



August 6, 2014

- **Muni Volume Declines Once Again**
- **Variable Rate Market Update**
- **America's Aging Infrastructure**

Muni Volume Declines Once Again

In July, long-term municipal volume reported a 29.2% decline in issuance compared to the same month in 2013. July issuance totaled \$21.367 million for 714 deals, compared to \$30.181 million in 859 deals in 2013.

Data provided by Thomson Reuters shows that June was the first, and only, month of the year

that exceeded 2013 totals. According to the Bond Buyer, many state and local governments' financed projects remain on hold following the shock of 2008. These governments are instead focused on managing revenues and expenses, and rebuilding reserves.

The Municipal Market Data ("MMD") 'AAA' Muni Market 10 year yield ended July at 2.26%, the same rate where it stood at the end of June; the 30 year yield increased 2 bps, from 3.28% at the end of May to 3.30% at the end of July.

The 10-year US Treasury yield

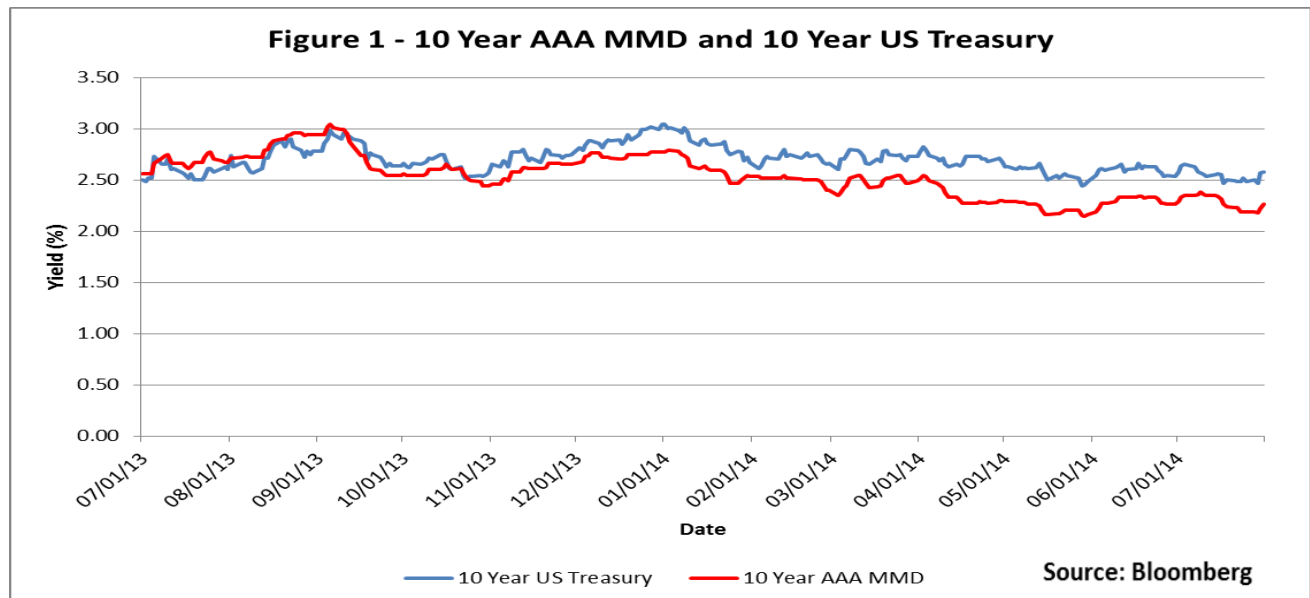
ended July at 2.58%, up 5 bps from 2.43% at the end of June.

The 30-year Treasury yield decreased by 2 bps, falling from 3.34% at the end of June, to 3.32% to end July.

As of July 31st, the ratios of 'AAA' General Obligation municipal yields to Treasury yields were:

Year	Yield	% Yield
1-Year	0.11 / 0.12	91.67%
5-Year	1.22 / 1.76	69.32%
10-Year	2.26 / 2.58	87.60%
30-Year	3.30 / 3.32	99.40%

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





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Variable Rate Market Update

The SIFMA Municipal Swap Index, an average of high-grade, tax-exempt, variable rate bonds remained at .06% at the end of July, the same rate at which it ended June. The 30-day LIBOR increased slightly in July, beginning the month at .1552% and ending at .1560%. Please refer to Figure 2 below for historical SIFMA and LIBOR rates.

