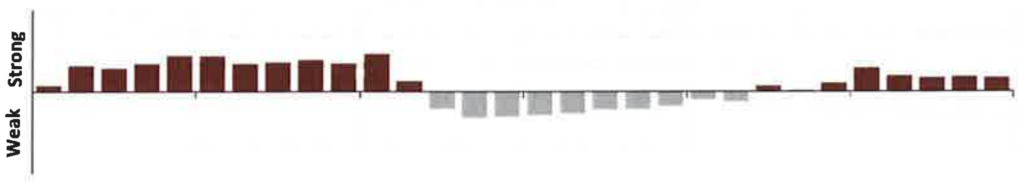
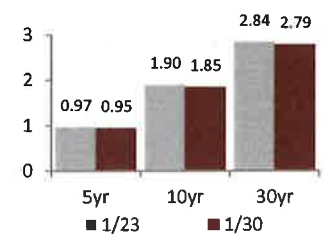
MUNICIPAL ISSUER BRIEF





Heading into this week, a similar dynamic exists that we saw last week wherein there are strong pricing implications for bonds maturing 10-years and less and once again 25-years and longer. The 'belly' of the curve, as many traders refer to it, remains more difficult even as the market improved most of last week.

MARKET UPDATE

A VERY STRONG JANUARY ENDS: Last week capped off one of the best Januarys for the bond markets in recent years. Municipal issuers benefited from aggressive pricing as the month ended. Power fundamental forces spurred the worldwide bond rally.

INVESTORS & ISSUERS: Strong performance helped issuers last week

- Municipal bond interest rates moved **closer to 2Q13** yields last week, as Treasuries rallied on concerns about the worldwide economy. Economic data is under a harsher microscope as investors look to see if European woes are affecting the U.S.
- Adding fuel to the fire, last Thursday, the Federal Reserve concluded its latest monetary policy meeting, and the minutes focused market participants on the central bank's concerns about U.S. economic health. This led to another **late-week bond rally** led by an exuberant Treasury market- municipals lagged.
- Most of the issuers that tapped into the market last week realized very strong investor demand, even as **retail investors, and their proxies, i.e. SMA's, began to balk at these very low yields. Secondary selling experienced a slight increase last week.**
- While individual investors were growing cautious at these levels, cash continued to flow into municipal bond funds throughout the month, about $1B per week. **Mutual funds have been steadily buying municipal bonds in 2015**. (**Figure 1, right**)
- In the competitive space, **Pennsylvania** postponed its $1 billion GO issue to this week because of winter weather. Competitive deals last week—namely **San Francisco**, which had large pre-sale orders from a few big banks; and **Florida's Board of Education**—created a **positive tone** for the Commonwealth this week.
- Aside from Pennsylvania—look to the large Trinity Healthcare issue that began selling to retail investors today as a sign for that sector (as well as the state of Wisconsin, which is a key issuer to set general high-grade benchmarks).
- Finally, **a surge in tobacco trading on Friday** was noteworthy, because as yields near those of May 2013, there could be an uptick in tobacco refundings in 2015.

IRS WEBINAR: The Internal Revenue Service's Office of Tax Exempt Bonds will host a free-of-charge webinar on Thursday, February 5 at 2 pm eastern. Issuers may find the event of particular interest as IRS staff will discuss its Voluntary Closing Agreement Program (VCAP), market segment program, compliance checks and surveys and other activities for fiscal 2015. Register for the event here.

BUYERS BITES:

WHAT IS TRENDING HOT:

1) Competitive issues seeing big dealer demand
2) Negotiated issues benefit from fund flows
3) Tobacco bonds
4)Healthcare sector continues to outperform

CURRENTLY HARDER SELLS:

1) The intermediate part of the curve

WHO IS REPORTEDLY BUYING:

