

# MUNICIPAL BOND MARKET MONTHLY

## JANNEY FIXED INCOME STRATEGY

May 16, 2013



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## Why Buy Municipal Bonds?

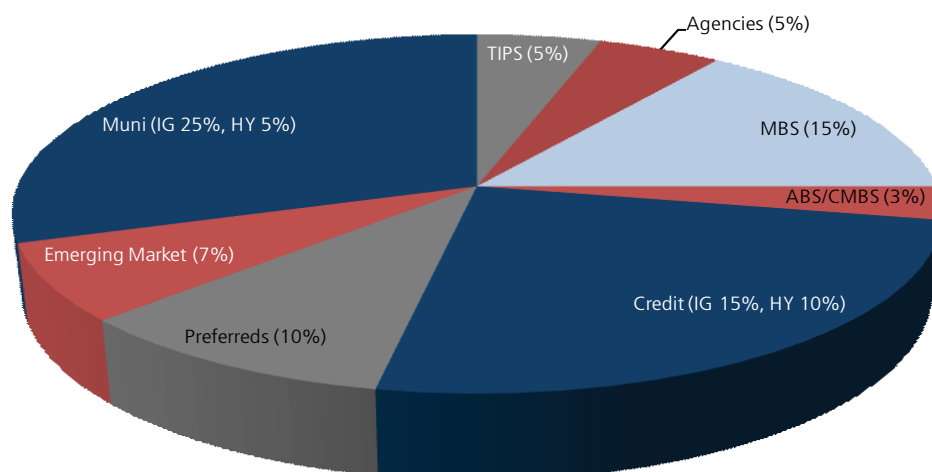
- Janney Fixed Income Strategy increased its allocation for municipal bonds to 25% from 20% in its Fixed Income Asset Allocation model. This action was in part due to attractive Municipal to Treasury Ratios.
- There are several factors as to why we believe municipals are a desirable asset class in the current market. We cite five in more detail below.
- We recently published updated sector commentary on the Tobacco, State Government and Housing sectors.
- Underfunded pensions add pressure to state and municipal budgets. This credit concern will be with us indefinitely, but with more focused attention to the problem, and stronger disclosure standards being implemented, we expect to observe a gradually improving landscape.
- Moody's downgrades outnumbered upgrades in 1Q2013, again. It seems like S&P has a much more positive outlook on municipals as upgrades from Water Street outnumbered downgrades for the 2nd consecutive quarter.
- The underlying rating for National Public Finance Guarantee (sub of MBIA) was upgraded twice; North Providence, RI was upgraded by Moody's.

## WHY MUNICIPALS?

### Janney Increased Its Municipal Allocation to 25%

The Janney Fixed Income Strategy Group increased its allocation for municipal bonds to 25% from 20% in its Fixed Income Asset Allocation model. This action was mainly due to attractive Municipal to Treasury Ratios. Below we highlight M/T Ratios and four other reasons why we think investors should be buying municipals. For more information about our fixed income asset allocations please see our April 2013 report.

### Janney Fixed Income Asset Allocation (Moderate)



Source: Janney Fixed Income Strategy (FIS).

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Janney FIS increased its allocation for municipal bonds to 25% from 20% in its Fixed Income Asset Allocation model.

We started off this year with the principal theme that "Municipal Credit" will reign supreme, in 2013.

Now, there is probably more positive momentum on the side of municipal credits than there has been over the last five years.

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## 5 Reasons Why We Think Investors Should Be Buying Municipal Bonds

- Attractive relative value- Municipal to Treasury ratios look very good;
- Taxable equivalent yields- The value of the tax-exemption for investors;
- Rates are NOT at all-time lows;
- Municipal bond insurance works;
- Defaults and bankruptcies have (and will continue to) remain low.

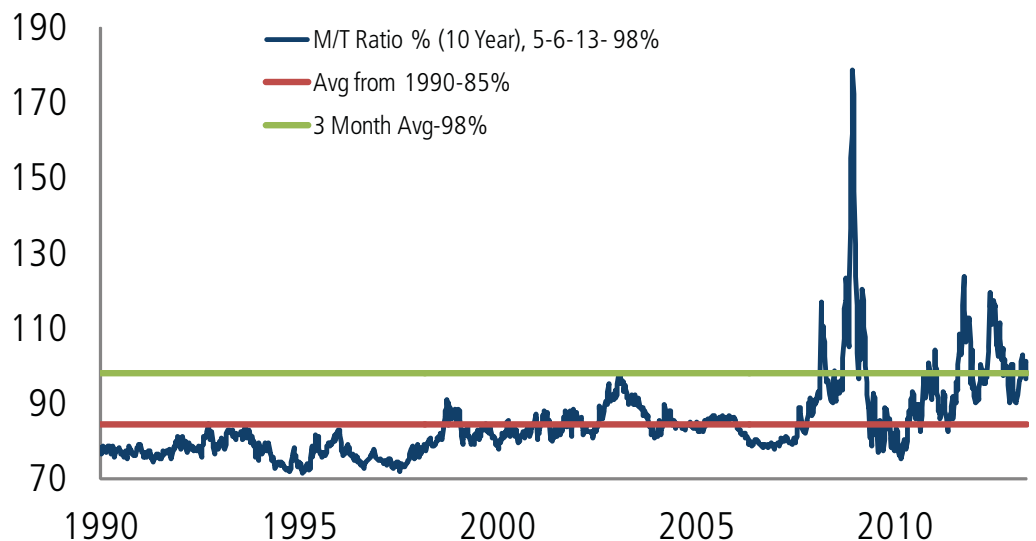
## Macro-Factors Have Not Weighed on Municipals, Not Yey Anyway

We started off this year with the principal theme that "Municipal Credit" will reign supreme, in 2013. In other words we thought it was important that investors were aware of the potential for changes to municipal credit profiles as a result of several macro drivers we expected had the potential to take municipal credit off of its course of recovery. These macro drivers include, but are not necessarily limited to, influences such as US GDP growth that is expected to lag the historical trend; interference sourced from lawmakers in Washington DC; actual and potential federal spending reductions; potential fall-out from the still-brewing European debt crisis; and a very, very slow economic recovery.

