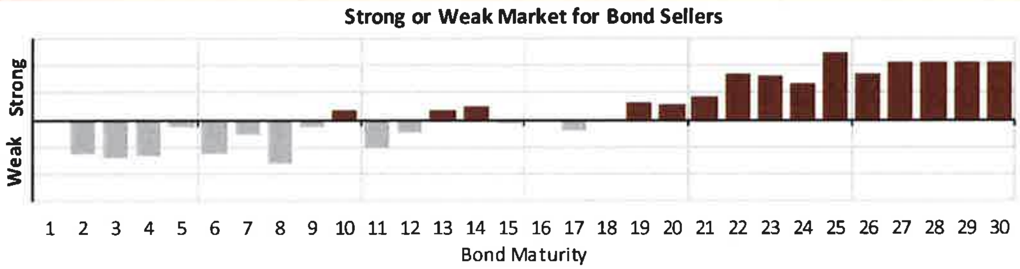
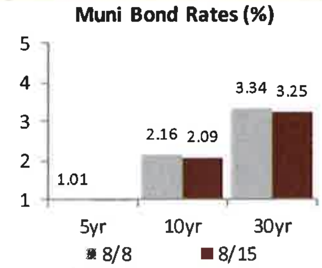
MMA The Power of Independence

AUGUST 18, 2014

MUNICIPAL ISSUER BRIEF





Heading into this week, after a big move on Friday, benchmark yields have fallen sharply so that if an issuer's credit has remained stable then an aggressive price is possible in longer maturities (maroon columns). Inside 13-years there is relatively less pricing power for issuers this week.

MARKET UPDATE

RATES GO LOWER INTO THE END OF SUMMER: Every single day last week saw municipal borrowing rates move into lower ranges as the world responded to increasingly alarming news out of Ukraine. Both large and small municipal governments benefited.

INVESTORS & ISSUERS: A favorable market for issuers.

- With U.S. Treasury bond interest rates moving into their 12-month lows, **municipal borrowing rates were given even more breathing room to also move lower**—at this point to the lowest yields in 14-months.
- Many high-grade issuers that came to market saw very strong demand with large negotiated deals like New York City, the Port Authority of New York & New Jersey and Harris County, Texas (among others) saw oversubscriptions while the competitive issuers of double-A or better ratings benefited from very aggressive dealer bidding. (See **page 3** for more on regional deals.)
- **Higher-yielding entities did even better**. The focus on even just a slightly lower rating that results in more yield has seen tremendous interest from insurance companies or other privately owned funds that invest in different types of bonds.
- Selling pressure by bondholders and/or dealers in the secondary markets has reached the lows for the year, **meaning there is much less competition for attention with issuers' primary deals**—a good theme for issuers.
- This week sees a seasonally light issuance schedule led by a sales tax revenue issue out of San Diego along with triple-A and benchmark-influencing Wake County, North Carolina. **We expect both to achieve very low borrowing costs.**
- The market for bank-eligible issuers moved into lower borrowing rates as well—issuers in the $10 million range should take note.
- Lower-rated sectors such as **tobacco, healthcare and lower-rated higher education** continue to benefit from investors that usually invest in corporate high-yield bonds—issuers in this category can benefit.

FINANCIAL LITERACY: The magazine ***Governing*** has released a public finance 101 write-up. It's a great resource for state and local governments. [Read it here].

BUYERS BITES:

WHAT IS TRENDING HOT:
1) Recently issued New York bonds
2) Bonds in the 10– to 15-year range
3) Shorter calls

CURRENTLY HARDER SELLS:
1) State appropriated credits

WHO IS REPORTEDLY BUYING:
Cross-over buyers, life insurance companies, large banks

