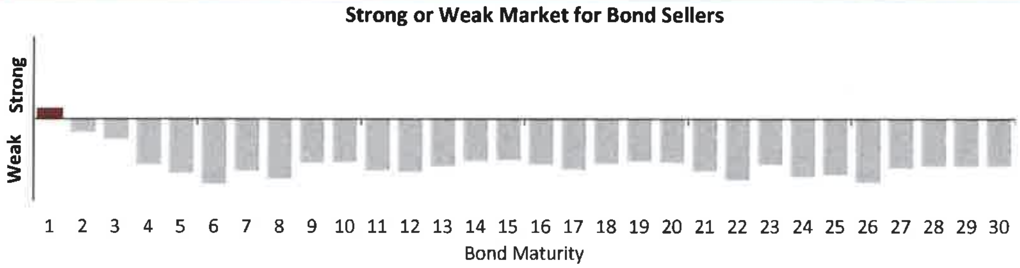
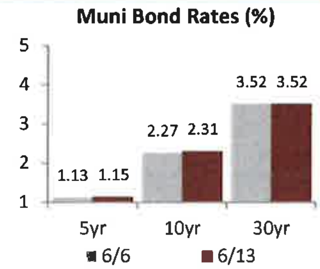
MUNICIPAL ISSUER BRIEF





Heading into this week, the uptick in supply and lack of direction in interest rates last week created a less aggressive pricing environment in the primary market as compared to the end of May. Issuers this week should be sensitive to rate movement ahead of the Federal Open Market Committee (FOMC) meeting on June 17-18.

MARKET UPDATE

A STORY OF TWO MARKETS: Last week began with continued negative pressure from other bond markets but ended doing better, which could help issuers coming to market this week should upward momentum emerge ahead of the FOMC meeting.

INVESTORS & ISSUERS: Largest new-issue week since March does OK.

- After beginning on shaky footing, **last week ended better.**
- **Many new-issues were still able to attract strong investor attention despite headwinds from other bond markets**. A turnaround in Treasuries on Thursday sparked better trading for longer-maturing municipal bonds.
- The largest new-issues from **Los Angeles Unified School District and New York City initially had to adjust their deals to slightly increased borrowing costs** (because the general market was difficult); but by Thursday **both issuers increased the size of their deals**. This Monday morning the bonds were generally trading better in secondary markets. (More on regional deals on **page 3**.)
- **MMA continued to note secondary selling pressure** from at least one large cross-over buyer (see last week's *MIB* for more).
- However, **mutual funds that buy municipal bonds continued to receive cash**, so that the week ending June 4th marked the 5th consecutive week of inflows greater than $750 million, a positive for issuers selling bonds this week.
- Double-A or better competitive deals continue to do quite well in this market. Last week the Maryland DOT was able to secure low coupon payments on bonds 12-years and longer **after at least one large bank and then an insurance company placed large pre-orders for 3% and 4% coupons in this range.**
- This week's triple-A series of Georgia GOs selling competitively on Tuesday will alert us to whether this trend continues.
- **The Federal Reserve will conclude its latest monetary policy meeting on Wednesday**. This has market-moving potential and along with the Georgia sale will help dictate the week's tone.

BUYERS BITES:

WHAT IS TRENDING HOT:

1) NYC GO, LA USD, Houston
2) Double-A healthcare, single-A higher education
3) Higher-rated competitive deals

CURRENTLY HARDER SELLS:

1) Illinois GO
2) Puerto Rico utility credits

WHO IS REPORTEDLY BUYING:

Large banks, property & casualty insurance companies, mutual funds

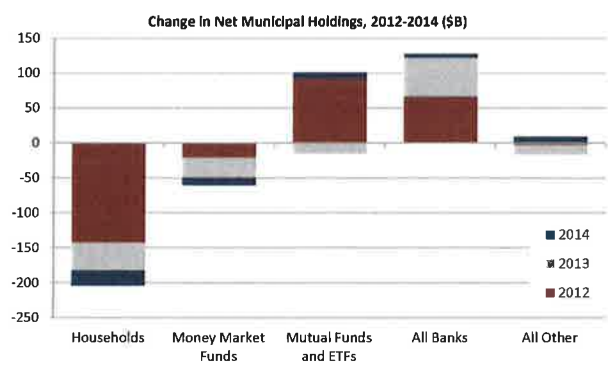


Figure 1: *The latest data from the Federal Reserve quantified the changing universe of municipal bond buyers. Above the major investor categories are displayed for the last 3 years (2014 is only through the first 3 months). Note that households continued to hold fewer individual bonds as many investors are moving into professionally run investment vehicles—mutual funds, separately managed accounts or ETF's. Banks continued to increase their holds of municipal bonds, but did so at a considerably slower pace than the last two years. A full review of the changing buyer-base is on* ***page 2*** *in the* ***Topic of the Week.***

STATE REVENUE TRENDS: The **National Association of State Budget Officers** recently released a fiscal survey of states. The report noted that 42 executive budget proposals for the coming fiscal year recommend small spending increases equating to a slower aggregate growth rate than in the last fiscal year. This expense restraint is a reasonable positive for generic state credit quality. A full review of the revenue trends will be featured in an upcoming **Topic of the Week**.

