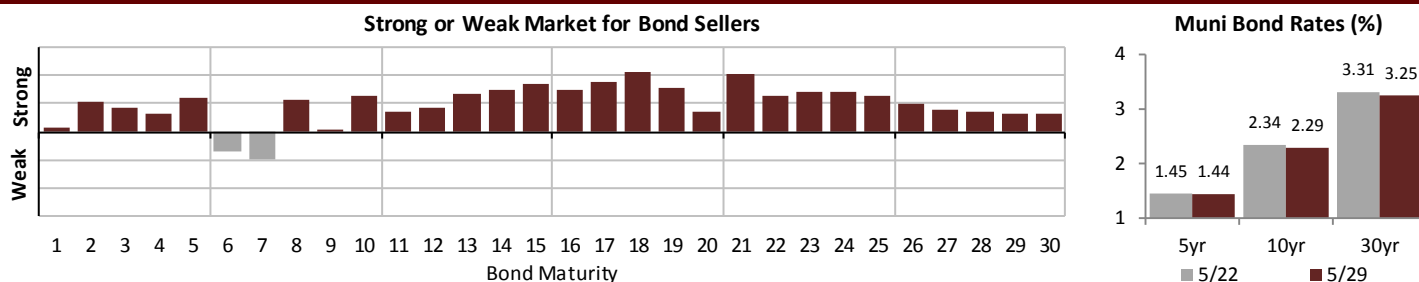


MUNICIPAL ISSUER BRIEF



Heading into this week, the strong finish to May has put much of the yield curve into a positive dynamic for issuers with the most notable potential in the intermediate maturities. Shorter maturities have a more mixed dynamic. The short-term strength may draw secondary selling to compete with the active primary calendar.

MARKET UPDATE

MAY WAS NEGATIVE FOR ONLY THE THIRD TIME IN A DECADE: While May price performance was negative, last week concluded 6 consecutive trading days of positive municipal price performance and the first positive week since April.

INVESTORS & ISSUERS: A difficult month ends on a positive note.

- **Borrowing costs for issuers fell** as the week progressed and the global interest rate environment improved.
- Helping things along in the municipal market were the pricing of Chicago and Pennsylvania issues that had caused **investor trepidation**. These issues carried bigger implications for the broader market and details are found on **page 2**.
- **Chicago:** The deal was priced very cheap to recent trading levels and as a result it had a huge amount of investor interest (\$6B in orders on the \$680M issued). The city was able to spin this as a positive but make no mistake: the city and several of its conduits saw current and future borrowing costs increase.
- **Pennsylvania:** While Chicago drew media interest, it was PA's \$1.2B GO competitive deal that had broader market implications. The issue was purchased by Bank of America Merrill Lynch at yields that were 20 to 30 basis points cheaper than historical standards, see **page 2** for more.
- Looking forward, June's early new-issue slate has grown to more than \$13B, consistent with the year's theme of above average supply. Heavier issuance and tentative demand **can make it more difficult for underwriters to price deals**.
- **MMA** will track several issuers this week but NY and Washington, DC issues may carry bigger market implications. **These two large urban areas have boomed** after crisis-induced financial oversight mechanisms were implemented.
- Municipal bond funds experienced weekly investor losses throughout May. **Outflows can undermine favorable pricing**.

BUYERS BITES:

WHAT IS TRENDING HOT:

- 1) Chicago, PA rally in secondary markets
- 2) IG Healthcare improves
- 3) High-grade Texas paper

CURRENTLY HARDER SELLS:

- 1) Shorter maturities

WHO IS REPORTEDLY BUYING:

