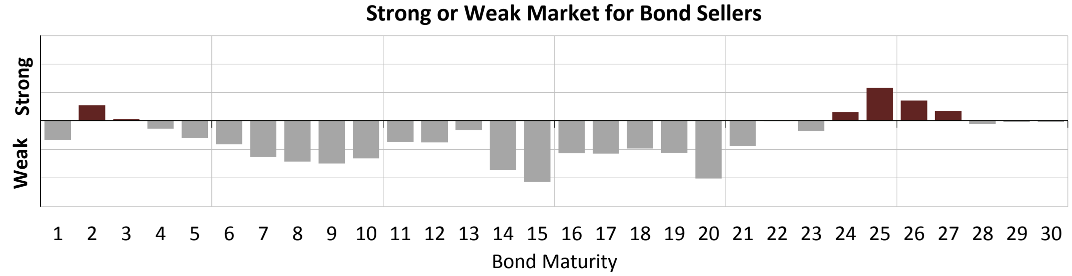
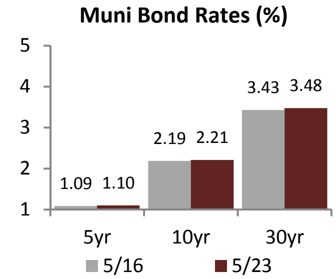
MMA The Power of Independence

MAY 27, 2014

MUNICIPAL ISSUER BRIEF





Heading into this week, the bulk of the yield curve continues to be weak as the general market stalled and pricing expectations have waned. Meantime, longer bonds moved into the strong column as it is this part of the curve that has seen specific interest from non-traditional buyers.

MARKET UPDATE

MUNICIPALS HIT A WALL: After a multi-month rally in the municipal bond market, last week things began to cool as other bond markets experienced volatility and municipal markets appeared worn out.

INVESTORS & ISSUERS: Volatility put municipals on the sidelines.

- Strong performance **came to a halt last week** as most bond markets saw broad interest rate fluctuation as investors have less consensus about what the near-term future has in store.
- As a result, **municipal bonds in the secondary markets slowed their rally and even began to cheapen up in spots.**
- The smaller amount of new-deals still **generally saw strong investor support.** (See **page 3** for more on regional deals.)
- This week is shortened because of the Memorial Day holiday and the amount of new deals investors have to purchase is limited as a result. **This continues to keep the supply and demand dynamic heavily in issuers' favor.**
- Mutual funds that buy municipal **bonds again saw more investors buying their funds**, which means these entities are going to be the dominant buyers of your new-issues (see **page 2** for more on municipal bond mutual fund flows).
- While the general market slowed, **there were a few parts of the country that were especially shunned by municipal bond buyers.** New York City, in the wake of the news of how it will handle its teacher pension problems, saw a wave of sellers, which could hurt the city's next borrowing.
- Staying on the east coast, New Jersey Governor Chris Christie said he would reverse promised pension contributions this year and next in order to balance the budget after large revenue shortfalls. This state has been trending downward with its credit quality of late but in recent months the broad market rally kept the state's bonds performing. **With this latest news, bond investors were selling the state's bonds, suggesting possible higher borrowing costs going forward.**

BUYERS BITES:

WHAT IS TRENDING HOT:
1) Calls of 5- to 7-years
2) Longer maturities
3) A-rated Healthcare

CURRENTLY HARDER SELLS:
1) New York City
2) New Jersey
3) Tobacco and Puerto Rico

WHO IS REPORTEDLY BUYING:
Mutual funds, large banks, life insurance companies, separately managed accounts

