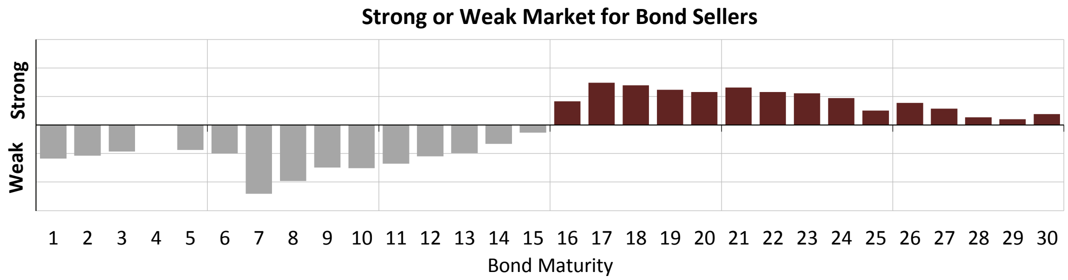
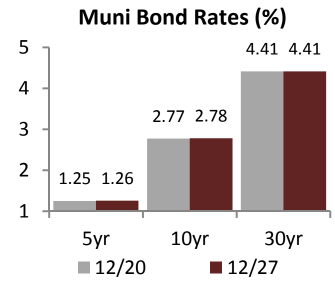
MUNICIPAL ISSUER BRIEF





The shorter half of the yield curve, 15-years and in (gray columns), continues to be a challenging place for issuers to achieve aggressive pricing. This week will see very little issuance as was the case last week. ***MMA*** *will resume normal* ***Municipal Issuer Brief*** *publication in the first full week of the New Year.*

TOP EVENTS OF 2013

- **Penalty zone**: Wenatchee, WA became the first issuer fined by the Securities and Exchange Commission (SEC) for fraud for its troubled Town Toyota Center financing, signaling a more aggressive regulatory approach in disciplining issuers by the regulator. Most investors perceive this as a favorable turn for disclosure and market liquidity in general.

- **Broken promises**: Federal government dysfunction led to sequestration, which reduced stimulus-era promised subsidy payments to governments that issued Build America Bonds (BABs) in 2009 and 2010. The shattered trust has dampened issuer interest in a resurrection of a BAB-like program. The reduced subsidy payments also triggered—in some cases—a par call that left investors that purchased the bonds at a premium with losses leading to higher issuer costs if a BAB-like program is relaunched. Despite issuer's skepticism, DC policy-makers continue to pursue the program's resurrection.

- **Reform that wasn't**: The year started with great angst that congressional tax reform efforts would cause havoc to the municipal market and there was likelihood of losing the tax-exemption itself. But 2013 ended with just a whisper of tax reform.

- **Moving on**: By the end of the year, many issuers that caused headline distractions and market headaches saw the light at the end of the tunnel. This includes Jefferson County, AL that sold bonds that enabled them to pay creditors and emerge from Chapter 9 bankruptcy. Harrisburg, PA moved forward with its Strong Plan and issued bonds to help the city recover. Stockton, CA reached agreements with nearly all of its creditors, received voter approval for a sales-tax increase. And, American Airlines Industrial Development Bonds have also been resolved in the merger of American and US Airways.

- **Icy reception**: Detroit's bankruptcy filing set the stage for state-appointed Emergency Manager Kevyn Orr to challenge the underlying security of pensioners' and general obligation bondholders' claims. The court also found that pensions could be adjusted, which is being appealed. By contrast, CalPERS took a hard line with San Bernardino over missed pension payments by asserting that the city must pay the required pension contributions and that failure to do so is a criminal act.

- **Fast and furious**: Significant regulatory releases persisted in 2013: IRS proposed issue price regulations, SEC Municipal Advisor rule, the Volcker Rule and Basel III, among others. These regulations will likely change municipal business practices, possibly transforming the functioning of the market. Underwriters and broker-dealers, already struggling with rising yields and diffident buyers, are being forced to reexamine their business models for the year ahead.

- **Swimming upstream**: This year made clear that the municipal market, created to manage the sale of bonds by state and local governments, can struggle when bondholders in the secondary market are selling. As of last week, tax-exempt mutual funds had lost almost $60 billion of outflows over 29 straight weeks: an all-time record. This backward flow of securities was highly disruptive to stable market function, periodically undermining or erasing liquidity; forcing yields higher.

- **Double digits:** It's been a generation since investment grade municipal debt carried double digit yields but in the late summer Puerto Rico saw the rates on its debt go above 10%. Concerns about the Island's reliance on dwindling market access to repay its current obligations, not to mention its future ability to repay its debt given its strained economy, will continue to consume headlines in next year and given that it is so widely held by investors, has implications for the entire industry.