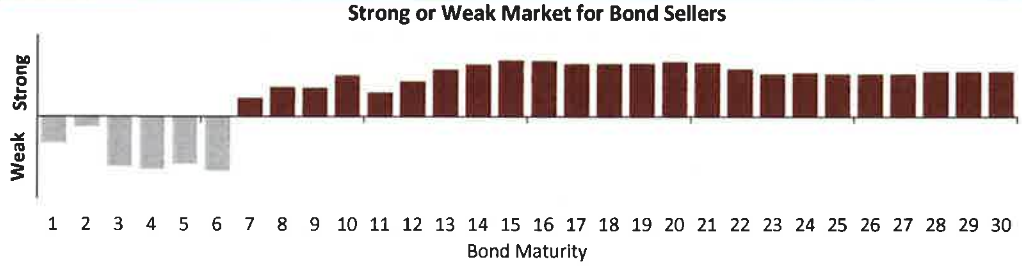
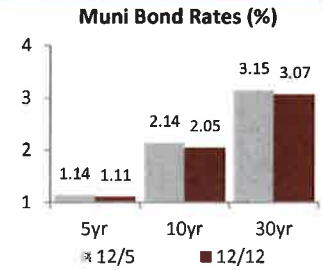
MMA The Power of Independence

DECEMBER 15, 2014

MUNICIPAL ISSUER BRIEF





Heading into this week, the strong market dynamic along most maturities continued to prevail as a result of last week's large investor interest. High-grade bond markets world-wide continued to move into lower yield ranges. The very short part of the curve remained more challenging and less attractive to investors.

MARKET UPDATE

MUNICIPALS SEE ANOTHER STRONG WEEK: Rates moved lower last week and the big new-issue supply was met with strong investor interest. Tax-exempts were unable to keep up with Friday's Treasury rally, which sets things up well for issuers this week.

INVESTORS & ISSUERS: Mostly positive themes headed into year-end

- Another big week of municipal new-issuance found supportive investors—and **many issuers saw their deals oversubscribed and re-priced to higher prices/lower yields.**
- There are several positive factors to consider for those coming to market through year-end: **issuance will be modest, many fund investors reinvest their coupon payments back into the market and mutual funds are seeing an increase in cash.** Therefore, they are apt to represent a continued solid municipal investor.
- Last week, in particular, there was a world-wide "flight-to-safety" that led Treasuries to rally to lower yields. China's economic data led a concern of a global recessionary outlook. Tax-exempt bonds lagged taxable counterparts **so that municipals now reflect greater value to crossover investors**.
- This coming week the total issuance is lower, reflective of the pending holidays' impact, which can **tip the supply/demand balance in favor of issuers.**
- For a sense of the broader market tone, keep an eye on New York's personal income tax bond deal. New York City yield spreads tightened after the city postponed a planned sale.
- MMA noted several large asset managers became more active buyers in the secondary market. **This is a positive trend for issuers, as investors are seeking a strong year-end conclusion.**
- Last week, MMA addressed public officials at the **Government Finances Officers Association** winter meeting in Washington, D.C. The presentation centered on new rules regarding bank investments in municipal bonds– ***Ask us for a copy of the presentation* (see Figure 1, right, for more)**.

BUYERS BITES:

WHAT IS TRENDING HOT:
1) New York City bonds
2) IG healthcare and higher-education
3) New Jersey GO, appropriation-backed

