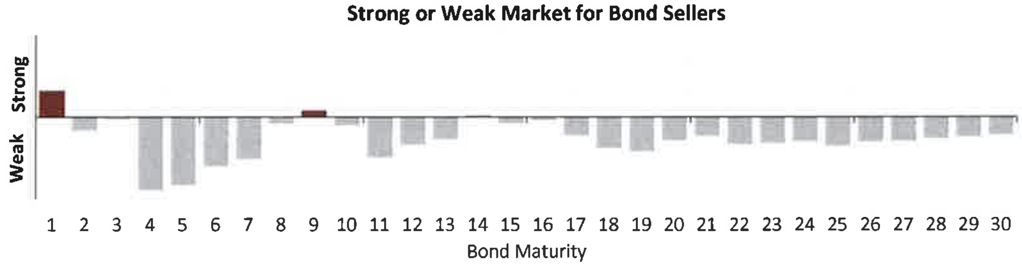
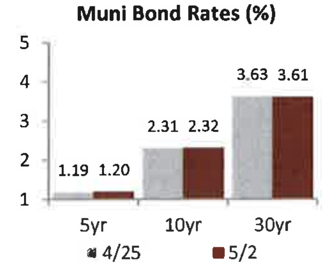
MUNICIPAL ISSUER BRIEF





Heading into this week, the "weak" dynamic for pricing power persists as the market has continued to grind into lower yield ranges, which has brought about resistance to higher prices across the curve. Still, the below-average new-issue supply remains an attribute to allow for better pricing for issuers.

MARKET UPDATE

MUNICIPALS IMPROVE SLOWLY BUT SURELY: Bond markets gained last week while on Friday a dizzying move in interest rates occurred with national economic data releases competing with a growing conflict in Ukraine. Municipals held their own throughout.

INVESTORS & ISSUERS: Municipals continue to defy expectations.

- A shockingly low Gross Domestic Product economic release, a benign Federal Reserve policy statement, a surprising high monthly U.S. job creation data-set and Russian military policy toward Ukraine **didn't mean much in the end for tax-exempts.** Last week, tax-exempt rates grinded to slightly lower yields as a series of potentially market-moving events were overlooked.
- Severe lack of supply this week once again **helps issuers that are pricing bonds** (see **Figure 1** for illustration).
- **Competitive deals found mixed reception**, as dealer firms became wary of investor demand. This week features a high-grade Delaware Transportation Authority competitive deal **that should give us a sense of dealer commitment to the market.**
- **Higher-yielding credits continue to perform the best in this market.** Issuers of triple-B rated or lower can secure some of the best financing rates in recent memory, however, lower-rated issuers are priced on an individual basis (see the **box below**).
- **Healthcare names have done particularly well**, as evidenced by Royal Oaks of Michigan and the Lucie Halter Children's Hospital of California last week, among others. (See **page 3** for more regional deals).
- New York and California are no longer **Trending Hot** this week, as demand for both waned last week. While considered very liquid and helpful for price discovery (which is helpful to other issuers in these states) the **positive pricing trend for both has slowed**.
- **Several recently issued (and downgraded) New Jersey bonds traded better in secondary** markets after having given up an additional 10 basis points in yield during original pricing (see **Topic of the Week** for more).

PRICE DISCOVERY CHALLENGES: The **Palm Beach County Health Facilities Authority** served as a conduit for the financing for the unrated Mt. Sinai Residences of Boca Raton two weeks ago. The longest maturity in 2049 priced with a 7 1/2% coupon to yield 7.625%. On Tuesday last week the bonds traded in the secondary market at 6.80%—an 82.5 basis point difference. On Friday, the bonds traded at 6.29%, a whopping 132 basis points richer than the original pricing. <u>This is a considerable amount of potential savings lost for the issuer.</u>

BUYERS BITES:

WHAT IS TRENDING HOT:
1) Shorter call options
2) Healthcare credits
3) Puerto Rico

CURRENTLY HARDER SELLS:
1) Longer dated, lower coupon structure (sub 3.5%)