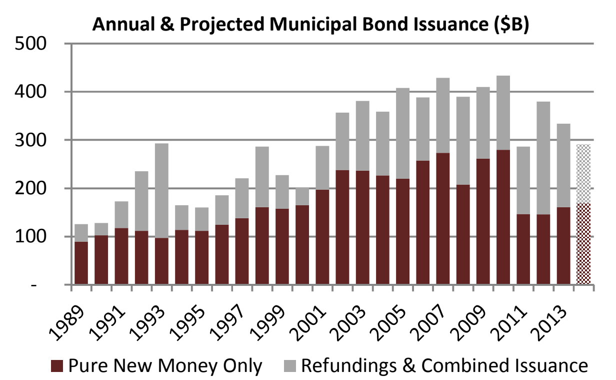


Figure 1: *Above we track the total amount of new-issuance since 1989. The red part of the column represents issuance for new projects while the grey part of the bar represents issuance to refund outstanding debt. Note that in recent years refundings have been a significant portion of new issuance as a low interest rate environment persisted.* ***MMA*** *expects issuance to be below $300 billion for the first time since 2001 (we take out taxable Build America Bond issuance in this chart). This means that crucial infrastructure is not being financed in spite of historically low interest rates.*

This week's edition does not feature a Topic of the Week but instead reviews some of the important developments out of the GFOA Annual Conference. Turn to the **next page** for more.

GFOA CONFERENCE ROUND-UP

NO BRIGHT LINE FOR SEC SELF-REPORTING: The Government Finance Officers Association (GFOA) held their annual conference last week, during which market experts appeared on numerous panels discussing issues related to the state of the industry. This included **MMA**'s participation in a *Trends in the Muni Market* session (click here for presentation).

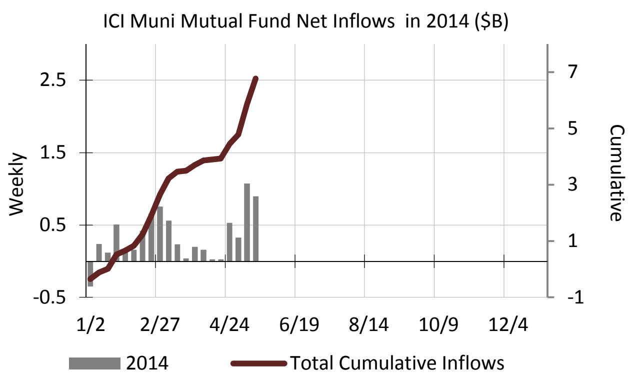
During the *IRS/SEC Enforcement Update* session (details here), Peter Chan, an assistant director in the SEC's municipal securities enforcement division, spoke about the Municipalities Continuing Disclosure Cooperation Initiative (MCDC) for the issuer audience, (5/19 MIB for more information about the program). One of the key takeaways from his presentation is that he said the purpose of the program is to find offerings that contain a lie. He said the program is not looking to see whether an issuer is meeting their disclosure obligations, but instead it seeks to find whether an issuer had misrepresented that they met these obligations in a 2009-2014 bond issue offering statement. When pressed by other panelists, the issue of "materiality" was discussed and whether the SEC would define the term or develop a bright line of what should be self reported. Chan said the SEC would not provide any additional guidance on the matter and suggested that issuers discuss these issues with their counsel and others on their financing team. **That the SEC will not define materiality is a very important point as they are leaving it to market participants to make this determination, which may lead underwriters to err on the side of caution and report more than less, which may be a different trend than issuers may take.** Some issuer groups such as the GFOA (see recommended actions below) are not taking this lightly and are advising issuers to only act in certain situations. **There is no consensus on what is the proper course of action at this point** so it is important for issuers to monitor how the MCDC is operating and what transpires once the September 10 deadline is hit.

