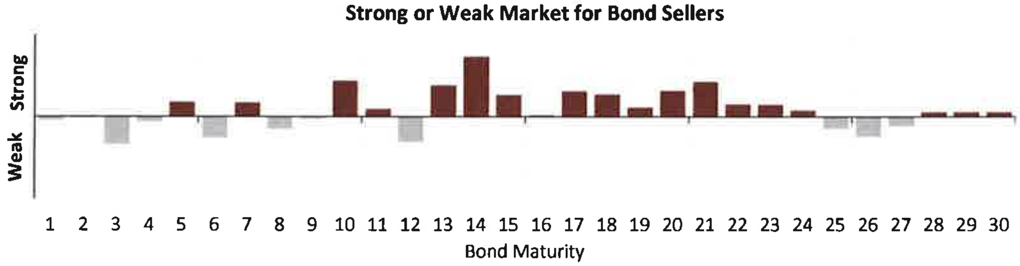
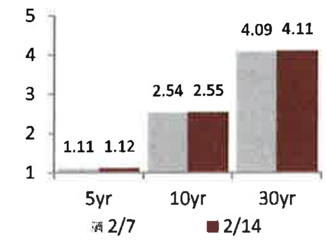
MUNICIPAL ISSUER BRIEF

Strong or Weak Market for Bond Sellers



Muni Bond Rates (%)



*Heading into the week, the overwhelmingly strong dynamic to the market of last week has given way to a mixed tone. The supply is outweighed by demand this week, **below**, but note where on the curve the best savings could be achieved—intermediates. Very long maturities (25-30yrs) could be difficult right now to sell.*

MARKET UPDATE

WEEK TO START OUT SLOWLY: The Presidents' Day holiday starts the week off slowly. Storms again on the East Coast will not help speed things up. The municipal market remains on stable to strong footing with the recent dearth of new deals.

INVESTORS & ISSUERS: Once again there is little scheduled supply.

- **The municipal market continues to perform better than other bond markets on a lack of supply** (see **Figure 1**). This week is no different and issuers can continue to take advantage.
- **New York State represents nearly one-third of all scheduled issuance this week.** The city's Metropolitan Transportation Authority is the largest deal of the week.
- **The State of Louisiana sold in the competitive markets quite successfully last week.** At least one insurance company was interested in 4% coupons at par maturing around 20-years. Other issuers that can issue in this structure could take advantage.
- The Dallas/Fort Worth Airport made **a short-notice decision to bring $200 million bonds to market last week**. The Airport had the ability to take advantage of the recent lack of issuance and benefitted with low borrowing costs as a result.
- **Mutual funds added minimal investors last week.** Funds are on better footing than last year but still not decidedly better.
- **Tobacco bonds rallied last week.** A proposal to include electronic cigarettes under the Master Settlement Agreement sparked the rally in the middle of last week.
- **Puerto Rico was downgraded below investment-grade** by Fitch Ratings meaning all three agencies have the territory at junk. The island announced plans to issue general obligation bonds in March. All issuers should track this sale as it has major headline implications for all market participants (see **next page** for more).

WEATHER & YOU: Over the weekend, the ***New York Times*** ran a story discussing how the winter storms in the Midwest and East Coast are exacerbating the problems for state and local governments associated with dated infrastructure. In the note last week, **Moody's Investors Service** stated that the current drought in **California** "will weaken local water agencies' credit quality." Hurricane Sandy in 2012 had major credit implications for issuers all along the eastern seaboard. How municipalities address weather concerns is something bond investors are looking at much more carefully. Understanding the effects of weather and planning appropriately will help your long-term credit profile.

BUYER BITES:

WHAT IS TRENDING HOT:

1) Higher-grade longer 4% coupons at par
2) Tobacco-backed securities
3) 5-year 'kicker' calls or shorter
4) Generic high-yield

CURRENTLY HARDER SELLS:

1) High-yield 4% coupon out long

WHO IS REPORTEDLY BUYING:

Regional banks, insurance companies, short maturing mutual funds, high-yield mutual funds

