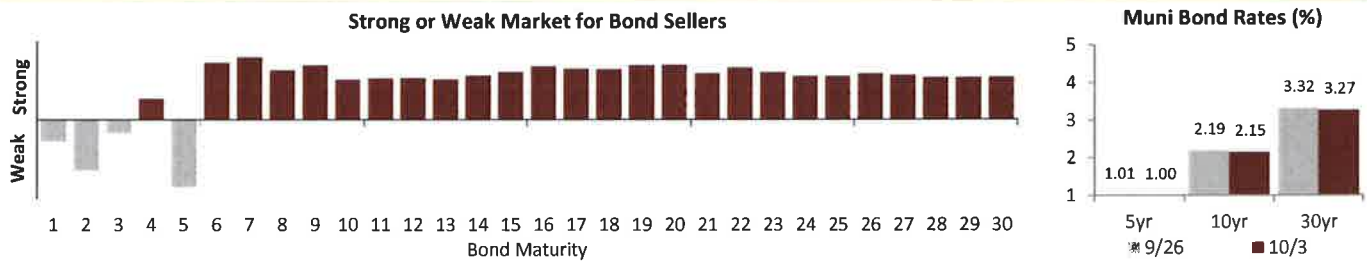


MUNICIPAL ISSUER BRIEF



Heading into this week, the strong dynamic that was emphasized last week is again largely in place. This is likely to continue in the near-term and issuers can take advantage. Note that the 6- to 10-year ranges is now strong, a contrast to last week's evident weakness.

MARKET UPDATE

STRONG START TO MONTH AND FINAL QUARTER OF THE YEAR: International headlines sparked a flight-to-safety rally in the Treasury market mid-week, spurring a better tone in municipal bonds to start the fourth quarter.

INVESTORS & ISSUERS: The same trends in place help issuers

- **It was a tale of two Treasury markets**, one that saw gains into mid-week on international concerns but then began to lose ground after the stronger-than-expected U.S. payroll release (the non-farm component > 200k, and unemployment rate < 6.0%.
- Tax-exempt borrowing rates in general did well last week despite taxable volatility. **Most new-issues continued to see strong investor demand and favorable re-pricings, as well as better trading in secondary markets.** (See [page 4](#) for regional deals.)
- Of note is that secondary trading has been declining since April (see [Figure 1](#)). **Reduced price discovery can challenge advisors to assess primary pricing.** The lack of trading is attributed to more investors not trading their primary purchases (note in Buyers Bites the growth in buy-and-hold investors). Issuers coming to market may want to discuss price discovery methodologies with their market professionals before coming to market.
- **New York issuers, after an increase in primary activity, also experienced stronger in secondary trading.** The same was true for **California markets—a consistent theme in 2014.**
- Jefferson County, Alabama **traded cheaper** in the secondary market last week after a judge said an appeals case against the County's bankruptcy could move forward.
- For issuers this week, the size of the calendar shrinks to about the annual weekly average. New Jersey is issuing recently downgraded appropriation-backed debt. **This will test just how much the market is willing to punish this issuer, and to the degree demand high-yield investors are willing to dismiss credit risk for yield reward.**

REVOLVING DOOR: Peter Chan, who headed the Securities and Exchange Commission (SEC) Enforcement Office's Municipal Continuing Disclosure Cooperation (MCDC) Initiative, has left the SEC and joined the Chicago-based law firm. Chan was very forceful in keeping the MCDC program as it was originally written and would not provide definitions of materiality for what issuers have to report, which caused controversy. (See this [MIB](#) for more on MCDC.) [This move puts the program under questionable light in our opinion as the Chicago firm likely has MCDC-related business.](#)

BUYERS BITES:

WHAT IS TRENDING HOT:

- 1) Retail order periods
- 2) Lower-rated, investment grade airport, healthcare
- 3) Texas paper

CURRENTLY HARDER SELLS:

- 1) New Jersey GO/appropriation-backed
- 2) Jefferson County sewer warrants

WHO IS REPORTEDLY BUYING:

Mutual funds, large banks, life insurance companies



Figure 1: Large trading activity in the secondary market has been much less robust since the start of the summer. The chart shows where the 10-year AAA 5% coupon bond yield (red line) stands versus the 10-day average block trades (trades larger than \$1 million, grey line). Fewer block trades often means it is difficult to discern the correct prices for their bonds and challenges all evaluation processes of the municipal market. Issuers should monitor secondary market trading of their bonds continually and especially under these conditions. Should an issuer's bonds receive stronger-than-normal bids in the secondary, their primary pricing could benefit significantly.

