

# MUNICIPAL BOND MARKET MONTHLY

## JANNEY FIXED INCOME STRATEGY

June 20, 2013



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## A Look at Key Municipal Credit Topics, Local Govts on the Periphery, a Focus on PA at the State and Local Levels, and PA's Act 47 for Distressed Cities

- S&P raised its outlook on the US sovereign rating, although investors did little to acknowledge the move. We expect limited consequences for municipals.
- Total state tax revenues increased 9.3% in the 1Q2013 YoY, the strongest rate of growth since the middle of 2011 and the 13th consecutive quarter of higher state tax revenues. However, some states are behind in other important categories despite higher tax revenues.
- Puerto Rico budget deficits persist largely due to a weak economy. Concrete legislative action is needed to avert a downgrade to below investment grade.
- Detroit's emergency manager is asking for bondholder concessions. Other distressed local governments have been making news but the causes remain largely on the periphery of the municipal credit universe.
- The Pennsylvania housing market is steaming along while economic activity continues to increase, albeit on a trend well below that of the pre-Great Recession era. PA's labor market recovery has stalled compared to national levels and PA overall is somewhat weaker financially than in the past. The state's unfunded pension level is a concern.
- The housing market boost should offer a lagged benefit to PA local governments. In the meantime they must find a way to deal with lower state aid and we expect lower ratings to be inevitable in some situations.
- Pennsylvania's Act 47 is an assistance plan that aids financially distressed PA municipalities and we believe it is a credit positive for participants for the short term. There is some validity to criticisms of the program, however, because of the 27 cities that have entered, only 6 have left.
- Philadelphia's rating was upped by S&P two months after the city held an investor conference.

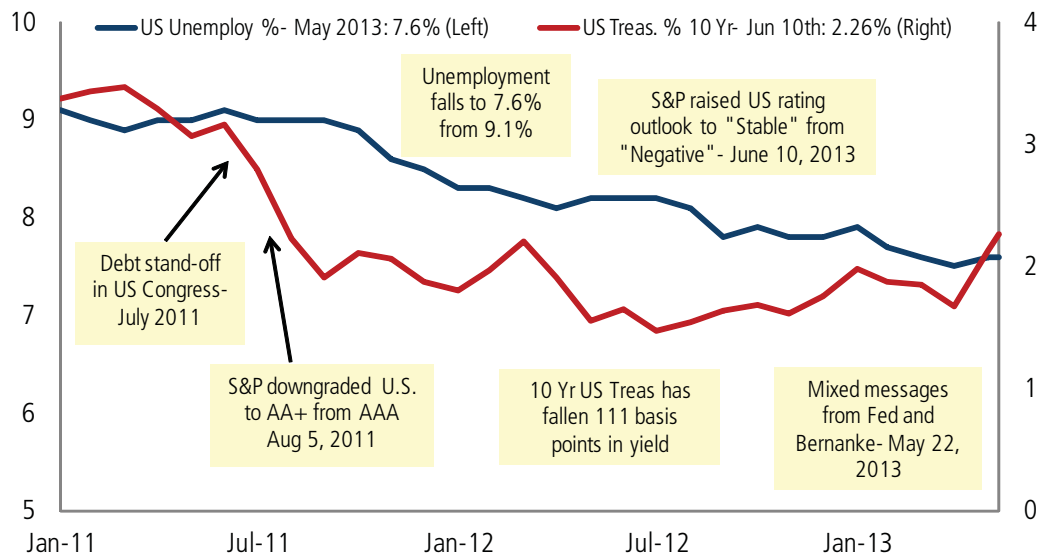
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### Movement Between S&P's 2011 Downgrade and 2013 Higher Outlook



Source: Bloomberg, S&P and Janney FIS.

If a rating agency raises the US rating outlook and no one is paying attention, does it make a sound?

This is the philosophical thought experiment we are asking in the wake of Standard and Poor's (S&P) most recent rating outlook action directed toward to the United States (US).