Large banks, property and casual insurance companies, tech-oriented corporations

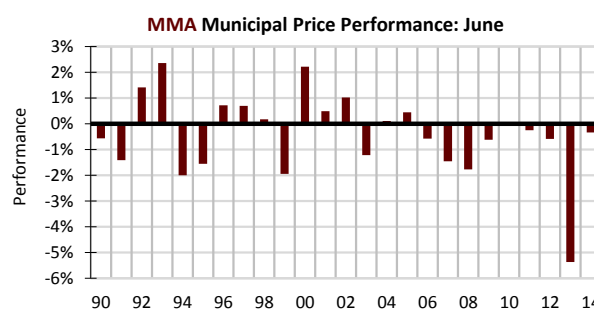


Figure 1: The chart above illustrates June municipal price performance since 1990. The positive columns represent years in which the month of June saw interest rates lower (prices positive), which generally implies a good pricing environment for issuers. Note that **historically, June has experienced challenging market conditions**, with the last positive year having occurred in 2005. This counters the 'conventional wisdom' that the high reinvestment period of June and July results in good market conditions for issuers in June. While issuers have not had difficulty raising capital in 2015, there have been periods when the relative cost of the access has been higher than in recent years. As underwriting risk has increased this year (and underwriters have few effective tools to hedge their capital at risk) issuers are apt to pay higher interest rates to mitigate the risk of underwriting an issue.

IRS HOSTING QSCB WEBINAR: The Internal Revenue Service (IRS) will hold a webinar on June 18 during which staff will discuss various aspects of the Qualified School Construction Tax-Credit Bond program. Specifically, the webinar will address: QSCB's origins, purposes and characteristics; governing rules and requirements; information reporting and post-issuance compliance; and resources available to issuers. To register for this free event [click here](#).

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

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

- **Chicago, Illinois' \$680M** GO deal was much cheaper than where the bonds have been trading — even since the sell-off in the city's outstanding debt in secondary markets. Its investor pool has shifted to more distressed-focused buyers.
- **Pennsylvania's \$1.2B** GO issue came cheaper than where this state has historically issued and traded in secondary markets. This is the first large-scale, new-issue example of the negative side effects of the Chicago downgrade. With zero credit connection to Chicago, the state had to offer more yield to entice investors to purchase its debt because of the concern that Chicago is the beginning of more downgrades in the municipal sector as a result of growing, unchecked pension liabilities.
- **Riverside, California's \$200M** sewer revenue deal lowered borrowing costs as much as 4 basis points through the pricing process in large part because of the positive rate environment in the general market and specific in-state demand.

NORTHEAST

5/28: **Atlantic City, NJ** sold \$12 million general obligation bonds to **Bank of America Merrill Lynch**; NR/A-/NR; callable at par in 3/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2016	6.00	4.00	+376
2020	6.00	5.00	+355
2030	6.375	6.00	+320

Notes: The issuer's economic woes are seen in its borrowing cost

MID-ATLANTIC

5/27: **Pennsylvania** sold \$1.237 billion general obligation bonds to **Bank of America Merrill Lynch**; Aa3/AA-/AA-; callable at par in 8/15/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.99	+54
2025	5.00	2.97	+67
2035	4.00	4.10	+105

Notes: Cheap new-issue levels led to secondary rally of 20+ bps

MIDWEST

5/27: **Bank of America Merrill Lynch** priced \$176 million Neighborhoods Alive 21 Program general obligation bonds for **Chicago, IL**; NR/A-/BBB+, Kroll: A-; callable at par in 1/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	4.37	+292
2025	5.00	5.18	+288
2037	5.50	5.78	+266

Notes: Bonds traded as much as 30bps better after issue

SOUTHEAST

5/27: **Citigroup Global Markets Inc.** priced \$48 million non-ad valorem refunding revenue bonds for **Lee County, FL**; Aa2/AA-/NR; non-callable:

Maturity	Coupon	Yield	+/- AAA 5%
2017	5.00	1.07	+49
2020	5.00	1.97	+52
2025	5.00	2.86	+56

Notes: No state income tax forces yields slightly higher in FL

SOUTHWEST

5/26: **RBC Capital Markets** priced \$7 million general obligation bonds for the **Goodyear Community Facilities District #1, AZ**; A1/A-/NR; callable at par in 7/15/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2016	2.00	0.55	+31
2025	4.00	2.75	+45
2029	4.125	3.19	+46

Notes: Bank-qualified designation helped this AZ conduit issuer

FARWEST

5/28: **Wells Fargo Securities** priced \$200 million sewer revenue bonds for **Riverside, CA**; A1/A-/NR; callable at par in 8/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.79	+34
2025	5.00	2.81	+51
2040	5.00	3.84	+65

Notes: The 5% coupon structure could grow in appeal as rates rise