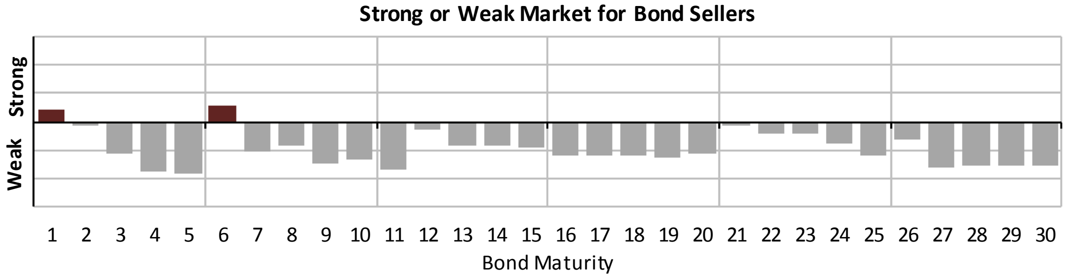
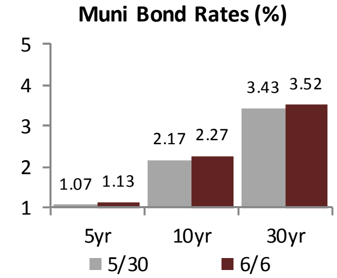
MUNICIPAL ISSUER BRIEF





Heading into this week, the turnaround in rates last week puts more pressure on issuers scheduled to sell bonds this week as most of the yield curve is now securely in the "weak" section.

MARKET UPDATE

MUNICIPALS LOST GROUND LAST WEEK: The market saw its largest one-week increase in borrowing costs since early March as most U.S. bond markets faced headwinds.

INVESTORS & ISSUERS: New issuance is at its highest in 3 months.

- Last week the tax-exempt market was unable to continue to ignore the pressure of rising interest rates in the U.S. Treasury market and **lost considerable ground in the middle of the week.**
- **Many new-issues were still able to attract strong investor attention despite the weakness in the Treasury market**, notably Chicago, Illinois which has received significant negative media focus.
- Columbus, Ohio and Atlanta's transit system **secured low, longer-dated coupons selling bonds competitively** last week. Dealers continue to be aggressive in the competitive space.
- One asset-management firm in particular **sold about $250 million of its municipal holdings last Wednesday**, which made for added pressure on the market—if this continues this week it could make placing new-deals more difficult.
- This seller was what many call a "cross-over" buyer that will enter the municipal market when they see value versus other assets. This particular buyer bought bonds in the primary in the 4th quarter of 2013 and supported the rally at that time. **If more cross-over buyers sell bonds soon it could negatively move rates this summer.** Update: this morning we saw more selling.
- Adding to the challenge is that this week will see the largest amount of deals since March and **expectations are for higher issuance through the end of the month**. **This could tip the supply/demand out of favor for issuers.**
- But this is only one dynamic to consider, as mutual funds that buy municipal bonds continue to add investors and **a lot of the scheduled supply is refundings, meaning that investors who had their bonds called could very well be looking to invest right back into the market**.

TAX EXPENDITURE REPORT: Senate Budget Committee Chair Patty Murray (D-WA) released a report last month that includes suggested reforms to the tax code. The report suggests curtailing tax deductions and exemptions that benefit the wealthy, which could negatively impact the exemption on municipal bond interest. However, a section of the report is dedicated to repairing infrastructure, which would likely aid state and local governments. See more on DC on **page 4**.

BUYERS BITES:

WHAT IS TRENDING HOT:
1) Chicago sales tax bonds
2) Single-A or higher airports
3) Single-A or higher healthcare

CURRENTLY HARDER SELLS:
1) New Jersey Transportation Trust, GO
2) Phoenix, Arizona

WHO IS REPORTEDLY BUYING:
Community banks, mutual funds, SMAs & life insurance companies

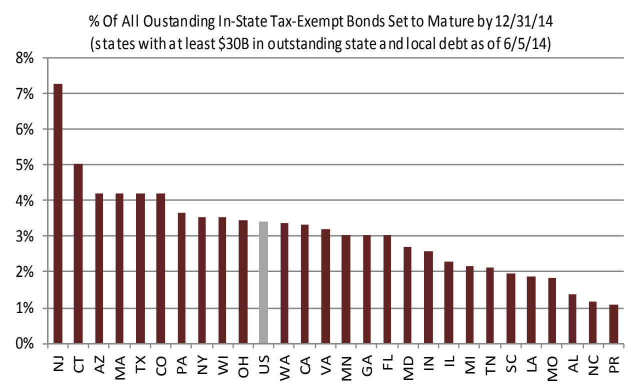


Figure 1: *The municipal bond market is getting smaller in part because issuers pay off their debt fairly quickly. By the end of this year, 3.43% of all outstanding tax-exempt municipal bonds will mature and some states, notably New Jersey and Connecticut, show even faster amortization. This will put more pressure on in-state investors to find bonds to purchase and could help issuers in these higher amortizing states achieve lower borrowing costs. In contrast, troubled Puerto Rico, which has stretched out its debt payments, will retire just 1% of its principal through year-end. See* ***Charts*** *on* ***Page 3*** *for more.*

$50,760,000

City of Jasper, Ala.
General Obligation Warrants
Series 2014

Underwriter
Raymond James & Associates

Bond Counsel
Maynard Cooper & Gale, P.C.

