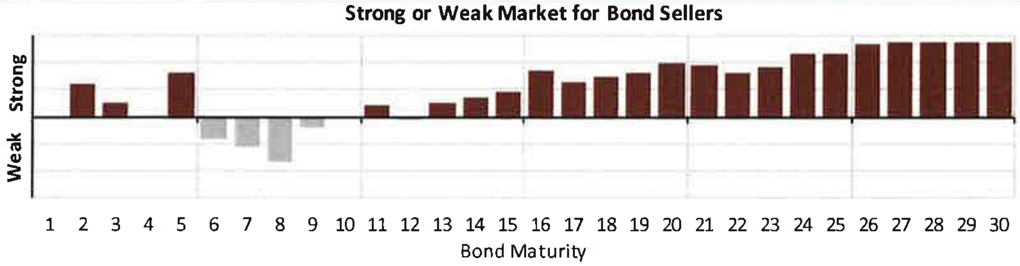
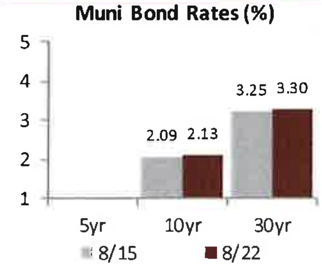
MMA The Power of Independence

AUGUST 25, 2014

MUNICIPAL ISSUER BRIEF





Heading into this week, issuers that can, should take advantage of longer maturities where the leading municipal dealer firms value the market aggressively. There is some concern in some shorter maturities where a few large asset managers have been sellers in secondary markets of late.

MARKET UPDATE

RATES HOVER AS THE END OF SUMMER NEARS: Municipal borrowing rates generally remained in a tight range last week, even as Treasuries weakened on news from the Federal Reserve that rising interest rates may occur sooner than expected.

INVESTORS & ISSUERS: Quiet week ahead to close out summer

- Following a speech on Friday by Federal Reserve Chair Janet Yellen, U.S. Treasury bond interest rates moved slightly weaker, **but municipal rates held at recent levels.**
- Municipal stability remained a function of the 2014's theme: the persistent supply/demand imbalance. This week's supply is very light — **about $2.5 billion.** Also the 30-day calendar totals slightly more than $4 billion — which bodes extremely well for those issuers coming to market in the near future.
- While last week the secondary market saw rates move modestly cheaper the **new-issues continued to see very strong interest.**
- Specifically: **Wake County, had orders from banks and insurance companies on more than 60%** of its $345 million offering before the actual silent auction, that allowed it to lock in 3% coupons in the 15-year range. A few larger underwriters continued to enable the low coupon structure for higher-rated competitive issues. **Strong issuers with high ratings can benefit in the current environment through the competitive process.**
- This week's issuance is led by two competitive deals from the **Virginia Public Building Authority**. Also, high-yield Virgin Islands Public Finance Authority is bringing a $53 million working capital issue, from **which other lower-rated issuers could determine the investor appetite for this type of lower-rated security structure.**
- Recently issued new-deals have continued to trade better in the secondary market, showing that investors are hungry for new bonds and will pay a premium in the secondary for them.

BUYERS BITES:

WHAT IS TRENDING HOT:
1) Florida land-based
2) Calls in the 6- to 7-year range
3) Double-A or better GO

CURRENTLY HARDER SELLS:
1) Illinois GO
2) Pennsylvania Turnpike

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

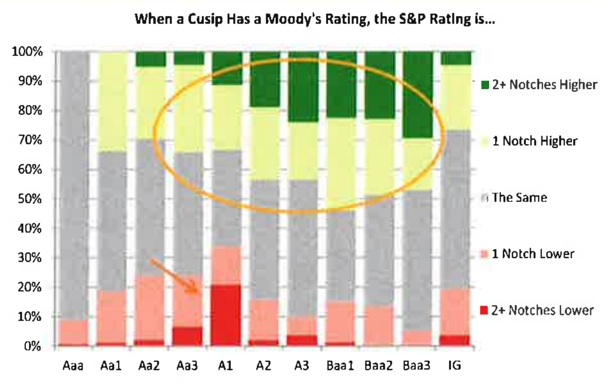


***Figure 1**: Different ratings between agencies on the same credits has become a growing theme in the industry. We discuss it in this week's **Topic of the Week on page 2**.*

