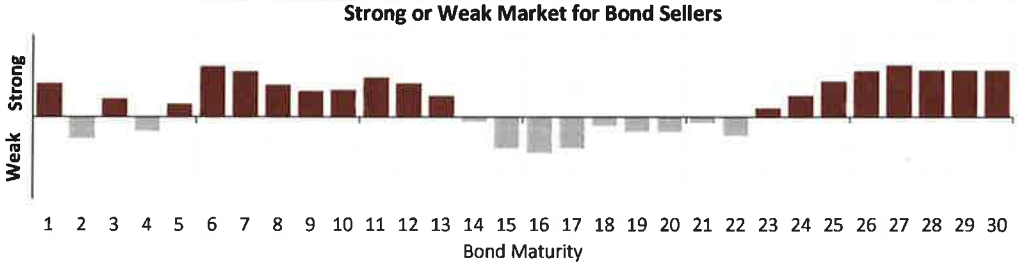
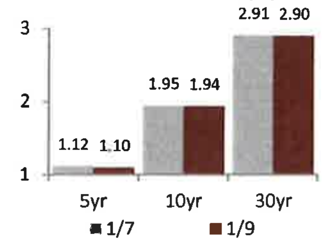
MUNICIPAL ISSUER BRIEF





Heading into this week, the long-end of the curve has a very strong dynamic after last week's performance. It may be more challenging for issuers if they are selling bonds in the 14– to 22-year range after this part of the market was unable to keep up last week.

MARKET UPDATE

STRONG START TO 2015: With concern about several European economies and as the price of oil continues to drop, many higher-rated bond markets rallied last week and took tax-exempt bonds with them into lower yield ranges.

INVESTORS & ISSUERS: Strong performance last week bodes well.

- For the first time since May of 2013 the U.S. Treasury bond broke below– and stayed below– 2.00% for multiple sessions. The gains in taxable markets **dragged exempt interest rates lower and most issuers benefited last week.**
- Strong retail interest in the New York Dormitory Authority and for King County, Washington on Friday also **bodes well for the larger deals that have begun retail pricing today.** (See page 3 for more on how regional new issue deals fared last week.)
- With bond markets worldwide at historical or multi-year lows, a few very non-traditional buyers, such as **pension funds, were buying tax-exempt municipal bonds last week** and played a role in many issuers seeing lower borrowing costs.
- The Investment Company Institute reported big inflows into municipal bond mutual funds to end 2014 and **many of the larger fund complexes have been very active in buying new deals last week as a result.**
- **This week sees another larger new-issue slate compared to last year's averages.** MMA will be tracking retail interest in the new York City Transitional Finance Authority, which began pricing this morning, as a yard post for the general high-grade market.
- Lower-rated healthcare in general **saw a very strong 2014 and last week that sector continued to shine.** There are larger healthcare deals from Illinois and California set to price this week, which should be telling for this sector as a whole.

BUYERS BITES:

WHAT IS TRENDING HOT:
1) Texas long bonds led the rally
2) Lower-rated healthcare and housing
3) Longer-dated maturities

CURRENTLY HARDER SELLS:
1) 4% or lower coupons not keeping up
2) Puerto Rico

WHO IS REPORTEDLY BUYING:
Mutual funds, SMA, individuals, large banks, pension funds

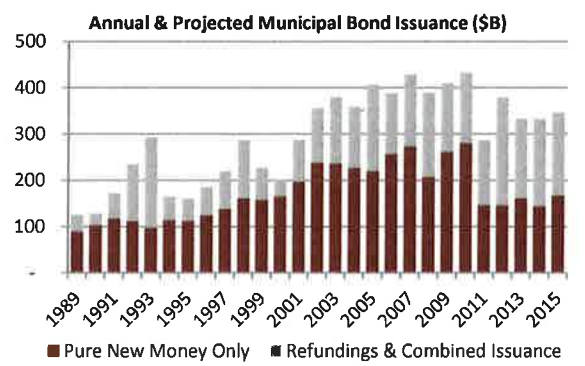


***Figure 1:** MMA projects issuance to increase slightly in 2015 to $347 billion from the $334 billion issued in 2014. This reflects our expectation of continued refinancing activity in the first half of 2015 to accommodate a higher risk of rate increases over time. The chart above tracks issuance volumes dating back to 1989.*

MSRB SEEKING BOARD MEMBERS: The Municipal Securities Rulemaking Board (MSRB) is seeking applications for 7 new members for its Board of Directors, including four public members, which can include issuer officials. The MSRB said it is seeking applicants with "strong knowledge of the pricing and trading of municipal securities, including those with institutional 'buy-side' experience, are encouraged to apply." The MSRB is also hosting a webinar for potential applicants tomorrow, Tuesday, January 13 at 12:30 pm eastern. Sign up for the webinar here.

MMA Independent & Data Driven

TOPIC OF THE WEEK: WHAT SHOULD BE ON ISSUERS' RADAR

MMA's ***OUTLOOK*** report, which is a weekly publication primarily aimed at professional market participants, covered the following topics on January 5th. ***MIB*** readers interested in learning more about ***OUTLOOK*** or the topics below, should contact us.

DIM LONG-TERM OUTLOOK FOR STATE AND LOCAL GOVERNMENTS: A recent GAO study cautions that long-term expenditures—specifically Medicaid and retiree health care—will place fiscal pressures state and local governments in upcoming decades, absent robust policy changes.

What this means for you: Despite improving economic conditions, there are still concerns for your credits when adding long-term liabilities and expenditure responsibilities to your balance sheets. Expectations are for growing health care costs and weak state and local revenue growth over at least the next decade. Federal and state aid is unlikely to expand by much and may shrink, while unfunded mandates are apt to grow. Municipal market investors value both predictability and flexibility in a government's finances. The latter will be an increasingly scarce commodity in the years ahead, giving proactive managers an opportunity to shine.

