



Municipal Market UPDATE

September 1, 2015

SternBrothers&Co.
INVESTMENT BANKING SINCE 1917

- **Volume Increases Once Again**
- **Variable Rate Market Update**
- **Era of the Optional Bankruptcy?**

Volume Increases Once Again

Heavily influenced once again by both new money and refunding issues, volume increased in August for the seventh time in 2015. In August, according to Thomson Reuter's data, long-term municipal bond issuance increased by more than 24.4% to \$30.76 billion from \$24.73 billion in August 2014. Whereas July's volume increase was supported primarily by new money issues, both new money and

refundings each surged 20.8% above their levels from the same period for the previous year. While there were fewer refunding issues in August, volume increased from \$9.12 billion in 361 issues in 2014 to \$11.02 billion in 302 issues this month. New money issues rose to \$11.75 billion in 484 issues, compared to \$9.72 billion in 480 transactions the same month last year.

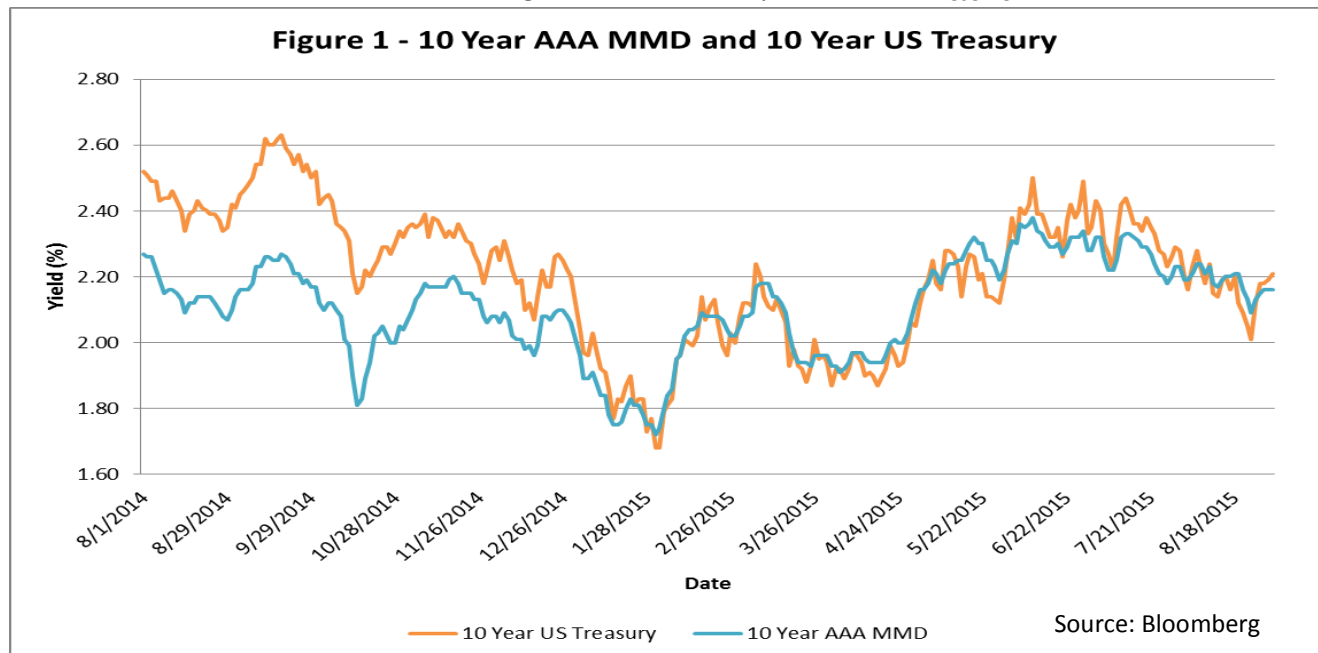
The Municipal Market Data ("MMD") 'AAA' Muni Market 10 year yield ended August at 2.16%, a 3 bps decrease from 2.19% at the end of July. The 30 year yield also decreased, ending at 3.10%, a 2 bps fall

from rates at the end of July.