Now the year is almost half over, state and local governments are preparing their spending plans for next year, and although FY14 might not be as dire as in recent years, some roadblocks and difficult budgeting decisions lie ahead. State governments will likely continue to choose to exercise their sovereign right to cut spending, as opposed to raising taxes as they have mostly done since 2008. This will leave states in solid shape (generally) but some pain will be passed down to other issuers. Less aid from the states will funnel down to issuers in almost every other municipal sector, including the higher education and health-care sectors. And local governments and school districts will be facing tough decisions too.

There are some positives, however. Consumer consumption has not fallen nearly as much as forecasters expected after the federal government hiked taxes to start the year. This could be because consumers are feeling more at ease since housing prices have started to rebound faster than in previous quarters. The equity market has been on a multi-month tear as the major averages have hit, are over, and or are still near highs (not inflation adjusted). And state tax revenues reported a 12th consecutive quarters of growth, since the Great Recession. In other words, there is probably more positive momentum on the side of municipal credits now than there has been over the last five years, despite our warnings at the beginning of this year. Here are five other key reasons why we believe investors should be considering municipal bonds:

## M/T Ratios are Attractive and Will Be Through the Summer of 2013



Source: Thomson Reuters and Janney FIS.

For months now M/T Ratios have been on the attractive side.

Remember, when considering municipals, that most of them (there are some taxable municipals) should be evaluated using a taxable equivalent yield.

We first noted the "Low Rate Myth" back in Nov. 2011.

## Reason #1- Attractive M/T Ratios

The 10 year Municipal to Treasury Ratio (M/T Ratio) is typically referred to as an "attractive" level when it is (at least) over 100% or when the 10 year Municipal AAA yield exceeds the 10 year Treasury. For months now M/T Ratios have been on the attractive side, or over 100%. But, at the beginning of the month, on May 3rd the M/T dipped slightly below 100% for only the third time since the middle of March. The M/T Ratio is currently at 98%, with the 10 Year AAA MMD at 1.75% and the Treasury around 1.78%. Although this read of 98% is about equal to the 3 month average, we believe that ratios are likely to bounce between 95% and 100% through the summer and we would consider that range, even though it is still below 100% as attractive as a result of technical factors. Other such factors include our expectation that volume, which generally picks up in the summer months (especially in June) will continue to be controlled by a strong demand side bid driven by rising trends of flows into municipal funds and the reinvestment of redemptions, for example.

## Reason #2- Taxable Equivalent Yields- The Value of the Tax-Exemption for Investors

Another compelling relative value argument can be made by citing the actual "taxable equivalent yield" of municipal bonds. In this rate environment it might often seem like it is a very difficult task to find an attractive yield. And with the 10 year Treasury yield at around 1.75% and the 30 year US benchmark around 3.00% it is no mystery why fixed income securities are not as attractive as they have been in past markets. But wait! Remember, when considering municipals, that most of them (there are some taxable municipals) should be evaluated using a taxable equivalent yield. This is because municipal bond interest is typically tax-free. Therefore, someone in the 28% tax-bracket would have to earn 6.25% on a taxable investment, to match a 4.50% tax-exempt yield. In fact, this point became an even stronger reason to buy municipals thanks to the federal government when it raised the top tax bracket to 39.60%. So, at the moment, an investor in the 39.6% tax bracket would have to earn a 7.45% to match a 4.50% tax-exempt yield.

### Finding a Taxable Equivalent Yield

#### How Do you Calculate a Taxable Equivalent Yield?

Tax Bracket	39.60%	35.00%	28.00%	39.60%	35.00%	28.00%
Tax-exempt yield	4.50%	4.50%	4.50%	3.50%	3.50%	3.50%
Taxable equivalent yield	7.45%	6.92%	6.25%	5.79%	5.38%	4.86%

Source: Janney FIS. 4.50% divided by (1-.396).

## Reason #3- Municipal Rates are Not at Historical Lows

We first highlighted that municipal rates were not actually at all-time lows in a piece we published on November 18, 2011 titled, "Dispelling the 'Low Rate' Environment Myth. Within our commentary we also noted that most municipal investors have very short memories, as do many investors, I would venture to say. In our original piece we noted that most thought the market was at historical lows because of three reasons:

- The market's gradual fall from the elevated levels of the 1980s and 1990s makes it seem like the current level is the bottom;
- Many databases do not show data before 1990; therefore, the market's earlier experience is often forgotten;
- And the final reason why so many people think rates are at an all-time low is because it is what they are reading. Reporters keep reporting that market levels all-time lows so readers believe it.

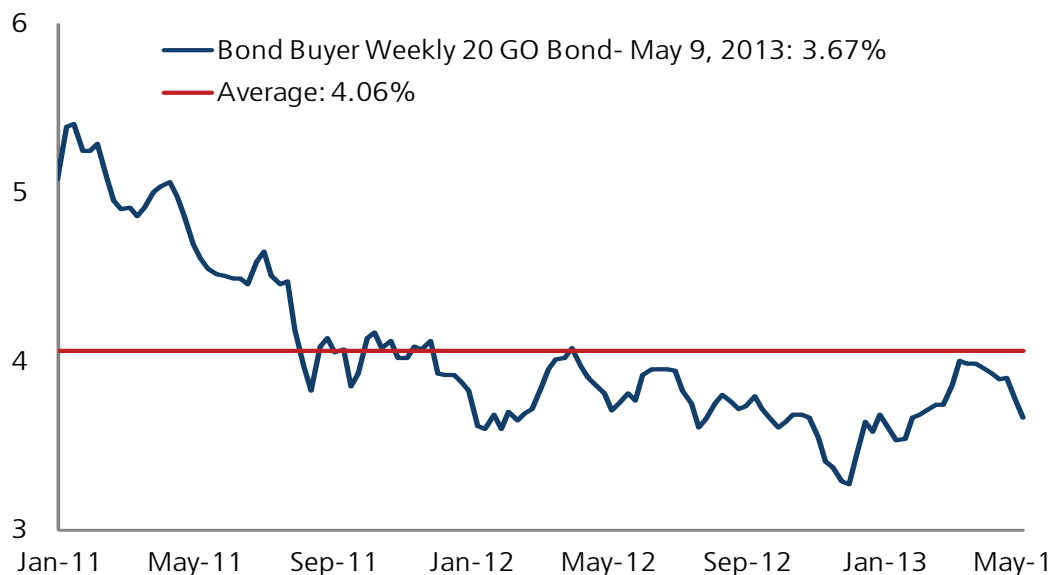
The market is not at an all-time low, it is actually just below the long term average. The all-time low that the Bond Buyer 20 weekly index reached was 1.50% yield back in 1945. This is in contrast to the 3.67% it now reads, just under the average of 4.06% going back to 2011. Although we did not make a market prediction and are not necessarily doing so here either, we should remind you that yields actually fell between 2011 and today, despite the expectation that rates would move higher.