MMA TO HOST ISSUER-FOCUSED WEBINAR on SEPTEMBER 9 at 4pm ET (3CT and 1PT): MMA is pleased to announce that it will hold a **FREE** webinar to help issuers understand the current dynamics in the municipal industry. The webinar's intent is to provide information to improve the dialogue between issuers and their advisors, bankers, underwriters and investors. Government officials who have issued debt, or are considering a bond sale in the remainder of 2014, will find the webinar especially useful for planning purposes. **The webinar is for issuers only and its purpose is for market information purposes only. MMA is an independent research firm.**

Space is limited. **Reserve your Webinar seat now here.**

TOPIC OF THE WEEK: RATING TRENDS

RATING TRENDS AND INCREASE IN 'SPLIT RATINGS': Over the last year the number of issuers that have different (or split) ratings from Moody's Investors Service and Standard & Poor's has increased to 46% of all investment-grade rated bonds (**Figure 2**). What remains consistent with last year (when **MMA** last ran this study) is that the lower-rated the issuer is by Moody's, the more likely S&P is to have a higher rating on that same bond (yellow circle on **Figure 1** on page 1). Meantime, the pace of rating activity by Moody's has remained relatively stable in the first half of 2014 with only 4% of issuers it rates experiencing a change. Also, the pace of downgrades compared to upgrades in recently quarters has slowed. Generally speaking few rating actions were taken on most states and their issuers so far this year—about 75% of states saw fewer than 10 issuers in their states face rating actions. Finally, only 6 states—Texas, Michigan, Illinois, Ohio, New Jersey and Wisconsin—experienced a rating trend change that was meaningful.

WHAT THIS MEANS FOR YOU: Split ratings can increase borrowing costs for issuers as it underscores a lack of confidence in the rating agencies themselves by investors. Earlier this year **MMA** wrote a full piece on split ratings that if you have not read, fully explains this argument (found here). There has been a growing debate in the industry about why S&P's ratings are generally higher and what it means. Some have gone as far to say the agency's ratings are too high. **MMA** disagrees. As an asset class, municipals have an extremely low default experience, (see **figure 3**), higher ratings are better supported by the data.

As an issuer, helping your investors understand this reality as an asset class can only help your access to capital markets. S&P ratings are higher in part because of a methodology that focuses on default expectations and issuer "willingness to pay" dynamics and a more optimistic fundamental credit view on the sectors. The data shows that under the updated methodologies that S&P uses, more upgrades have occurred, and the changes in the amount of bond deals it rates has not changed significantly.

Of note is that it is S&P's bond insurance rating franchise is helping the company retain somewhat more municipal business than the other agencies. Regarding state trends: it is generally positive in Texas with mostly local governments leading the charge with about 20% of all S&P upgrades during the first half of this year.

Meantime, **MMA** will be carefully watching issuers in Illinois, Michigan, Ohio, New Jersey and Wisconsin whose issuers accounted for 122 downgrades, or 37% of all negative activity. Common themes were present among the affected issuers including: revenue raising limitations, economic and demographic challenges, significant pension liabilities and higher debt burdens.

Figure 2: *Investment grade municipal bonds have different ratings:*

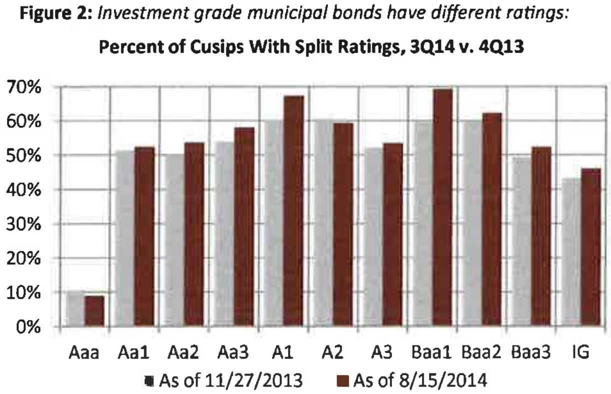
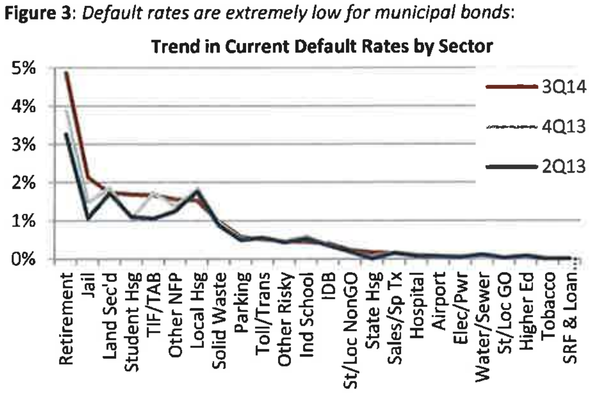


