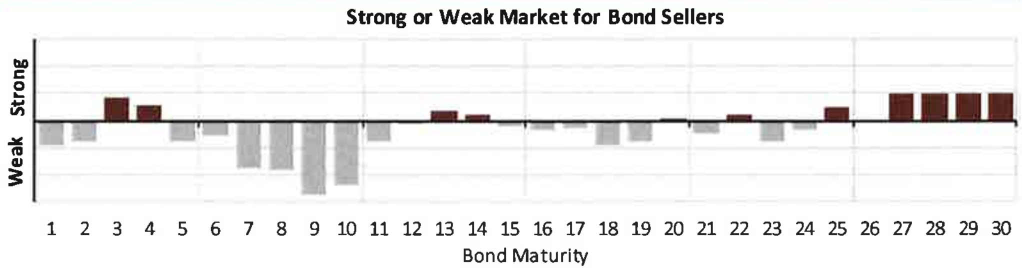
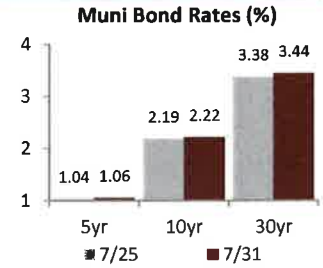
MMA The Power of Independence

AUGUST 4, 2014

MUNICIPAL ISSUER BRIEF





Heading into this week, after last week's price action in which tax-exempts fought negative headwinds out of taxable bond markets, the curve does not look as appealing as it did most of last month. We note recent secondary selling pressure in the 5- to 10-year maturities that did well last week may not do so this week.

MARKET UPDATE

ECONOMIC INDICATORS MOVE INTEREST RATES HIGHER: The July rally came to a halt in the middle of last week after an important data-point that tracks U.S. economic growth showed signs of improvement and worldwide bond markets declined.

INVESTORS & ISSUERS: Economic data moves borrowing rates higher

- The U.S. Gross Domestic Product for the 2nd quarter this year increased more than many economists expected, leading Treasury yields—and other bond market rates—**into higher ranges last week as investors** increased the odds that the Federal Reserve would begin to increase the Federal funds target rate.
- The focus for most market observers was the reversal in interest rates mid-week—and this should not be discounted by municipal issuers—**but we continue to see a very strong environment for states and localities in the current context.**
- Strength was noted as municipal interest rates rose at a slower pace than other bond markets and in the primary market buyer interest was strong and **even overwhelming in some contexts**.
- The best example on Wednesday, when Suffolk County, Virginia sold bonds competitively and before the auction was finalized several large insurance companies had put in large orders for the deal—**allowing the County to secure 3% coupons in 15-year maturities.** (See more on regional deals on **page 3**.)
- Most issuers have seen very strong investor interest and **we expect the same this week** as supply is below historic averages.
- The tobacco and airport sectors **saw strong performance in July after a difficult June**, making for a good backdrop for Rhode Island and Detroit as they intend to sell into these sectors.
- August in 2014 will see the highest amount of reinvest dollars coming into the municipal market compared to the last 3-years. This is likely to encourage existing investors to put their dollars back **into the market and is another favorable near-term condition.**

NEW BILL TO EXTEND SMALL-ISSUER BQ LIMIT: Several lawmakers proposed legislation that would extend the small issuer bank-qualified limit from the current $10 million to $30 million. The bill, Municipal Bond Market Support Act of 2014 (H.R. 5199), has bipartisan co-sponsors and was sent to the House Ways & Means Committee for consideration. Banks have become an important buyer-base for municipalities **but it is unlikely to become law.**

BUYERS BITES:

WHAT IS TRENDING HOT:
1) 5– to 10-year maturities
2) Tobacco
3) Airports

CURRENTLY HARDER SELLS:
1) Illinois
2) Pennsylvania GO and Turnpike revenue bonds

WHO IS REPORTEDLY BUYING:
Property & casualty insurance companies, life insurance companies, large banks, mutual funds