Sources: The Bond Buyer, Bloomberg, SIFMA

America's Aging Infrastructure

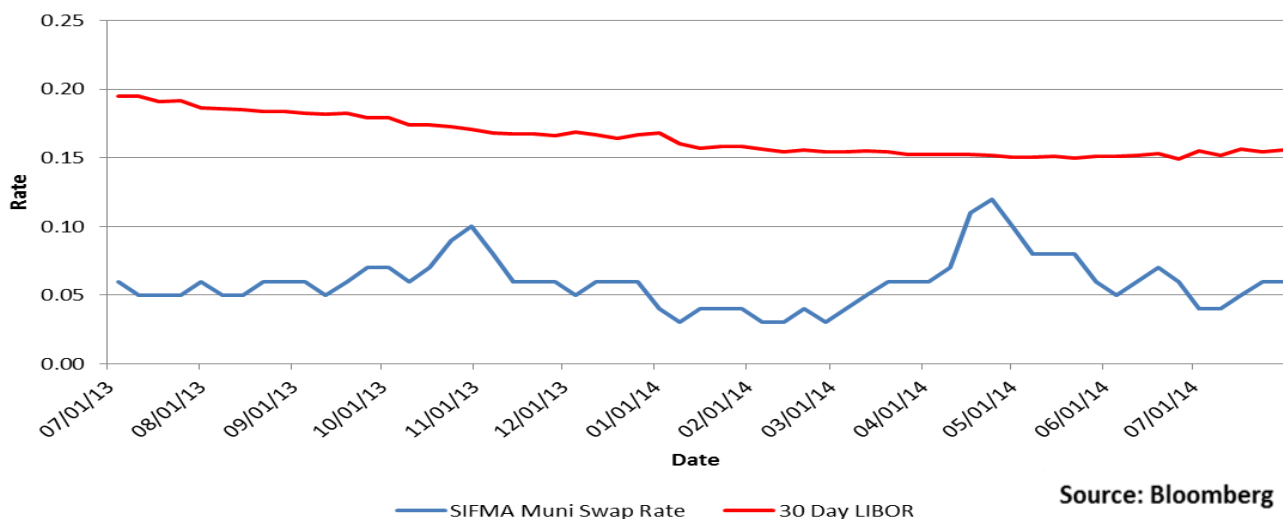
The phrase "America's Aging Infrastructure" has been posted to

the internet 43,301 times according to Google. It sounds like a lot, but given the scope of the problem and how costly it will be to fix, it's a wonder that this number isn't higher. Because the U.S. was the first country to develop utilities, roads, bridges, etc. on a large scale and unlike Europe and much of Asia, did not have to be rebuilt after World War II, the U.S. quite simply has the oldest infrastructure in the world. Allocating money to infrastructure projects can be difficult even in a prospering economy. When cities and states are facing hiring freezes and layoffs, it only becomes that much more difficult. However,

as the water main break that flooded the UCLA campus last week shows, the deterioration of decrepit facilities only accelerates and causes greater problems if not addressed.

The water main break in Los Angeles may have made for dramatic television news reports, but it was by no means rare. The American Society of Civil Engineers (ASCE) estimates that there are over 240,000 a year. Due to changes in materials used for pipes over time that had successively shorter useful lives, the American Water Works Association (AWWA) believes that pipes installed between the

Figure 2 - SIFMA & LIBOR Rates



Source: Bloomberg



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late 1800s to the 1950s may all have to be replaced around the same time. And it will not be cheap.

There are many differing estimates for the eventual costs of updating water systems in the U.S., but they are all large. The EPA's latest report, in 2007, estimated it would be \$335 billion from 2007-2027, up from an estimate of \$198 billion in 1999. The AWWA estimates that it will be closer to \$1 trillion over the next 25 years, and that's just for the drinking water systems alone. The ASCE put the price tag for needed wastewater system upgrades at \$298 billion. In fact, the ASCE's 2013 Report Card for America's Infrastructure estimated that \$3.6 trillion was needed by 2020 to maintain

current levels of service; only \$200 billion (or 5%) less than the 2014 federal government's budget. Dams need \$21 billion, levees \$100 billion, and airports \$22 billion.

