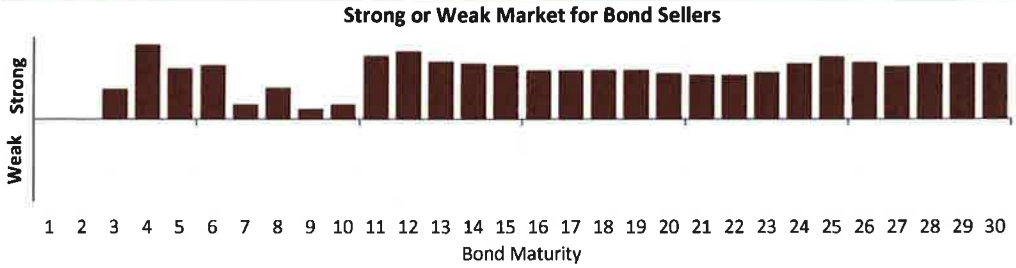
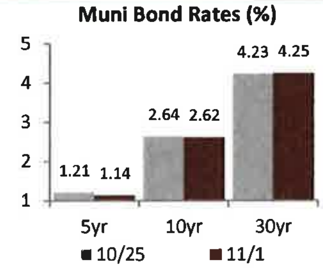
MUNICIPAL ISSUER BRIEF





Heading into this week, the strong pricing environment for issuers that has existed for the last three weeks continues. While we outline some of the negative headwinds currently in the market below, this chart continues to demonstrate that issuers should be able to attain good price execution when selling bonds.

MARKET UPDATE

MUNICIPALS SLOW DOWN AT WEEK'S END: The market made gains to start last week but began to sputter by Thursday and Friday. This week there are fewer bonds being sold into the municipal market, which can help keep borrowing rates low.

INVESTORS & ISSUERS: A mixed bag.

- **Economic indicators last week had most bond markets declining with the exception of municipals.** Tax-exempts continued to see buyers come in where other markets did not. By Friday, though, the market started to show signs of weakness, which normally would not bode well for issuers this week.
- **The amount of new deals scheduled this week is limited.** Just like last week, bond deals are on the lighter side and this should work to the advantage of governments. Last week, many competitive deals saw strong dealer bids and negotiated loans traded to higher prices in the secondary markets.
- **Dealer inventories are growing.** The same firms that underwrite your deals are also owning more municipal bonds with the expectation of being able to trade them at a profit. This is good for the near-term but not a long-term sustainable trend.
- **Municipal bond mutual funds posted the 23rd straight week of cash losses.** Still, the amount of dollars lost was not as large as it had been and funds that invest in lower-rated bonds did better. With less cash losses, market pressure lessens (see **Figure 1).**
- **Retail presence is very much limited to short bonds.** Individual buyers are keeping to shorter bonds even more so than usual. If you must issue longer bonds, you may consider **Buyer Bites**.

BANKS AND YOU

- Last week the **Federal Reserve** proposed new standards for what investments large banks can own. **MMA**'s assessment is that it will make municipal bonds less attractive for many banks to purchase. This should affect larger issuers more than smaller ones, as the larger banks tend to purchase in bigger sizes. For those who know that large banks are your buyers, your borrowing costs may increase.

BUYER BITES:

WHAT IS TRENDING HOT:
1) Bonds maturing 6-years and shorter
2) Single-A or higher healthcare
3) Toll-based transportation bonds

CURRENTLY HARDER SELLS:
1) Longer-dated bonds
2) Sub 4% coupons outside of 10-years
3) Thinly held lower rated bonds

WHO IS REPORTEDLY BUYING:
Dealers, firms that usually purchase corporate bonds, banks, separate-managed accounts

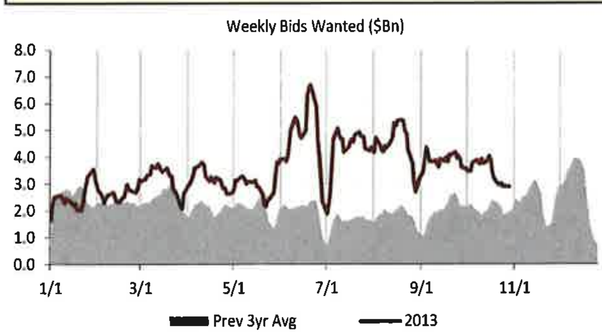


Figure 1: *Weekly Bids-Wanted are a tally of municipal bond market participant's bonds they want to sell in secondary markets. In 2013 (the red line) the volume of selling pressure has been very elevated (see June to August) due to investors pulling out of municipal mutual funds. These funds have to sell their bonds in secondary markets to give cash to their investors. Note that most recently (October) this volume has decreased as mutual fund losses diminish. If this continues, it is a positive for municipal issuers going forward.*

TOPIC OF THE WEEK: MUNICIPAL ADVISOR RULE CHANGES

RULES: In September, the Securities and Exchange Commission approved a new definition of "Municipal Advisor" that corresponds with new regulations over these professionals. Most importantly, state and local government board members and employees are exempt from the definition of municipal advisor when they are acting in their official government capacity. The final rule is expected to go into effect sometime in early January. Key issues to consider:

- Municipal Advisors (MA) have a fiduciary duty when providing advice to state and local governments and must register with the SEC and the MSRB.
- The rule limits the ability of underwriters to discuss with issuers specific recommendations related to a transaction or possible transaction unless the issuer has hired an MA or has an RFP out for response.
- When an underwriter is engaged by the issuer on a transaction, it may discuss with the issuer a wide variety of items.
- When an issuer has an MA, but wants to receive advice or recommendations from an underwriter that it has not hired, the issuer must represent that they have an MA in writing.