© 2014 Municipal Market Advisors

TOPIC OF THE WEEK

BOND BUYERS: The latest data from the **Federal Reserve** emphasized how post-Crisis trends in municipal bond buying have begun to slow. The biggest takeaways were:

- Household investors continued to give way to institutional managers; (see **Figure 1**, **page 1**)
- Mutual funds gained investors after massive losses in 2013 (see **Figure 2**) and money market funds have a smaller role;
- Banks continued to purchase municipal bonds, but have done so at the slowest rate since the start of 2011 (see **Figure 3**);
- International buyers and insurance companies modestly increased their municipal investments; and
- The municipal market as a whole continued to shrink. In the last quarter, the size of the market decreased by $10 billion (see **Figure 4**) putting the 12-month rolling reduction at $68 billion (see **Figure 5**) as issuance has slowed and older bonds matured.

WHAT THIS MEANS FOR YOU: An issuer coming to market should consider the changing investor dynamics of the marketplace and make sure their underwriter does as well. The evolving dynamics present a set of benefits for issuers but also highlight certain challenges. A smaller market means: **A)** the supply/demand balance will apt to favor issuers, which has been evident for most of 2014; and all other things being equal will lower borrowing costs; and **B)** either states' and localities' infrastructure needs are not being fully financed or issuers are finding other means to raise finds (direct loans from banks is one mode that can be read about here). With mutual funds regaining their footing, issuers should take advantage of this investor segment. Most underwriters can track which types of mutual funds are attracting assets and which are not–information that can be used to directly market your securities to the funds that specialize in your credit-type or structure. Banks, small and large, have served an important role in the market over the last 5 years—a key demand component, especially community banks that have bought small issues. Even with the interest rate volatility of 2013, banks continued to support municipalities' securities. However, if they continue to decrease their municipal allocations, this could mean a modest rise in expected borrowing costs. Banks' decrease in demand could be offset by a modest increase in international and insurance company buyers. These investors tend to focus on longer-dated securities (15-years and longer) and of higher credit quality. Understanding the relationship between municipal interest rates and those of other fixed-income asset classes will also help issuers look at the market in the manner that these non- or deferred-tax-paying entities do.

CHARTS

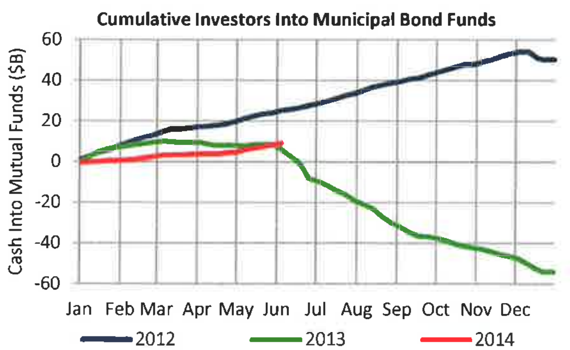


Figure 2: *The red line is total assets accumulated in 2014. Note that flows are above last year but well below the pace of 2012.*

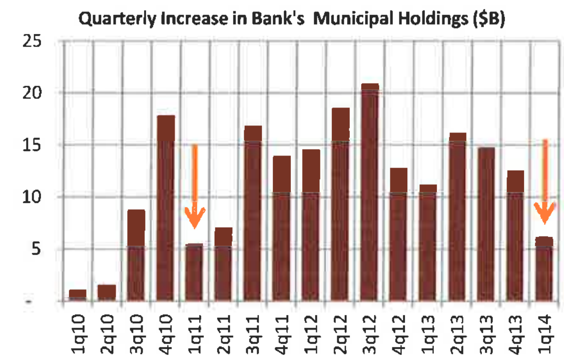


Figure 3: *Banking holdings have played an important role in the market but the pace of purchases slowed to early 2011 levels.*

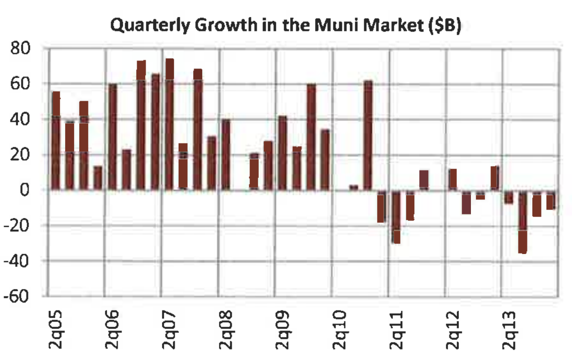


Figure 4: *The market shrunk $10 billion to start the year. Quarterly changes have been mixed to negative over the last 4-years.*

