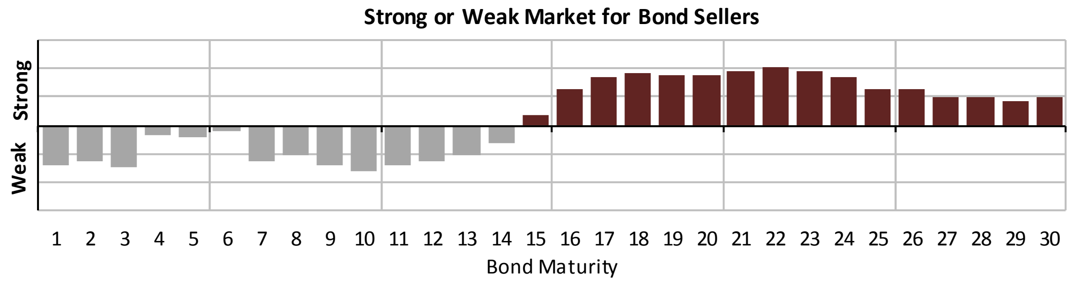
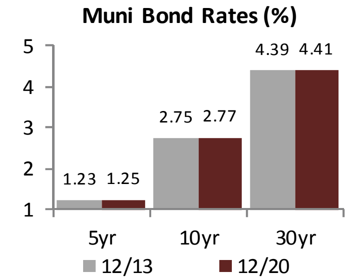
MUNICIPAL ISSUER BRIEF





Heading into this week, the weak dynamic grew from just the 5-year range of last week to most of the curve 14-years and shorter. Issuers should be more vigilant when offering bonds in this range. The stable pricing for bond sellers of longer-dated bonds persists.

MARKET UPDATE

MUNICIPALS RESPOND TO NEW MONETARY POLICY: Last week the Federal Reserve announced its plan to slowly step away from purchasing bonds and markets began to shift as a result. Municipals saw shorter maturities cheapen as a result.

INVESTORS & ISSUERS: Last week was probably it for the year.

- **The decision by the Federal Reserve to begin to pull out of the bond markets forced shorter-maturing municipal bonds to cheapen.** Bonds in the 5- to 15-year range declined and issuers selling bonds in that range should take note. Meantime, longer-dated bonds began to trade at higher prices so issuers of longer-dated bonds could take advantage.
- **This week the market will be extremely quiet.** There are only a handful of small deals. Many traders will be out on vacation, as well, which will keep the secondary markets muted.
- **Last week the Commonwealth of Massachusetts held a successful competitive auction.** As we noted last week, dealers can be aggressive this time of year when competing for issuers' business (especially higher-rated issues).
- **Mutual funds continued to lose cash** and are selling their municipal bonds to pay back individuals leaving the funds.
- **Higher coupons have outperformed lower coupons** as many investors expect interest rates to rise and are looking to protect themselves from volatility with a defensive coupon structure.

STATE-BY-STATE ECONOMIC REVIEW: With the release of new state-by-state economic data through September of this year, **RBC Capital Markets LLC** published its **State Economic Heat Map** on Friday. Broadly, Western states continued to see the best economic performance. Meantime, the Southeast was not as strong but there was evidence of improvement. The report also looked at each state's housing market and the impact on the local economy. Municipal bond investors look at this data to help make investment decisions. The better economic shape of your state will directly impact your cost of borrowing. To see where your state stacks up, the report can be found here.

BUYER BITES:

WHAT IS TRENDING HOT:
1) Massachusetts
2) 5% coupon or higher
3) Longer-dated bonds

CURRENTLY HARDER SELLS:
1) Puerto Rico
2) The 5 to 15 year range

WHO IS REPORTEDLY BUYING:
Separately managed accounts, life and property & casualty insurance companies

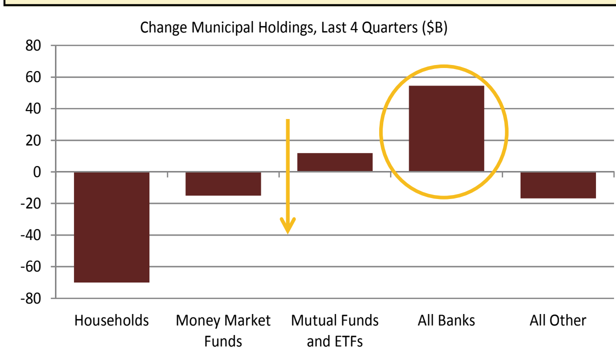


Figure 1: *Above represents the change of municipal ownership over the past year. Banks continued to invest in municipals in a meaningful way (yellow circle). The downward pointing arrow highlights that while mutual funds have remained net buyers over the last year, they are trending strongly negative as individuals sell their municipal holdings. This category is apt to be negative next quarter.* *See **Topic of the Week** on **page 3** to learn more about this and why issuers should take note.*

