

Fixed Income Insight

May 30, 2003

Municipal Credit Overview

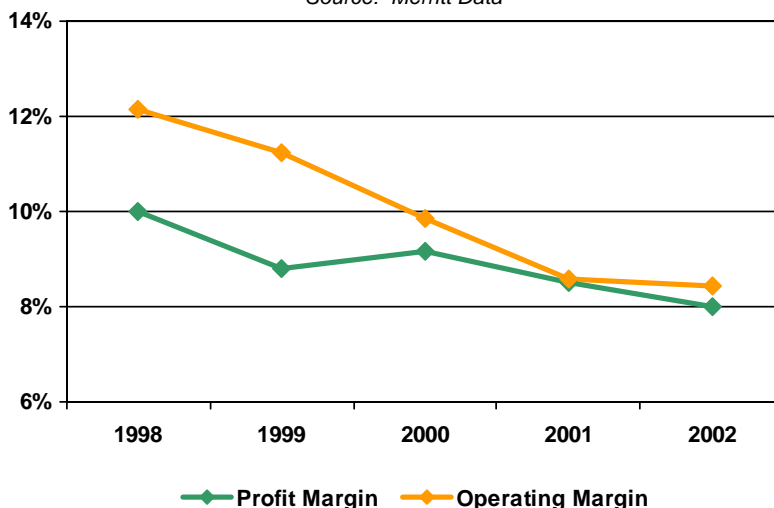
Public Power Holding Credit Quality Better than Investor-Owned Utilities

The financial performance of America's Public Power credit sector has been showing gradual slippage in the last several years. Despite the decline, the overall condition of these municipal electric entities still remains much better in recent years in comparison to investor-owned utility companies. Approximately 52% of all municipal electrics tracked by Merritt Research have reported for the most recent fiscal year.

During the late 1990s, municipal electric systems generally had to sharpen their pencils to compete with the threat of deregulation that was coming their way from the private investor-owned utility (IOU) sector. The process of deregulation and the de-linking of generation from distribution capabilities disjointed the IOUs, thus causing a huge number of downgrades and even some bankruptcies. By comparison, the public power sector fared relatively better. In many cases they trimmed budgets and reduced debt to minimize rate increases. As the chart shows, margins have steadily fallen. The complete Merritt data history indicates that the margins shown in 2002 are at their lowest levels in ten years. Nevertheless, there is some offsetting strength underlying the lower margins: debt-to-plant is considerably lower than ten years ago, capacity cost has fallen to the sector's lowest levels in years, and "days available in cash" has climbed to near ten-year highs.

Public Power Sector Profit Margin vs. Operation Margin

Source: Merritt Data



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Most Toll Roads are on the Road to Solid Financial Performance

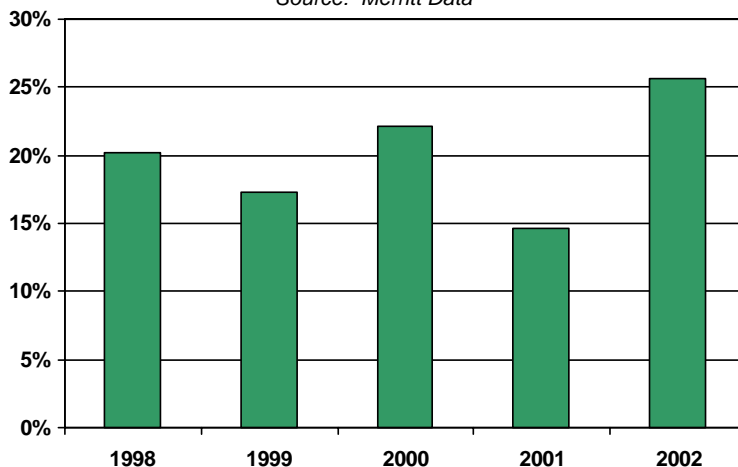
While many municipal bond credits started to see their financial conditions deteriorate in 2002, audited reports coming from the toll road sector appear to be showing sharply improved bottom line numbers.

With 54% of the toll roads tracked by Merritt Research Services included in the database, profit margins are hovering well above the figures recorded in 2001. If the trend holds, the fiscal year 2002 median profit margin of 25.6% would substantially beat the previous year's level of 13.6%. However, some of the largest toll roads have a fiscal year end date of December 31, and are just now beginning to be counted.

To date, factors that are likely contributing to the stronger performance in the most recent calendar year is increased traffic resulting from a downturn in air travel subsequent to the 9/11 tragedy as well as an incremental increase in traffic on the seasoned toll roads. The Florida Turnpike leads all others as the most profitable toll road in the nation with a 57% profit margin. However, a few recently constructed toll road systems are not realizing the projections forecasted before they were constructed, such as the Pocahontas Parkway Association Toll Road in Virginia.

Toll Road Sector Profit Margin

Source: Merritt Data



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