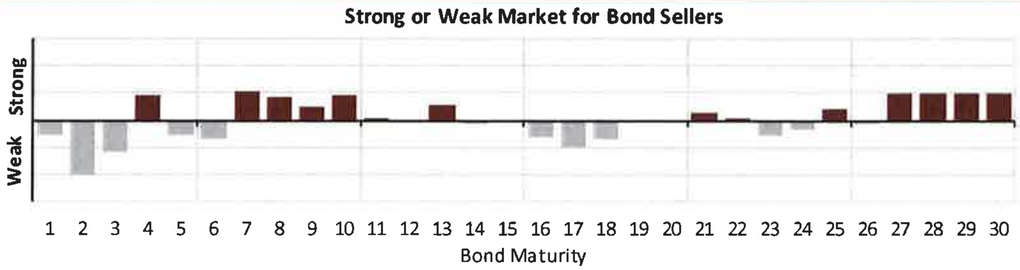
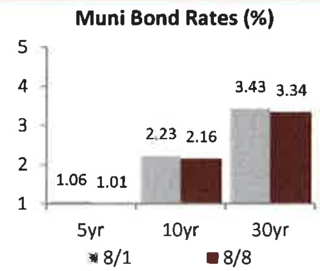
MMA The Power of Independence

AUGUST 11, 2014

MUNICIPAL ISSUER BRIEF





Heading into this week, the current market dynamics do not suggest any definitive trend as far as where on the curve issuers can expect the most aggressive pricing. Still, the recent strength in the 10-year range as well as for longer-dated maturities have made those parts of the curve relatively favorable.

MARKET UPDATE

INTERNATIONAL EVENTS MOVE BORROWING RATES LOWER: Last week it was worldwide tension in Russia, Gaza and Iraq that spooked investors into purchasing safe-sector bonds, principally Treasuries, which helped municipal rates improve as well.

INVESTORS & ISSUERS: The backdrop continues to favor issuers:

- Last week it was international events that made investors worldwide move into bond markets, **which helped continue the move toward even lower borrowing rates for governments.**
- Tax-exempt issuers greatly benefitted with most deals seeing **large oversubscriptions and re-pricings to higher prices.**
- High-grade and lower-grade issuers all benefited from this move as **large banks continue to focus on higher-rated state GOs** (like Connecticut last week or Florida's Board of Education) **while mutual funds with a performance mission focused on lower-rated issues** (like Wayne County airport last week). (See **page 3** for more on regional deals.)
- Issuers should track **New York City's** GO offering that began taking retail orders today ($140 million retail orders through this afternoon). The pension issue in the city has made headlines of late setting up an interesting dynamic between perceived credit problems versus the favorable market for issuers.
- Tomorrow high-grade Minnesota will competitively sell GO bonds. **The trend has been positive of higher-rated GO issuers.**
- We continue to see a lack of secondary trading of recently issued bonds as the investor-base of municipals continues to become more concentrated into buy-and-hold investors. For issuers right now, **this has generally helped to lower borrowing costs** but for the longer-term, less bond trading **puts the market more prone to volatility** and exacerbates difficulty in pricing.
- There will be an increase in issuance of higher education related municipal bonds this week and next. **Are you a higher education issuer? If so contact us for our full review of the sector**.

BUYERS BITES:

WHAT IS TRENDING HOT:
1) 10–year maturities
2) Double-A or better state/city GO
3) Airports

CURRENTLY HARDER SELLS:
1) Illinois
2) New Jersey appropriation-backed
3) Tobacco-backed

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

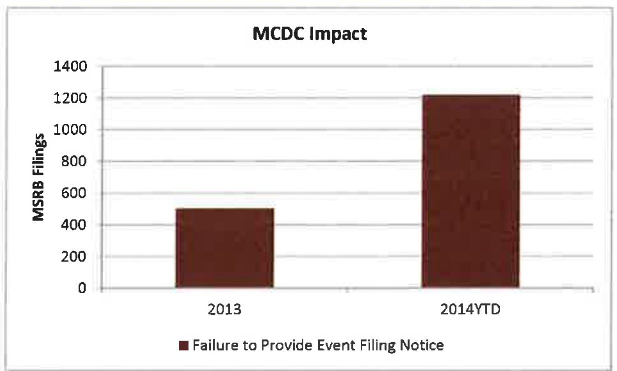


***Figure 1**: The SEC's MCDC initiative that provides a safe-harbor time period for issuers and underwriters to make additional disclosures is having a clear impact on the behavior of market participants. Through the first 6 months of this year there have already been nearly two-and-a-a-half times as many "Failure to Provide Event Filings Notices" filed with the MSRB than there were through all of 2013. On the **next page** this week's **Topic of the Week** looks at the changing landscape of issuer disclosure.*

JCT RELEASES MUNICIPAL ESTIMATES: The Congressional Joint Committee on Taxation (JCT) released a new estimate that over the next 5 years, the Federal government will lose $176.8 in tax revenues due to taxpayers' purchase of tax-free municipal bonds. The JCT assumes that municipal investors would purchase taxable products instead of municipals, an assertion that many in the industry, including **MMA**, believe is flawed. For more in happenings in Washington, including municipal bond bills, see **page 3**.

