

Wyandotte County Unified Government, Kansas; Combined Utility

Primary Credit Analyst:

Peter V Murphy, New York (1) 212-438-2065; peter_murphy@standardandpoors.com

Secondary Contact:

Scott D Garrigan, Chicago (1) 312-233-7014; scott_garrigan@standardandpoors.com

Table Of Contents

Rationale

Outlook

Markets

Economy Is Still Expanding And Diversifying

Operations

Related Criteria And Research

Wyandotte County Unified Government, Kansas; Combined Utility

Credit Profile		
US\$89.985 mil util sys imp & rfdg rev bnds ser 2011-A due 09/01/2036		
<i>Long Term Rating</i>	A+/Stable	New
Wyandotte Cnty / Kansas City Unif Govt comb util		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Wyandotte Cnty/Kansas City Unif Govt util sys imp rev bnds ser 2004B dtd 11/30/2004 due 09/01/2005-2007 2009-2019 2021 2023-2028 2032		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Wyandotte Cnty/Kansas City Unif Govt (Wyandotte Cnty Brd of Pub Util) util sys rev bnds ser 1998 dtd 12/01/1998 due 09/01/2002-2014 2018 2028		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'A+' rating to Wyandotte County Unified Government Board of Public Utilities (BPU), Kan.'s utility system refunding revenue bonds, series 2011A. At the same time, Standard & Poor's affirmed its 'A+' underlying rating on existing parity debt. The outlook is stable.

The 'A+' rating reflects our view of the following factors:

- Good financial performance, with management's policies relating to debt service coverage and liquidity and flexible rate design;
- A stable service area with potential for growth from significant commercial development, which continues despite the economic slump; and
- Good system operations, including ownership of relatively low-cost coal-fired base load power plants, and adequate water treatment capacity.

Sizable capital needs related to generation capacity and retrofits, and a somewhat concentrated customer base limit these strengths, in our opinion.

We have assigned a business profile score of '4' (on our scale of '1' to '10', '1' being the least risk), reflecting our view of good management, competitive rates, sound operations, and some concentration among the system's largest users.

The bonds are payable from the combined water and electric utility systems' net revenue. They will fund major environmental upgrades at coal-fired electric plants and advanced meters for both water and electric customers; and partially refund series 1998 bonds.

BPU provides electric and water service within Wyandotte County to about 65,000 electric and more than 51,000 water accounts. The service area economy is relatively diverse, in our opinion, with significant manufacturing-, government-, and transportation-related sectors. Most of the job growth in the past five years has occurred in

services and retail trade, offsetting decline in other areas. However, we believe customer concentration is fairly significant, with the 10 leading electric customers accounting for about 18% of system revenues. The county also benefits from its participation in the Kansas City metropolitan area economy. Despite the economic slowdown, Wyandotte has continued to see business investment across various sectors, with several large-scale developments ongoing and planned for 2012. However, we believe unemployment rates for the county remain high, at about 11% as of February 2011.

Electric operations provide the majority of revenues, at 85%, and water operations provide the balance. The utility is capable of meeting its own energy requirements and selling excess base load capacity occasionally. The utility purchases additional power when cost-effective, to meet seasonal demands.

On the water side, BPU has shifted its water treatment process of surface water from the Missouri River to underground well water filtration in conjunction with its latest water treatment facility. The effect of this shift has been lower treatment costs, and has eliminated drought-related supply concerns.

Fiscal 2010 financial performance was in line with long-term trends, as debt service coverage rebounded from a dip in fiscal 2009 related to deferred fuel revenue. Unaudited 2010 figures indicate debt service coverage of 2.6x, up from 1.8x in 2009, if adjusted for deferred revenues collected in 2009 but recognized in 2010. Liquidity is historically adequate, in our view, in the one-to-two months' expenditures range, including almost \$12 million in rate-stabilization reserves as of fiscal year-end 2010. After adjusting for deferred revenues, fixed charge coverage, which includes capacity payments associated with certain power purchases, was strong, in our opinion, at 1.6x in fiscal 2010, up from 1.1x in 2009. Due to rising operating and future debt service costs, the board adopted a series of annual rate increases in 2010 covering fiscals 2011-2013. We expect these to increase combined revenues more than 7% annually, and that the additional revenues will let the board maintain sound coverage levels, even with the slight increase in annual debt service related to the new money portion of the 2011A bonds. In addition, the board has approved a new rate rider linked to state and federal environmental mandates which is designed to offset any debt service on projects related to such mandates. The board expects to issue \$100 million in 2013, mainly for power generation projects.

Outlook

The stable outlook reflects our expectation that the good financial margins and liquidity will continue at adequate levels as management copes with growth-related and other capital pressures that might arise from regulatory changes. Rating stability also depends on management's ability to meet its load requirements in the near term without placing pressure on coverage and cash levels due to its ability to continue adopting the necessary revenue enhancements.