TOPIC OF THE WEEK: PRIVATE DOLLARS AND POLITICS

CONGRESS ADJOURNS; A LOOK AT P3s: Both the House and Senate have adjourned until after the November elections without accomplishing much legislative work. Prior to their departures, the House and Senate passed a continuing resolution (CR) to fund the government at its current levels through December 11. In July, Congress also passed a patch for the Highway Trust Fund, funding the program through May 2015. There have been calls from many – including the state and local government community – to have Congress address a long-term broad surface transportation bill early in 2015. **MMA** still sees little chance of larger legislative initiatives in the current make-up of Congress. However, there are still some proposals and studies that recently have been discussed that could affect the municipal industry. Most recently, the House Committee on Transportation and Infrastructure’s special Panel on Public Private Partnerships, released a [report](#) last month highlighting P3s. The report focused on how they can be more widely used to address the country’s infrastructure needs. It did not ignore the tax-exempt market’s importance, as it commented on the “robust” municipal bond market, and its role in providing a significant portion of infrastructure funding. However, it noted there are still billions of dollars in infrastructure needs that could benefit from innovative P3 financings. The report also discussed the role that the TIFIA program and private activity bonds play in the P3 arena, and developed specific recommendations as to how the public and private sectors can achieve a balanced approach to increased P3 usage.

WHAT IT MEANS FOR YOU: To **MMA**, the current advocacy for P3s is somewhat opportunistic. P3 proponents are leveraging state and local governments’ slow down in infrastructure funding (**Figure 2, right**) to imply that there is a breakdown in regular market function. This is similar to how long-time supporters of tax-credit financing jumped on the municipal market’s “collapse” in 2008 to push for BABs. However, **MMA** believes to the credit of certain policymakers, there is a growing realization that, at least in the US, P3s have been far more effective working *through* versus *against* the tax-exemption for municipal bonds (note the House study). **According to the Federal DOT website, more than 40% of P3 project funding since 2008 has come from municipal (likely private activity) bonds.**

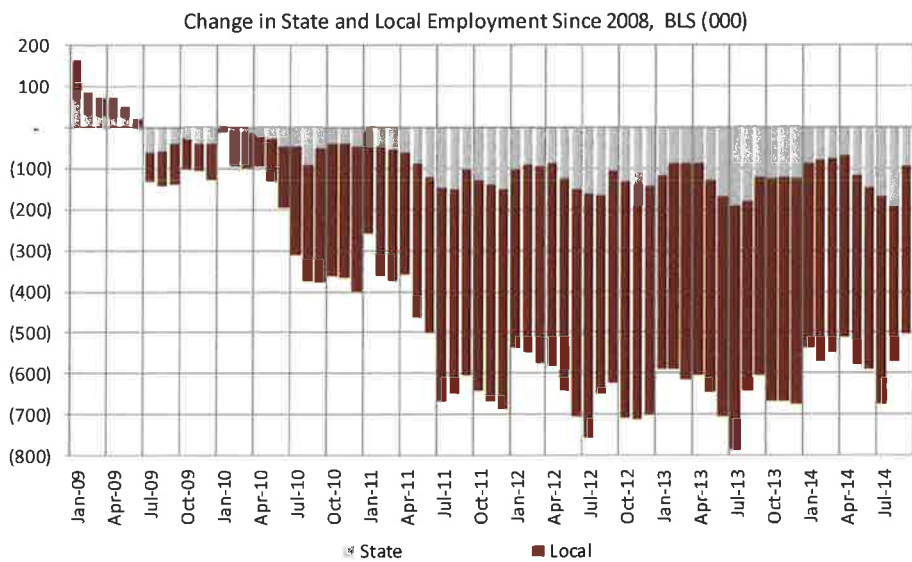


Figure 2: State and local employment is recovering, albeit slowly, although governments are still 500,000 employees below their peak in 2008. So even as revenues are somewhat better and interest rates are quite low, local officials have major services to restore prior to embarking on new capital projects. This illustrates the conundrum for Federal policymakers interested in encouraging more state and local borrowing for infrastructure.

We expect that future Federal-level rulemaking will be more biased toward further integration of P3s and municipals, perhaps toward widening private activity rules to allow more P3 projects into the municipal sector.