TOPIC OF THE WEEK: ISSUER DISCLOSURE

MCDC/ISSUER DISCLOSURE CHANGES: Over the last few months **MMA** has noted a blizzard of corrective notices being posted by state and local issuers to the MSRB's EMMA website as issuers in essence are admitting to gaps in disclosure practices. Furthermore, the SEC is lowering the penalties on smaller broker-dealers to self-disclose gaps, which is only encouraging more disclosures. The facts: between March and July of this year, issuers have already posted as many "Failure to Provide Annual Financials as Required" notices (about 2,000) than they did in all of 2013 and nearly two-and-a-half times as many "Failure to Provide Event Filing" statements (1,220 versus 503 last year). There have been many more corrections filed under different but similar categories. Brisk filing activity is in tune with the SEC's MCDC initiative that temporarily extends safe harbor treatment to issuers and underwriters who self-report instances in which recent primary market offering documents misrepresented issuer's past compliance with their continuing disclosure requirements. On July 31 the SEC extended the deadline to self-report to December 1. However, underwriters must adhere to the original September 10 deadline.

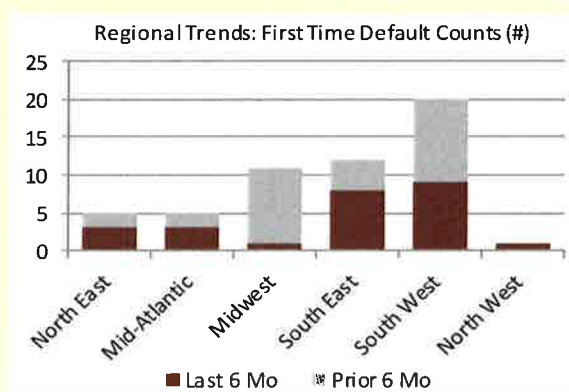
WHAT THIS MEANS FOR YOU: The SEC's extension will allow issuers to review any filings that underwriters may have made related to your bond deals. It will be important for issuers to then consult with counsel whether to make their own filing prior to December 1. Organizations such as the Government Finance Officers Association (GFOA) may update their own recommendations for issuers (click on this link for their latest) so keeping up to date with these groups is prudent. **MMA** believes that in addition to these specific actions related to the MCDC Initiative, there are broader implications for the market and disclosure practices:

1. Many underwriters will wind up paying MCDC's maximum, $500,000 fine, to the SEC for their role in past problems. This will get the attention of underwriters to continue to beef-up their due diligence when underwriting deals, which will push them to expect more from issuers, only increasing the cost of issuance.
2. Recent postings moot issuer and bond counsel complaints about the SEC's perceived lack of specificity regarding just how material previously un-disclosed information has to be to warrant a new notice. While many continue to be concerned with the lack of specificity within the MCDC program, issuers seem to be taking a far more inclusive view in the brave new world of disclosure and are, in fact, disclosing most everything that could be considered material. This includes multiple bond insurer rating outlook changes from 5 years ago, recalibration-related rating changes, and the barely late posting of financials—that may fit under 15c2- 12's (the SEC's disclosure rule) admittedly broad and ill-defined guidelines. Note that this NABL paper released last week takes a step to assist the longstanding lack of uniformity related to materiality and help issuers determine if they should make MCDC filings.
3. Issuers should pay attention to what their peers are posting on EMMA as of late to help evaluate whether or not (and then how) to participate in MCDC.
4. While grumbling about the program remains, **MMA** views this as a strong positive for municipal disclosure in general: to the extent issuers begin to approach more complete—and less lawyerly—standards for conveying information to their lenders, the municipal market's reputation for poor disclosure will begin to erode.

The recent surge in MCDC-related filings is likely to continue and all bond issuers should discuss with counsel and other professionals on their team about taking part.

