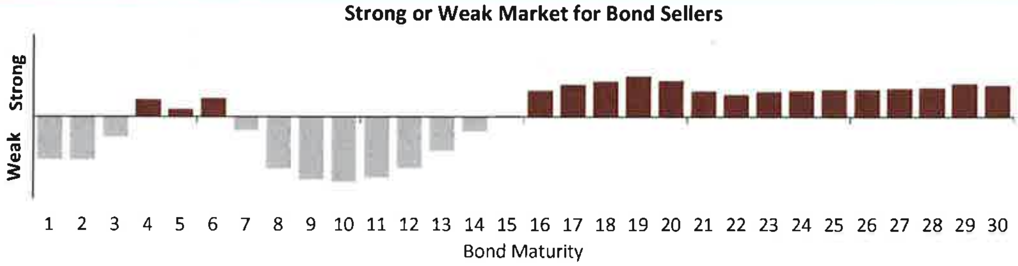
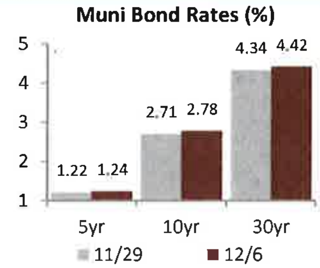
MUNICIPAL ISSUER BRIEF





Heading into this week, for bonds maturing in fewer than 10 years the negative context for capturing the most aggressive pricing was generally exacerbated with the exception of the 4- to 6-year range. Bonds 15-years and out continue to be a part of the yield curve where pricing can be more aggressive versus evaluations.

MARKET UPDATE

MUNICIPALS LOST GROUND LAST WEEK: The first week of December was a challenging one for municipal bond markets. While most new issues found investor interest, many came at cheaper prices to ensure successful placement.

INVESTORS & ISSUERS: Data weakened bond markets last week.

- **Most bond markets stumbled throughout last week and municipals followed.** There was an expectation that Friday's national employment report would show yet another month of job creation, which in turn would hurt bond markets. That expectation all week dragged markets lower but by the time Friday's data came with *a lower* unemployment rate, markets stabilized.
- **The stability at the end of last week makes for a better backdrop for municipal issuers coming to market now.** There are a lot of issuers selling bonds this week but they are geographically spread wide throughout the country and the credit spectrum is vast. Such variety should help issuers looking to borrow.
- **In the middle of the week, as most bond markets were declining, the Los Angeles Metropolitan Transportation Authority found very strong support for a $300 million competitive loan.** There are a few large bank buyers in particular that have been growing their municipal portfolios. Issuers should inquire with their advisors if they can capture this investor interest.
- **Funds sold the highest amount of bonds in the secondary markets last week dating back to mid-October (see Figure 1).** This is associated with mutual funds' losing cash and competes for investor attention. Issuers selling bonds this week should monitor if this occurs again as it could complicate their own deal.

BUYER BITES:

WHAT IS TRENDING HOT:
1) Illinois bonds
2) 4- to 6-year maturity range
3) Short-call structures

CURRENTLY HARDER SELLS:
1) Mutual funds
2) Longer bonds led losses last week
3) New York issuers flooding the market of late

WHO IS REPORTEDLY BUYING:
Separately managed accounts, large banks, non-traditional buyers 20-years and out

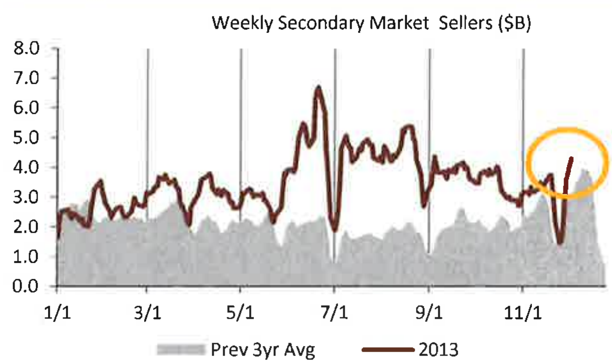


Figure 1: *The red line represents the amount of municipal bonds that market participants are trying to sell in secondary markets. The surge of selling pressure last week is circled in yellow. The grey shaded area represents the average of the last three years to put this year's levels into perspective.*

MOODY'S REVISES OUTLOOK

- Last Wednesday, **Moody's Investors Service** revised its outlook on U.S. local governments to 'stable' from 'negative.' This is of particular interest as Moody's has downgraded municipalities at a faster clip than other rating agencies. For the implications of the rating agencies going in different directions, read last week's ***MIB*** here.

© 2013 Municipal Market Advisors

TOPIC OF THE WEEK: DETROIT

DETROIT IN CHAPTER 9: Detroit is eligible for Chapter 9 bankruptcy protection. In his decision, bankruptcy Judge **Steven Rhodes** disposed of claims that pensions enjoy a special status, which makes outstanding pensions contracts changeable during bankruptcy proceedings and negotiations. The next Chapter 9 phase and the appeals process will likely be complex, time-consuming and costly. The City's Emergency Manager **Kevyn Orr** had proposed dramatic reductions in principal payments of voter-approved, unlimited tax-backed (ULT) GOs. This puts Detroit's GO bond payments on par with the city's other obligations, which puts the concept of the municipal GO security pledge at risk, or at least in need of being better defined by *every* municipal issuer.

