

FITCH RATES KANSAS CITY BOARD OF PUBLIC UTILS, (KS) \$90MM UTIL SYS REVS 'A+'; OUTLOOK TO STABLE

Fitch Ratings-New York-18 April 2011: Fitch Ratings assigns an 'A+' rating to the \$90 million Unified Government of Wyandotte County/Kansas City (UG), Kansas City Board of Public Utility's (BPU) system improvement and refunding revenue bonds series 2011-A. The bonds are expected to sell on May 4, 2011.

In addition Fitch affirms the following parity revenue bond ratings:

--\$343.5 million outstanding BPU electric revenue bonds at 'A+.'

The Outlook is revised to Stable from Negative.

Note that the above does not include \$32.7 million outstanding subordinate debt which Fitch does not rate although it is factored into our analysis.

RATING RATIONALE:

--The Stable Outlook reflects BPU's strengthened financial metrics as evidenced by higher debt service coverage and liquidity, a commitment to rate adjustment in order to preserve financial strength and a rebound in sales in 2010 as a result of the economic recovery.

--The 'A+' rating takes into account the service area's large commercial and industrial customer base and below-average wealth indicators. However, this has historically been offset by BPU's relatively stable financial metrics which are supported by the combined system's effective cost-recovery mechanisms. Financial performance has improved in 2010 despite increasing contributions to the Unified Government of Wyandotte County (UG).

--Following a cost-of-service study, the utility is implementing a multi-year rate increase. Fitch notes that BPU has already implemented two rate increases over the last one year out of the four planned through 2013. While the increase should strengthen margins and liquidity, it is equally important to reduce payment in lieu of taxes (PILOT) to its historic level in conjunction with the rate increases.

--Though not unique to the BPU the recently proposed regulations by the Environmental Protection Agency (EPA) may require additional capital expenditure on the coal plants. Favorably, the recent implementation of an environmental surcharge in the rate structure provides an effective mechanism to recoup these costs.

--Following several years of flat to negative growth electric sales increased in 2010. The recent negative trend may have relieved some of the pressure associated with the utility's capital plan; however, Fitch notes that a long-term negative growth pattern has the potential to adversely impact financial margins.

KEY RATING DRIVERS:

--Contributions to the UG, including PILOT payments and free services comprise about 12% to 15% of total revenue and are above average for the current rating. Adherence to the plan to reduce PILOT payment to its historic level is important.

--The revision to a Stable Outlook reflects Fitch's expectation that the approved future rate increases will be implemented.

--The recently improved and projected financial metrics are predicated on rate increases. Attainment of the same will be a key driver. The current rating assumes a clear movement in the BPU's cash position towards management's stated goal of 60 days.

SECURITY:

The bonds are secured by net revenues of the combined water and electric system. Net Revenue as defined in the series 1985 indenture consists of gross revenues of the combined utility system minus

operation and maintenance (O&M) expenses. Note that PILOT payments are not included in O&M expenses for calculation of debt service coverage under the indenture.

CREDIT SUMMARY:

BPU is a combined electric and water utility system serving approximately 65,000 electric and 51,000 water customers. The utility is an integrated system which owns generation, transmission and distribution assets. Approximately 85% of BPU's revenue is derived from the electric system with the balance coming from the water system. Sales to commercial and industrial customers account for about 60% of the electric system revenue with residential customers accounting for about 20%. BPU's board recently approved a multi year electric and water rate adjustment plan thru 2013 where electric rates will be increased 7% annually while water rates will be increased approximately 7.75% annually through 2013.

BPU's financial performance has fluctuated over the last couple of years. Given the share of commercial and industrial customers in the utility's revenue mix BPU was affected by the recession of 2008 and 2009. However, sales for 2010 increased by nearly 6% due to weather related consumption and the economic recovery. While BPU is exempt from federal and state income taxes and local property taxes, it is required to make a PILOT payment to the UG between 5% and 15% of gross revenues. BPU also contributes to the UG in the form of free services. Taken together, the free services and PILOT payment range from 12% to 15% of total revenue which is high for the rating category. While coverage was low in 2009 it improved in 2010 as a result of increased sales and the mid year rate increase. The utility is forecasting debt service coverage of between 1.72 times (x) and 2.12x after payment of PILOT. Liquidity is forecasted to increase from 44 days as of December 2010 to 60 days by 2013.

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In addition to the sources of information identified in Fitch's Revenue-Supported Rating Criteria, this action was additionally informed by information from Creditscope.

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria', Oct. 8, 2010;
--'Public Power Rating Criteria', March 28, 2011.

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=564565

U.S. Public Power Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=613065

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