"USING BUILD AMERICA MUTUAL'S GUARANTY SAVED OUR RESIDENTS AND TAXPAYERS MORE THAN $342,000 ON OUR RECENT WARRANT ISSUE TO FINANCE A NEW WALKER HIGH SCHOOL. THANK YOU, BAM."

— Mayor Sonny Posey, Jasper, Ala.

THANK YOU, JASPER, ALABAMA.
THE FEELING IS MUTUAL.

BAM

sponsored by NATIONAL LEAGUE of CITIES

TOPIC OF THE WEEK

FROM DETROIT TO WASHINGTON: An overlooked effect of Detroit's bankruptcy on the municipal bond market is the added stigma it brings to the municipal sector as a whole, in particular from the perspective of Federal policymakers and regulators. Detroit, and the surrounding anti-lender rhetoric that fills local media coverage of the bankruptcy, adds credence to the following agendas:

- Tax reformers' arguments that the value of the state and local tax-exemption, however calculated, is being wasted on inept issuers, ill-intentioned bankers, and greedy investors;

- Improved infrastructure advocates' related quest for greater Federal control over project spending and resource commitment (as through the Federal grants mechanism, public-private partnerships, direct-pay bonds, etc.), which comes at the demise of the traditional tax-exempt municipal market; and

- Regulators' fears that the municipal sector is prone to unpredictable but somehow still systemic weaknesses (most lately seen in the absence of US municipal bonds from the definition of high quality liquid assets-eligible (HQLA) securities in the Federal Reserve's Liquidity Coverage Ratio (read the 6/2/2014 MIB for more on HQLA).

In other words, the high visibility of Detroit's struggles is outshining the otherwise improving credit and trading fundamentals in the municipal issuer community.

Meanwhile, developments in Detroit's bankruptcy have also undermined the perceived strength of the unlimited tax general obligation bond, limited tax general obligation bond and nearly every other promise made by a municipality. **MMA** still expects that some form of settlement will trump the terms of the plan of adjustment (POA)—which effectively wipes out GOLT bondholders at a 10%-13% stated recovery—but that the POA is even being discussed is concerning.

WHAT IT MEANS FOR YOU: **With the increasing attacks on the exemption—and the municipal industry as a whole—from both parties in Washington, issuers should be well aware of what occurs in Detroit as policymakers use the city as a political prop to push agendas.** It is in this time that issuers should reach out to their elected leaders to show that Detroit is the outlier. Without strong reaction from issuer membership organizations to counteract the negative narrative, Detroit modestly increases the odds of negative regulatory, legislative, and/or policy developments in the next few years.

Turning to the Detroit POA, per bondholder protection, were the plan to be approved as is, **it would re-set investor expectations for participating in limited tax general obligation bonds nationwide,** with a particular concern for Michigan and other states that permit access to Chapter 9. Market analysts viewed the structure of Detroit GOLTs—until the bankruptcy—as providing an extraordinary number of investor protections. In short, if you issue GO bonds, your borrowing costs could increase as investors demand more compensation (higher interest rates) in light of such a large penalty put on Detroit bondholders. (See 4/14/2014 MIB for more on market implications.)

CHARTS

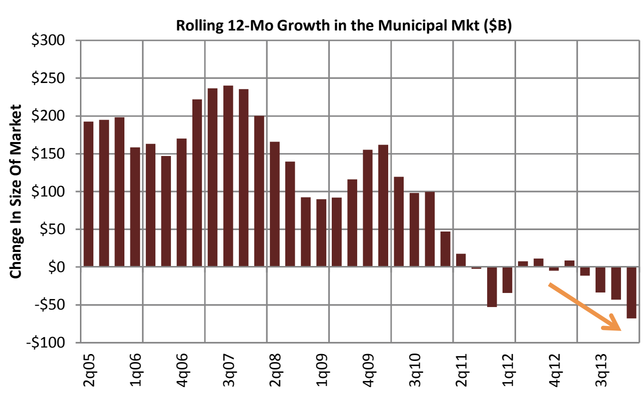


Figure 2: *The market continues to shrink because of issuer austerity, among other reasons (see **Figure 1**, page 1).*