The market is not at an all-time low, it is actually just below the long term average.

Municipal bond insurance works.

There is value in most bond insurance.

## Municipal Market Yields Have Fallen Since We Identified the Low Rate Myth



Source: Bond Buyer and Janney FIS.

## Reason #4- Bond Insurance Works

One of the most important positives about municipal bond insurance has been lost in the discussion during its revival. And that very important point is that municipal bond insurance works. Investors get paid. Keep in mind that the insurers writing new business and those which still exist today either have strong financial standing, were those who made it through the worst of the World Financial Crisis, or both. We expect the insurers writing new business today will be able to honor their commitments. Investors should still make sure they understand the underlying credit of the issue and we always believe that an issue should not be purchased without an underlying rating. There is still value that insurance can offer investors. In cases, such as Assured (and FSA) and even National (MBIA) we think that investors should generally look favorably on municipal insurance providers and their policies. Build America Mutual (or BAM) is also an added plus to the business and BAM has been gaining market share lately.

## Current Ratings for Municipal Insurers

Insurer Name	Par Insured (\$ in billions)	Moody's Rating	Moody's Outlook	S&P Rating	S&P Outlook	Fitch Rating	Fitch Outlook
ACA	\$4	NR	None	NR	None	NR	None
Ambac	\$143	NR	None	NR	None	NR	None
Assured Gty	\$378 (total)	A3	Stable	AA-	Stable	NR	None
BAM	\$1	NR	None	AA-	Stable	NR	None
BHAC	\$18	Aa1	Stable	AA+	Negative	NR	None
CIFG	NA	NR	None	NR	None	NR	None
FGIC	NA	NR	None	NR	None	NR	None
AGM (f.FSA)	\$378 (total)	A2	Stable	AA-	Stable	NR	None
National (f.MBIA)	\$324	Baa2	Negative	A	Stable	NR	None
Radian	\$15	Ba1	Negative	B+	Negative	NR	None
XLCA (Syncora)	\$34	NR	None	NR	None	NR	None

Source: Moody's, S&P, Fitch, insurer financials and Janney FIS.

Even Ambac can offer some value for investors.

Investors who own the municipal outliers, or the high profile distressed municipal credits such as Detroit, MI; Harrisburg, PA; Jefferson County, AL; San Bernardino, CA; and Stockton, CA have largely been insulated from defaults, with not only Assured Guaranty backstopping timely interest and principal payments, but because of support offered by National (formerly MBIA) continuing to support all claims on its \$337 billion of outstanding municipal obligations. We believe that even Ambac, which operates under the supervision of the Wisconsin Insurance Commissioner, and has paid claims on its municipal exposure (with Las Vegas Monorail bonds a notable exception), offers at least some value for investors.

## Reason #5- Both Municipal Defaults and Bankruptcies Have and Will Remain Low

Immediately after Meredith Whitney made her prediction at the end of 2010, we advised investors that her prediction was overblown. 2011 passed quietly and her prediction of 50 to 100 sizeable local government defaults amounting to hundreds of billions of dollars did not come true. We deemed municipals a "safe" sector again at the beginning of 2012. Even so, in the middle of 2012 commentators forecast that Armageddon was upon us again because four California distressed municipalities were said to be close to filing for Chp 9 bankruptcy protection. Those municipalities were Compton, Mammoth Lakes, San Bernardino, and Stockton. We noted that they were outliers similar to the likes of Harrisburg, PA; Central Falls, RI and Jefferson County, AL, and were not reflective of the overall credit quality in the municipal marketplace. Sure there could be others...but there is not going to be a municipal market apocalypse. And if and when there are others they will continue to be few and far between.

### The Outliers- Notable Municipalities in Distress

City	State	Ratings	Fiscal Emergency	Receiver- ship	Mediation	Bankruptcy	Default
Central Falls	RI	Caa1		X	X	X	
Detroit	MI	B3	X				
Harrisburg	PA	Withdrawn		X			X
Jefferson Cty	AL	Caa3			X	X	X
Menasha	WI	Ba2					X
Moberly	MO	NR					X
Pontiac City SD	MI	B2	X				
San Bernardino	CA	NR	X			X	
Scranton	PA	NR					X
Stockton	CA	Caa3	X		X	X	X
Vallejo	CA	Withdrawn			X	X	X
Victor Valley	CA	Ba1					X
Wenatchee	WA	Ba1					X

Source: Moody's (updated to reflect recent events) and Janney FIS.

Truth be told, there have been only 7 municipal defaults since 2010, in the sectors Municipal Market Advisors (MMA) defines as "safe" sectors. The "safe" sectors include: traditional municipal sectors such as general obligation, water and sewer, education, state single family housing and school districts, among others. In all, there have been 382 defaults in the entire municipal universe since 2010. About half of those were land secured "dirt" bonds. The retirement home sector saw 34 defaults, the largest number for a single sector. But overall, the number of municipal defaults is very low in comparison to the corporate market where according to Moody's Cumulative Default Rate (CFS) averages over all 10 year periods from 1970 to 2012 the cumulative default rate for A, Baa and Ba rated municipal issuers was 0.05%, 0.30%, and 2.85%. In other words, 2.85% of Ba rated muni issues defaulted within any 10-year period over the 43 years covered by the study. The comparable corporate bond default rates in the same ratings categories were 2.48%, 4.74%, and 19.72%.

Whitney's 2010 prediction was overblown from the start.