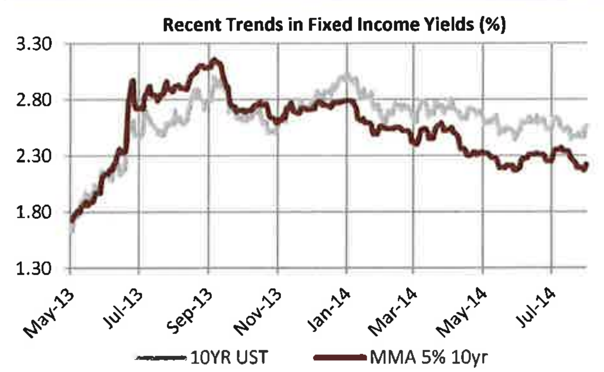


***Figure 1**: **Above** we track the 10-year borrowing rate for the U.S Government (grey line) and **MMA**'s triple-A tax-exempt borrowing rate (created by the largest municipal underwriters) since May of 2013. First, note that current rates are at their lowest in over 12-months. Additionally, note the difference between the two lines has grown in the last few weeks. This shows tax-exempt bonds outperforming Treasury bonds, indicative of the favorable backdrop for borrowings in the current context highlighted in many of the bullets in this week's **Investors and Issuers** section to the **left**.*

TOPIC OF THE WEEK: INFRASTRUCTURE FINANCE

INFRASTRUCTURE FINANCE: On Wednesday last week a water main that carries up to 75,000 gallons per minute ruptured out of a 93-year-old pipe allowing water to pour out into the streets of Los Angeles for more than 4 hours. Meantime, in Washington, the House of Representatives and U.S. Senate once again passed a short-term bill to keep the Highway Trust Fund running just hours before the Federal Government would have had to begin cutting transportation reimbursements to states. Last month the Administration signed an executive order to launch a new U.S. infrastructure initiative to encourage and facilitate state and local issuer's use of public-private partnerships (P3). Infrastructure repair/expansion has become a political conundrum – the need has been identified (although it unfortunately takes events of the magnitude that happened in LA) but policymakers and US citizens have largely been unable to agree on how to address the problem. **MMA** also notes a strong lack of appreciation for the system that is currently in place to fund over two-thirds of U.S. infrastructure: the municipal bond market. In fact, as Congress left the Beltway for summer recess, President Obama at a press conference last Friday chided their inaction on infrastructure improvements. Still, there are elements to the President's plan (the Build America Investment Initiative) worth consideration. The President is seeking to expand the use of P3s outside of the 6 states that reportedly have represented two-thirds of the P3 projects to date and expand them in particular to the 20 states who have not engaged in a single transaction a P3. Essentially, the program intends to match local governments with private financiers and provide technical assistance in helping governments make use of various federal credit assistance programs. There will also be a taskforce that will take 6 months to look into barriers to private investment in US state and local infrastructure.

PUBLIC PRIVATE PARTNERSHIPS SINCE 2008 ($B)							
Project Name	**City**	**State**	**Total Cost**	**Muni Bonds**	**Federal**	**State/ Local**	**Private Equity**
Central Texas Turnpike System	Austin	TX	3,250	1,358	900	807	
E-470 Tollway	Denver	CO	1,230	1,230			
Intercounty Connector	Montgomery	MD	2,399	1,419	535	445	
Triangle Expressway	Northern CA	CA	1,135	270	473	460	
IH 635 Managed Lanes	Dallas	TX	2,615	615	850	507	664
North Tarrant Express 1 and 2a	Dallas	TX	2,047	398	650	573	426
Denver Union Station	Denver	CO	488		384	85	
Port of Miami Tunnel	Miami	FL	1,113		341	310	80
U.S. 36 Managed lane Bus Rapid Transit	Denver	CO	312		95	211	
Eagle Project	Denver	CO	2,043	453	1,367	168	54
Puerto Rico PR-22 and PR-5	Puerto Rico	PR	1,436				455
Iway (1-95 Relocation)	Providence	RI	610	610			
Missouri Safe and Sound Bridge Imp Prog	Jefferson	MO	685	685			
Downtown Tunnel/MLK Extension	Norfolk	VA	2,089	943	465	408	272
I-95 HOV Lane	Fairfax	VA	923	253	300	83	280
Ohio River Bridges East End Crossing	Louisville	KY	981	677		392	78
Presidio Parkway	San Francisco	CA	852	167	304	333	46
SR 91 Corridor Improvement	Riverside	CA	1,312		421	883	
North Tarrant Express 3a and 3b	Dallas	TX	1,638	374	845		413
Grand Parkway Segments D-H	Houston	TX	2,900	2,100	841		
Tappan Zee	New York	NY	4,979	3,379	1,600		
Ohio River Bridges	Louisville	KY	1,452	648	728	76	
I-4 Selmon Expressway	Tampa	FL	403	80	308	33	
I485 Charlotte Loop	Charlotte	NC	140	140			
Northwest Corridor	Atlanta	GA	834		541	233	60
U.S. Route 460 Corridor Improvements	Petersburg	VA	1,396	243		1,153	
Goethals Bridge Replacement	New York	NY	1,436	453	474	425	107
U.S. 36 Mgd Lane Rapid Transit Phase 2	Denver	CO	208	41	63	81	21
Total			**40,903**	**16,534**	**12,485**	**7,665**	**2,956**

