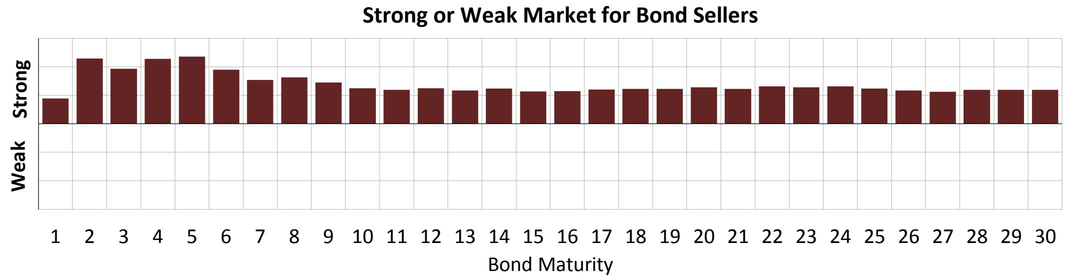
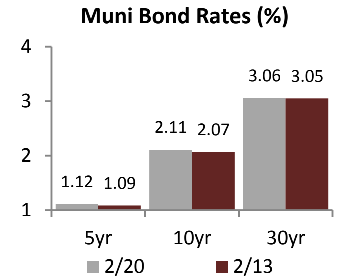
MMA Independent & Data Driven

FEBRUARY 23, 2015

MUNICIPAL ISSUER BRIEF





Heading into this week, stability was still reflected in offering levels and benchmarks last week. Investors' demand for the higher yields pushed ***MMA****'s valuation measures into positive columns.*

MARKET UPDATE

STABILITY RETURNS...FOR NOW: Last week tax-exempt borrowing rates were relatively little changed after a very challenging start to February, but an increase in new-issue volume scheduled this week could prove difficult.

INVESTORS & ISSUERS: Broader economic issues made for stability

- After seeing yields rise significantly through the first half of February, **last week borrowing rates settled into a range with the help of U.S. Treasury bond markets.**
- On Wednesday, the Federal Reserve indicated that rates would remain low for a longer time than many market participants expected and many **U.S. bond markets improved as a result.**
- This provided a much-needed backbone for municipal markets and **issuers that priced bonds last week benefited as a result.**
- The **New York City Municipal Water Finance Authority**—the largest deal last week—saw oversubscriptions through its retail and institutional pricing and was able to lower its borrowing costs (**see page 3** for more details on this deal and others.)
- **Dealer balance sheets have also improved** with many underwriter able to sell bonds to customers. This is a shift from earlier in the month when many were forced to hold on to new deals.
- This **allowed for aggressive dealer bidding** for triple-A Fairfax County, Virginia last week and sets favorable conditions for highly rated Mecklenburg County, Georgia that is scheduled to sell tomorrow at 10 am eastern.
- **The new-issue slate is above average** for this time of year when issuance historically slows.
- This could complicate new deals competing for investor attention. Note that **mutual funds are starting to see less cash** flow into their funds so these investors may not be as active as they were earlier in the year—Lipper reported less than $100 million of fund inflows last week, the lowest week of 2015.
- **Retail and bank participation was mixed last week**—going forward these will be important demand elements to monitor.

JCT & MUNICIPALS: Earlier this month, the Joint Committee on Taxation (JCT) released a report noting that corporations utilizing investments in tax-exempt bonds has cost the federal government more than $220 billion since 1975. While the JCT math may be suspect, its calculations make the exemption one of the top corporate tax breaks over the past 40 years. As Congress and the Administration explore corporate tax reform, it will be important for issuers to be aware that even in corporate tax reform, the exemption may come under attack.

BUYERS BITES:

WHAT IS TRENDING HOT:
1) Short-call options
2) 4% coupons in 15-year range
3) New York, California GO

CURRENTLY HARDER SELLS:
1) Louisiana GO widening out

WHO IS REPORTEDLY BUYING:
Large domestic banks, insurance companies, SMAs

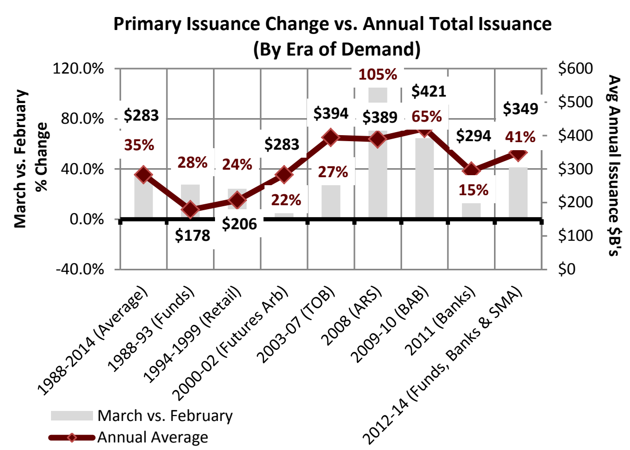


Figure 1*: The 6-week period between March 1 and April 15 has historically been a challenging time for the municipal market. The seasonal adversity has been characteristic of the market for nearly 100 years. A contributing factor has been the increase in issuance while reinvestment flows from bondholders declines to the low of the year. March has historically averaged 35% more primary issuance than February. The dynamic has increased the risk to underwriters and often resulted in a tentative pricing environment. Historically, total rate of return investors have derived little 1Q performance opportunity after the first two weeks of January. Investor support has come from income investors, banks and separately managed accounts (SMAs).*