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TOPIC OF THE WEEK: BOND BUYERS

MARKET DATA: The Federal Reserve updated its latest statistics on the municipal market as of 3Q13. The biggest takeaways were:

- The municipal market shrunk (**Figure 2**). The amount of bonds outstanding continued to decline, this time by $36B.
- Mutual funds, individuals and money market funds together shed $60B of municipal bonds (**Figure 1** on **Page 1**).
- Banks continued to increase their investments. They cumulatively added another $14B of municipal bonds, and over the last year, banks have added $55B (**Figure 3**)
- Broker-dealers continued to sell their municipals holdings. With the last quarterly statistics, broker-dealers hold about one-third fewer municipal bonds than they did last year.

WHAT IT MEANS FOR YOU: As far as the shrinking bond market, there are two primary themes to consider: 1) there is less US infrastructure being funded and 2) municipalities are being more conservative with their wallets since the financial collapse—a theme that helps positively portray the fiscal shape of issuers. As far as specific buyer trends: making sure your underwriter and advisor is marketing your bonds to the right investors can help you lower your cost of borrowing. The continued loss of mutual funds plagues the market. In many cases **MMA** has observed individuals pull money out of mutual funds and go into other investment vehicles that are still purchasing your municipal bonds. One popular structure is a separately managed account (SMA). Issuers of bonds 10-years and shorter would benefit from learning about SMAs. Next, banks have continued to play an important role in the municipal bond market. Whether a small, regional bank or a national, household name institution—understanding the investment needs of different buyer bases will benefit an issuer. Finally, broker-dealers continued to hold fewer municipal bonds. Not only do broker-dealers underwrite your deals in the primary market, they also facilitate secondary trading of your bonds. If broker-dealers continue to hold less of your bonds, borrowing costs will increase. Given the anticipation of a higher interest rates, they are apt to be less aggressive when pricing a primary issue, unless they have firm demand for the specific structure and credit of the issue.

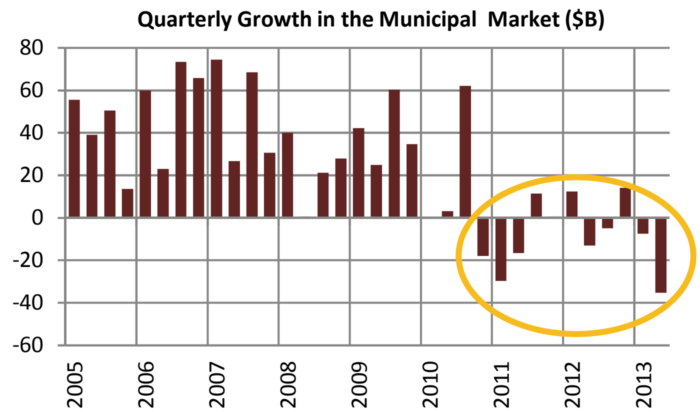

Figure 2: The size of the municipal market (in turn the amount of debt being incurred by issuers) has grown significantly since the mid-1990s. Above the trend continued from 2005 through 2010. Since then, the market has generally been shrinking as many issuers have become more fiscally conservative.

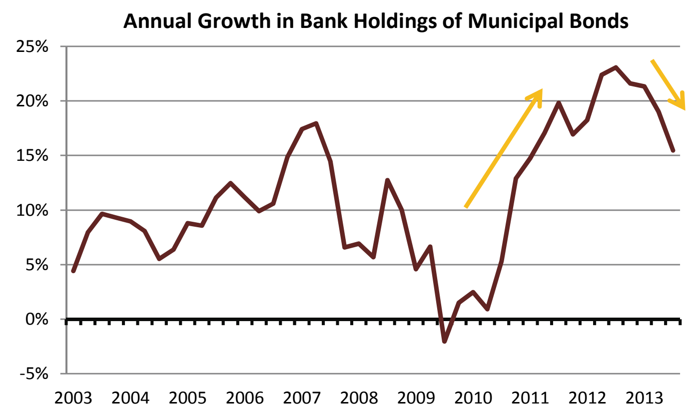

Figure 3: Banks began to increase their investments in municipal bonds after the Federal Government's stimulus package in 2009. The annual growth surpassed 20% in 2012, which has only happened 6 times since 1950 and has been unsustainable. In recent quarters the purchase pace for municipals has slowed.

A TWIST IN WASHINGTON & REGULATOR ROUND-UP

A Budget is Signed: The House and the Senate came together to pass a bipartisan 2-year budget deal last week. This will be the first time in 3 years that Congress will not face a "fiscal cliff" to welcome the New Year. Of course, the next one does loom in March when the debt ceiling will need to be raised.