Mutual funds, large domestic banks, SMAs

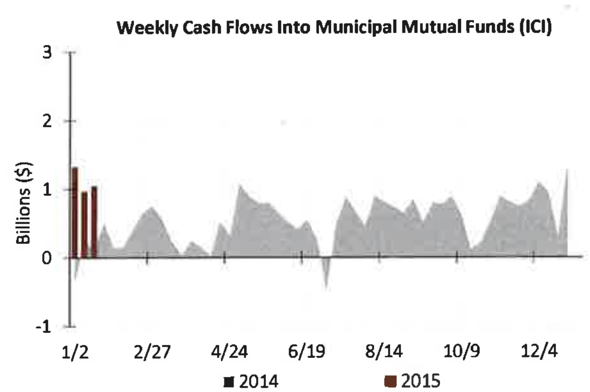
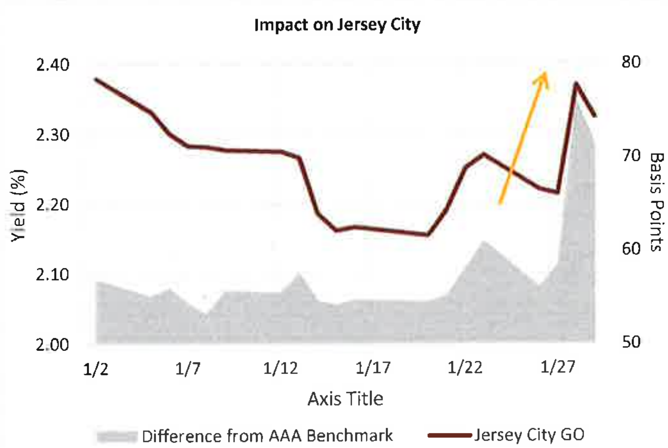


***Figure 1**: The Investment Company Institute (ICI) has reported continued strong inflows into municipal bond mutual funds in 2015. Each week, ICI reported the weekly total into funds was near or exceeded $1B. Lipper, another firm that reports fund flows, estimated that nearly $900 million poured into the funds in the last week of January. (ICI reports are delayed one week.) This investor-base is important for issuers' new-deals and the positive momentum can contribute to new-issues doing well. The underlying support from funds has historically established a constructive context for issuers. However, waning inflows or outflows can create adversity for issuers to access capital—as occurred in 2Q13.*

TOPIC OF THE WEEK: ATLANTIC CITY

TROUBLE IN NEW JERSEY: Governor Chris Christie has appointed an emergency manager to review Atlantic City's finances following problems there that include a property-tax base that has declined by about 50% since 2010, several Atlantic City casinos that closed and left thousands unemployed, weak household income and high poverty levels. Last week Moody's downgraded the city's GO rating to Caa1 from Ba1. **MMA** noted to our institutional investor clients last week that holders of any local New Jersey government debt should be concerned as it opens the window for possible debt impairment for the city and casts a shadow over the states' local governmental debt. We expect investors to demand lower prices to own not only Atlantic City's bonds but also most other local New Jersey credits. For example, in the **figure below**, note the yield on the Jersey City GO has increased since the Emergency Manager was appointed (maroon line) and the credit has moved over 20 basis points cheaper than triple-A bonds in the same time period). Recall that in Detroit's bankruptcy, other Michigan issuers faced similar hurdles. New Jersey has historically had a strong reputation in supporting its struggling municipalities—but so did the state of Michigan before Detroit's bankruptcy. Even more concerning has been the addition of Kevyn Orr as an advisor to Atlantic City's process. Mr. Orr managed Detroit's bankruptcy and was aggressive in going after bondholders, which may act to further depress local New Jersey prices. You can read our summary of Detroit's process and what it means for issuers in this November MIB.

WHAT THIS MEANS FOR YOU: For any municipal issuer, this could very well be yet another situation in which obligations made to investors are not met, which all else being equal, means higher borrowing costs. To be clear, the city has not entered bankruptcy but these are signs that this is where the situation may be headed. The suggestion that bonded debt is under attack means every New Jersey local government issuer's credit quality is weaker because reliable, bondholder-friendly state support has evaporated. That another city's well-publicized problems are now being taken over by the state with signs of an anti-bondholder process pending, means the entire industry and issuer community could take another black eye in terms of pledge security.