TOPIC OF THE WEEK: INFRASTRUCTURE & SILICON VALLEY—THE DRIVERLESS CAR

Efforts to find funding for U.S. infrastructure needs, specifically for highways and bridges, persist in Washington, D.C., within the municipal industry and among states and municipalities. Most recently, related topics were part of a U.S. Department of the Treasury's *Build America Investment Initiative Interagency Working Group* conference call on February 18. The effort to advance the funding discussion forward rests in the challenge of who will provide the dollars. Admirably, the current political efforts have focused on private public partnerships (P3s) or other alternative financings that might replace or complement traditional capital funding mechanisms through the tax-exempt municipal market. However, discussion and proposals have been inhibited by the limited return or minimal incentive from investing in U.S. infrastructure. **MMA**'s contribution to the dialogue emanates from drawing the direct connection between infrastructure's needs and its value to leading corporations. These corporations in turn can contribute to the future structure and growth of the U.S. and global economies.

The current headlines and press releases detailing the competition, usefulness and transformative economic impact of the **driverless car** have created the necessary connection between companies' economic interests and U.S. infrastructure—namely the country's highways and bridges. The Gartner Group has forecast that by 2030, just 15 years from now, 25% of the world's 1 billion cars will be driverless. To have efficient operation of driverless cars and the effective economic returns from their use (to deliver not only people but also goods and services directly to a consumer) highways and bridges not only have to be restructured and constructed but also maintained at a high-quality level. Reflective of the importance of this issue, **MMA** has launched ***Drive for America***, a process to facilitate the dialogue between corporations and public entities throughout 2015 to involve new technologies in infrastructure planning.

Similar to the railroads of the late 1800s and early 1900s (when private enterprise spearheaded efforts to ensure that bridges were constructed when needed to deliver goods and services), now the country's highways are critical in a new way to leading technology and transportation companies. The National Highway System for example represents 4.0% of the nation's roads, carries more than 40% of all traffic, 75% of heavy truck traffic and 90% of tourist traffic. All urban areas with a population greater than 50,000 and an estimated 90% of the U.S. population live within 5 miles of the network. Further, overall highway and street spending has grown 50% since 2002, reflective of the priority governments, and therefore taxpayers, (individuals and corporations) place on this aspect of infrastructure, **Figure 2**. So perhaps this is where this effort begins, private investment in the federal system incentivized not only by a business model of growth but also by a repatriation of funds to be reinvested in the infrastructure directly in return for a tax credit or an equity stake. For consideration, CA, TX and FL, **Figure 3**, could be the states of initial focus because of the demographics that are associated with receptiveness to technology, and where highway funding has been greatest. (Many of these companies reside in Silicon Valley as illustrated in **Figure 4**.)

As all levels of government and the private sector look for means to fund the multi-trillions of dollars needed to rehabilitate our current highways, roads and bridges, and address future transportation needs, it is critical that new ideas such as ***Drive for America*** emerge and are part of the discussion.

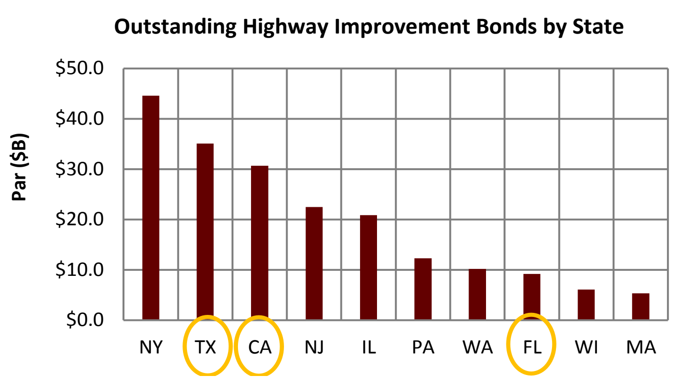


Figure 3: *States with conducive demographics for innovative transportation and delivery applications have borrowed for highway improvement.*

