



April 2, 2014

- Muni Volume Remains Low in March
- Variable Rate Market Maintains Low Rates
- First Quarter of 2014 See Sluggish Issuance

**Muni Volume Remains Low in March**

Municipal volume was weak throughout the entire first quarter of 2014. In March, municipal bond sales fell 16%, down from \$32.75 billion in the same month last year to only \$27.63 billion. Additionally, it should be noted that March

Rico and California general obligation deals that came mid-month. At \$3.5 billion and \$1.79 billion, respectively, these two deals helped raise the month's overall new-money issuance.

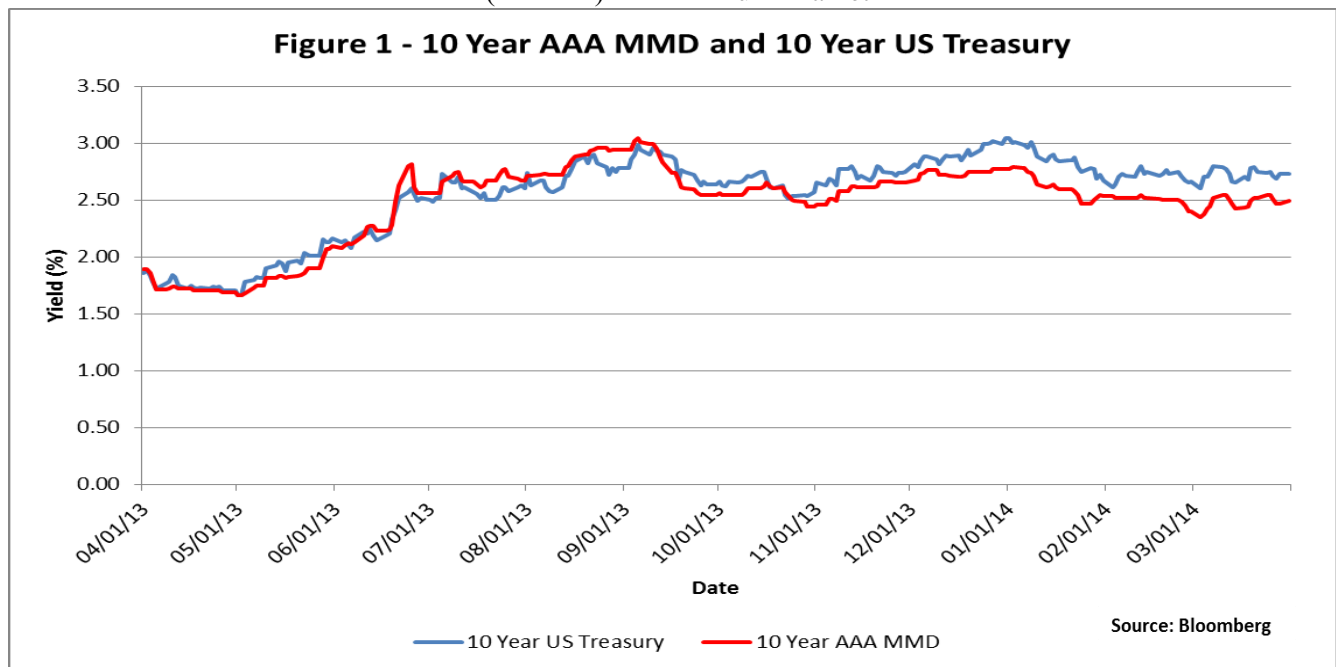
New money issuance was \$9.39 billion in 360 sales and refundings were \$8.44 billion in 263 sales this month. Both new-money issuances and refundings were down from the year before, with refundings dropping by 39% and new-money falling by 31%.

The Municipal Market Data ("MMD") 'AAA' Muni Market

above where it stood at the end of February; the 30 year yield fell 7 bps, from 3.72% at the end of February to 3.65% at the end of March.

The 10-year US Treasury yield was also up, ending March at 2.73%, up 7 basis points ("bps") from 2.66% at the end of February. The 30-year Treasury yield, however, fell a slight 3 bps, decreasing from 3.59% at the end of February to 3.56% at the end of March.