WHO IS REPORTEDLY BUYING:
Life insurance companies, high-yield mutual funds

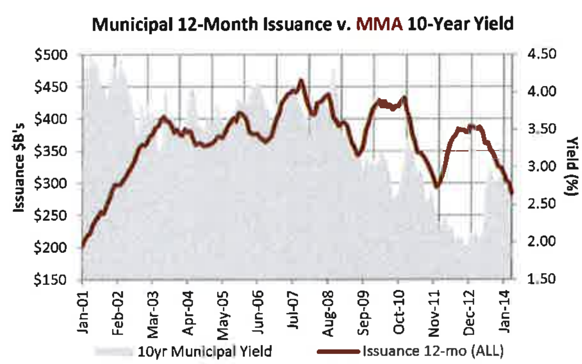


Figure 1: *This past April, municipal issuance was slightly more than $25 billion, a drop of nearly 40% from April of 2013. This moves the 12-month rolling exempt municipal issuance figure to $288 billion—<u>the lowest figure since 2002</u>. The chart* ***above*** *illustrates the rolling 12-month total issuance since 2001. Note Build America Bond issuance is not included in the chart, hence the drop of the municipal total in the 2009-2010 time frame.*

TOPIC OF THE WEEK: NEW JERSEY & YOU

NEW JERSEY: Last week, **Fitch Ratings** downgraded New Jersey's underlying rating to A-plus from AA-minus, a move that followed a similar downgrade by **Standard & Poor's** two weeks prior. The downgrade is a result of revenue shortfalls, and the use of one-time measures to balance the budget, among other actions. One of the triggers for the rating change was the disclosure last Monday by the state's Treasury office that income tax collections were $700 million short of the Governor's estimates, which created a significant shortfall in the latest budget. For any issuer reading public finance news last week the event is no surprise. What was not covered by the media was how it cost the state 10 basis points on nearly $1.5 billion in bond financings in April. The **New Jersey Educational Facilities Authority** and the **New Jersey Economic Development Authority** priced $201 million higher education capital improvement bonds and $1.23 billion school facilities construction bonds, respectively, in the two prior weeks to the disclosure but neither had settled the deals. The preliminary official statements used to market each deal did not include the missed tax collections and as a result investors did not have all pertinent information to make an informed decision. Because this news came out after pricing but before the closing of the deal, it became a particularly difficult back-office issue for each selling group. Any bond that had priced or that had traded in the secondary markets had to be reviewed and altered depending on the course of action. The options were:

1) Pull each deal completely and start over with a new POS;
2) Proceed with no changes, although now the entire pool of investors had the right to cancel their orders (which **MMA** understands would have happened on a large scale); or
3) **Alter the price of the bonds and amend the POS.**

The third option was chosen for both deals and working with the underwriters and investors, the agreed upon change was that yields would be 10 basis points higher. Even with this change some investors bowed out on the taxable and tax-exempt bonds.

WHAT THIS MEANS FOR YOU: Simple: don't sell bonds when internal data is set to be released that isn't in your POS. The larger the issuer, the more complicated this can become, especially in this situation in which the issuers are conduits of the state and likely less involved in the state's decision-making process. Communication between bodies of government is essential, and in this case the failure to do so cost New Jersey taxpayers. Still, 10 basis points is not a large penalty and underscores a the impact of little municipal issuance in the current market. Point: this continues to be an issuer-friendly market. Of note—NJ bonds improved last week.

WASHINGTON, DC UPDATE

SEC TESTIFIES: Last Tuesday, SEC Chairman Mary Jo White testified before the House Financial Services Committee on various topics related to the Commission. Her comments touched upon a few items of interest to state and local governments.

First, the SEC is expected to move forward with reforms to Money Market Mutual Funds (MMMFs) and finalize rulemaking that was proposed last summer. Of note, the SEC proposed to change the fundamental feature of these funds—a stable net asset value (NAV)—to a floating NAV. This could be disruptive to state and local governments in two ways: 1) those that use funds as part of their cash-management program may have to find alternative investments, and 2) as MMMFs are the largest purchasers of short-term municipal bonds, their buying power may dampen, which could increase debt issuance costs. There has been a push to exempt muni MMFs from the regulations, but Chair White did not commit to such a proposal.