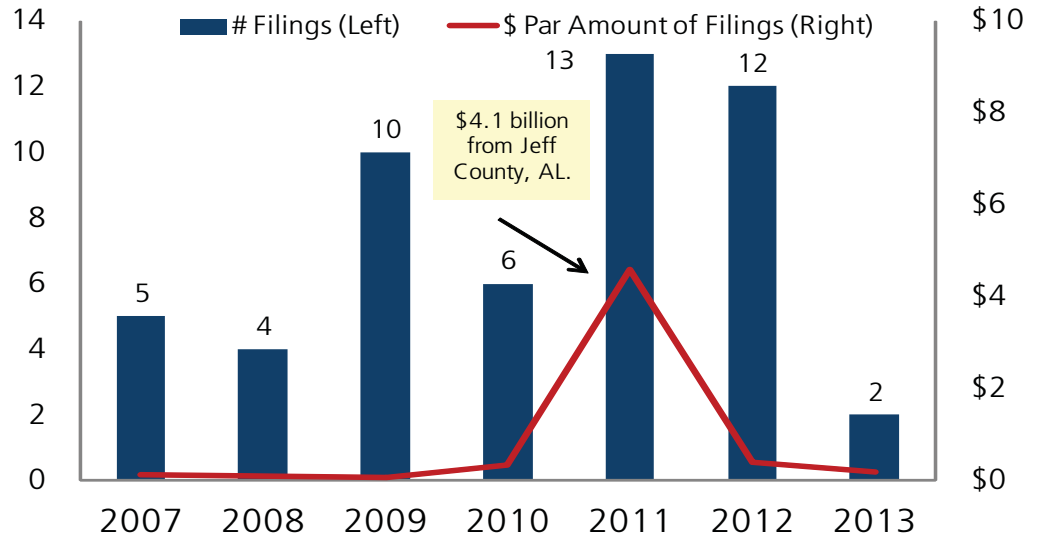
Defaults and bankruptcies are not picking up.

The outliers are not representative of the broader credit status of the municipal market.

We reviewed: the Tobacco, State Government and Housing sectors recently.

We have a "Stable" outlook on the State Government sector.

## Only 12 Issuers Filed for Chp 9 Bankruptcy Protection in 2012



Source: Municipal Market Advisors and Janney FIS.

## JANNEY SECTOR CREDIT OUTLOOKS

### Recent Janney Attention to Municipal Sectors

In recent months we have addressed several sector specific topics in municipal market publications. In the April Municipal Bond Market Monthly (MBMM) we included some commentary about the municipal Tobacco sector. Our "Cautious" outlook on the sector remains and in the April MBMM we offer another concern in the form of the proposal to increase the federal excise tax on cigarettes. We possess a more positive take on the State Government sector whereas in the April State Health Scorecard we noted that states have been the beneficiaries of 12 straight quarters of higher tax revenues. Our outlook on the states remains "Stable." Most recently we highlighted an interesting structure innovation that State Housing Finance Agencies (HFA) have started to utilize on a regular basis. It is a pass-through mortgage backed security structure, which is getting a considerable amount of attention from cross-over buyers. We reviewed this structure in a recent note. Our housing sector outlook, focuses on State HFA single and multi-family programs, and remains "Stable."

### Janney Municipal Sector Outlooks

Sector	Janney Credit Outlook	Last Month Change	Barclay's 12 Month Return	Key Sector Trends	Recent Janney Sector Review
Municipal Bond Index	-	-	5.19%	Barclay's Muni Index, 46k issues	-
State Government	Stable	Same	4.36%	Some fall-out from Sequester expected	Apr 2013 Note
Local Government	Cautious	Same	4.89%	Higher prop values are a positive	Feb 2013 MBMM
School Districts	Cautious	Same	-	Credit deterioration could continue, but remain limited	Feb 2013 MBMM
Airports	Cautious	Same	5.92%	Enplanements slightly higher, funding questions	Feb 2013 MBMM
Health Care	Cautious	Same	7.02%	Reimbursement uncertainty, margins pressured	Feb 2013 MBMM
Higher Education	Cautious	Same	5.46%	Public schools have pricing advantage	Feb 2013 MBMM
Housing	Stable	Same	5.26%	Pass-through structure is a new innovation	May 2013 Note
Public Power (Elec.)	Stable	Same	4.58%	Essential purpose nature enhances stability	Feb 2013 MBMM
Tobacco	Cautious	Same	N/A	More downgrades, consumption dropping	Apr 2013 MBMM
Toll Facilities	Cautious	Same	5.92%	Activity is leveling off, still near 2004 levels	Feb 2013 MBMM
Water and Sewer	Stable	Same	5.10%	Essentiality factor, system upgrades looming	Feb 2013 MBMM

Source: Barclays Capital as of April 30, 2013 and Janney FIS.

The long term investment rate used by most plans is in the 8% range, a return level that many observers consider to be unrealistic.

A pension funding level is calculated by dividing assets by liabilities.

In recent years, rating agencies have been increasingly aggressive about incorporating unfunded pension liabilities into the rating calculus.

## PENSION FUNDING CONCERNS

Perhaps the most persistent drumbeat of concern for municipal bond investors in recent years has been the potential impact of pension obligations on the financial strength of municipal issuers. Underfunded pensions add pressure to future state and municipal budgets. Analyzing funding levels can be challenging. The process starts with an actuarial estimate of future liabilities, which amounts to the present value of estimated future benefit payments, with the discount rate used to establish present value a bone of contention. A high discount rate may understate future liabilities. Currently the long term investment rate used by most plans is in the 8% range, a return level that many observers consider to be unrealistic. Recently approved changes in accounting standards by the Government Accounting Standards Board (GASB) will require that, in the future, underfunded states and municipalities use a combination of the historical rate of return and the municipal borrowing rate – generally based on high quality 20 year tax exempt borrowing rates. The MMD 20-year index yield for AA rated municipals is 2.65% currently. This method of calculation will increase liability projections and lower reported funding ratios.

Assets are the other side of the funding determination. Since the present value of assets, primarily investments, is the current market value, there is no need for application of a discount rate. A key GASB change going forward is elimination of smoothing. Up until now, most plans determined asset value by using an average of asset values over time, typically five years. While this practice reduced volatility of funding levels, it tended to overstate asset values in times of declining values and understate when values were rising. For example, under a five year smoothing approach, the dramatic equity market declines of 2008 to 2009 were not completely reflected in 2010 disclosure reports. New GASB regulations eliminate use of smoothing, which will increase accuracy of estimated funding levels at the date of calculation, but will increase volatility of reported funding levels over time.