As of March 31<sup>st</sup>, the ratios of 'AAA' General Obligation municipal yields to Treasury yields were:



issuance would have been even lower if not for the large Puerto

10 year yield ended March at 2.49%, 9 basis points ("bps")

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Year	Yield	% Yield
1-Year	0.15 / 0.13	115%
5-Year	1.31 / 1.73	76%
10-Year	2.49 / 2.73	91%
30-Year	3.65 / 3.56	103%

levels at the end of February, climbing from .04% to end the month of March at .06%. The 30-day LIBOR rates decreased slightly in March, beginning the month at .15530% and ending at .15200%. Please refer to Figure 2 below for historical SIFMA and LIBOR rates.

governments in the first quarter of the year was down significantly from the prior year according to data from Thomson Reuters. Despite interest rates that are still low by historical standards, long-term municipal bond issuance for the first quarter of 2014 was down 26% from the same period in 2013. With borrowing rates declining quickly through the first quarter however, the question going forward will be if there are local

Sources: The Bond Buyer, Bloomberg, US Department of Treasury, US Federal Reserve

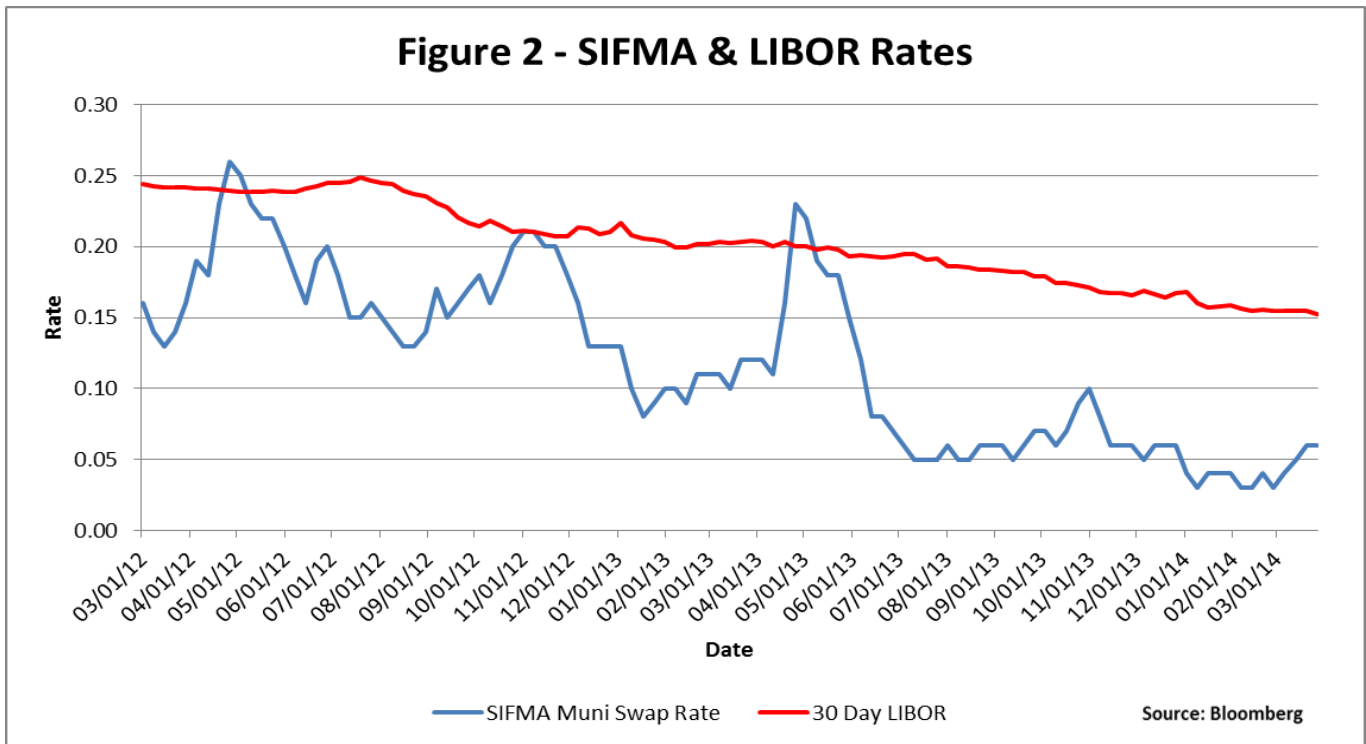
Sources: The Bond Buyer, Bloomberg, SIFMA