We don't expect a significant number of municipal issuers will experience ratings adjustments as a result of S&P's recent action.

- Illinois was downgraded by Moody's and Fitch; Rutgers was downgraded by Moody's and S&P; and Long Island Power was downgraded by Moody's.

## U.S. SOVEREIGN RATING UPDATE- KEY FACTORS IMPROVING

### S&P Rating Outlook Raised to "Stable" from "Negative" on June 10th

If a rating agency raises the US rating outlook and no one is paying attention, does it make a sound? This is the philosophical thought experiment we are asking in the wake of Standard and Poor's (S&P) most recent rating outlook action directed toward to the United States (US). Last week S&P pulled back on the downward momentum the rating agency started to apply to the US Sovereign rating back in April 2011. S&P raised its rating outlook to "Stable" from "Negative" on the US Sovereign rating on Monday June 10th, almost two years after the rating agency downgraded the U.S. to AA+ (with a Negative outlook) from AAA on Aug. 5, 2011.

However, and with reason, at this point investors seem to be ignoring the news. The outlook lift itself was not surprising because the factors S&P cites: stabilizing debt to GDP; expectations of political brinksmanship but not on a level that would lead to missed debt service payments; and steadily (but slowly) improving economic indicators are already priced into asset valuations. More specifically, S&P cites two "tentative improvements":

- First are those on the political side, mostly due to the last minute fiscal cliff agreements;
- Second, are those related to private sector drivers of economic growth.

### Municipal Market Consequences

We don't expect a significant number of municipal issuers will experience ratings adjustments as a result of S&P's recent action. However, those issues with a direct link to the US government will (many already have) experience outlook adjustments higher. Most importantly, this likely represents a larger fundamental shift in S&P's opinion toward the U.S. economy and political process and we believe this action could be an affirmation of the items that we have concentrated on in recent months. More specifically, this substantiates our view that some macro-factors are moving in favor of municipal credit, at least for now. **Tom Kozlik**

### Recent U.S. Sovereign Rating Actions

MOODY'S			S&P			FITCH		
Date	Rating	Action	Date	Rating	Action	Date	Rating	Action
8/2/11	AAA (Negative)	Lowered outlook to "Negative" from "Stable"	6/10/13	AA+ (Stable)	Raised outlook to "Stable" from "Negative"	11/28/11	AAA (Negative)	Lowered outlook to "Negative" from "Stable"
7/13/2011	AAA (Review for Downgrade)	AAA placed on Review for a Downgrade	8/5/11	AA+ (Negative)	Downgraded rating to AA+ from AAA	8/10/94	AAA (Stable)	Initial Rating
2/5/1949	Aaa	Initial Rating	7/14/11	AAA (CreditWatch Negative)	Outlook to CreditWatch Negative			
			4/18/11	AAA (Negative)	Lowered outlook to "Negative" from "Stable"			
			9/25/91	AAA	Initial Rating			

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

## JANNEY MUNICIPAL SECTOR OUTLOOK

On a sector by sector basis, this installment of Janney's Municipal Bond Market Monthly offers a wide ranging look at the current status of the municipal bond market's credit position at mid-year.

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We did not make any changes to our credit outlooks since our last report.

U.S. State government tax revenues have been recovering since the 2008-2009 Great Recession.

We start with a discussion about state credit quality generally and although we point out that state revenues are on an upward trend, there are still some major questions with regard to state credit quality overall in the medium to long term. A focus on Puerto Rico and Pennsylvania is also included. At the local level we update investors on the latest in Detroit and with certain Michigan school districts and review Pennsylvania's local governments and the Commonwealth's Act 47 program for distressed municipalities. We did not make any changes to our credit outlooks since our last report.