CURRENTLY HARDER SELLS:
1) Tobacco-backed
2) World Trader Center bonds

WHO IS REPORTEDLY BUYING:
Mutual funds, SMA, individuals, large banks

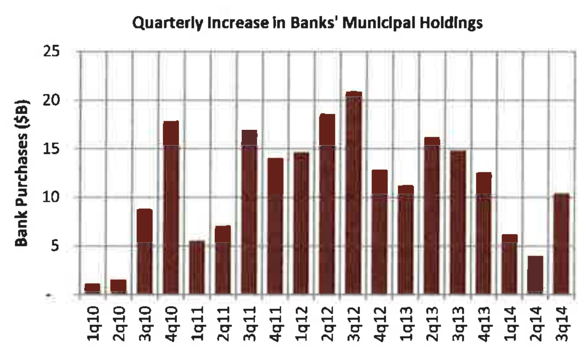


Figure 1: *Last week the Federal Reserve released its 3Q14 report on what types of investors own municipal bonds. Banks, which have played an important role in helping the municipal market recover from the financial crisis, have been trending toward less municipal bond investments since 2012. However, the latest data showed a modest increase in holdings. New rules from the Federal Reserve (that did not designate municipal bonds as High Quality Liquid Assets (HQLA) could diminish banks' investments in the municipal space and reduce capital for issuers' projects.*

FEDERAL GOVERNMENT STAYS OPEN: Congress passed spending legislation to keep the Federal Government operational through September of next year. Spending levels for state and local programs were included, although as seen in previous years, not at robust levels. MMA sees this as part of the overall trend for the relationship between municipals and the Federal Government — fewer dollars from DC is the new normal. For more on Washington, see page 2.

TOPIC OF THE WEEK: DISCLOSURE

MUNICIPAL DISCLOSURE — INVESTORS' VIEW: **MMA** has recently written commentary on the state of issuer disclosure standards from the investor's point of view. The catalyst for coverage was the current and likely deepening interest by the Securities and Exchange Commission (SEC) on this topic, especially because of their Municipalities Continuing Disclosure Cooperation (MCDC) initiative. While the information yielded from issuer and underwriter MCDC filings has yet to be fully ascertained, **MMA** believes disclosure and issuer oversight will remain a regulatory priority in 2015. **Below** are **MMA**'s key points on the topic to help issuers better understand investors' perspectives on the state of disclosure and where enhancements would be positive to the market (some of which would necessitate change to SEC Rule 15c2-12).

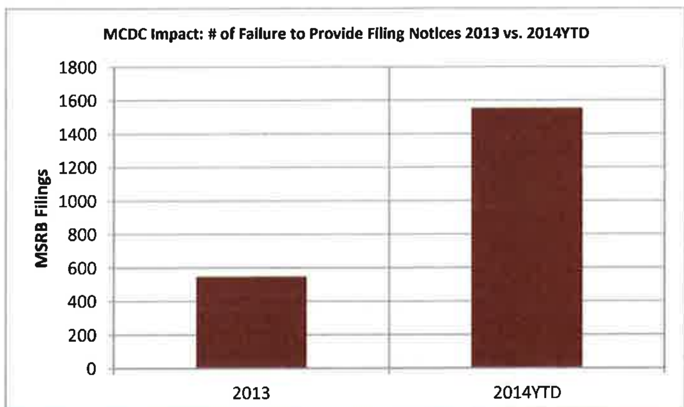
Better Disclosure of Instruments That Are More Affected by Market Developments. While typical long-term municipal debt may not be greatly affected by changing market conditions, other financings may be more impacted by market changes and events. These include refinancing's, bank loans and public-private partnerships (P3s). Awareness of the existence and terms and conditions of financings which are more susceptible to market changes would allow investors to better assess an entity's full credit scenario.

More "Plain English" Disclosures. Investors often struggle with deciphering an issuer's posted information on EMMA because the information may be 1) incomplete (or not put into context) or 2) may simply be too difficult to understand. A clear presentation of information and standardized templates for various disclosures would help investors' comprehension of continuing and event disclosures. The result could be greater investor interest in an issuers' bonds and fewer calls for clarification of information.

Enforce Specific Topic Categories for Disclosure Filings. There are numerous filings made for each bond issue — some more than others — and oftentimes this information is comingled, increasing the difficulty to locate the most current or pertinent information on EMMA. Developing and enforcing specific sections of information for issuers to post, including the dates associated with the financial information, would help reduce the "clutter" on EMMA and help investors sift out less important information, such as bond calls and minor rating changes.

More Financial Disclosures. Some issuers provide information of great interest to investors, such as debt coverage ratios and calculations reflecting debt service payments, as part of total taxing capacity. The investor community would welcome this data placed in a more prominent position of disclosed reports.

