

MUNICIPAL BOND MARKET NOTE

JANNEY FIXED INCOME STRATEGY

January 29, 2015



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Atlantic City: Recent Appointments & Downgrades

- Atlantic City, NJ faces considerable challenges. The city has experienced a significant amount of credit deterioration in recent years and its tax and revenue base was overly concentrated even under the best of circumstances.
- The New Jersey Governor recently appointed emergency managers for Atlantic City to prepare and recommend financial options, which may include debt restructuring.
- NJ's prior policy had been to prevent local government defaults or Chapter 9 bankruptcy filings. This policy is coming into question with the recent appointments.
- Default and/or a Chp 9 filing are not inevitable, but one or the other or combination is possible.
- The Casino Reinvestment Development Authority (state entity) Luxury Tax Revenue bond issue (Janney senior managed- Oct 2014) is secured by a tax levied on hotel rooms, amusement tickets & liquor by the drink in Atlantic City and is still rated Baa2/BBB+/BBB+, as of Jan. 28, 2015.

Significant events have occurred in the recent week relating to the future of Atlantic City, NJ. Governor Chris Christie appointed a manager and advisor, on Jan. 22nd, to recommend a recovery plan within 60 days that considers "any and all lawful means". Kevyn Orr is the advisor - he recently led Detroit through Chapter 9 - Kevin Lavin, a corporate restructuring attorney, was named manager. The day after, Moody's downgraded AC's general obligation underlying rating six notches and S&P lowered its GO rating four notches on Jan. 27th.

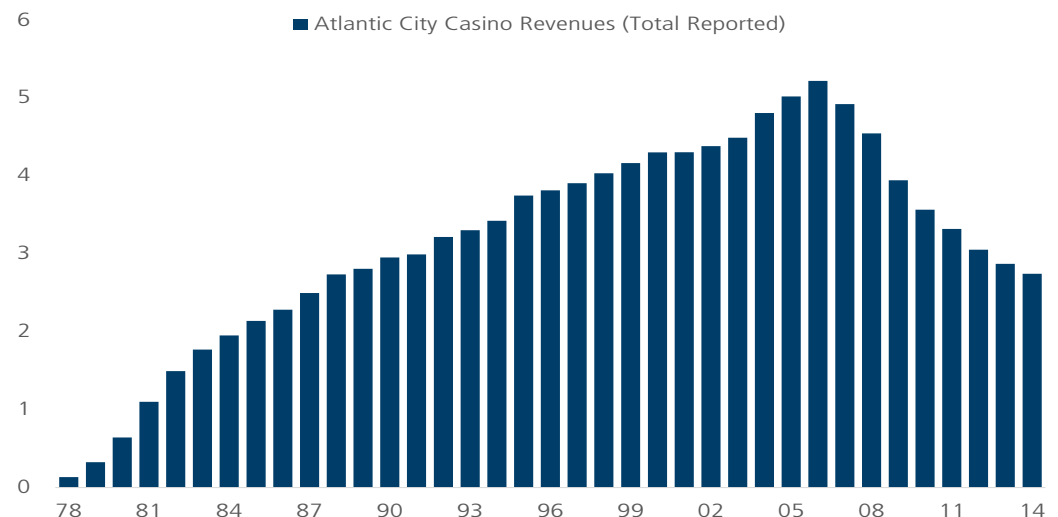
Emergency Manager Appointments Resulted in Moody's and S&P Downgrades

Agency	Rating Action (Current Outlook)	Reasons Cited	Date
S&P	Downgraded to BB from BBB+ (Watch Neg)	Appointments, risk of default/Chp 9	1/27/2015
Moody's	Downgraded to Caa1 from Ba1 (Negative)	Appointments, risk of default/ Chp 9	1/23/2015

Source: Moody's, S&P, & Janney FIS.

In its report Moody's noted the appointments are a "rapid and dramatic" change away from New Jersey's record of aiding financially challenged local governments. Atlantic City faces significant credit challenges due to its very weak wealth levels, significant tax base contraction and concentration (casinos are 75% of Atlantic City's tax base), and negatively trending casino gaming revenues. A governmental solution is not certain, and we will watch as the political & financial picture evolves over the coming weeks & months.

Atlantic City, NJ Casino Revenues Fell 47% Since 2006



Source: David Schwartz at the UNLV Center for Gaming Research and Janney FIS. (# in billions)

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