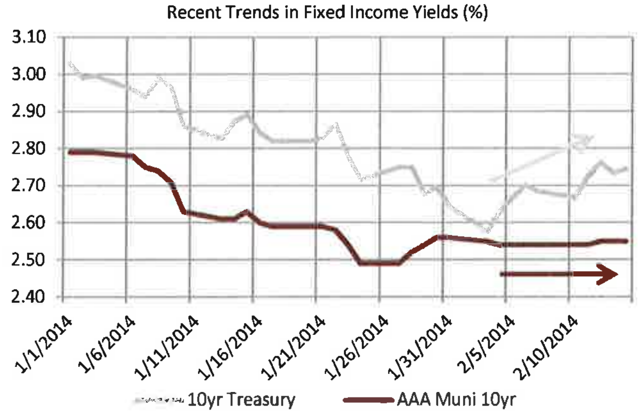


***Figure 1:** The chart above shows the movement in interest rates for the US Treasury market (grey line) and for triple-A municipal borrowing rates **(maroon line)** as collected by **MMA** thus far in 2014. Since the January rally, Treasury bonds have seen yields rise (grey arrow). During the same timeframe municipal rates have stayed generally little changed for the first two weeks of February **(maroon arrow)**. This is in large part due to the lack of issuance recently. The **MIB** has discussed this frequently this year and it is something issuers can use to their advantage.*

MMA The Power of Independence

TOPIC OF THE WEEK: WASHINGTON UPDATE

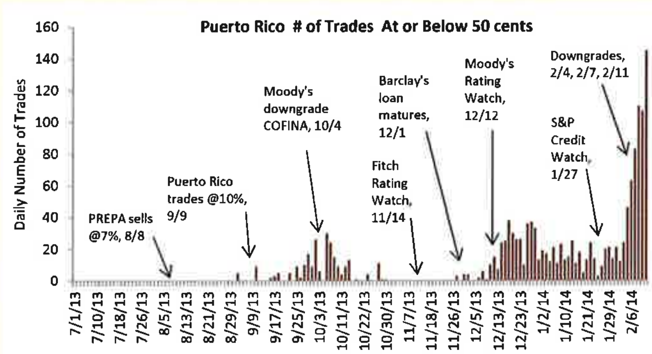
WINDS OF CHANGE: As former Senate Finance Committee Chairman **Max Baucus** (D-MT) leaves his post to serve as Ambassador to China, the Chairmanship of the Committee is handed over to Senator **Ron Wyden** (D-OR), who has supported alternatives to tax-exempt municipal bonds in the past. Wyden spoke recently at an event in California, and the ***Bond Buyer*** reported that Wyden reiterated his strong support for Build America Bonds (BABs), among other stimulus-era municipal provisions. Wyden has had a vested interest in comprehensive tax reform and has released several bipartisan reform bills in the past few years, two of which repealed the tax-exemption for municipals and put taxable tax credits and tax credit bonds in their place. This comes at the same time as Rep. **Richard Neal** (D-MA), an influential member of the House Ways and Means Committee, introduced a bill that would resurrect BABs, making them permanent, as well as repeal the alternative minimum tax (AMT) for private activity bonds (PABs). Additionally, House Ways and Means Chairman **Dave Camp** (R-MI) may still be working on a draft of his approach to comprehensive tax reform in the coming weeks, which could include some type of tinkering with the tax-exemption and a possible repeal of the state and local income tax deduction. Meantime last week, the House and Senate extended the deadline for the debt ceiling by one year. But the legislation also extends sequester cuts to subsidy payments for BABs and other direct-pay bonds for one year . This pushes direct pay bond subsidy payment cuts out to 2024, an additional three years from the original 10.

WHAT THIS MEANS FOR YOU: Avoiding breaching the debt ceiling is certainly a positive for the U.S. and global economies, and the Treasury Department announced it would resume the purchase of state and local government securities (SLGS) as a result. However, once again Congress has shown a disregard for their promises to state and local governments related to BABs and other direct subsidy bond programs. This is the third time Congress has scaled back payments to issuers. **MMA** does not see this as a positive move for Congress' dealings with states and localities, especially in light of Wyden and Neal's support for these programs. Furthermore, actions such as these could cause general market disruption, as investors may be concerned that leaders in Congress are willing to diminish or eliminate tax-exempt bonds for bond programs that are not proven investments, or in the case of tax credit bonds, even desired by investors. More importantly for **MIB** readers, these types of products could be more costly for state and local governments to issue. While direct subsidy bonds may be seen as another tool in the toolbox, and could be attractive for certain issuers, in general the issuer community has consistently stated that any other type of financing instrument brought forward by Congress to "help" state and local governments should not come at the detriment of tax-exempt bonds. While Chairmen Wyden and Camp may come forward in the coming weeks and months with various proposals that could hurt the tax-exempt bond market, the likelihood of Congress enacting these measures in an election year are slim. Nonetheless issuers should always be ready to respond appropriately and aggressively to these proposals.