The funding level is calculated by dividing assets by liabilities. In its December 2011 financial statements, Montgomery County, PA reported an actuarial liability (future benefits) of \$537,570,876 and actuarial asset value of \$509,707,776 for its employee defined benefit plan. The resulting unfunded actuarial accrued liability was \$27,872,100 for a funding level of 94.8%. This funding level is considered very strong, with most analysts using an 80% funding level as indication of an adequately funded plan. At the opposite end of the funding spectrum is Puerto Rico. On June 30, 2011, the Commonwealth had \$1.7 billion of assets versus \$25 billion in liabilities, producing a 6.8% funding ratio, a level so low that without significant changes, the plan will run out of assets in the very near future, forcing Puerto Rico to pay retirement benefits from general fund resources, creating huge financial strain. Last month, Puerto Rico did enact significant reforms, but by our read it will be many years (or decades) before funding levels actually improve.

### At Opposite Ends of the Funding Spectrum

Issuer Name	Date	Actuarial Liability	Actuarial Asset Value	Unfunded Actuarial Accrued Liability	Funding Level
Montgomery County, PA	1/1/2012	\$538 MM	\$510 MM	\$28 MM	94.8%
Puerto Rico	6/30/2011	\$25,450 MM	\$1,724 MM	\$23,726 MM	6.8%

Source: Issuer disclosure and Janney FIS.

In recent years, rating agencies have been increasingly aggressive about incorporating unfunded pension liabilities into the rating calculus. In April 2013, Moody's placed the ratings of 29 government issuers under review based on changes to its treatment of pension obligations in the rating process noting that "pension obligations are a significant source of credit pressure for governments and warrant a more conservative view of the potential size of obligations." Among the municipalities facing potential downgrade from this review are Chicago, IL (Aa3), Minneapolis, MN (Aaa), Cincinnati, OH (Aa1) and Portland, OR (Aaa).

Given the growing focus on credit implications of underfunded pensions, reform efforts have been active in most states, with many substantial changes legislated. Rhode Island, for example, enacted strong measures in November 2011, including a defined contribution component, which according to state estimates reduced the state's unfunded liabilities by 40% to \$4 billion. We expect such efforts to continue. As GASB changes roll out in coming years, the optics of funding levels may worsen,

We expect to observe a gradually improving landscape, although challenging individual situations will continue.

Downgrades have outpaced upgrades at Moody's for the last 5 years.

S&P has a different view.

primarily due to requirement of lower investment rates to calculate future liabilities. However, improved reporting and transparency will help investors and analysts better assess pension funding risk. Future GASB requirements include statement of unfunded pension liabilities as obligations on the balance sheet, in the same way bond debt is listed, an important upgrade from current requirements, whereby pension obligations are listed in the notes section of financial statements. The issue of underfunded pensions as a municipal credit concern will be with us indefinitely, but with more focused attention to the problem, and stronger disclosure standards being implemented, we expect to observe a gradually improving landscape, although challenging individual situations will continue.

## 1Q 2013 RATING AGENCY RATING REVISIONS

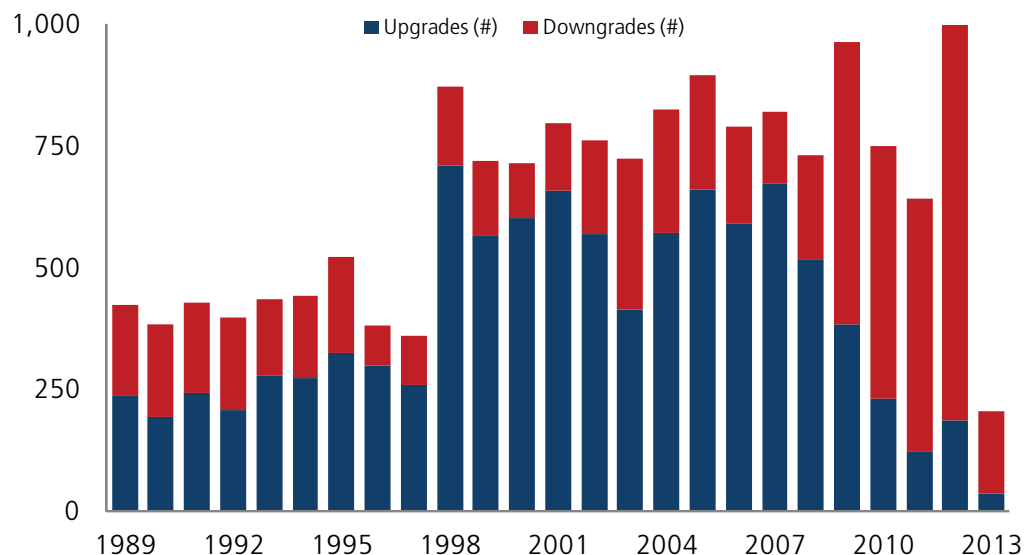
### We Have Expected Downgrades to Outpace Upgrades

Moody's and Standard and Poor's released their 1Q2013 rating revisions summaries over the last few weeks. Our expectations at the beginning of 2013 was that downgrades would continue to outpace upgrades in the municipal sector in the near to medium term. In the Moody's report the trend of a higher number of downgrades versus upgrades continued. In 1Q2013 downgrades were about 80% of all Moody's rating actions. Moody's downgraded 171 issues for a total par amount of debt affected of \$26 billion. The rating agency only upgraded 36 issues for a total par amount of \$10 billion. Over 53% of Moody's downgrade actions occurred in the following six issues:

- Dallas Fort Worth Int. Airport Board, TX joint revenue improvement & refunding bonds to A2/stable from A1/negative (\$4.9 billion);
- Jefferson County, AL sewer rev warrants to Ca/negative from Caa3/negative (\$3.14 billion);
- San Diego School Dist, CA general obligation debt to Aa3 stable from Aa2/stable (\$2.3 billion);
- County of Santa Clara, CA pension ob. bonds (POBs) to A1/stable from Aa3/stable (\$1.5 billion);
- County of San Diego, CA POBs to Aa3/stable from Aa2/stable (\$1.2 billion);
- County of Sacramento, CA POBs to Baa1/stable from A3/stable (\$1.2 billion).

There was clearly a negative tone in the report. And Moody's noted both: "We continue to maintain negative outlooks for most public finance sectors" and "We expect rating activity to continue to be skewed to downgrades over 2013."

### Moody's Downgrades Have Far Outpaced Upgrades



Source: Moody's and Janney FIS.

Upgrades have outpaced downgraded for the last 2 quarters at S&P.