REGULATORY ROUND-UP

FOCUS TURNS TO 15c2-12: Many market participants last month sent comments to the SEC on its Rule 15c2-12, following the SEC's request for comment last year. The SEC was specifically seeking comments on the length of time it takes to comply with the Rule. The SEC estimated 45 minutes for issuers to comply with annual filings, 45 for event filings, and 30 for failure to file notes. Additionally the SEC estimated broker/dealer compliance at 300 hours per year, or 1.2 hours for every broker/dealer working in municipals. In its response, the Government Finance Officers Association said that in many instances the estimates appear low, and provided additional time necessary to comply with the Rule: annual filings 4 to 9 hours, event filings 1 to 4 hours, and 1 to 2 hours for failure to file.

Other groups took this opportunity to say the Rule is outdated and should be updated as more disclosure opportunities have come online. Groups including the Securities Industry and Financial Markets Association (SIFMA), the National Association of Bond Lawyers (NABL) and the Bond Dealers of America (BDA) sent letters to the SEC making the case for a simplified rule as well as refuting the time that it takes for participants to make disclosures.

The Municipal Securities Rulemaking Board (MSRB) also weighed in on the topic, urging the SEC to "conduct an extensive review of the disclosure requirements in the municipal securities market" outlined in Rule 15c2-12. The MSRB pledged its support for a thorough review of the Rule and encouraged the SEC to look at disclosure standards for bank borrowing, including having the SEC look to the standards for the corporate market as a precedent for off-balance sheet borrowing. Also last week, the MSRB again called for issuers to disclose their bank borrowing in a market advisory.

Keep in mind that an SEC report in 2012 on the municipal industry suggested possible changes to Rule 15c2-12, and with an increased focus at the SEC on issuers and disclosure, there could be modifications forthcoming. Also government officials in two cities last week were banned from the municipal market and fined by the SEC—two in Allen Park, Michigan and one in Harvey, Illinois.

Meanwhile, the SEC's Office of Compliance Inspections and Examinations (OCIE) released its 2015 priorities, which include continuing to monitor newly regulated Municipal Advisors (MAs) with examinations as well as protecting retail investors.

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

NORTHEAST

1/26: **Roosevelt & Cross Inc.** priced $4.3 million general obligation bonds for the **Avon Central School District, NY**; NR/A+/NR; non-callable:

Maturity	Coupon	Yield	+/- AAA 5%
2015	1.50	0.45	N/A
2020	2.00	1.26	+29
2021	2.00	1.40	+15

Notes: Shorter maturities found good NY retail interest for this SD.

MID-ATLANTIC

1/29: **JPMorgan Securities LLC** priced $188 million general obligation bonds for **New Castle County, Delaware;** Aaa/AAA/AAA; callable at par in 10/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.15	+20
2025	5.00	1.85	+4
2045	5.00	2.64	-15

Notes: In 30-years the issuer sold 15bps richer than the Benchmark.

MIDWEST

1/26: **RBC Capital Markets** priced $11 million general obligation bonds for the **Morgan County School District, Colorado**; Aa2/NR/NR; callable at par in 12/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.50	+53
2026	5,00	2.40	+43
2034	5.00	2.90	+33

Notes: Marijuana could provide new revenue for CO schools.

SOUTHEAST

1/29: The **Florida Board of Education** sold $234 million of public education capital outlay refunding bonds to **Wells Fargo Securities**; Aa1/AAA/AAA; callable at par in 6/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.11	+16
2025	5.00	1.89	+4
2029	3.00	2.75	+58

Notes: This high-grade issuer help set the general market tone.

SOUTHWEST

1/26: **Raymond James & Associates** priced $23.3 million general obligation bonds for the **Burnet Cons Independent School District, Texas**; Aa3/NR/NR; callable at par in 8/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2020	3.00	1.31	+34
2025	5.00	2.12	+22
2035	5.00	2.66	+5

Notes: Texas school districts continue to see demand.

FARWEST

1/28: The **City and County of San Francisco, California** sold $292 million general obligation bonds to **JPMorgan Securities LLC**; Aa1/AA+/AA; callable at par in 6/15/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.04	+8
2025	5.00	1.82	-5
2030	4.00	2.59	+31

Notes: Large pre-sale allowed for strong levels on this deal.