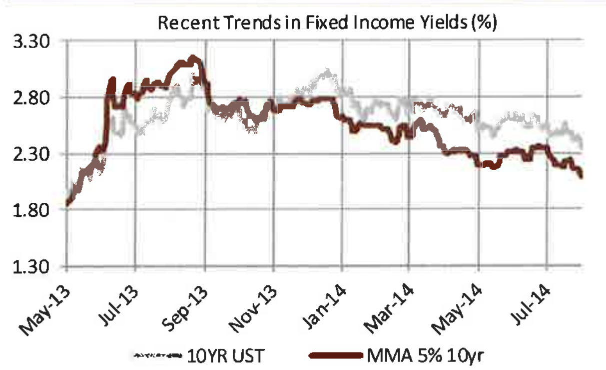
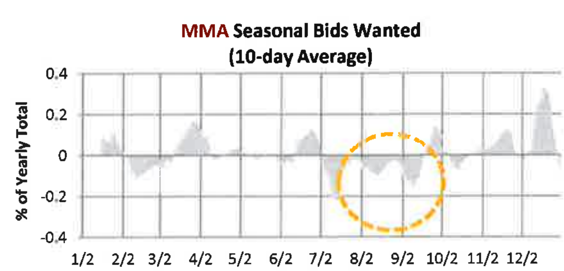


***Figure 1**: Interest rates are at 14-mo. lows. Also, municipal issuers have less competition from investor selling, which is seasonably low, **below**.*



TOPIC OF THE WEEK: CALIFORNIA LEADS THE WAY

BANK LOAN LAW: Last month Governor Jerry Brown of California signed a new law that will force local issuers of the state to fully disclose any loans they receive from banks. **Direct purchase,** as the banks and many in the industry call it, has been a growing presence in the municipal market in the wake of the financial crisis (read MIB's first review of this part of the industry here). In fact, the FDIC reported recently that there is $117 billion of direct purchase arrangements between banks and states and localities outstanding. **MMA** estimates that between $40 billion to $50 billion in direct purchase arrangements are occurring in 2014. "This new law puts California in the forefront of ensuring that information about the direct loan transactions are disclosed to the public," said **Tom Dresslar**, a spokesman for the state of California. Concerns over bank loan disclosure have increased nationwide, as municipal issuers increasingly have used non-traditional financing. The new law will go into effect on January, 1 2015. This comes following Standard & Poor's May letters to issuers that warned if issuers do not disclose their direct loans they could face negative ratings actions.

WHAT THIS MEANS FOR YOU: If you are an issuer in California this will require you to disclose your private arrangements with banks. In theory, it should make for a more informed municipal market as investors now have better credit knowledge of California issuers and **should lower borrowing costs as a result**. From the state's perspective, this is also a positive as the Treasury department will have more information about the financial agreements that local issuers are engaging in. Moreover, this is a great step in achieving greater transparency in this opaque part of the marketplace. Recognition by the state that these loans are as important as bonds sales is prudent. Closing the disclosure/reporting gap for California issuers that is not covered under rule 15c2-12 (but it is reasonable that it might be in the future) is a theme other issuers should follow. When the law takes effect investors comfort with issuers is apt to improve since they will have information on non-reported borrowings long after the consummation of the transaction. Other states following California's lead are also apt to be considered as following "best practices." Given the major ratings agencies' increased focus on direct purchases, issuers should take note of the growing trend toward better disclosure of all financings impacting outstanding municipal debt.

MSRB ROUNDUP

MSRB FOCUSES ON PRICE TRANSPARENCY: In late July/early August the MSRB held its quarterly board meeting and reported that the Board members focused on a variety of issues including price transparency issues and continuing to formulate Municipal Advisor regulations (pay-to-play rules and developing professional qualification exam criteria for all municipal advisors). The MSRB also announced its 2015 officers and new board members, including Chair Kym Ardone, Managing Director at Barclays, and Vice Chair, a public board member, Marcy Edwards, former advisor to the DC Government's CFO. New board members include Richard Froehlich, COO and General Counsel with the New York City Housing Development Corporation, and municipal advisor, Steve Apfelbacher, of Ehlers and Associates.