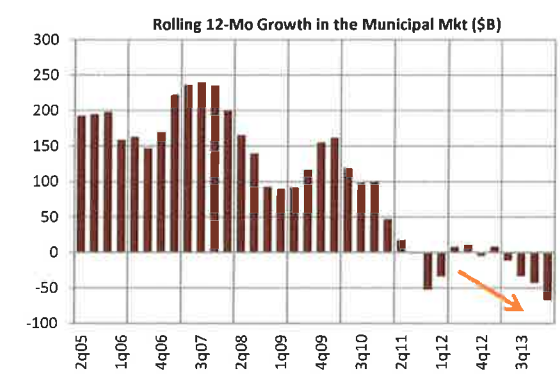


Figure 5: *With the last 4 quarters all negative the market has shrunk nearly $70 billion over the last 12 months.*

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

NORTHEAST

On June 11th, **Morgan Stanley & Co.** priced $1.020 billion of general obligation bonds for **New York City**; Aa2/AA/AA; callable in 8/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.63	+48
2024	5.00	2.86	+55
2034	3.75	3.87	+56

Notes: The issuer upsized the deal amid a larger new-issue market

MID-ATLANTIC

On June 12th, **Citigroup Global Markets Inc.** priced $173 million of Fairfax County facilities revenue bonds for the **Fairfax County Economic Development Authority**; Aa1/AA+/AA; callable in 10/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.54	+39
2024	5.00	2.64	+33
2034	5.00	3.43	+12

Notes: The 2034 bond of this deal benefited from long-end demand

MIDWEST

On June 12th, **Wells Fargo Securities** priced $195 million of revenue bonds for the **Nebraska Public Power District**; A1/A/A+; callable in 1/1/2022:

Maturity	Coupon	Yield	+/- AAA 5%
2019	3.00	1.33	+
2024	5.00	2.68	+
2044	4.00	4.16	+

Notes: Nebraska is the only all public power state in the country

SOUTHEAST

On June 11th, **Barclays Capital Inc.** priced $592 million of Santee Cooper revenue obligations for the **South Carolina Public Service Authority** ; A1/AA-/A+; callable at par in 6/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2031	5.00	3.67	+55
2034	5.00	3.86	+55
2049	5.00	4.37	NA

Notes: The majority of this deal matured in 2049 and 2054

SOUTHWEST

On June 11th, **Wells Fargo Securities** priced $130 million of transportation excise tax revenue bonds for **Regional Transportation Authority of Pima County, Arizona**; NR/AA+/AA; callable in 6/1/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.40	+25
2024	5.00	2.62	+31
2026	5.00	2.88	+31

Notes: This deal was bumped 5 to 8 bps in a re-pricing

FARWEST

On June 12th, **JPMorgan Securities LLC** priced $76 million of University of Utah revenue bonds for the **Board of Regents of the State of Utah**; Aa1/AA/NR; callable in 8/1/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.41	+26
2024	5.00	2.58	+27
2034	4.00	3.45	+14

Notes: The deal was re-priced to lower yields on a strong day

REGULATORY ROUND UP

GFOA, SEC TO HOST MA RULE WEBINAR: The Government Finance Officers Association (GFOA) is hosting a webinar June 17 with the Securities and Exchange Commission's (SEC) Muni Division Chief John Cross to discuss the SEC's Municipal Advisor (MA) Rule. The MA Rule becomes effective July 1, and will change the way in which issuers interact with underwriters, advisors, and other outside professionals. SEC's Cross and others from the agency will discuss the rule, its effects on issuers; and will include a question-and-answer period for participants.

MSRB LAUNCHES NEW PRICE DISCOVERY TOOL: The Municipal Securities Rulemaking Board (MSRB) has launched its long-awaited pricing information access feature on EMMA and will be holding a webinar on June 19 to demonstrate its functions. The ostensible goal of the feature is to help retail investors access pricing information traditionally available only to institutional investors. However, a review of the site by **MMA** analysts notes that determining a bond with similar characteristics may be misleading, confusing and not helpful to retail investors looking to find the true worth of a security. Because its output can be difficult to understand and integrate into investing decisions, it is not clear whether the new tool is an improvement from what the platform offered previously. For example, the new MSRB filter does not allow users to focus on a particular trade size. The reality is that if you want to buy $50,000 in bonds or $5 million, the price can change, dramatically.

One area that **MMA** suggests issuers take advantage is the consolidated issuer information page — where an issuer can make a customized page for investors. The area offers issuer contact information and centralizes the issuer's disclosures.