WHAT IT MEANS FOR YOU: Despite cynical "Who is the next..." reportage, Detroit's problems are unique in their severity and they are long-running and multi-faceted. We find no reasonable analog for events in Detroit elsewhere, which is in general a positive for you: an issuer of any municipal bond. Michigan local issuers should be aware that **Fitch Ratings** said it would review Michigan local GOs after Rhodes' decision. Broadly, the ruling provides two major implications for all issuers: the possible unprecedented pension cuts and the definition of GO bonds going forward. While it is difficult to believe that many governments would be able to or would want to move forward with a bankruptcy option solely to restructure their pension obligations, this case could, in theory, embolden other politicians to pursue a similar course of action. Such action could also deter people from starting and continuing a career in the public sector, if the type of benefits associated with working in this sector are diminished. Next, if Detroit GOs are altered in priority as the city has suggested, this could mean that every issuer of GOs in the U.S. would have to consider how they define their own bonds in their official statements every time they come to market in the future—increasing the cost of any future bond transactions.

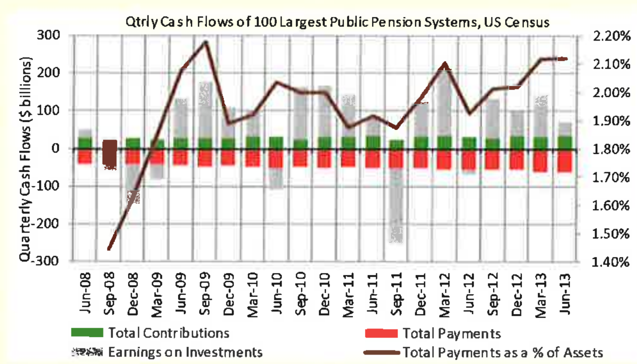
PENSION ROUNDUP

GASB Develops Pension Accounting Toolkit: GASB's new online toolkit to assist governments and others in the public finance space hopes to provide a better understanding of its new pension plan accounting standards. The toolkit includes numerous resources including a guide for implementing GASB 67; Financial Reporting for Pension Plans; a video and podcast discussing the rule and various implementation resources for the sector; and fact sheets and articles related to pension accounting and standards.

Gauging the Burden of Public Pensions on Cities: Determining the true pension costs of almost 200 cities is the focus of a new study by the **Center for Retirement Research** at Boston College. One part of the study of particular interest to ***MIB*** readers looked at pension costs as a percentage of a city's total revenue base. The study found that using this methodology, the average burden to cities is 7.9%. The study also discusses how pension costs affect taxpayers not only as a direct city cost, but also through indirect costs associated with other branches of local governments, including counties and school districts.

Loop Capital Annual Pension Report: Loop Capital Markets held a teleconference to discuss its annual public pension report last month. Of note, 13 states showed funding of their pension plans at 80% or above, and 17 states showed increases in their annual required contributions. Five states showed an increase in their weighted average funding ratios. The report discusses the reforms that states have enacted that will improve the health of the funds over the long term, but that those changes have occurred too recently to show in the data that was compared for this report.

Illinois Passes Pension Reform: The state passed a pension reform bill last week, which is a strong positive for the state's perceived credit profile and limits the longer-term downside from ratings downgrades. It should encourage buyers to take more aggressive positions in the state and city of Chicago bonds. In fact, last week the state's bonds rallied. Legal challenges await with both unions and other considering this in violation of the state constitutions.



The U.S. Census Bureau tracks the 100 largest pension systems in the country as far as their contributions, payments and earnings. Investment earnings are uneven but generally positive while benefit payments are steadily rising—a positive sign.

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

NORTHEAST

On December 5th, **Bank of America Merrill Lynch** bought $90 million of general obligation bonds from **Nassau County, New York;** A2/A+/A; par call in 4/1/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2018	5.00	1.67	+42
2023	5.00	3.48	+70
2043	5.00	5.05	+63

Notes: Post-Sandy damaged Nassau County received strong support

MID-ATLANTIC

On December 5th, **RBC Capital Markets Inc.** priced $19 million of general obligation bonds for the **West Allegheny School District;** Aa3/NR/NR; callable in 3/1/2022:

Maturity	Coupon	Yield	+/- AAA 5%
2018	1.40	1.40	+16
2024	3.50	3.65	+87
2028	5.00	4.13	+54

Notes: The eligibility of the state's intercept program helped here.

MIDWEST

On December 4th, **Stifel Nicolaus & Co. Inc.** priced $23 million of general obligation bonds for **Dublin, Ohio;** Aaa/NR/AAA; callable in 12/1/2021:

Maturity	Coupon	Yield	+/- AAA 5%
2018	1.50	1.21	-3
2023	4.00	2.91	+13
2028	3.625	3.83	+24

Notes: Triple-A, small issuers should receive strong bank interest.

SOUTHEAST

On December 5th, **Raymond James & Associates** priced $73 million of revenue bonds for the **Columbia, South Carolina, Water Sewer Authority**; Aa1/AA/NR; callable in 2/1/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2018	5.00	1.06	-18
2023	5.00	2.84	+10
2033	5.00	4.13	+9

Notes: Sub 3% yields in 10-years is a success here.

SOUTHWEST

On December 4th, **Mesirow Financial** priced $26.4 million of revenue bonds for **Austin, Texas**; A1/A/NR; not callable:

Maturity	Coupon	Yield	+/- AAA 5%
2015	4.00	0.50	+13
2018	5.00	1.59	+35
2029	5.00	2.05	+43

Notes: Austin's University tax base helped here.

NORTHWEST

On December 3rd, **D.A. Davidson & Co.** priced $9.9 million of unlimited tax general obligation bonds for **Bozeman, Montana**; Aa3/NR/NR; callable at par in 1/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2018	2.00	1.15	-9
2023	3.00	2.63	-15
2028	4.00	3.40	-19

Notes: This infrequent borrower received a boost.