Second, the Office of Municipal Securities will continue its work to implement the Municipal Advisor (MA) Rule and expects the office to devote significant attention to this endeavor and provide ongoing legal advice and technical support.

Finally, the Office will also continue to monitor pension and disclosure issues and assist the Commission with its efforts related to market structure and price transparency.

TRANSPORTATION FUNDING: The Congressional Budget Office has projected that revenues from the Highway Trust Fund will not be able to meet project needs in fiscal year 2015, adding more pressure for Congress to find additional funds, a subject being discussed tomorrow at a Senate Finance Committee hearing on the funding and financings of highways and transit. The current 2-year surface transportation funding program, Moving Ahead for Progress in the 21st Century (MAP-21), expires at the end of September.

Several congressional committees have jurisdiction over surface transportation funding, which is one reason why it is difficult for Congress to complete a new multi-year bill. In March, the Senate Environment and Public Works Committee worked on a 6-year plan, but with Congressional elections coming this Fall, such a long-term plan is unlikely to come to fruition. The most likely scenario at this time will be for Congress to extend the current MAP-21 program for a certain amount of time, an exercise that has been done numerous times in the past.

Adding to the mix is a proposal sent to Congress by the President last week, the Grow America Act, a 4-year $302 billion proposal. Of interest to state and local governments, the Act would allow states to collect tolls on existing highways, bridges and tolls, as well as increase loan and grant funding for projects.

REGIONAL BOND ISSUES (Moody's/S&P/Fitch)

NORTHEAST

On April 29th, **Bank of America Merrill Lynch** priced $31 million of Health Quest Systems Inc. revenue bonds for the **Dutchess County Development Corporation, NY**; A3/A-/NR; callable in 7/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2024	5.00	3.22	+89
2029	5.00	3.85	+87
2044	5.00	4.34	+69

Notes: Healthcare issues continue to do well in the current market

MID-ATLANTIC

On April 30th, **Raymond James & Associates** priced $116 million of general improvement water refunding bonds for **Newport News, Virginia**; Aa1/AA+/NR; callable in 7/15/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.38	+18
2024	5.00	2.48	+15
2034	3.00	2.90	+30

Notes: Sub 2.5% interest rate in 10-years is excellent for the city

MIDWEST

On April 29th, **Morgan Stanley & Co.** priced $442 million of William Beaumont Hospital Obligated Group bonds for the **Royal Oak Hospital Finance Authority, MI**; A1/A/NR; callable at par in 3/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.90	+71
2024	5.00	3.30	+98
2039	5.00	4.42	+83

Notes: The issuer saw strong demand and re-priced to lower yields

SOUTHEAST

On April 30th, **Richland County, South Carolina** sold $35 million of unlimited tax general obligation bonds to the **JPMorgan Securities LLC**; Aa1/AAA/NR; State Aid withholding; callable at par in 3/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.23	+3
2024	5.00	2.33	0
2029	3.25	3.30	+31

Notes: Lower coupons around 15 years interested P&Cs

SOUTHWEST

On April 29th, **Morgan Stanley & Co.** priced $78 million of Arizona State University speed revenue bonds for the **Arizona Board of Regents**; A1/AA-/NR; callable in 8/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.53	+34
2024	5.00	2.84	+52
2044	5.00	4.03	+38

Notes: ASU now offers undergraduate degrees completely online

FARWEST

On April 29th, **D.A. Davidson & Co.** priced $33 million of general obligation bonds for the **Tumwater School District, Thurston County, WA**; Aa2/NR/NR; School Bond Guaranty; callable at par in 6/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.60	+40
2024	4.00	2.75	+42
2028	4.00	3.26	+39

Notes: Shorter maturities were oversubscribed for immediately