WHAT THIS MEANS FOR YOU: Advisors will be under the same regulatory framework as other professionals overseeing a municipal bond transaction. This means governments must change certain ways they interact with those professionals. There are new restrictions on the role that underwriters can have with issuers, which will likely result in many governments using financial advisors on a more active basis, elevating their role in many transactions. Over the past few decades underwriters and bankers have advised governments on a variety of aspects related to their finances, even when they have not been hired for a specific transaction. Under the new rule, for an issuer to receive specific advice from a banker, the issuer must have hired the banker for a specific transaction, have submitted a request for proposals or hired an advisor. This will alter longstanding relationships for many, especially smaller governments that in many cases have relied on discussing potential deals with bankers without officially hiring them. Issuers that do not use advisors may now want to look at developing new procedures when soliciting underwriters. There is also a market impact. On top of other market and regulatory issues that are imposing additional requirements on dealers, this rule may lead to fewer firms in the market. This is simply because many firms (and issuers for that matter) rely on unofficial relationships with governments to help manage their finances and in turn bring that business to their firm. It would create an environment with fewer dealers, which could increase your borrowing costs. Expect more bankers to visit you between now and when the final rule is put in place as many want to do as much business as possible before the changes. This likely increases total issuance before year-end.

Finally, there are industry initiatives to have the SEC provide clarifications on the rules. These clarifications could allow for broader interpretations, especially related to interactions between underwriters and issuers. All issuers should keep an eye on how this develops between now and the first of the year.

THIS WEEK'S ISSUES & RATING AGENCY UPDATE

RATING AGENCY UPDATE: Last week, **Fitch Ratings** released a report on its ratings activity for third quarter 2013, showing that downgrades outnumbered upgrades for the 19th consecutive quarter, though the total number of both fell from the second quarter.

Fitch noted it downgraded 39 credits, about 4.6% of all rating actions and $40.5B in par value. Upgrades decreased, with 23 credits making up 2.7% of all rating actions and $94.3B in par value. Fitch's activity is similar to that of Moody's, which has also seen more downgrades than upgrades in recent years. See last week's **Municipal Issuer Brief** for our take on rating agency activity, generally, and how it effects you. (October 28 edition).

NEW ISSUES TO WATCH:

- $437 million of AMT Goethals Bridge Replacement Project revenue bonds for the **New Jersey Economic Development Authority**; NR/BBB-/BBB-. (**Notes:** Fee-based transportation loans have seen strong investor demand.)
- $362 million of Accelerated Bridge Program Commonwealth transportation fund revenue bonds for the **Commonwealth of Massachusetts**; Aaa/AAA/NR. (**Notes**: This credit has come twice in the last decade and the depth of retail interest will be indicative of buyers of municipals.)
- $95 million of general obligation bonds for the **Frisco Texas Independent School District;** PSF guaranteed; competitive bid at 11 am eastern on 11/5. (**Notes:** Dealers have been aggressive on competitive loans lately)

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

NORTHEAST

On October 30th, **Citigroup Global Markets Inc.** bought a $107 million public improvement bond issuance from the **Town of Oyster Bay, New York;** NR/A-/NR; par call in 11/1/2020:

Maturity	Coupon	Yield	+/- AAA 5%
2018	2.00	1.85	+69
2023	4.00	3.55	+93
2027	4.00	4.07	+77

Notes: Lower coupons occurred because Net Interest Cost was used.

MID-ATLANTIC

On October 29th, **Piper Jaffray** priced $40 million of water development refunding revenue bonds for the **West Virginia Water Development Agency;** Aa3/NR/AA-; callable in 11/1/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2018	2.00	1.42	+9
2023	5.00	2.91	+13
2028	5.00	3.85	+28

Notes: This deal re-priced to lower yields on a large new-issue day.

MIDWEST

On October 31st, **Morgan Stanley & Co. LLC** priced $41 million of Case Western University revenue refunding bonds for **Ohio Higher Education Facility;** A1/AA-/NR; not callable:

Maturity	Coupon	Yield	+/- AAA 5%
2015	3.00	0.55	-3
2019	4.00	1.80	+66
2023	5.00	3.03	+44

Notes: The issuer took advantage of retail demand inside of 10yrs.

SOUTHEAST

On October 29th, **Merchant Capital, LLC** priced $211 million of general obligation bonds for the **Gwinnett County School District, Georgia**; Aaa/AAA/NR; callable in 2/1/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2018	5.00	0.96	-23
2023	5.00	2.52	-11
2033	5.00	3.85	+2

Notes: The high-grade school district re-priced bonds to lower yield.

SOUTHWEST

On October 31st, **Bank of America Merrill Lynch** bought $54 million of general obligation bonds from **Allen, Texas, ISD**; Aa2/AA/NR; (PSF guaranteed Aaa/AAA/NR) callable in 2/15/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2018	4.00	0.93	-11
2023	4.00	2.49	-10
2033	4.00	4.06	+22

Notes: Local Texas banks traditionally buy local schools.

NORTHWEST

On October 31st, **RBC Capital Markets** priced $72 million of general obligation bonds for the **Alaska Municipal Bond Bank**; Aa2/NR/AA+; callable at par in 8/1/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2018	2.00	1.44	+10
2023	3.00	2.95	+19
2028	3.875	3.96	+19

Notes: The AK Bond Bank is a infrequent issuer, which helped here.