Identify Issuers Out of Compliance With Their Disclosure Obligations. Currently there is no functionality in EMMA to clearly note if an issuer is non-compliant with their disclosure requirements (per the bond's continuing disclosure agreement). Flagging those issuers that are amiss with their filings — including a note on how late they are in doing so — would help investors. Such a practice might, in effect 1) reward issuers that are meeting their requirements with better market access and pricing, and 2) motivate all issuers to be compliant with their responsibilities as a tangible positive result would be evident.



DC ROUNDUP

SENATOR REPORT: ELIMINATE THE TAX-EXEMPTION: Sen. Tom Coburn (R-OK) released a report last week that suggests Congress eliminate the tax-exemption on municipal bonds. Coburn, who is retiring at the end of the current Congress, released the report, *Tax Decoder*, which discusses municipal bonds and suggests eliminating all of them. In his report, Coburn says: "There is little economic reason to encourage state and local government to issue debt rather than spend their money in other ways. ... [S]tate and local governments would likely be better off in the long-term with lower, simpler tax rates on citizens and businesses than with higher rates and a federal tax subsidy for their debt." He also suggested the exemption could be replaced with a tax credit.

AND A DEFENDER SPEAKS, TOO: Meanwhile, Rep. Randy Hultgren (R-IL) spoke at the Government Finance Officers Association's (GFOA) winter meeting last week and defended municipal bonds. He said bonds should be encouraged, as state and local governments face challenges in funding projects. He also noted that localities are not receiving as much direct funding from states and the federal government, and that municipal bonds help to fill that void. Hultgren, who sits on the House Financial Services Committee, also said he would push for municipal bonds to be included in the Fed's high-quality liquid asset (HQLA) definition. Hultgren has introduced pro-municipal bond legislation, including a bill that would permanently raise and index to inflation the bank-qualified limit for small issuers.

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

NORTHEAST

12/10: **JPMorgan Securities LLC** priced $228M state revolving fund green bonds for the **Massachusetts Clean Water Trust**; Aaa/AAA/AAA; callable in 2/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.03	-3
2024	5.00	2.05	-4
2034	5.00	2.76	-11

Notes: Green bonds continue to pay off for Massachusetts

MID-ATLANTIC

12/11: **Wells Fargo Securities** priced $29M Delaware State University Project revenue bonds for the **Delaware Economic Development Authority**; A2/AA/NR; callable in 10/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.80	+70
2024	5.00	2.73	+66
2044	5.00	3.55	+47

Notes: Higher Ed demand and Assured insured lowered costs

MIDWEST

12/10: **Morgan Stanley & Co.** priced $122M student fee green and refunding bonds for **Indiana University;** Aaa/AA+/NR; callable in 8/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.25	+15
2024	5.00	2.17	+10
2032	5.00	2.74	0

Notes: Higher education debt fared well last week

SOUTHEAST

12/10: **Raymond James & Associates** priced $128M revenue bonds for **Louisiana Local Government Environmental Facilities and Community Development Authority**; NR/AA-/AA-; callable in 10/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2031	3.25	3.40	+96
2034	5.00	3.19	+113
2039	5.00	3.32	+109

Notes: The deal was re-priced to lower yields

SOUTHWEST

12/9: **Wells Fargo Securities** priced $532M general obligation and improvement bonds for **Dallas, Texas**; Aa1/AA+/NR; callable in 2/15/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.13	0
2024	5.00	2.18	+6
2034	4.00	3.26	+36

Notes: Dallas saw strong interest on longer maturities

FARWEST

12/10: **KeyBanc Capital Markets** priced $21M general obligation bonds for **North Slope Borough, Alaska**; Aa2/AA-/NR; callable in 6/1/2021:

Maturity	Coupon	Yield	+/- AAA 5%
2019	4.00	1.32	+22
2021	5.00	1.82	+18
2024	5.00	2.10	+3

Notes: A shorter call structure increased demand