Markets

BPU provides electric service to all of the territory of the unified government except for the territory limits of the cities of Bonner Springs, Edwardsville, Lake Quivira, and a small unincorporated area south of Bonner Springs, Kan. In addition, the utility also provides wholesale power, under contract, to the Kansas Municipal Energy Agency (KMEA) and the city of Columbia, Mo. BPU has wholesale power sales agreements with KMEA through 2022 and Columbia through 2023. Each is obligated to pay a demand charge for megawatt (MW) of capacity contracted to be

purchased, kilowatt-hour (kWh) purchased, a fuel charge, operation and maintenance charges, and their share of payments in lieu of taxes for their respective power sales.

BPU's primary electric customers are residential (89%); however, the commercial and industrial classes account for the majority of kWh sales and revenues. These account for about 60% of energy sales but only 55% of electric system revenues, indicating a slight preference in rates for those two classes, which are key to the local economy. The 10 leading retail electric customers account for 18.0% of electric system revenues, including General Motors Corp. (GM) at 3.9%.

Economy Is Still Expanding And Diversifying

Wyandotte County's economy continues to expand, and has attracted several large retail, commercial, and entertainment projects in the past decade to the western part of its service territory. These include Kansas International Speedway, which had its inaugural season in 2001; and Village West, a mall with anchor tenants of Cabela's Inc. and Nebraska Furniture Mart. Recent developments in Village West include two sports stadiums, and a planned casino, expected to open in 2012, and ultimately a hotel. In addition, Google Inc. announced in March 2011 that it plans to launch a super-fast internet network throughout Kansas City, Kan. Board officials expect that the service will provide the city with a competitive advantage in attracting economic growth.

Anchoring the county's sizable industrial base, GM recently added a third shift at its plant, which assembles the Chevy Malibu and Buick Lacrosse, and is the utilities' largest customer. Additional large employers within the county, all of which employ more than 1,000 combined include:

- Unified School District No. 500
- University of Kansas Hospital and University of Kansas Medical Center
- BNSF Railway Co.
- Providence Medical Center

Residents also have access to employment elsewhere in the Kansas City area, which covers parts of Missouri and Kansas. Despite access to what we consider a diverse economic base, wealth and income levels remain below average. Median household effective buying income is just 84%, 82%, and 75% of state, national, and metropolitan statistical area averages, respectively. Unemployment, which was 7.4% in 2008, has risen to more than 10.0% in the past two years, and is currently 11.4%.

Operations

Electric system

The utility has three electric power generating stations and with power purchase agreements has ample power to meet its peak demand (501 MW in fiscal 2010). The board's generating assets are predominantly coal-fired. It also has gas- and oil-fueled units, as well as hydro resources from the Southwestern Power Administration (38.6 MW) under contract through July 2020, and renewable energy from Trade Wind Energy (25 MW) under contract through 2026, providing what we view as good fuel diversity among the board's peak and baseload resources.

BPU has wholesale power sales agreements with KMEA and the City of Columbia, Mo. for the sale of 38 MW and 20 MW, respectively, of output from the Nearman Station Unit No. 1. The KMEA agreement expires in 2022, and

the Columbia one terminates on the earlier of 2023 or deactivation of Nearman Station Unit No. 1. Each is obligated to pay a demand charge for MW of capacity contracted to be purchased, kWh purchased, a fuel charge, operation and maintenance charges, and their share of payments in lieu of taxes for their respective power sales.

Water system

The utility provides water service to 51,000 customers in all areas within the territory of the Unified Government, excluding Bonner Springs and Lake Quivira; wholesale water service is also provided to LanDel Water District, Suburban Water District of Leavenworth County, the cities of Bonner Springs and Tonganoxie, Kans., and Consolidated Water District No.1. The 10 leading customers account for 23% of water by volume and about 10% of water revenues. Like the electric system, residential customers account for the bulk of the total customer base, but commercial and industrial customers account for the bulk of water sales. Water comes from the Missouri River, which reduces treatment costs relative to ground water. The board's strategy is to be a major regional supplier, and it sells water to five interconnected water utilities under contracts of various lengths, some as long as 20 years. These wholesale sales enable the board to maximize use of its treatment and delivery capabilities to keep retail rates affordable.

Related Criteria And Research

USPF Criteria: Electric Utility Ratings, June 15, 2007

Ratings Detail (As Of April 21, 2011)		
Wyandotte Cnty / Kansas City Unif Govt comb util BHAC) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt comb util (wrap of insured) (AMBAC & AGM) (SEC MKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt comb util (wrap of insured) (AMBAC, AGM & BHAC) (SEC MKT) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Wyandotte Cnty/Kansas City Unif Govt util rev		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Copyright © 2011 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.