The Senate Finance Committee Gets a New Chairman … Early: Last week, it was announced that the Chairman **Max Baucus** will be nominated to be the Ambassador to China. As soon as he is confirmed (which is expected to happen easily) Sen. **Ron Wyden** (D-OR) will likely take the reins of the Committee. Wyden has had a vested interest in comprehensive tax reform and has released several bipartisan reform bills in the past few years. While this may raise the specter of tax reform in 2014 (and he has in the past suggested removing the tax-exemption) it still remains a very high hurdle given the election-year politics. House Ways and Means Chairman **Dave Camp** (R-MI) is still waiting for the Republican caucus to decide on his petition to extend his Chairmanship of the committee for an additional 2 years. If he receives an extension, the pressure is off him to attempt tax reform in 2014.

Infrastructure & direct-pay bonds: Meanwhile, Finance Committee staff were working on a discussion draft on infrastructure-related tax provisions that would include several municipal bond provisions. This draft is in essence a (*CONTINUED ON PAGE 4*)

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

NORTHEAST

On December 17th, **Massachusetts** competitively sold $575 million of general obligation bonds to **Bank of America Merrill Lynch**; Aa1/AA+/AA+; callable at par in 12/1/2021

Maturity	Coupon	Yield	+/- AAA 5%
2016	5.00	0.60	+7
2033	4.00	4.29	+27
2043	4.50	4.68	+29

Notes: 9 bidders and true interest cost of 4.43% was a good result.

MID-ATLANTIC

On December 17th, **Guggenheim Securities LLC** priced $119 million of parking system revenue bonds for the **Pennsylvania Economic Development Authority**; Baa3/BBB/BBB-; callable in 1/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2022	5.00	3.56	+102
2023	5.00	3.79	+104
2034	5.25	5.18	+109

Notes: Assured Guaranty Municipal Corp. insurance was applied.

MIDWEST

On December 17th, **PNC Capital Markets Inc.** priced $28 million of **general receipts bonds for Kent State University,** Ohio; Aa3/A+/NR; callable at par in 5/1/2022:

Maturity	Coupon	Yield	+/- AAA 5%
2015	2.00	0.38	+7
2018	4.00	1.39	+2
2023	5.00	3.29	-25

Notes: The split rating may have adversely affected the University.

SOUTHEAST

On December 17th, **Ziegler Capital Markets** priced $128 million of Arlington of Naples revenue bonds for the **Collier County, FL IDA**; NR/NR/NR; callable in 5/15/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2024	7.00	7.00	+405
2035	7.75	8.00	+386
2044	8.125	8.25	

Notes: One of the largest retirement community deals of 2013.

SOUTHWEST

On December 17th, **Southwest Securities Inc.** priced $43 million of unlimited tax general obligation bonds for **Laredo, Texas**; A1/A+/AA-; callable in 8/1/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2018	4.00	1.58	+35
2018	4.00	1.25	+2
2026	3.50	3.78	+51

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

NORTHWEST

On December 17th, **Wells Fargo** priced $55 million of revenue bonds for **Board of Regents of Higher Education for the Montana State University**; Aa3/A+/NR; callable at par in 11/15/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2018	4.00	1.36	+13
2023	4.00	3.13	+39
2028	5.00	3.81	+26

Notes: A state with little issuance made the deal quite attractive.

WASHINGTON CONTINUED

(*FROM PAGE 3*) wish list for Senate Democrats for certain infrastructure and bond provisions. It should not alter the tax-exemption. But it will likely recycle many of President Obama's budget proposal bond provisions from February. **MMA** expects direct-pay bonds, with, in some cases, even higher subsidies for specific projects, with a focus on coastal and waterway areas; there will likely be a provision that would allow the direct-pay subsidies to avoid sequester cuts; and we expect new tax-credit bonds. Any new direct-pay bonds are apt to face steep hurdles from 1) many Congressional Republicans, who did not like BABs as it was an Obama Administration program, and 2) many issuers, who might also be skeptical of such provisions given the sequester cuts on BABs, and that the budget agreement that will add two more years of BABs cuts to the 10 already underway.

GFOA TO HOST MUNICIPAL ADVISOR SEMINAR: The Securities and Exchange Commission's new Municipal Advisor rule, released in September, will go into effect January 13. The municipal industry has been awaiting the SEC's Office of Municipal Securities to release a Frequently Asked Questions (FAQ) document to help market participants better understand some of the provisions of the Rule, that have left many underwriters, especially, and issuers, concerned with its implementation. While this document was expected to be released before this week, it is now more likely that the SEC will not release the document until the New Year. To help issuers better understand the Rule and how it could change their interaction with municipal advisors and underwriters, the Government Finance Officers Association (GFOA) will be hosting an Internet training seminar with the SEC Municipal Securities Director, John Cross, on January 15. Mr. Cross and members of his staff will provide an overview of the Rule and its implications for the issuer community. There will also be a question and answer period as part of the 2-hour event