The 10-year US Treasury yield ended August at 2.21%, up 1 bps from 2.20% at the end of the prior month. The 30-year Treasury yield increased slightly, ending August at 2.95%, a jump from 2.92% at the end of July. As of August 31st, the ratios of 'AAA' General Obligation municipal yields to Treasury yields were:

Year	Yield	% Yield
1-Year	0.27 / 0.33	81.82%
5-Year	1.3 / 1.54	84.42%
10-Year	2.19 / 2.2	99.55%
30-Year	3.12 / 2.92	106.85%

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





Variable Rate Market Update

The SIFMA Municipal Swap Index, an average of high-grade, tax-exempt, variable rate bonds, ended August at .02%, which has remained stable since the end of July. The 30-day LIBOR increased slightly in July, ending the month at .19855%, up from .19175% at the end of July. Please refer to Figure 2 below for historical SIFMA and LIBOR rates. Demand remains very strong for both tax-exempt and taxable variable-rate products.

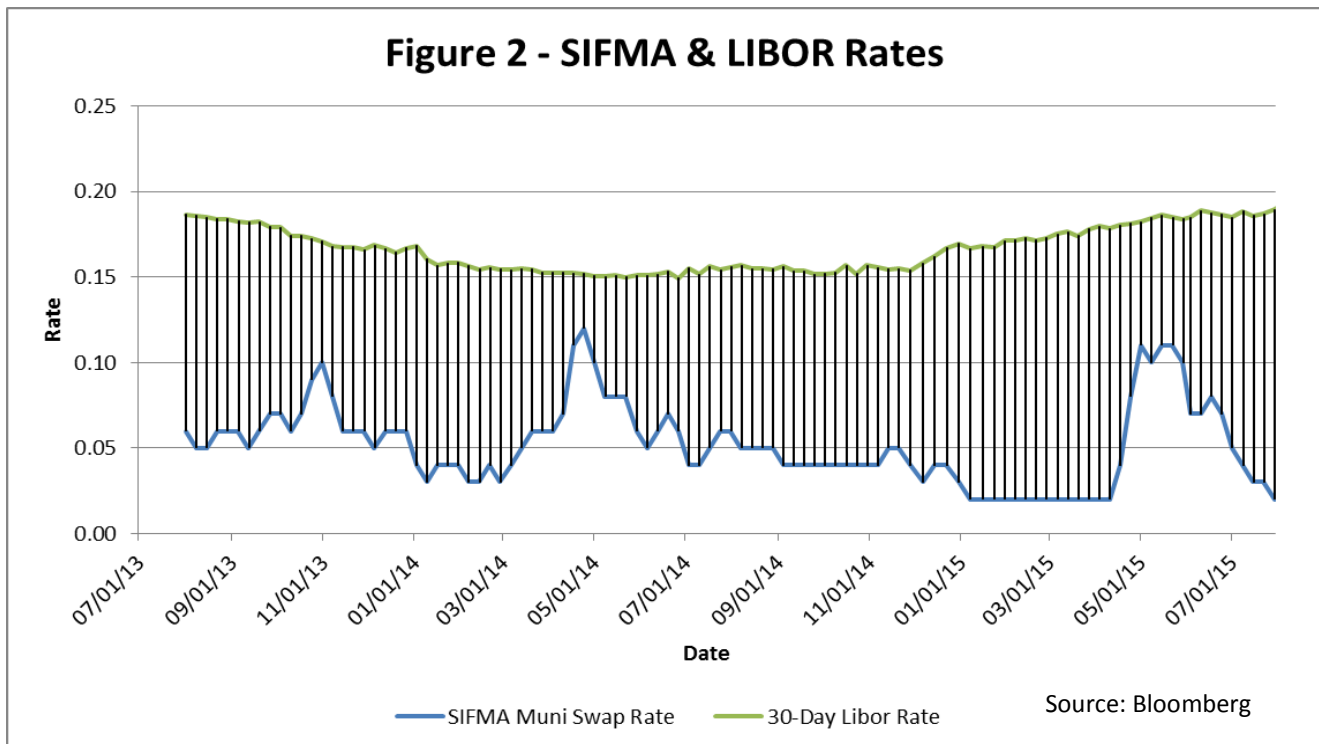
Era of the Optional Bankruptcy?

Moody's published a thought provoking article on August 6th of a somewhat philosophical nature not usually associated with the credit rating agencies. Entitled "Municipal Bankruptcy Still Rare, But No Longer Taboo", the piece lays out the case for what Moody's believes is an evolving view of the Chapter 9 process for municipalities. Rooted less in civic pride and more in

practicality, Moody's thesis is that although still a rarity, municipal bankruptcies have lost some of the stigma that used to be associated with the debt reduction mechanism and that bankruptcies may become a more common occurrence for cities and towns with structural problems on their balance sheets.