POPULATION GROWTH IS A POSITIVE FACTOR: A municipality's size has historically influenced ratings. However, the rating agencies sharpened focus on legacy liabilities dampens the positive impact of population growth and increases the negative impact of population declines.

What this means for you: Local governments facing stagnant and/or declining population are at risk of downgrade absent credible plans to maintain balanced budgets. This may result in governments wanting to look at being proactive in raising tax rates or user fees and/or finding cost-savings through shared services, technology and other efficiencies. ***Figure 1,*** below, tracks states seeing the largest population increases.

HIGH STATE DEFAULT INDICES ARE A CREDIT NEGATIVE: **MMA** has recalculated its state default indices (SDI), which is prepared mainly for our investor clients, and which ***MIB*** readers usually see when we publish **MMA**'s ***Default Trends.*** On average we see little change from last year. Regardless of the specific credit or sector being considered, **MMA** is telling bondholders to be somewhat more careful with purchases in higher-defaulting states (see ***Figure 2,*** below)

What this means for you: Although the current municipal bond market is providing very low borrowing costs for all governments, and minimal penalties for issuers with weaker credit profiles, investors who were hurt by Detroit and other distressed credits in 2014—as well as those passive investors that were just alarmed by the—will continue to worry about some issuers' willingness to pay debt service in times of stress. All issuers in states with default experience (and thus, potentially, a looser local perspective on debt repayment) should expect a more cautious attitude from investors.

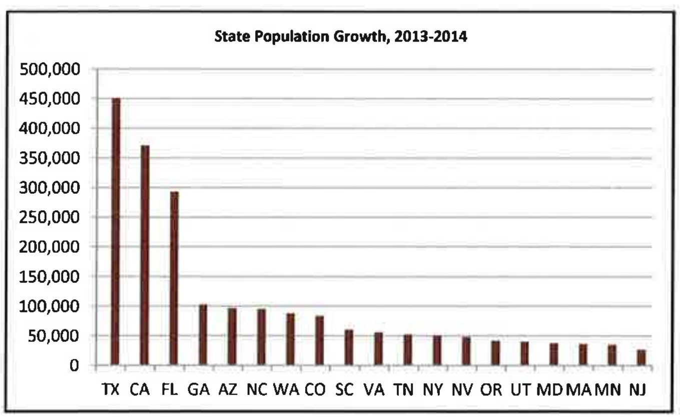


Figure 1: *Texas, California and Florida are seeing the largest population increases, according to the latest U.S. census data.*

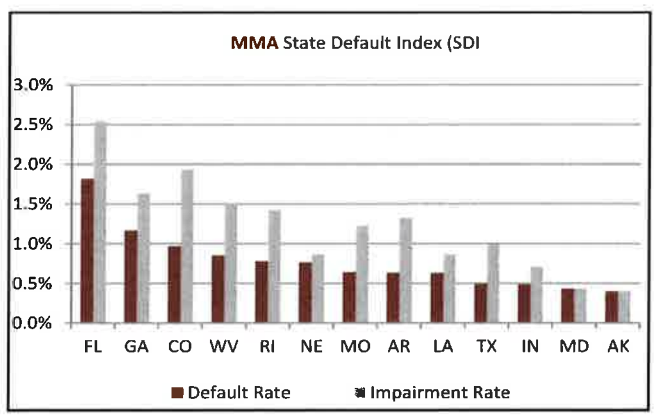


Figure 2: *States with a higher proportion of defaulted or impaired debt can affect the borrowing costs of all issuers in that same state.*

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

NORTHEAST

1/7: **Barclays Capital** priced $1B personal income tax bonds for the **Dormitory Authority of the State of New York**; NR/AAA/AA+; callable in 3/15/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.41	+29
2025	5.00	2.18	+23
2035	5.00	2.81	+13

Notes: The issuer put away one-third of the deal to retail investors.

MID-ATLANTIC

1/6: **RBC Capital Markets** priced $28M limited tax general obligation bonds for the **Warwick School District, Pennsylvania.**; NR/AA-/NR; callable in 2/15/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2020	4.00	1.60	+48
2024	4,00	2.28	+43
2025	4.00	2.43	+48

Notes: The 8-year call differentiated this school district.

MIDWEST

1/7: **Ohio** sold $101M infrastructure improvement general obligation refunding bonds to **Morgan Stanley & Co.**; Aa1/AA+/AA+; not callable:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.42	+30
2023	5,00	1.90	+16
2025	5.00	2.06	+11

Notes: Ohio received a strong bid for this short-maturing deal

SOUTHEAST

1/7: **Shelby County, Tennessee** sold $173M general obligation bonds to **Wells Fargo Securities**; Aa2/AA+/AA+; callable at par in 4/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.29	+17
2025	5.00	1.97	+2
2027	5.00	2.11	-3

Notes: Yields were tighter than recent similarly traded bonds

SOUTHWEST

1/6: **William Blair & Company LLC** priced $154M unlimited tax school building bonds for the **Keller Independent School District, Tarrant County, Texas**; Aa2/AA/NR; PSF guaranteed; callable in 8/15/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.52	+40
2035	5.00	2.66	-2
2040	4.00	3.25	+41

Notes: The 20-year bond had strong levels.

FARWEST

1/7: **Citigroup Global Markets Inc.** priced $400M Oregon lottery revenue bonds for the **Oregon Department of Administration Services**; Aa2/AAA/NR; callable in 4/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.36	+52
2025	5.00	2.04	+9
2035	5.00	2.64	-4

Notes: Issuer saw strong demand out long, as the long end rallied