## S&P's Decidedly Different "Take" on Municipals Continues

Meanwhile, over at Standard and Poor's a much more positive "take" on the municipal sector exists. In fact, it is the very opposite of what is going on at Moody's and just the opposite of Janney's expectation about the direction of municipal ratings. At S&P, upgrades in the municipal sector have outpaced downgrades for a second consecutive quarter. In the first quarter of 2013 S&P upgraded 193 municipal ratings while downgrading 123.

### S&P Ratings Revisions 1Q2013

Sector	Upgrades	Downgrades	Defaulted
State and Local	158	101	1
Utility	20	11	1
Health Care	10	6	0
Higher Education	5	4	0
Transportation	0	1	0
Housing	25	10	0
Total	218	133	2

Source: S&P & Janney FIS.

# MUNICIPAL BOND MARKET MONTHLY

May 16, 2013



## Select Recent Changes to Ratings & Outlooks (as of May 15, 2013)

Issuer	State	Recent Rating Action	Date	Underlying Rating(s)	Notes
Monroe (County of)	PA	Downgraded to Aa3 from Aa2 by Moody's	14-May-2013	Aa3/NR	Valuation declines and narrow financials
Niagra Falls (City of)	NY	Downgraded to Baa3 from Baa1 Moody's	13-May-2013	Baa3/BBB+/BBB	St. liquidity, delayed casino payment
National (MBIA sub)	NA	Upgraded to A from BBB by S&P	10-May-2013	Baa2/A	Lessened stress, settlement with BofA
National (MBIA sub)	NA	Upgraded to BBB from BB S&P (Watch Pos)	8-May-2013	Baa2/BBB	Lessened stress, settlement with BofA
Kalamazoo (City of)	MI	Downgraded to AA- from AA+ by Fitch	7-May-2013	NR/AA/AA-	Less flexibility and challenges ahead
Columbia (County of)	PA	Downgraded to A- from A+ by S&P	6-May-2013	NR/A-	Sharp genreal Fund decline
North Providence (Twn)	RI	Upgraded to Baa1 from Baa2 by Moody's	25-Apr-2013	Baa1/BBB+	Improving financial status
New Haven (Town of)	CT	Downgraded to A from A+ by Fitch	19-Apr-2013	A1/A-/A	Depleted GF balance
Gloucester Twp BOE	NJ	Upgraded to A+ from A by S&P	9-Apr-2013	A+	Improved financial operations

Source: Moody's; S&P; Fitch and Janney FIS.

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May 16, 2013



## State and Other Select Issuer Ratings (May 15, 2013)

State	Moody's			S&P			Fitch		
	Rating	Outlook	Last	Rating	Outlook	Last	Rating	Outlook	Last
Alabama	Aa1	Stable	4/16/2010	AA	Stable	8/3/2007	AA+	Stable	5/3/2010
Alaska	Aaa	Stable	11/22/2010	AAA	Stable	1/5/2012	AAA	Stable	1/7/2013
Arizona (*)	Aa3	Stable	2/8/2012	AA-	Stable	12/23/2011	NR	-	-
Arkansas	Aa1	Stable	4/16/2010	AA	Stable	1/10/2003	NR	-	-
California	A1	Stable	4/16/2010	A	Stable	1/31/2013	A-	Positive	3/5/2013
Colorado (*)	Aa1	Stable	4/16/2010	AA	Stable	7/10/2007	NR	-	-
Connecticut	Aa3	Stable	1/20/2012	AA	Stable	9/26/2003	AA	Stable	6/3/2010
Delaware	Aaa	Stable	4/30/2010	AAA	Stable	2/22/2000	AAA	Stable	4/13/2006
Dist. of Columbia	Aa2	Negative	9/20/2011	A+	Stable	9/30/2011	AA-	Stable	4/5/2010
Florida	Aa1	Stable	4/16/2010	AAA	Stable	7/12/2011	AAA	Negative	4/5/2010
Georgia	Aaa	Stable	4/16/2010	AAA	Stable	7/29/1997	AAA	Stable	4/13/2006
Hawaii	Aa2	Stable	5/17/2011	AA	Stable	1/29/2007	AA	Stable	6/15/2011
Idaho (*)	Aa1	Stable	4/16/2010	AA+	Stable	3/30/2011	AA	Stable	4/5/2010
Illinois	A2	Negative	12/13/2012	A-	Negative	1/25/2013	A	Negative	1/11/2013
Indiana (*)	Aaa	Stable	4/16/2010	AAA	Stable	7/18/2008	AA+	Stable	4/5/2010
Iowa (*)	Aaa	Stable	4/16/2010	AAA	Stable	9/11/2008	AAA	Stable	4/5/2010
Kansas (*)	Aa1	Negative	4/6/2011	AA+	Stable	5/20/2005	AA	Stable	2/13/2007
Kentucky (*)	Aa2	Negative	3/30/2011	AA-	Negative	1/31/2013	AA-	Negative	2/15/2011
Louisiana	Aa2	Stable	4/16/2010	AA	Stable	5/4/2011	AA	Stable	4/5/2010
Maine	Aa2	Negative	5/17/2012	AA	Negative	5/25/2012	AA	Stable	1/23/2013
Maryland	Aaa	Negative	8/4/2011	AAA	Stable	5/7/1992	AAA	Stable	4/13/2006
Massachusetts	Aa1	Stable	4/16/2010	AA+	Stable	9/16/2011	AA+	Stable	4/5/2010
Michigan	Aa2	Positive	3/28/2013	AA-	Positive	4/2/2013	AA	Stable	4/2/2013
Minnesota	Aa1	Negative	8/1/2011	AA+	Stable	9/29/2011	AA+	Stable	7/7/2011
Mississippi	Aa2	Stable	4/16/2010	AA	Stable	11/30/2005	AA+	Stable	4/5/2010
Missouri	Aaa	Negative	2/5/2013	AAA	Stable	2/16/1994	AAA	Stable	4/13/2006
Montana	Aa1	Stable	4/16/2010	AA	Stable	5/5/2008	AA+	Stable	4/5/2010
Nebraska (*)	Aa2	Stable	4/16/2010	AAA	Stable	5/5/2011	NR	-	-
Nevada	Aa2	Stable	3/24/2011	AA	Stable	3/10/2011	AA+	Stable	4/5/2010
New Hampshire	Aa1	Stable	4/16/2010	AA	Stable	12/4/2003	AA+	Stable	4/5/2010
New Jersey	Aa3	Stable	4/27/2011	AA-	Negative	9/18/2012	AA-	Stable	8/17/2011
New Mexico	Aaa	Negative	8/4/2011	AA+	Stable	2/5/1999	NR	-	-
New York	Aa2	Stable	4/16/2010	AA	Positive	8/27/2012	AA	Positive	5/31/2011
North Carolina	Aaa	Stable	1/12/2007	AAA	Stable	6/25/1992	AAA	Stable	4/13/2006
North Dakota (*)	Aa1	Stable	4/16/2010	AA+	Positive	5/12/2011	NR	-	-
Ohio	Aa1	Stable	3/16/2012	AA+	Stable	7/19/2011	AA+	Stable	4/11/2011
Oklahoma	Aa2	Stable	4/16/2010	AA+	Stable	9/5/2008	AA+	Stable	4/5/2010
Oregon	Aa1	Stable	4/16/2010	AA+	Stable	3/10/2011	AA+	Stable	4/5/2010
Pennsylvania	Aa2	Stable	7/16/2012	AA	Negative	7/19/2012	AA+	Negative	5/14/2010
Puerto Rico	Baa3	Negative	12/13/2012	BBB-	Negative	3/13/2013	BBB-	Negative	3/20/2013
Rhode Island	Aa2	Negative	5/31/2011	AA	Stable	4/22/2011	AA	Stable	7/18/2011
South Carolina	Aaa	Stable	12/7/2011	AA+	Stable	7/11/2005	AAA	Stable	4/13/2006
South Dakota (*)	Aa2	Stable	5/27/2010	AA+	Stable	3/25/2011	AA	Stable	4/5/2010
Tennessee	Aaa	Stable	12/7/2011	AA+	Positive	5/5/2011	AAA	Stable	4/5/2010
Texas	Aaa	Stable	4/16/2010	AA+	Stable	8/10/2009	AAA	Stable	4/5/2010
Utah	Aaa	Stable	4/16/2010	AAA	Stable	6/7/1991	AAA	Stable	4/13/2006
Vermont	Aaa	Stable	4/16/2010	AA+	Positive	9/17/2012	AAA	Stable	4/5/2010
Virginia	Aaa	Negative	8/4/2011	AAA	Stable	11/11/1992	AAA	Stable	4/13/2006
Washington	Aa1	Negative	1/30/2012	AA+	Stable	11/12/2007	AA+	Negative	1/27/2012
West Virginia	Aa1	Stable	7/9/2010	AA	Stable	8/21/2009	AA+	Stable	7/8/2011
Wisconsin	Aa2	Stable	4/16/2010	AA	Stable	8/15/2008	AA	Stable	4/5/2010
Wyoming (*)	NR	-	-	AAA	Stable	5/3/2011	NR	-	-