WHAT THIS MEANS FOR YOU: Generally, this is a program that state and local governments should at least look into. The Administration targeted the transportation area as ideal for P3 implementation so if your government is currently considering engaging in transportation finance then this program may be worth your review. However, we remind all governments that through various measures over its tenure, this Administration (and accompanying Congresses) has attempted to subvert, change or outright cancel the exemption of taxable interest on municipal securities. It is very difficult to view this initiative as anything different. We point to the fact sheets that mention the need to close tax loopholes to help pay for the program, which is as a tacit nod to those looking to help pay for the program by removing/changing the current exempt status. Still, note that of the 28 major transactions since 2008 that the Department of Transportation lists (see **table above**) as having been approved or extended, 22 of them used municipal bonds of some kind that represented the largest funding source (40%) of total costs. Since 2012, all but one project used municipal bonds, which in aggregate paid for 47% of project costs. With this in mind, there are opportunities to be found in some instances for issuers to partner with private entities but **MMA** encourages a heightened prudence in engaging in these programs as concern that this may be a small step toward a larger goal of usurping local financing power into Federal hands.

SEC MCDC DELAYED

SEC EXTENDS MCDC DEADLINE TO DECEMBER: Late last week, the Securities and Exchange Commission (SEC) announced that it would **extend to December 1 the deadline for issuers to self report via the MCDC initiative** when they have possibly made inaccurate statements in bond documents over the past 5 years. Under the Municipal Continuing Disclosure Cooperation (MCDC) Initiative, governments, obligated persons, and underwriters are being asked to self report to the SEC if they believe there are any material misstatements in Offering Statements (OS) related to past compliance with outstanding continuing disclosure agreements for bonds issue dover the past 5 years (see 5/19 MIB for more). The deadline for underwriters to self report remains as the original date, September 10. The extension comes of the heels of industry efforts (GFOA, SIFMA, NABL, and BDA) asking for a deadline extension and clarification of the program. A full review of MCDC will be in next week's **Topic of the Week.**

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

NORTHEAST

On July 29th, **Raymond James & Associates** priced $10 million of unlimited tax general bonds for the **Oneida CSD, NY**; NR/A+/NR; callable in 6/15/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	4.00	1.50	+45
2024	5.00	2.69	+51
2032	3.50	3.61	+55

Notes: A BQ designation allowed for lower coupons out long

MID-ATLANTIC

On July 29th, **Loop Capital Markets** priced $92 million of VA pooled financing program infrastructure revenue bonds for the **Virginia Resources Authority**; Aaa/AAA/NR; callable in 11/1/24:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.31	+27
2024	5.00	2.33	+14
2034	3.75	3.40	+16

Notes: 5% coupons for 10-years and shorter found SMA interest

MIDWEST

On July 30th, **Barclays Capital Inc.** priced $291 million of tax-supported sports facilities refunding bonds for the **Illinois Sports Facilities Authority**; NR/A/BBB+; callable in 6/15/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	2.28	+125
2024	5.00	3.70	+153
2029	5.00	4.04	+128

Notes: High-yield demand spurred this deal's interest

SOUTHEAST

On July 29th, **JPMorgan Securities LLC** priced $61 million of McLeod Regional Medial Center Obligated Group revenue bonds for **Florence County Hospitals, SC**; AA-/AA-/NR; callable at par in 11/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	4.00	1.56	+53
2024	5.00	2.73	+56
2034	5.00	3.60	+47

Notes: Healthcare continues to do well; this deal re-priced richer

SOUTHWEST

On July 31st, **Wells Fargo Securities** priced $143 million of tax refunding bonds for the **Austin Independent School District, Texas**; Aaa/AA+/AA+; callable in 8/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.36	+31
2024	5.00	2.41	+23
2034	4.00	3.42	+25

Notes: The deal priced amid a Treasury sell off but still did well

FARWEST

On July 29th, **Robert W. Baird & Co.** priced $135 million of highway revenue bonds for the **Hawaii**; Aa2/AA+/AA; callable in 7/15/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	4.00	1.12	+8
2024	5.00	2.30	+11
2034	5.00	3.22	+8

Notes: This infrequent issuer was largely oversubscribed