During the same session, GFOA Debt Committee Member and DC Water Authority CFO, Mark Kim, outlined GFOA's recommendations as to how issuers should approach the MCDC program. These recommendations include:

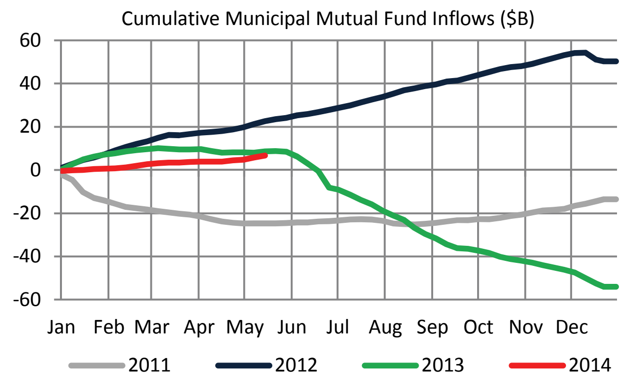
- If issuers know of a false certification, they should strongly consider self-reporting.
- If issuers have no reason to believe that a false certification exists, then they should not self-report.
- If issuers have reason to believe that there is a possibility of a false certification, then they should work with their counsel and underwriter(s) to conduct due diligence on materiality before making a decision to self report.
- Communicate with bond counsel, disclosure counsel, underwriter's counsel and financial advisors.
- Coordinate due diligence with all underwriters for bond issues in the past five years.
- Review GFOA Best Practices.

Separately, issuers wishing to learn more about the MCDC program may attend a webinar on June 2 by the California Debt and Investment Advisory Commission on Issuer Considerations and Actions related to the program.

MUTUAL FUND CHARTS



Mutual funds have become an increasingly important buyer in the municipal market as 2014 has unfolded. The most recent figures indicate that investors have increased their focus on the municipal sector. The bars represent the week-by-week total while the line is the cumulative amount.



The red line is the cumulative figure of cash into municipal bond mutual funds in 2014 (~$7 billion so far) while the other colors represent recent years' trends. While this year has been modestly positive, it should not be taken for granted that these funds will continue to attract investors.

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

NORTHEAST

On May 20th, **Morgan Stanley & Co.** priced $823 million of general obligation refunding bonds for **Connecticut**; Aa3/AA/AA; not callable:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.59	+50
2024	5.00	2.55	+36
2025	5.00	2.66	+36

Notes: The issuer upsized its deal with more 5% coupons after ROP

MID-ATLANTIC

On May 20th, **Middletown Township, Pennsylvania** sold $9.8 million of limited tax general obligation bonds to **Janney Montgomery Scott**; NR/AA+/NR; callable in 10/15/2019:

Maturity	Coupon	Yield	+/- AAA 5%
2015	2.00	0.30	+11
2019	4.00	1.35	+26
2024	2.20	2.35	+15

Notes: More lower coupons have been used in comp. deals lately

MIDWEST

On May 21st, the **Kansas Development Finance Authority** sold $116 million of revenue bonds to **Wells Fargo**; Aa2/AA-/NR; callable in 4/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.42	+33
2024	5.00	2.52	+33
2044	4.00	4.10	+65

Notes: Despite a cheaper general market day this issuer did well

SOUTHEAST

On May 20th, **Raymond James & Associates** priced $85 million of electric system and water system revenue bonds for **Memphis, Tennessee**; Aa2/AA-/AA; callable at par in 12/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	3.00	1.49	+40
2024	5.00	2.53	+34
2034	5.00	3.32	+23

Notes: This deal was as much as 5 times oversubscribed

SOUTHWEST

On May 20th, **New Mexico** sold $145 million of severance tax bonds to **JPMorgan Securities LLC**; Aa1/AA/NR; callable in 7/1/2019:

Maturity	Coupon	Yield	+/- AAA 5%
2015	2.00	0.15	-4
2019	5.00	1.26	+17
2024	5.00	1.63	-56

Notes: The short call option has seen strong interest this month

FARWEST

On May 20th, **Piper Jaffray** priced $13 million of limited tax general obligation bonds for the **City of Yakima, Washington**; NR/AA-/NR; not callable:

Maturity	Coupon	Yield	+/- AAA 5%
2015	3.00	0.28	+9
2019	4.00	1.42	+33
2024	5.00	2.56	+30

Notes: The LTGO, in this case, did not suffer as a result of Detroit