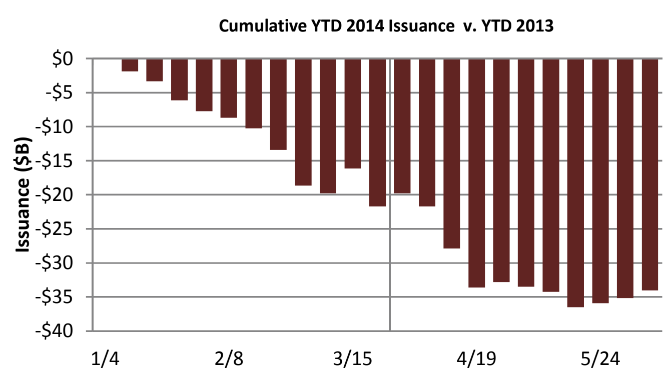


Figure 3: In 2014, the market has seen $33B less issuance compared to last year, if this trend continues the market will continue to shrink.

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

NORTHEAST

On June 5th, **Roosevelt & Cross Inc.** priced $39 million of general obligation bonds for the **Mount Vernon City SD, New York**; NR/A/NR; callable in 9/15/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	3.00	1.65	+52
2024	5.00	2.82	+55
2029	3.625	3.57	+71

Notes: BAM insurance & state aid withholding helped lower costs

MID-ATLANTIC

On June 5th, **Baltimore County, Maryland** sold $39 million of unlimited tax general obligation bonds to **Morgan Stanley**; Aaa/AAA/AAA; not callable:

Maturity	Coupon	Yield	+/- AAA 5%
2015	5.00	0.13	-5
2019	5.00	1.23	+10
2020	4.00	1.48	+4

Notes: Well bid but traded cheaper in secondary activity

MIDWEST

On June 5th, **Loop Capital Markets** priced $106 million of motor fuel tax revenue refunding bonds for **Chicago, Illinois**; Baa1/AA+/BBB+; callable in 1/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.88	+75
2024	5.00	3.44	+125
2033	5.00	4.18	+97

Notes: Re-pricing lowered yields by 15bps as investors crowded in

SOUTHEAST

On June 5th, **Metropolitan Atlanta Rapid Transit Authority** sold $274 million of third indenture sales tax revenue bonds to **Bank of America Merrill Lynch**; NR/AA+/AA-; callable at par in 6/1/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2024	5.00	2.52	+25
2029	4.00	3.31	+45
2044	4.00	4.00	+48

Notes: Low coupons in 30-years as a result of competitive bid

SOUTHWEST

On June 3rd, **Piper Jaffray & Co.** priced $258 million of general obligation bonds for **Phoenix, Arizona**; Aa1/AA+/NR; callable in 7/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	3.00	1.37	+26
2024	4.00	2.63	+39
2027	4.00	3.05	+43

Notes: One of few issues that had to increase yields before closing

FARWEST

On June 4th, **Seattle, Washington** sold $96 million of solid waste revenue bonds to **Citigroup Global Markets Inc.**; Aa3/AA/NR; callable in 5/1/2024:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.35	+24
2024	5.00	2.61	+37
2034	4.00	3.77	+53

Notes: Occurred before most of general market weakness

WASHINGTON, DC ROUNDUP

MUNICIPAL BANKRUPCTY BILL: Sens. Jay Rockefeller (D-WV) and Elizabeth Warren (D-MA) introduced legislation last week that would protect employees when their employer enters and emerges from bankruptcy. *The Bankruptcy Fairness and Employee Benefit Protection Act*, would for the first time put safeguards in place to protect public sector employees by placing a priority in payment for their wages and benefits and not allow cuts in wages and benefits as the jurisdiction emerges from bankruptcy. Municipal bankruptcy experts raised concern about how these changes could affect a government's recovery from bankruptcy and future labor contracts. Additionally there is concern that payments to employees and retirees would supersede other liabilities of the government, including infrastructure spending, further complicating a recovery. **MMA** sees a very low chance of this becoming law.

BABS GET ANOTHER BOOST: Senate Finance Chairman Ron Wyden (D-OR) announced that the Senate Finance Committee (SFC) would hold tax reform hearings over the next few months and continue to look for ways to find funding solutions for the Highway Trust Fund that is chronically underfunded. In the past Wyden has proposed tax reform measures that would replace tax-exempt bonds with tax-credit bonds. Last week he stated that he continues to support direct subsidy bonds (Build America Bonds) and believes that they may be a way to fund the multiyear surface transportation legislation, which includes the Highway Trust Fund. While Republicans have mostly opposed BABs over the years, Ranking Member of the Committee Senator Orrin Hatch (R-UT) commented that while he is generally not supportive of BABs, there may be a need to look again at these types of proposals as funding solutions for the highway program.