Whether through foresight or scrambling to catch up, many agencies and municipalities are taking advantage of current low interest rates to obtain financing for projects. Even though new issuances in the public finance bond market are down for the year, infrastructure related sectors are actually experiencing more volume. Electric power, public facilities, and transportation bonds are only down 1.8% from the same period in 2013 compared to a 15.3% decline for the year to date as a whole for the market. At a time when long held

assumptions about the safety of general obligation bonds are being reevaluated due to problems

in California, Detroit, and Puerto Rico, infrastructure bonds, particularly revenue bonds are being seen in a more positive light. Electric, water, and sewer utilities especially are enjoying very strong credit ratings and tight spreads. Those that are taking advantage of the rate environment to address their capital spending requirements are going a long way towards mitigating the effects of the massive funding requirements that they will all eventually need.

Sources: American Water Works Association, American Society of Civil Engineers, Utah State University



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July 2014 Selected Bond Issues								
General Obligation								
<u>Sale Week</u>	<u>Par Amount (\$ 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>
7/21/2014	\$4.55	City of Altoona, Iowa	General Obligation Refunding Bonds	Aa3/ /	6/1/2023	2.050%	-6	Bank Qualified
7/14/2014	\$8.03	Banning Unified School District	General Obligation Refunding Bonds	/AA/	8/1/2027	3.490%	84	Insured AGM
7/21/2014	\$6.28	Harris County, Texas Municipal Utility District No. 284	Unlimited Tax Refunding Bonds	/AA/	9/1/2033	4.100%	114	Insured MAC, Bank Qualified
7/21/2014	\$5.89	City of Baldwin City, KS	General Obligation Refunding Bonds	/AA-/	11/1/2026	2.700%	26	Bank Qualified
Education Sector								
<u>Sale Week</u>	<u>Par Amount (\$ 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>
7/22/2014	\$4.81	Clatsop Community College District	Full Faith and Credit Refunding Obligations	/A+/	6/1/2026	2.700%	26	Bank Qualified
7/7/2014	\$15.52	Oklahoma Development Finance Authority	State System of Higher Education Lease Revenue Bonds	/AA/AA	6/1/2024	4.070%	172	
7/10/2014	\$30.04	Board of Trustees of Western Michigan University	General Revenue Refunding Bonds	/A/	11/15/2035	4.140%	96	
7/10/2014	\$21.52	Development Authority of Cobb County	Student Housing Revenue Bonds, Kennesaw State University	A1/ /	7/15/2036	4.200%	97	
7/14/2014	\$9.10	The Junior College District of St. Louis, Missouri Building Corporation	Leasehold Refunding Revenue Bonds	/AA/	4/1/2025	3.123%	66	Bank Qualified

Source: Bloomberg

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July 2014 Selected Bond Issues								
Water & Sewer/Utility								
<u>Sale Week</u>	<u>Par Amount (\$ 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>
7/15/2014	\$41.41	City of Wichita, Kansas	Water and Sewer Utility Refunding Revenue Bonds	/AA-/	10/1/2030	3.371%	50	
7/7/2014	\$8.46	Fort Bend, Texas County Municipal Utility District	Contract Revenue Bonds (Road Facilities)	/AA/	12/1/2039	4.300%	97	Insured AGM
Healthcare Sector								
<u>Sale Week</u>	<u>Par Amount (\$ 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>
7/14/2014	\$32.20	Reagan Hospital District of Reagan County, Texas	Limited Tax and Revenue Bonds	Baa2/ /	2/1/2039	3.900%	56	
7/14/2014	\$38.73	City of Center City, Minnesota	Health Care Facilities Revenue Bonds (Hazelden Betty Ford Foundation Project)	A3/ /	11/1/2044	4.150%	76	
7/14/2014	\$118.74	California Health Facilities Financing Authority	Revenue Bonds, Providence Health & Services	Aa3/AA-/AA	10/1/2044	3.930%	54	
7/14/2014	\$53.50	Washington Health Care Facilities Authority	Revenue Bonds, Overlake Hospital Medical Center	A2/A/	7/1/2038	4.130%	82	

Source: Bloomberg

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