the past five years. The government adopted a balanced budget for fiscal 2013 without the use of reserves. Management has set aside a one-time expense of \$2.5 million for streetlight funding and is hopeful that revenues will be sufficient by the end of fiscal 2013 so it does not have to use general fund reserves.

Fiscal 2012 audited results produced a \$20 million general fund surplus that increased the total general fund balance to \$44.3 million, which we view as strong at 14.7% of operating expenditures. The unassigned fund balance totaled \$31.2 million, which we consider strong at 10.4% of operating expenditures. License fees and permits typically account for a majority of the urban county's total revenues and for the fiscal year ended June 30, 2012, they increased 3% from the amounts collected in 2011 and represented 82% of total revenues while charges for services and taxes contributed nearly 8.4% and 7.4%, respectively.

Standard & Poor's considers Lexington-Fayette's financial management "good" under its Financial Management Assessment methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them.

We view the urban county's overall debt burden as moderate at \$2,161 per capita and low at 2.4% of market value. Debt service carrying charges, in our view, were moderate at 9% of governmental fund expenditures, less capital outlay, in fiscal 2012. Amortization is average, in our view, with officials planning to retire 56% of principal over 10 years and 95% over 20 years. It is our understanding that the county does not have any definitive debt plans during the next two years.

The county participates in the County Employees Retirement System (CERS) administered by the Board of Trustees of the Kentucky Retirement Systems. The county makes its annual required contribution each year, which was \$16.4 million as per the 2012 audit. The county has no contingent liabilities for other postemployment benefits (OPEB) for employees who were hired after Oct. 27, 1975, as CERS provides OPEB.

The county also contributes to a defined pension police and fire fighter retirement fund (PFRF). According to the 2012 audit, the county contributed \$47.6 million to this plan. In February 2013, the government and the police and fire fighter unions reached an agreement for pension reform and the new pension plan cut the government's unfunded liability by 45% to nearly \$161 million. The government agreed to increase its annual payments and will pay down the unfunded liability over 30 years. The deal also eliminates the need for the county to issue any further pension obligation bonds.

Total contributions for pension totaled \$29.7 million for fiscal 2012, which represented 17% of total governmental expenditures.

## Outlook

The stable outlook reflects our expectation that the government will continue to make adjustments as needed to maintain at least strong reserves. We do not expect to revise the rating within the two-year outlook period but if management were unable to manage any budgetary challenges, and if general fund reserves were materially affected, we could lower the rating. Conversely, now that the government's overall pension liability is expected to decrease, any pressure on the general fund could be alleviated and if the government is able to materially increase its general fund reserves, we could raise the rating.

## Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of March 4, 2013)		
Lexington-Fayette Urban Cnty Govt GO ser 2012A		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<b>Lexington-Fayette Urban Cnty Govt GO</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<b>Lexington-Fayette Urban Cnty Arpt Bd, Kentucky</b>		
Lexington-Fayette Urban Cnty Govt, Kentucky		
Lexington-Fayette Urban Cnty Arpt Bd (Lexington-Fayette Urban Cnty Govt) gen arpt rev rfdg bnds (AMT)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Lexington-Fayette Urban Cnty Arpt Bd (Lexington-Fayette Urban Cnty Govt) GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.

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