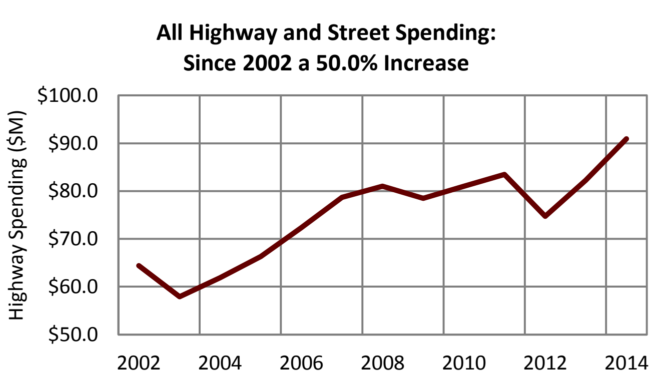


Figure 2: *Expenditures on roads across the U.S. have increased by 50.0% in the past decade in response to greater use and need for maintenance.*

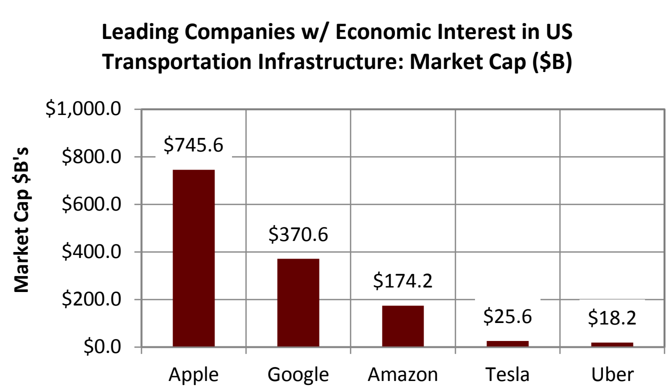


Figure 4: *Five companies whose future revenue involve the driverless car and depend on efficient, quality and sound highways and bridges.*

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

Three large deals that moved the market last week and why (highlighted in yellow):

- The **New York City Municipal Water Finance Authority**—a frequent issuer—was able to upsize and re-price to lower yields last week. Strong customer attention (2-4 times oversubscribed) helped confirm the better tone across the entire market. Note especially that that the 5-year call option was oversubscribed 9 times.
- Triple-A and influential (to benchmarks) **Fairfax County, VA** received a aggressive bid from Citigroup. Significant pre-sale enabled several underwriters to be more aggressive here and exemplified broader customer attention to the marketplace.
- The **Houston Convention Center** was able to execute effectively on $133 million hotel occupancy tax bonds based on interest from a wide array of buyers (insurance companies and SMAs). The issue was oversubscribed 5-7 times. Despite the perceived exposure to lower oil prices, the syndicate brought in orders from 45 new investors that did not participate in the last deal.

NORTHEAST

2/19: **Citigroup Global Markets Inc.** re-priced $530 million water and sewer 2nd gen resolution revenue bonds for the **NYC Municipal Water Finance Authority**; Aa2/AA+/AA+; callable at par in 6/15/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2025	5.00	2.35	+23
2030	5.00	2.91	+39
2039	5.00	3.20	+21

Notes: Heavily oversubscribed, levels bumped to lower yields.

MID-ATLANTIC

2/18: **Fairfax County, Virginia** sold $230 million public improvement GO bonds to **Citigroup Global Markets Inc.**; Aaa/AAA/AAA; State Aid Withholding; 2015-2034; callable at par in 10/1/2024: :

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.30	+19
2025	5.00	2.19	+7
2034	4.00	3.05	+24

Notes: Spreads were tighter, despite higher Treasury rates.

MIDWEST

2/18: **Big Lake, Minnesota** sold $9.3M general obligation bonds to **Piper Jaffray & Co.**; NR/AA-/NR; callable at par in 2/1/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2017	3.00	0.60	+18
2025	2.25	2.00	-12
2029	2.75	2.50	+4

Notes: Bank qualified and short call option aided the issuer .

SOUTHEAST

2/18: The **Lexington County School District No. 1, SC** sold $60.8M general obligation bonds to **Morgan Stanley & Co.**; Aa2/AA/NR; SCSDE (Aa1/AA/NR); callable at par in 2/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2016	5.00	0.25	+5
2025	4.00	2.34	+22
2030	3.50	3.13	+60

Notes: Lower coupons out long encouraged insurance companies.

SOUTHWEST

2/19: **HSE & Co.** priced $133 million hotel occupancy tax and special revenue bonds for the **Houston Convention & Entertainment Facilities Department, Texas**; A2/A-/NR; callable at par in 9/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.88	+75
2025	5.00	2.95	+83
2040	5.00	3.68	+66

Notes: The 2044 maturity was 10-times oversubscribed.

FARWEST

2/18: **Stifel Nicolaus & Co.** priced $57.6M general obligation bonds for the **Oak Grove School District, CA**; Aa2/AA-/NR; callable at par in 8/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.25	+14
2025	4.00	2.26	+14
2044	4.00	3.76	+68

Notes: At +14 for Aa2 rating, this issuer locked in low costs.