Tax-exempt alternatives continue to receive the lion’s share of interest from policymakers. BABs, in their current iteration as America Fast Forward (AFF) bonds proposed originally by the administration, remain attractive for some reason, perhaps in their theoretical appeal to pension investors and/or in their ability to steer Federal dollars (via differential subsidy rates) to politically oriented projects. Various tax-credit bond proposals have been debated in the past few Congresses. Also, the 28% cap continues to receive consideration. **In MMA’s view, so long as the exemption is in peril, there should be little state and local support for tax-exemption alternatives.** We note several discussions in DC of the search for smaller, cheaper, more politically feasible infrastructure ideas rather than the massive investment programs of a few years ago. While the tax-exemption is still under fire, Congress has been (and reasonably will remain) unable to adopt any new laws of significance. The outcome of the elections could help determine what types of possible work gets done in 2015. While sweeping tax reform is still [only a fantasy](#) from a political perspective (even if control of the Senate turns to Republicans) **the exemption remains an attractive target for hypothetical piecemeal bills needing a source of funding.** Issuers should remain vigilant in their efforts to educate policymakers against that idea as they have in recent years’ attacks on the municipal industry.

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

NORTHEAST

9/29: **Wells Fargo Securities** priced \$112 million of refunding bonds for the **Maine Municipal Bond Bank**; Aa2/AA+/NR; callable in 11/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	3.00	1.36	+35
2024	5.00	2.46	+27
2034	3.75	3.41	+34

Notes: The issuer used 3 1/2% and 3 3/4% coupons on its 15yr

MID-ATLANTIC

10/1: **RBC Capital Markets Inc.** priced \$10 million revenue bonds for **Berks County, Pennsylvania**; Aa1/NR/NR; callable in 11/15/2019:

Maturity	Coupon	Yield	+/- AAA 5%
2016	0.80	0.80	+49
2019	1.40	1.40	+39
2029	3.00	2.85	+13

Notes: Bank-qualified, with a short call gives issuer flexibility

MIDWEST

9/30: **Ohio** sold \$150 million of general obligation bonds to **Morgan Stanley & Co.**; Aa1/AA+/AA+; callable in 3/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	2.00	1.19	+18
2024	5.00	2.22	+3
2034	5.00	2.92	-8

Notes: This deal saw strong bids; 9-year call lowered yields

SOUTHEAST

10/1: **Bank of America Merrill Lynch** priced \$300 million Shands Teaching Hospital & Clinics health facilities bonds for **Alachua County Health Facilities Authority, FL**; A3/A-/NR; callable in 12/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2025	5.00	3.07	+78
2034	5.00	3.73	+67
2044	5.00	3.99	+68

Notes: Lower-rated investment grade had high demand

SOUTHEAST

10/2: **JPMorgan Securities LLC** priced \$1.1 billion highway improvement general obligation bonds for the **Texas Transportation Commission**; Aaa/AAA/AAA; callable in 4/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.07	+7
2024	5.00	2.46	+26
2026	2.50	2.65	+21

Notes: The high rating helped with price discovery for AAA issuers

FARWEST

10/1: **Morgan Stanley & Co.** priced \$641 million of Central Valley Project water system revenue bonds for the **California Department of Water Resources**; Aa1/AAA/NR; callable in 12/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.16	+15
2024	5.00	2.22	+3
2032	5.00	2.84	-13

Notes: CA drought prompted ample investor interest

INDUSTRY UPDATE

GFOA UPDATES BEST PRACTICES ON BOND PROCEED INVESTMENTS: The Government Finance Officers Association (GFOA) updated its *Investment of Bond Proceeds Best Practice* last month, to include language related to the recently implemented Securities and Exchange Commission (SEC) Municipal Advisor (MA) Rule, and how governments can and should use appropriate professionals to advise them on these investments.

KROLL RATINGS NOW ON EMMA: Joining Fitch Ratings and Standard and Poor's, the MSRB's EMMA system will now provide real-time credit ratings from Kroll Bond Rating Agency. Information from these three rating agencies appear on each security's Security Details page on EMMA. Currently, Moody's Investor Service does not provide the EMMA system with their rating information.

NAST NAMES NEW EXECUTIVE DIRECTOR: The National Association of State Treasurers (NAST) named John Provenzano its new Executive Director. Mr. Provenzano will begin his new position later this month, and will be based in DC. Prior Executive Directors have worked from Kentucky, where NAST is headquartered.

COMPLIANCE SEMINAR FOR MAs: The SEC, FINRA and MSRB will be holding their first Municipal Advisor compliance outreach program for MAs. The event will be available to MAs will be held November 3 in Chicago, and will also be available via webcast. The event mirrors similar seminars the regulatory bodies provide for investment advisors and broker-dealers to discuss current and forthcoming regulations, compliance issues and risk-management.