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from  Montage Investments

## Credit Snapshots: Regulated Utilities and Missouri Counties

### **Moody's Places Ratings of Most Regulated Electric and Gas Utilities Under Review for Upgrade**

On November 8, Moody's announced that it was reviewing the ratings of most regulated utilities in the US for potential upgrades. Moody's stated that its review considers "improving regulatory trends in the US, including better cost recovery provisions, reduced regulatory lag, and generally fair and open relationships between utilities and regulators."

Moody's review list includes dozens of widely held issuers, including:

- AmerenUE
- Commonwealth Edison
- Consolidated Edison
- Florida Power and Light
- Kansas City Power and Light
- PacifiCorp
- Public Service Company of Oklahoma

Moody's expects to conclude its review within approximately 90 days, with most of the utility ratings expected to move up by one notch (e.g., an upgrade to A2 from A3). Ascent continues to view regulated utility operating companies as relatively strong and stable credits in the current rate environment, and have been selectively adding utility bonds to client accounts in recent months.

### **S&P Downgrades St. Louis and Jackson Counties in Missouri**

As part of its roll-out of new local government general obligation (G.O.) rating criteria (discussed in *Municipal Market Comments* dated Sept. 19, 2013), S&P recently downgraded the ratings of both St. Louis County and Jackson County, Missouri by one notch. The downgrade affects the G.O. and appropriation bond ratings of these counties and impacts a number of bond issues that are widely held by Missouri municipal bond buyers.

While most of the rating impacts resulting from S&P's criteria modification have been affirmations of existing ratings or one notch upgrades, there have been a number of notable issuers that have received minor downgrades. Issuers including Omaha (to AA+ from AAA) and Cuyahoga County, OH (to AA from AA+) have been adjusted down, typically

due to heavier weighting of pension funding shortfalls or persistent weakness in local area economies. In the majority of cases of rating adjustment, up or down, we do not view the change as a reason to alter our investment outlook for the issuers' bonds.

### **St Louis County, MO**

*General Obligation Bonds – Aaa/AA+/AAA*

*Special Obligation Bonds – Aa1/AA/Inr*

St. Louis County remains a high quality credit. S&P's new analysis placed greater weight on the strength of the local economy, lack of formal debt management or fund balance policies and the relatively low funding level of the County's employee pension fund and police pension fund (funded at 64% and 56%, respectively). Even so, S&P rated the County as "strong" or "very strong" in each of the seven analytical areas it now incorporates into its ratings. We view this action as a recalibration of S&P's rating, rather than any indication of a weakening in the credit quality of St. Louis County. Consequently, we continue to rate St. Louis County G.O. bonds and special obligation bonds as a "buy" for Ascent accounts.

### **Jackson County, MO**

*General Obligation Bonds – Aa2/Inr/Inr*

*Special Obligation Bonds (Truman Sports Complex Project)– A1/A/Inr*

Jackson County also remains a high quality issuer, albeit one that faces greater challenges than St. Louis County. In S&P's new analytical framework, the county's high debt load and relatively weak financial performance resulted in an adjustment downward. Further weighing on the special obligation bond ratings is the fact that the sports complex bonds, issued to fund renovations at Arrowhead Stadium and Kaufman Stadium, are viewed as non-essential projects by the rating agencies. In comparison, Moody's and S&P rate the Special Obligation Bonds for the Truman Medical Center one notch higher, Aa3 and A+, respectively. The rating differential reflects the greater perceived essentiality of the medical center project, even though both the medical center bonds and the sports complex bonds are ultimately secured by the same pledge of available general revenues of the County. In fact, the sports complex bonds are primarily supported by a pledge of sales tax revenues approved by voters to pay debt service. While we acknowledge the value of the County pledge to support debt service if necessary, the sports complex bonds have to this point been well supported by pledged sales tax and other revenues. We continue to view Jackson County's special obligation bonds as suitable holdings for conservative investors and hold these bonds in client accounts at Ascent.

A handwritten signature in black ink, appearing to read "Brian Tournier".

**Brian Tournier**

Director of Research

Ascent Investment Partners

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