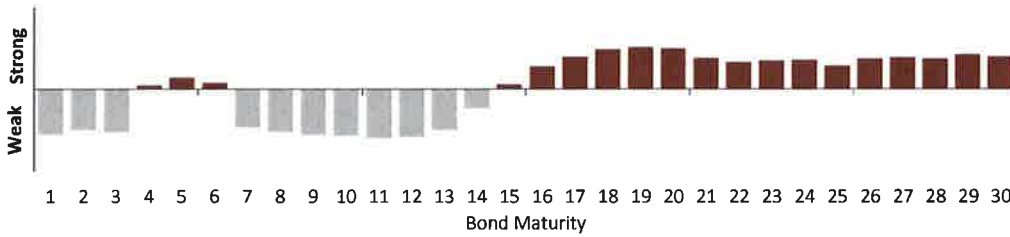
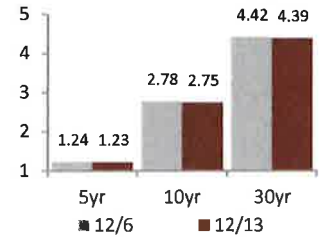


MUNICIPAL ISSUER BRIEF

Strong or Weak Market for Bond Sellers



Muni Bond Rates (%)



Heading into this week, the 7 to 14 year part of the yield curve remains likely the most challenging for issuers when coming to market this week. For those issuing bonds of longer maturities, price concessions remain limited, despite underwriters' challenges to place bonds with investors.

MARKET UPDATE

MUNICIPALS DO WELL CONSIDERING HEADWINDS: There a lot of reasons the market could have done poorly last week. A weaker Treasury market, a hefty amount of deals coming and mutual fund selling all could have derailed the market but it did not happen.

INVESTORS & ISSUERS: Markets could do well again this week.

- **Despite potentially negative themes last week, many municipal bonds were stable to even richer in price.** The large volume of new deals were generally well subscribed. The constructive conditions of last week along with a much lighter primary supply bodes well for those issuing bonds this week.
- **In the first issuance for Mayor-elect Bill de Blasio, New York City GOs struggled to gain traction last week.** The city was forced to cheapen yields from the original levels offered.
- **Secondary market selling pressure was elevated for a second straight week.** This can be problematic for issuers coming to market as funds' selling in secondary markets are A) likely not investing in your deal and B) are competing for attention with your deal.
- **Last week competitive deals were aggressively bid.** At the end of each year the top dealers vie for higher positions in the annual top competitive underwriters table. This makes for aggressive bidding. Expect to see this with Massachusetts on December 17.

MOODYS REVIEWING VARIOUS PUERTO RICO RATINGS: On December 11 the rating agency announced it would review various Puerto Rican issuers. The result was many of the territory's bonds began to trade at much higher yields. If Moody's were to downgrade the island, they could fall below investment grade, which would likely make for more negative price performance on the island. Puerto Rico is a large municipal issuer with nearly \$80B in outstanding bonds. All municipal issuers are impacted if this happens as the island's bonds are widely held, and individuals have a history of accelerating their exodus from mutual funds when such negative headlines appear. The result has been specific upward pressure on municipal rates as fund redemptions are financed by secondary sales.

BUYER BITES:

WHAT IS TRENDING HOT:

- 1) Illinois bonds
- 2) Competitive deals
- 3) Utility re-structuring (see page 4 Northeast section)

CURRENTLY HARDER SELLS:

- 1) Mutual funds
- 2) New York City
- 3) Puerto Rico issuers

WHO IS REPORTEDLY BUYING:

Separately managed accounts, large banks, pension funds in longer maturities

Recent Trends in Fixed Income Yields (%)



Figure 1: The last 12 months have been very volatile for both US Municipal bonds and US Treasury bonds. Above we track the 10-year yield for each market over the last 15 months. Most strategists expect yields for both markets to rise in 2014, which could increase borrowing costs. This places a higher burden on issuers to track the markets more closely.

TOPIC OF THE WEEK: CONGRESS GETS SOMETHING DONE

BUDGET AGREEMENT: The U.S House of Representatives approved a budget proposal, which is expected to be passed by the Senate this week. If passed, it would be the first budget approved by the current Congress. Most important – it will avoid a government shutdown for the next two years. Symbolically, it is the first large, bipartisan effort in Congress that is likely to be mired in election politics ahead of the 2014 mid-terms.

WHAT IT MEANS FOR YOU: The Federal Government staying open has many positive implications for municipal issuers. **MMA** reviewed what a shutdown means in an October issue of **MIB** that can be found [here](#). While the budget agreement does alleviate some of the negative effects of the sequester, it does not roll back the cuts to the Build America Bond (BAB) subsidy payments. This means that issuers of BAB's will continue to see their subsidy payments reduced. Even worse, this agreement puts in place continued cuts to BAB payments for two years past the original 10 years. This is a very unfortunate development for many municipal issuers who partook in the Federal program. That Congress is insensitive to this issue underscores the limited Federal understanding of the critical role bond markets play in state and local governance and infrastructure funding. The budget agreement also does not address the pending debt ceiling. In March 2014, the U.S. Treasury will not be able to pay its bills unless the ceiling is increased. The Treasury Department will likely close the window for state and local government securities (SLGS), which is a negative for issuers. Many legislators will attempt to leverage the adversity for their own political goals. It is in these types of situations where poor policy can be enacted. Issuers should monitor to see if any changes to the tax-exempt municipal bond market will be on the table and remain vigilant in their lobbying. However, **MMA** does not see that comprehensive tax reform is possible in 2014.

