

Summary:

Perryville, Missouri; Gas

Primary Credit Analyst:

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

Secondary Contact:

Judith Waite, New York (1) 212-438-7677; judith_waite@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Perryville, Missouri; Gas

Credit Profile

US\$2.035 mil natural gas sys rfdg rev bnds ser 2012B due 07/01/2019

Long Term Rating

A/Stable

New

Rationale

Standard & Poor's Ratings Services has assigned its 'A' rating to Perryville, Mo.'s series 2012B natural gas system refunding revenue bonds. The outlook is stable.

The rating reflects our assessment of the following factors:

- Strong debt service coverage, exceeding 2x after transfers in each of fiscal years 2009-2011;
- Limited capital needs, and
- An automatic gas cost pass-through rate mechanism, which we believe limits the city's commodity price risk.

We believe offsetting factors include a limited and highly concentrated customer base, with the top two industrial customers accounting for 58% of gas sales and 54% of revenues in 2011.

A pledge of the natural gas distribution system's net revenues secures the bonds. The system serves 3,200 mainly residential customers. Perryville, population 8,200, is about 70 miles south of St. Louis and the Perry County seat. The local economy is manufacturing-based, but current labor statistics indicate unemployment, at 5.9% for Perry County as of February 2012, is well below the national average.

Gas is purchased from Illinois Municipal Gas Agency under a long-term contract with no fixed payments or minimum take requirements. The leading customers account for 54% of fiscal 2011 revenues. The system's long-time largest customer (42% of revenues), is Gilster-Mary Lee Corp., private label food manufacturer that has several facilities in the area, including its corporate headquarters, and has recently added trucking operations to Perryville. We believe that in the event of a sizable reduction in gas sales to the leading customer, the system would generate sufficient net available revenues to meet its debt obligations.

Financial performance is strong, in our opinion, due in part to what we view as a prudent rate mechanism that passes through variable commodity costs on a timely basis. A low debt burden with limited capital needs also contributes to strong debt service coverage levels, which, after transfers to the city's general fund, was 2.6x in fiscal 2011 and has exceeded 1.75x the past three years. The system has limited capital needs, and management expects all identified projects will be paid for using annual revenues. No additional debt is planned. The 2012B bonds will refund existing bonds, and all of its bonds mature within seven years. We believe liquidity is strong, with fiscal 2011 audited financial statements (for March 31, 2011) indicating that unrestricted cash and investments of \$5.2 million account for what we consider a high 405 days' operating expenditures, up from 379 days a year earlier.

Outlook

The stable outlook reflects our expectation that the low debt burden and timely cost recovery mechanism will enable Perryville to maintain strong debt service coverage. If the system experiences a significant decline in sales to its largest customers, we could lower the rating. We do not expect to raise the rating in the next two years.

Related Criteria And Research

- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept. 15, 2008
- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2012 by Standard & Poor's Financial Services LLC. 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 Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P 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 (negligent or otherwise), 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 or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. 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 does not act as a fiduciary or an investment advisor except where registered as such. 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.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

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 nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain 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.