Among the points that the authors address is that the current problems experienced

Figure 2 - SIFMA & LIBOR Rates





by cities can't be dealt with the way they used to be; by their respective states. With large amounts of debt outstanding and proportionately large unfunded pension liabilities usually in tow, states are increasingly unwilling or flat out unable to assist cities, at least before a Chapter 9 filing. Another issue addressed is now that some case history of Chapter 9 bankruptcy filings is beginning to be compiled, it's apparent that the courts have no trouble discriminating against one set of creditors in favor of a different set of creditors within the same class. They refer, of course, to the respective treatment of bondholders versus pension plans, which in nearly all recent cases of Chapter 9 filings the bondholders have faced steep haircuts while their fellow unsecured creditors, the pensions, have emerged mostly unscathed. In essence, the courts have allowed issuers to pick and choose which creditors they wish to favor and which they would prefer to stiff in

apparent contravention of the existing statute.

As if on cue, the small city of Hillview, KY (pop. 8,000) filed for Chapter 9 in late August seeking to pare down some of its debt. The city, which found itself on the losing end of an \$11.4 million legal judgement and has interest accruing at the rate of \$3,759 a day, has filed for protection. In a spin on recent bankruptcies, the City of Hillview is seeking relief from the \$11.4 million legal judgement, but is more than willing to pay its \$3.2 million of outstanding G.O. debt. Although only a side note in the larger discussion, it will be interesting to see if the courts are as amenable to a modification of an unsecured liability arising out of their own judicial branch as they have been in ignoring the legislative branch's intentions in their treatment thus far. It does appear, however, that Moody's was onto something when it reported what it believed to be a change in philosophy towards

the use of a bankruptcy filing as a management tool.

Overall, municipal bonds have been and probably always will be the safest non-Treasury fixed income product available to U.S. investors. Historical default rates for general obligation bonds issued by municipalities are miniscule and will certainly stay that way for the foreseeable future.

Source: Moody's



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August 2015 Selected Bond Issues

General Obligation and Essential Service Revenue								
<u>Sale Date</u>	<u>Par (\$ mil)</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>
8/24/2015	\$16.58	Somerset County, PA	General Obligation Refunding Bonds	A1/ /	10/1/2027	3.200%	90	
8/17/2015	\$20.91	Cumberland County, NJ	General Obligation Refunding Bonds	/AA/	8/15/2023	2.520%	54	Insured - BAM
8/17/2015	\$18.37	Yonkers, NY	General Obligation Bonds	A2/AA	9/1/2027	3.050%	66	Insured - AGM
8/10/2015	\$67.08	Tarrant County, Texas	General Obligation Bonds	Aaa/AAA/	7/15/2035	3.170%	28	
Education Sector								
<u>Sale Date</u>	<u>Par (\$ mil)</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>
8/24/2015	\$38.70	Auburn University AL	Revenue Refunding Bonds	Aa2/AA-/	6/1/2035	3.640%	85	
8/24/2015	\$37.29	Cobb County GA Development Authority	Parking & University Facilities Lease Revenue Refunding Bonds	A1/ /	7/15/2030	3.560%	102	
8/3/2015	\$45.70	New Jersey State Educational Facilities Authority	Revenue Refunding Bonds (William Paterson University Project)	A2/ /A+	7/1/2040	3.810%	78	
7/27/2015	\$16.79	Missouri State Health & Educational Facilities Authority	University Revenue Bonds (Missouri State University Project)	Aa3/A+/	10/1/2040	3.800%	76	
Water/Utility Sector								
<u>Sale Date</u>	<u>Par (\$ mil)</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>
8/24/2015	\$19.15	Camas, WA	Water & Sewer Revenue Refunding Bonds	Aa3/ /	12/1/2035	3.270%	48	
8/10/2015	\$7.04	Kankakee County, IL	Sewer Revenue Bonds	/AA/	5/1/2035	4.150%	126	Insured - AGM
7/20/2015	\$72.76	Boston MA Water & Sewer Commission	Water & Sewer Revenue Refunding Bonds	Aa1/ /AA+	11/1/2028	3.010%	40	

Source: Bloomberg

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Healthcare Sector								
<u>Sale Date</u>	<u>Par (\$ mil)</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>
7/20/2015	\$64.34	Lake County, OH	Hospital Facilities Revenue Refunding Bonds	A3/ /A-	8/15/2045	4.210%	96	
8/10/2015	\$55.10	Jacksonville, FL	Health Care Facilities Revenue Bonds (Brooks Rehab Project)	/A/A-	11/1/2040	4.250%	120	

Source: Bloomberg

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