Source: Moody's; S&P; Fitch and Janney FIS. (\*) Denotes a Lease or Issuer Credit Rating.

# MUNICIPAL BOND MARKET MONTHLY

May 16, 2013



## Municipal Credit Rating Scale and Definitions

	Rating Agency			Definition
	Moody's	S&P	Fitch	
Investment Grade	Aaa	AAA	AAA	Exceptionally strong credit quality and minimal default risk.
	Aa1	AA+	AA+	Upper medium grade and subject to low credit risk.
	Aa2	AA	AA	Upper medium grade and subject to low credit risk.
	Aa3	AA-	AA-	Upper medium grade and subject to low credit risk.
	A1	A+	A+	Strong credit quality and subject to low default risk.
	A2	A	A	Strong credit quality and subject to low default risk.
	A3	A-	A-	Strong credit quality and subject to low default risk.
	Baa1	BBB+	BBB+	Subject to moderate risk and possess some speculative characteristics.
	Baa2	BBB	BBB	Subject to moderate risk and possess some speculative characteristics.
Baa3	BBB-	BBB-	Subject to moderate risk and possess some speculative characteristics.	
Sub-Investment Grade	Ba1	BB+	BB+	Weak credit quality with speculative elements and substantial credit risk.
	Ba2	BB	BB	Weak credit quality with speculative elements and substantial credit risk.
	Ba3	BB-	BB-	Weak credit quality with speculative elements and substantial credit risk.
	B1	B+	B+	Very weak credit quality, very speculative with high credit risk.
	B2	B	B	Very weak credit quality, very speculative with high credit risk.
	B3	B-	B-	Very weak credit quality, very speculative with high credit risk.
	Caa1	CCC+	CCC+	Extremely weak credit quality and subject to very high credit risk.
	Caa2	CCC	CCC	Extremely weak credit quality and subject to very high credit risk.
	Caa3	CCC-	CCC-	Extremely weak credit quality and subject to very high credit risk.
	Ca	CC	CC+	Highly speculative and are in or near default with some prospect for recovery.
		C	CC	Lowest class of rated bonds and may be in default with little prospect for recovery.
			CC-	Lowest class of rated bonds and may be in default with little prospect for recovery.
D	D	DDD	Issuer is in default and/or has failed to make a payment.	

Source: Moody's; S&P; Fitch and Janney FIS.

# MUNICIPAL BOND MARKET MONTHLY

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## Janney Municipal Bond Market Publications