Figure 3: *Default rates are extremely low for municipal bonds*:



SEC NEWS

MCDC ADJUSTMENTS SHOULD INCREASE RESPONSE RATE: By extending the deadline response for issuers, and reducing the dollar size of the penalty payment cap for small underwriters, the Securities and Exchange Commission (SEC) has very likely raised the response rate for its MCDC program. Meaning that the aggregate filing activity is even more likely to set a precedent for disclosure practices going forward. Recently, **MMA** noted that issuers' disclosure correction notices to EMMA have been fairly sweeping, with many issuers noting past failures (like bond insurer rating changes) that some bond counsel would not consider material. Meanwhile, the GFOA updated its alert on MCDC to help issuers make decisions on whether to self report.

SEC MA OUTREACH: The SEC's Office of Compliance Inspections and Examinations (OCIE) said it will begin reaching out to Municipal Advisors and firms to ensure compliance with SEC and MSRB regulations (all MAs must register with the SEC by October 31). It will be the focus of the OCIE, SEC's Office of Municipal Securities, MSRB and FINRA over the next 2 years.

The program will focus on a "significant percentage" of municipal advisors to ensure their compliance with fiduciary duty, bookkeeping, disclosure, fair dealing, and employee qualifications.

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

NORTHEAST

On August 21st, **William Blair & Company LLC** priced $66 million of general obligation bonds for **Bridgeport, Connecticut**; A2/A/NR; callable in 7/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	4.00	1.50	+54
2024	5.00	2.78	+56
2034	5.00	3.53	+49

Notes: Assured Guaranty lowered yields by an average of 10 bps

MID-ATLANTIC

On August 19th, **Siebert Brandford Shank & Co.** priced $155 million of income tax secured revenue refunding bonds for the **District of Columbia**; Aa1/AAA/AA+; not callable:

Maturity	Coupon	Yield	+/- AAA 5%
2016	5.00	0.34	+4
2019	5.00	1.21	+26
2024	5.00	2.28	+17

Notes: Direct lien on income taxes assures investors

MIDWEST

On August 20th, **Hutchinson Shockey Erley** priced $2.5 million of revenue bonds for the **Kaukauna, Wisconsin Water** ; NR/AA-/NR; callable in 12/1/2021:

Maturity	Coupon	Yield	+/- AAA 5%
2016	2.00	0.75	+24
2019	2.00	1.50	+54
2023	2.625	2.30	+34

Notes: Strong competitive underwriting allowed very small coupons

SOUTHEAST

On August 19th, **Wake County, North Carolina** sold $345 million of general obligation bonds to **Bank of America Merrill Lynch**; Aaa/AAA/AAA; callable at par in 9/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.12	+17
2024	5.00	2.10	-1
2034	3.50	3.24	+20

Notes: Presale interest allowed for low coupons out long

SOUTHWEST

On August 19th, **JPMorgan Securities LLC** priced $182 million of joint water & sewer system revenue bonds for the **Albuquerque Bernalillo County Water Utility Authority**; Aa2/AA+/AA; callable in 7/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.22	+27
2024	5.00	2.33	+22
2026	5.00	2.58	+24

Notes: The issuer saw lower yields and good demand in re-pricing

FARWEST

On August 21st, **Stifel, Nicolaus & Co.** priced $303 million of university enterprise revenue and refunding bonds for the **Regents of the University of Colorado**; Aa2/NR/AA+; callable in 6/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.13	+17
2024	5.00	2.32	+18
2034	5.00	3.13	+7

Notes: Higher education bonds continue to flourish in this market