**Variable Rate Market Maintains Low Levels**

**First Quarter of 2014 Sees Sluggish Issuance**

The SIFMA Municipal Swap Index, an average of high-grade,

Driven primarily by a reduction



tax-exempt, variable rate bonds, rose slightly from record low

in refunding volume, overall bond issuance by local

governments, many still in need of shoring up their budgets, that

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will take advantage of the dip and lower their borrowing costs.

Municipal bond issuers have enjoyed a multi-year run of very low interest rates in the recent past that has enabled them to refinance many of their outstanding debts at lower rates and at considerable savings. This is one of the things that Ben Bernanke, and now Janet Yellen, has been trying to accomplish: drive down rates and borrowers will save money which will hopefully be reinvested into the economy. For local and state governments this has undoubtedly worked; someone, somewhere, someday should be able to calculate to the dollar how much money the Fed's QE policies have saved taxpayers in interest rate payments.

However, following Detroit's bankruptcy and other negative macroeconomic factors last summer rates jumped and the tires on the refunding bandwagon have sprung a slow leak. The first quarter of 2013 witnessed \$52.9 billion of total or partial refunding activity out of the total \$84.4 billion issued,

or 62.7% of all municipal bond issuance for that quarter. The late 2013 interest rate spike, carrying over into 2014, has caused refundings to decline to \$31.6 billion out of \$62.5 billion, or 50.6%. New money (i.e. an initial offering with no refinancing purposes) on the other hand was at \$30.7 billion for the first quarter of 2014 compared to \$31.5 billion for 2013; a measly 2.3% decline. Moreover, state governments have actually increased their bond issuance in 2014 by 6.6%. In other words, the decline in local government and other non-state issuer refunding activity explains almost the entire decline in overall municipal bond activity since last year.

This could possibly change, however. As detailed above, interest rates have fallen rather quickly in the first quarter and some refundings that would not have worked in January may now produce viable opportunities for municipalities to save money. That being said, current rates are only half of the equation for a viable refunding. The old, original rate is the other half of the equation for a

viable refunding. In that respect, future refundings could be more difficult for municipalities to accomplish without a further decline in rates. Issues from ten years ago, the most common call protection period for municipal bonds, had rates on their long-term bonds that were comparable to today's rates for many maturities. There could be some opportunity to lower borrowing costs for some issuers along their yield curve, but the days of being able to refinance every bond outstanding at significant savings appear to be in the past. So although the lower rates should help local and state governments who wish to borrow to continue to be able to access affordable financing, the lower issuance rates extant the next nine months could represent a secular shift that will take years to change.