Title	Date	Pub	Notes
Bond Insurance Comeback?	May 6, 2013	Weekly	Increasing market share for insurance providers
State HFA MBS Pass-Through Bond	May 2, 2013	Note	An innovation in housing finance, strong relative value
U.S. State Fiscal Health Update	April 29, 2013	Note	State revenues are up for a 12th consecutive quarter
Eye on Economic Data- Rising Home Values	April 9, 2013	Monthly	Home values are rising, credit updates on outliers
Puerto Rico On the High Yield Precipice	April 2, 2013	Credit	Much needed to prevent further downgrades
Mary Washington Healthcare, VA	March 22, 2013	Credit	Current financial metrics resemble lower rated medians
Sharon Regional Health System, PA	March 18, 2013	Credit	Outlines recent stresses and metrics
Build America Mutual Assurance	March 12, 2013	Note	A new insurer on the block, catching up to Assured
Tennessee Valley Authority	March 7, 2013	Note	A self-funded government corporation
Good Samaritan Hosp of Lebanon, PA	March 4, 2013	Credit	Update on recent negative rating actions
Sequester 2013- Limited for Municipals	February 27, 2013	Monthly	Meaningful GDP drag but limited municipal credit fallout
U.S. State Fiscal Health Update	February 11, 2013	Note	There are a limited number of states exposed to Sequester
Sequester and BABs	February 11, 2013	FI Weekly	Subsidy cuts and ERP trigger as a result of Sequester
Philadelphia Charter Schools	February 6, 2013	Note	Update on recent trends and renewal info
Improved Muni Tax Revenue but Challenges	February 4, 2013	FI Weekly	Higher revenues negative rating trend continues
Credit to Reign Supreme, In 2013	January 30, 2013	Note	Several factors to influence muni credit in 2013
Assured Downgrade	January 18, 2013	Note	Despite decline of business, insurance has worked well
Cliff Bump and Medicare Tax Increase	January 11, 2013	Note	Cliff resolution moves top bracket higher
Our List of Factors to Watch for 2013/Beyond	January 8, 2013	Note	10 U.S. Strengths are reasons for Investor Optimism
Municipal Supply and Demand	January 7, 2013	FI Weekly	Volume to include lots of refundings
Puerto Rico Downgrade	December 18, 2012	Note	Moody's downgraded \$46 billion PR related debt
New Issue Will Grow Modestly in 2013	December 10, 2012	FI Weekly	Technical market commentary
Single Family Housing Sector Update	December 10, 2012	Note	Structure related factors are once again the priority
State Fiscal Health Scorecard Update	November 27, 2012	Note	There are potential spoilers for 2013
Impact of Elections on Municipal Bonds	November 8, 2012	Note	Highlight several noteworthy outcomes
The Elections are Next for Municipals	November 1, 2012	Monthly	Previewed elections, public power review
The Power of Premiums	October 22, 2012	Note	Steep premium prices are frequent in market
The Threat to the Tax-Exemption	October 19, 2012	Note	Most hostile threat since 1986 Tax Act
Build America Bond Sequester Cut Concerns	October 3, 2012	Note	Potential trigger of redemptions and subsidy reduction
Concerns for the Municipal Market	September 21, 2012	Monthly	Macro-level drivers to affect municipals
Municipals: Turning to a New Season	September 17, 2012	FI Weekly	Calendar is picking up
Municipals: Summer's Over, Right?	September 10, 2012	FI Weekly	Another quiet week in municipals
Municipals: Dog Days of August	August 27, 2012	FI Weekly	Municipal activity at 1/3 normal pace
Puerto Rico Yield Update	August 24, 2012	Note	GO spreads are widening
Municipals: A Bankruptcy Revisited	August 20, 2012	FI Weekly	A review of CA cities by Moody's
Taxable Municipal Commentary	August 15, 2012	Note	Very Strong Relative Value
Municipals: Outliers in the Headlines	August 12, 2012	FI Weekly	Look at Distressed Outliers
Municipals: Dogish Days of August	August 6, 2012	FI Weekly	Market activity has slowed
Investors Should Continue to Note Outliers	August 1, 2012	Monthly	Outliers are not reflective of overall credit quality
Municipals: Rethinking a Rich Port	July 30, 2012	FI Weekly	A Puerto Rico Overload
Puerto Rico Debt Overload	July 27, 2012	Note	Investors should limit exposure to 10%
PA School Intercept Enhanced Ratings	July 23, 2012	Note	PA School Intercept ratings are lower
Municipals: Summer Scoring	July 23, 2012	FI Weekly	Comm. of Pennsylvania downgraded
Municipals: States Standing in the Unemploy	July 16, 2012	FI Weekly	States selling debt related to unemployment insurance
Municipals: The Refunding Train	July 9, 2012	FI Weekly	Refundings continue strong
State Fiscal Scorecard	July 17, 2012	Note	Restructuring continues most reserves are low
Municipal Healthcare: Post Supremes	June 28, 2012	Note	Increased certainty but not much changes
GARVEEs Depend Upon Federal Funding	June 27, 2012	Note	Not facing negative credit pressure
Municipals: Pension Premonitions	June 25, 2012	FI Weekly	Increased skepticism on pension funding
Lower Outlook for Toll Facilities	June 21, 2012	Monthly	Lower outlook on tolls and kept "Cautious" on airports
Municipals: Returning Stateside	June 18, 2012	FI Weekly	CA, market commentary, state and locals
Tobacco Sector Update	June 15, 2012	Note	Remain "Cautious" on sector but see reward
Municipals: Not Super Common	June 11, 2012	FI Weekly	Heavy calendar, commentary and credit notes
Taxable Municipal Commentary	June 4, 2012	Note	Taxable municipals are valuable options
Municipals: Value in taxables	June 4, 2012	FI Weekly	Commentary and entry point for investors
States Managing Well, Local Remain at Risk	May 24, 2012	Monthly	Review of how states and locals made it through recession

Source: Janney Fixed Income Strategy.

## Analyst Certification

We, Tom Kozlik and Alan Schankel, the Primarily Responsible Analysts for this report, hereby certify that all of the views expressed in this report accurately reflect our personal views about any and all of the subject sectors, industries, securities, and issuers. No part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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**Positive:** Janney FIS believes there are apparent factors which point towards improving issuer or sector credit quality which may result in potential credit ratings upgrades

**Stable:** Janney FIS believes there are factors which point towards stable issuer or sector credit quality which are unlikely to result in either potential credit ratings upgrades or downgrades.

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**Negative:** Janney FIS believes there are factors which point towards weakening in issuer credit quality that will likely result in credit ratings downgrades.

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**Overweight:** Janney FIS expects the target asset class or sector to outperform the comparable benchmark (below) in its asset class in terms of total return

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**Agencies:** Janney FIS ratings employ the "Barclay's U.S. Agency Index" as a benchmark.

**Mortgages:** Janney FIS ratings employ the "Barclay's U.S. MBS Index" as a benchmark.

**Investment Grade Credit:** Janney FIS ratings employ the "Barclay's U.S. Credit Index" as a benchmark.

**High Yield Credit:** Janney FIS ratings for employ "Barclay's U.S. Corporate High Yield Index" as a benchmark.

**Municipals:** Janney FIS ratings employ the "Barclay's Municipal Bond Index" as a benchmark.

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