REGULATORY UPDATE & A CHART ON PUERTO RICO

EMMA ENHANCED: The Municipal Securities Rulemaking Board (MSRB) announced last week that it has enhanced the design of the EMMA website. The goal of these improvements is to help EMMA users, including investors and issuers, more readily access information. The redesign comes on the heels of the MSRB adding additional features to EMMA that help issuers better present information and disclosures related to their bonds discussed here. Key improvements include a pilot feature that allows a user to search by name of entity, and look up all issuers in a specific state. The pilot feature also allows for clicking on an issuer's name and seeing a display of consolidated information, including trading activity and disclosure documents. There is also a daily market recap feature and new information and click-throughs on EMMA. Click here for a tour of the new home page. The MSRB also will host a free webinar on February 28.

MSRB BOARD MEETING FOCUSES ON ADVISORS, BEST EXECUTION: The MSRB held its quarterly meeting at the end of January and focused much of their efforts on developing an appropriate regulatory framework for Municipal Advisors. The MSRB, as directed by the Dodd-Frank Act, has already begun this rulemaking, including a January 9th proposal currently out for public comment, that would define an MA's fiduciary duty to their state and local government/entity client. The Board also took steps to initiate a new fee that would be assessed on municipal advisors by the MSRB. The Board also discussed a proposal to develop a "best-execution" standard for municipal bond transactions. The goal of this rulemaking is to enhance dealers' obligations to achieve a fair and reasonable price when they buy and sell bonds on behalf of retail investors.



The chart above shows the number of trades of Puerto Rico bonds at prices of 50 cents or lower since July last year with major events pointed out. These very cheap trades have increased dramatically in recent weeks as mostly individual investors have made the decision to sell their Puerto Rico bonds at fire-sale prices. This is a negative development for all municipal issuers as it paints a very bad picture for the island but also because some of these investors may be selling other municipal bonds as well, which increases all borrowing rates.

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

NORTHEAST

On February 12th, **Citigroup Global Markets Inc.** priced $63 million of non-AMT bonds for the **State of New York Mortgage Agency**; Aa1/NR/NR; callable at par in 10/1/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2015	0.30	0.30	+11
2039	4.65	4.65	+64
2044	4.80	4.80	+70

Notes: These par coupon structure did very well with NY retail.

MID-ATLANTIC

On February 12th, **RBC Capital Markets** priced $8.5 million of general obligation bonds for the **Oxford Area School District, Pennsylvania;** NR/AA/NR; callable at par in 8/15/19:

Maturity	Coupon	Yield	+/- AAA 5%
2015	0.30	0.30	+11
2019	4.00	1.35	+24
2022	2.25	2.30	+15

Notes: Shorter maturities targeted SMA interest.

MIDWEST

On February 12th, **Barclays Capital** priced $81 million of general revenue bonds for the **Regents of the University of Michigan**; Aaa/AAA/NR; callable in 4/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.21	+10
2024	5.00	2.66	+12
2044	5.00	4.04	-6

Notes: Longer end through the MMA 5% AAA indicates strength.

SOUTHEAST

On February 12th, **Wells Fargo Securities** priced $44 million of hospital fee pledge limited obligation bonds for **Myrtle Beach, South Carolina**; Aa/AA-/NR; callable in 6/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	3.00	1.99	+88
2024	5.00	3.49	+95
2029	4.00	4.10	+79

Notes: The deal was re-priced to lower yields by as much as 9bps.

SOUTHWEST

On February 11th, **Southwest Securities** priced $81 million of general obligation bonds for the **Abilene Independent School District, Texas;** Aa2/AA/NR; callable in 2/15/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2019	3.00	1.23	+11
2024	5.00	2.69	+11
2034	5.00	3.69	+19

Notes: PSF enhancement helped this issuer lower borrowing costs.

FARWEST

On February 12th, **Goldman, Sachs & Co.** priced $97 million of water revenue refunding bonds for the **Metropolitan Water District of Southern California**; Aa1/AAA/AA+; not callable:

Maturity	Coupon	Yield	+/- AAA 5%
2018	5.00	0.88	+12
2019	5.00	1.17	+6
2021	5.00	1.87	+5

Notes: High ratings & short maturities helped price the deal quickly.