2Q MUNICIPAL STATISTICS: The report includes data on debt issuances, trades, and continuing disclosure filings. The MSRB noted that general market trading was down during this time period. Second quarter 2014 highlights from the report include:

- Trading activity in the municipal market decreased significantly in the second quarter of 2014 both par amount and number of trades;
- The par amount traded of fixed-rate securities decreased to $398.9 billion from $463.1 billion traded in the same time last year;
- There were 2.24 million trades in 2Q2014, compared to 2.72 million trades in 2Q2013;
- Revenue bonds accounted for about 66% of the total par amount traded and 62% of the number of trades in the second quarter of 2014;
- General obligation bonds made up 24% and 34% of trading activity by par and number of trades in the second quarter; and,
- Variable rate demand obligation rate resets continued to decline, totaling 157,219 in the second quarter of 2014 compared to 179,572 rate resets in 2013.

MSRB PRICE TRANSPARENCY RULES: The MSRB put out concept releases last year related to price transparency issues. After reviewing those comments, this MSRB proposed rulemaking covers numerous items. Comments are due by September 26.

- The reporting of conditional trade commitments, those done prior to the signing of the BPA and the deal being completed, need to be specifically identified separately from new issuance trades;
- Report non-transactional based compensation arrangements;
- Eliminate yield reporting on customer trade reports; and,
- Keep the 15 minute requirement for trade reporting. Consideration was given to possible reducing the time requirement, but the notice states that the MSRB intends to keep this requirement as-is.

PROPOSED PAY-to-PLAY RULES FOR Mas: Today, the MSRB released a proposal to extend Rule G-37 regarding pay-to-play activities, to municipal advisors (MAs). Currently, Rule G-37 prohibits dealers from engaging in business activity with an issuer if certain political contributions have been made to issuer officials. The same rule would apply to MAs, we well as they would have to disclose on EMMA their political contributions for both elected officials and bond ballot campaigns.

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

NORTHEAST

On August 13th, **Bank of America Merrill Lynch** priced $980 million of general obligation bonds for **New York City**; Aa2/AA/AA; callable in 8/1/2024:

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

Notes: Multi-modal structure upsized the deal with healthy demand

MID-ATLANTIC

On August 14th, **Wells Fargo Securities** priced $19 million of Valley Health System Obligation Group revenue refunding bonds for the **WV Hospital Finance Authority**; A1/A+/NR; callable in 1/1/24:

Maturity	Coupon	Yield	+/- AAA 5%
2019	4.00	1.38	+39
2024	5.00	2.74	+59
2044	5.00	3.95	+62

Notes: Higher-yielding health care has fared well of late

MIDWEST

On August 12th, **Minnesota** sold $849 million of general obligation bonds in 3 series to **Bank of America Merrill Lynch**; Aa1/AA+/AA+; callable in 8/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.18	+17
2024	5.00	2.16	0
2034	5.00	2.96	-14

Notes: Saw strong competitive bids; used various coupon structures

SOUTHEAST

On August 14th, **Raymond James & Associates** priced $100 million general obligation warrants in 3 series for **Huntsville, Alabama**; Aaa/AAA/NR; callable at par in 8/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.26	+27
2024	5.00	2.35	+20
2034	4.00	3.43	+34

Notes: NASA's large presence aided the issuer

SOUTHWEST

On August 14th, **BOSC** priced $35 million of unlimited tax general obligation bonds for the **Argyle Independent School District, Texas**; Aa3/NR/NR; callable in 8/15/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	3.00	1.25	+26
2024	5.00	2.32	+17
2039	5.00	3.35	+8

Notes: The PSF guarantee plus local sponsorship made for a success

FARWEST

On August 13th, **Morgan Stanley & Co.** priced $120 million of general obligation bonds for the **Contra Costa Community College District, California**; Aa1/AA/NR; callable in 8/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2016	2.00	0.29	-1
2024	3.00	2.31	+15
2034	4.00	3.60	+50

Notes: For a full higher-education review contact us