Source: Thomson Reuters and The Federal Reserve



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<b>March 2014 Selected Bond Issues</b>										
<b>General Obligation and Essential Service Revenue</b>										
<u>Sale Week</u>	<u>Par Amount (\$ mil)</u>	<u>State</u>	<u>Issuer</u>	<u>Project</u>	<u>Ratings</u>	<u>Final Maturity</u>	<u>Yield</u>	<u>Spread to MMD</u>	<u>Notes</u>	
3/3/2014	\$60.00	CA	Silicon Valley Clean Water	Wastewater Revenue Bonds	Aa3/AA/	2/1/2044	4.150%	48		
3/3/2014	\$72.46	FL	JEA	Bulk Power Supply System Revenue Bonds	/AA-/AA	10/1/2038	4.260%	68		
3/6/2014	\$10.00	TN	City of Alcoa, TN	General Obligation Bonds	/AA-/	6/1/2043	4.120%	35	Bank Qualified	
3/19/2014	\$6.32	IA	Stormy Lake Community School District, IA	General Obligation School Capital Loan Notes	/A+/	5/1/2026	2.650%	-10	Bank Qualified	
3/3/2014	\$12.60	OH	County of Delaware, OH	Sanitary Sewer System Improvement Revenue Bonds	/AA+/	12/1/2038	4.148%	57		
3/3/2014	\$9.80	TX	Mount Houston Road Municipal Utility District	GO Waterworks and Sewer System Combination Tax and Revenue Refunding Bonds	/AA/	3/1/2033	4.350%	104	Bank Qualified	
3/4/2014	\$6.58	NY	Town of Poughkeepsie Dutchess County, NY	Public Improvement Bonds	/AA/	3/1/2037	4.000%	49	Insured - BAM	
3/3/2014	\$103.45	MO	The School District of Springfield R-XII	General Obligation School Bonds	/AA+/	3/1/2034	3.760%	40	Missouri Direct Deposit Program	
<b>Education Sector</b>										
<u>Sale Week</u>	<u>Par Amount (\$ mil)</u>	<u>State</u>	<u>Issuer</u>	<u>Project</u>	<u>Ratings</u>	<u>Final Maturity</u>	<u>Yield</u>	<u>Spread to MMD</u>	<u>Notes</u>	
3/10/2014	\$25.45	MO	Health and Educational Facilities Authority of the State of Missouri	Educational Facilities Revenue Bonds (A.T. Still University)	A3/A-/	10/1/2039	4.828%	105		
3/4/2014	\$38.67	KY	University of Kentucky	General Receipts Bonds	Aa2/AA-/	4/1/2044	4.134%	45		
3/3/2014	\$16.60	CA	Imperial Community College District	General Obligation Bonds	A2/AA/	8/1/2041	4.750%	112	Insured - AGM	

Source: Bloomberg

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**March 2014 Selected Bond Issues**

<b>Certificates of Participation and Leases</b>									
<u>Sale Week</u>	<u>Par Amount (\$ mil)</u>	<u>State</u>	<u>Issuer</u>	<u>Project</u>	<u>Ratings</u>	<u>Final Maturity</u>	<u>Yield</u>	<u>Spread to MMD</u>	<u>Notes</u>
3/3/2014	\$7.10	UT	Local Building Authority of Salt Lake City, UT	Lease Revenue Bonds	Aa1//AA+	4/15/2035	4.100%	69	
3/3/2014	\$7.90	WY	Natrona County, WY	Refunding Certificates of Participation	/AA-/	6/15/2025	3.000%	51	
3/10/2014	\$63.96	MO	City of Kansas City, MO	Special Obligation Bonds (Downtown Streetcar Project Series 2014A)	Aa/AA-/	9/1/2037	4.280%	61	
<b>Project, Development, and Improvement District Sector</b>									
<u>Sale Week</u>	<u>Par Amount (\$ mil)</u>	<u>State</u>	<u>Issuer</u>	<u>Project</u>	<u>Ratings</u>	<u>Final Maturity</u>	<u>Yield</u>	<u>Spread to MMD</u>	<u>Notes</u>
3/10/2014	\$328.13	FL	Miami-Dade County, FL	Aviation Revenue Refunding Bonds	A2/A/A	10/1/2034	4.630%	105	
3/24/2014	\$322.88	GA	City of Atlanta	Airport General Revenue Bonds (Series 2014 B & C)	Aa1//AA+	1/1/2034	4.060%	60	
3/24/2014	\$14.00	FL	Florida Housing Finance Corporation	Multifamily Housing Revenue Bonds (Castle Woods Apartments)	/AA+/	10/1/2015	0.450%	6	
<b>Healthcare Sector</b>									
<u>Sale Week</u>	<u>Par Amount (\$ mil)</u>	<u>State</u>	<u>Issuer</u>	<u>Project</u>	<u>Ratings</u>	<u>Final Maturity</u>	<u>Yield</u>	<u>Spread to MMD</u>	<u>Notes</u>
3/17/2014	\$83.79	CT	State of Connecticut Health and Educational Facilities Authority	Revenue Bonds (Hartford Healthcare)	A2/A/	7/1/2042	4.840%	118	
3/3/2014	\$200.00	MO	Health and Educational Facilities Authority of the State of Missouri	Health Facilities Revenue Bonds (BJC Health System)	Aa2/AA/	1/1/2044	4.400%	73	

Source: Bloomberg

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