DEFAULT TRENDS

IMPAIRMENT FILINGS SLOW: Year to date, **MMA** shows 28 first-time defaulters versus 37 last year. Slowing default activity is a reasonable sign of improving capital market access for distressed projects and fewer distressed projects in general. Defaulters remain, on average, real-estate oriented, non-rated projects. Though again, filings continue to slow into the end of July, consistent with seasonal trends. There was only one new first-time defaulter in July. **MMA** added three other credits to the database, all in the "Other" category. Municipal credit impairment filings have been slowing — a positive trend that all municipal issuers should benefit from. Still, there are regional trends that issuers should take note of. In the **Figure to the right** we note that the Southwest region has seen more first-time defaulters compared to other parts of the country. Issuers in this region should take care to distinguish themselves from this trend where they can.



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

NORTHEAST

On August 4th, **JPMorgan Securities LLC** priced $123 million of housing mortgage finance program bonds for the **Connecticut Housing Finance Authority**; Aaa/AAA/NR; callable in 11/15/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2019	1.55	1.55	+49
2024	2.95	2.95	+72
2034	3.80	3.80	+66

Notes: This deal saw 5 basis point bumps in a re-pricing

MID-ATLANTIC

On August 5th, **RBC Capital Markets** priced $5.6 million of unlimited tax general obligation bonds for the **Schuylkill Haven, Pennsylvania**; NR/A/NR; callable in 11/15/19:

Maturity	Coupon	Yield	+/- AAA 5%
2015	1.00	0.35	+27
2019	2.00	1.60	+14
2022	2.25	2.43	+16

Notes: BQ designation saw big bank demand

MIDWEST

On August 5th, **RBC Capital Markets Inc.** priced $272 million of general obligation bonds for **Wisconsin**; Aa2/AA/AA; callable in 11/1/2022:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.69	+29
2024	5.00	2.43	+20
2029	5.00	2.81	0

Notes: The 5% coupons brought in SMA investors to this deal

SOUTHEAST

On August 6th, **Wells Fargo Securities** priced $113 million installment purchase revenue refunding bonds for **Charleston Educational Excellence Financing Corp, SC**; Aa2/AA/NR; callable at par in 12/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.40	+34
2024	5.00	2.60	+36
2029	5.00	3.08	+27

Notes: The issuer saw better interest out longer

SOUTHWEST

On August 4th, **Raymond James & Associates** priced $164 million of unlimited tax school building bonds for the **Dripping Springs Independent School District, Texas**; Aa2/AA/NR; callable in 2/15/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	2.00	1.22	+16
2024	5.00	2.36	+13
2039	4.00	3.88	+50

Notes: PSF insurance continues to help TX school districts

FARWEST

On August 5th, the **Portland Sewer System, Oregon** sold $196 million of second lien sewer system revenue bonds to **Bank of America Merrill Lynch**; Aa3/AA-/NR; callable in 10/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.38	+32
2024	5.00	2.50	+27
2034	4.00	3.57	+38

Notes: The issuer saw strong competitive bids

WASHINGTON UPDATE

SEC COMMISSIONER: SIMPLIFY BOND TRANSACTIONS: SEC Commissioner Michael Piwowar spoke at the 2014 Municipal Finance Conference earlier this month during which he said he wants to look at simplifying and standardizing municipal bond transactions, which be believes would correlate to lower issuance costs for state and local governments and would attract more investors to the market.

TREASURY HIRES ISSUER OFFICIAL AS PENSION ANALYST: The U.S. Treasury Department has hired Melissa Moye, the chief investment officer of the Maryland State Retirement and Pension system, as senior policy advisor in the new Office of State and Local Finance. The Department announced the hire, noting its increased focus on public sector pension systems.

MUNICIPAL BILLS INTRODUCED: Two bills were introduced before Congress left for the August recess that would bring back the Build America Bonds (BABs) program. Rep. John Conyers (D-MI) authored the Bring Urgent Investment to Local Development (BUILD) Act that would reinstate the program at a 35% subsidy for bonds issued in 2014 and 32% in 2015. Thereafter, it would decrease 1% per year until it bottomed out at 28% in 2019. Sen. Mark Pryor (D-AR) introduced a bill that would bring back BABs at a 28% subsidy. Additionally, the Modernization American Manufacturing Bonds Act (H.R. 5319), was introduced in the House, which would help issuers of qualified small-issue manufacturing bonds, known as Industrial Revenue Bonds, by expanding the definition of manufacturing to include facilities that make intangible property, increase the small-issuance limit from $10M to $30M, and increase the capital expenditure limit to $40M from $20M. This followed H.R. 5199 introduced last week, which would permanently increase the bank-qualified limit from $10M to $30M, a big benefit to small issuers. These bills have very little chance of being enacted this year.