ISSUER GROUP & REGULATION ROUNDUP

NAST Holds Annual Issues Conference: The National Association of State Treasurers held their annual issues conference in New York City earlier this month. Numerous debt, investment, public pension and other topics were discussed. Of note Treasurers and market experts stated that because of the recent SEC enforcement cases related to issuer disclosure practices, and the SEC assessing a fine on an issuer for the first time, states must incorporate robust disclosure practices to help investors learn all they can about their credit.

Additionally, on a rating agency panel, credit rating agency representatives noted that bondholders should not worry about the events in Detroit spilling over to the broader market, however, bondholders and the entire market need to pay close attention to the concerns raised in the decision that could undermine the definition of a government's constitutional pledge on their bonds. (See 12/9 [MIB](#) for more on this topic).

NASBO Releases Annual Report: Slow but Stable and Improving Budget Numbers: Last week, the National Association of State Budget Officers [released](#) their Fall 2013 Fiscal Survey of the States, concluding that state budgets continue to improve since the Great Recession. While there are obstacles still to overcome and the recovery is slow, NASBO reports that FY2014 will be the fourth consecutive year of general fund spending growth. Other key findings –

- 3.8% General Fund Expenses increase, vs FY2013
- FY13 spending levels reached a new high at \$696 Billion

- Spending increases mostly for K-12 education and Medicaid
- Slower overall revenue growth due to slow sales tax revenues
- FY13 rainy day fund balances increased to 9.65% of general fund budgets, totaling \$67B.

Municipal Advisor Rule: Before the end of the year, the Securities and Exchange Commission (SEC) is scheduled to publish questions and answers related to the new Municipal Advisor rule, as an effort to help the market better understand how it will work in practice when it takes effect January 13. Numerous groups representing issuers, bankers, and lawyers submitted questions seeking clarifications on topics including the definition of RFP, how an issuer should acknowledge they have a municipal advisor, and how to determine the way in which underwriters can engage with issuers without it being considered advice.

Additionally, the GFOA is hosting a webinar on January 15 with the SEC's Municipal Securities Office Director, **John Cross**.

MSRB Launches Online EMMA Survey: The Municipal Securities Rulemaking Board (MSRB) launched an online [survey](#) for EMMA users to see how EMMA is viewed in the marketplace and the extent to which users rely on EMMA for market information. The MSRB is asking market participants to do the survey through January 8. The survey is part of the MSRB's effort to enhance EMMA. The MSRB has also formed the EMMA Development Advisory Group, made up of volunteers representing various municipal market stakeholders. The group will advise the MSRB on the evolution of EMMA.

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

NORTHEAST

On December 11th, **Goldman, Sachs** priced \$1.5 billion of **Long Island Power Authority** restructure bonds for the **Utility Debt Securitization Authority**; Aaa/AAA/AAA; callable at par in 12/15/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2016	5.00	0.26	-27
2025	5.00	3.24	+12
2041	5.00	4.52	+16

Notes: The novel 'true-up' structure could be used by other utilities.

MID-ATLANTIC

On December 10th, **PNC Capital Markets** priced \$130 million of revenue bonds for the **Pittsburgh Water & Sewer Authority**; A2/A/NR; Assured insured; callable in 9/1/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2018	5.00	1.60	+37
2023	5.00	3.53	+78
2033	4.50	4.71	+69

Notes: Assured Guaranty Municipal Corp. insurance was applied.

MIDWEST

On December 10th, **Basalt Township, Colorado** sold \$5 million general obligation bonds to **Stifel Nicolaus**; NR/AA/NR; callable at par in 12/1/2020:

Maturity	Coupon	Yield	+/- AAA 5%
12/2014	2.00	0.30	+7
2018	2.00	1.25	+2
2023	3.00	2.50	-25

Notes: A true interest cost of 1.76% and 10 bids is a great result.

SOUTHEAST

On December 11th, **Raymond James & Associates** priced \$9 million of GO bonds for the **Madison Parish School District of Madison Parish, Louisiana**; NR/A/NR; BAM insured; callable in 3/15/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2023	3.00	2.90	+15
2028	4.00	3.65	+9
2030	4.25	4.00	+23

Notes: Being bank-qualified and insured paired well together.

SOUTHWEST

On December 11th, **RBC Capital Markets** priced \$37.3 million of unlimited tax general obligation bonds for **Cleburne, Texas**; Aa3/NR/AA; callable in 2/15/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2015	4.00	0.33	-3
2018	4.00	1.25	+2
2026	3.50	3.78	+51

Notes: Even with no state income tax, Cleburne was sub 4% in 2026.

NORTHWEST

On December 10th, **Piper Jaffray** priced \$33.5 million of current interest bonds for **Bethel Oregon SD #52**; Aa2/NR/NR; Oregon School Bond Guaranty; callable at par in 6/15/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	4.00	1.70	-9
2023	4.00	3.00	-15
2033	5.00	4.16	-19

Notes: The state guaranty played a role in lower borrowing costs.