## Janney Municipal Sector Credit Outlook and Review

Sector	Janney Credit Outlook	Last Month Change	Barclay's 12 Month Return	Key Sector Trends	Recent Janney Sector Review
Municipal Bond Index	-	-	3.05%	Barclay's Muni Index, 46k issues	-
State Government	Stable	Same	2.40%	Some fall-out from Sequester expected	This MBMM
Local Government	Cautious	Same	2.60%	Higher prop values are a positive	This MBMM
School Districts	Cautious	Same	-	Credit deterioration could continue, but remain limited	This MBMM
Airports	Cautious	Same	3.52%	Enplanements slightly higher, funding questions	Feb 2013 MBMM
Health Care	Cautious	Same	4.52%	Reimbursement uncertainty, margins pressured	Feb 2013 MBMM
Higher Education	Cautious	Same	3.70%	Public schools have pricing advantage	Feb 2013 MBMM
Housing	Stable	Same	4.14%	Pass-through structure is a new innovation	May 2013 Note
Public Power (Elec.)	Stable	Same	2.69%	Essential purpose nature enhances stability	Feb 2013 MBMM
Tobacco	Cautious	Same	N/A	More downgrades, consumption dropping	Apr 2013 MBMM
Toll Facilities	Cautious	Same	3.52%	Activity is leveling off, still near 2004 levels	Feb 2013 MBMM
Water and Sewer	Stable	Same	2.73%	Essentiality factor, system upgrades looming	Feb 2013 MBMM

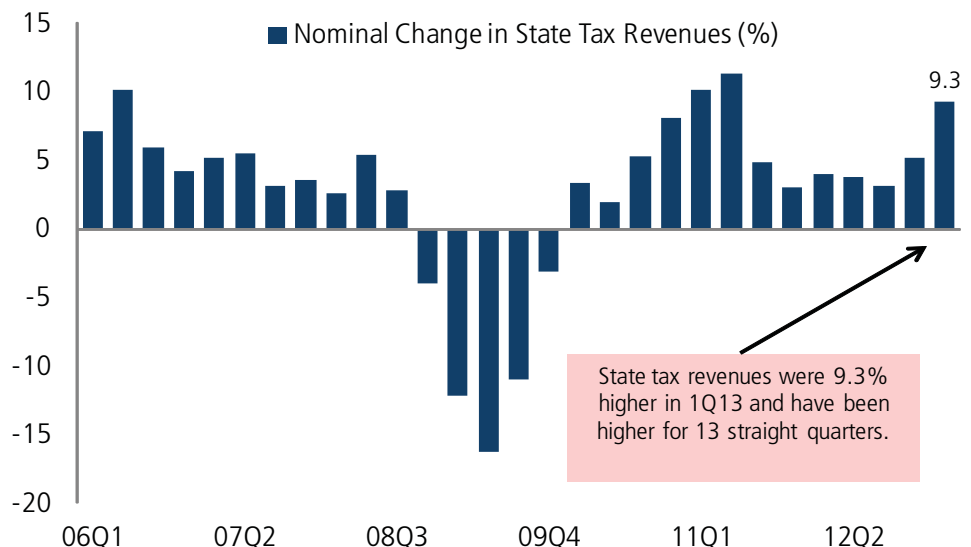
Source: Barclays Capital as of May 31, 2013 and Janney FIS.

## STATE TAX REVENUES CONTINUE RECOVERY

### Positive State Tax Revenue Performance, Despite Uncertainty

U.S. State government tax revenues have been recovering since the 2008-2009 Great Recession. In fact, total state tax revenues increased 9.3% in the 1Q2013 compared to the 1Q2012, according to preliminary data from the Rockefeller Institute. That is the strongest level of growth since the middle of 2011 and the 13th consecutive quarter of higher state tax revenues. It is important to point out that California's revenues made up a large part of that increase at 34.9%. Pennsylvania tax revenue-

### 1Q2013 Saw 13th Straight Higher Quarter for U.S. State Tax Revenues



Source: Rockefeller Institute data and Janney FIS.

Ongoing credit challenges continue to include unfunded pension liabilities.

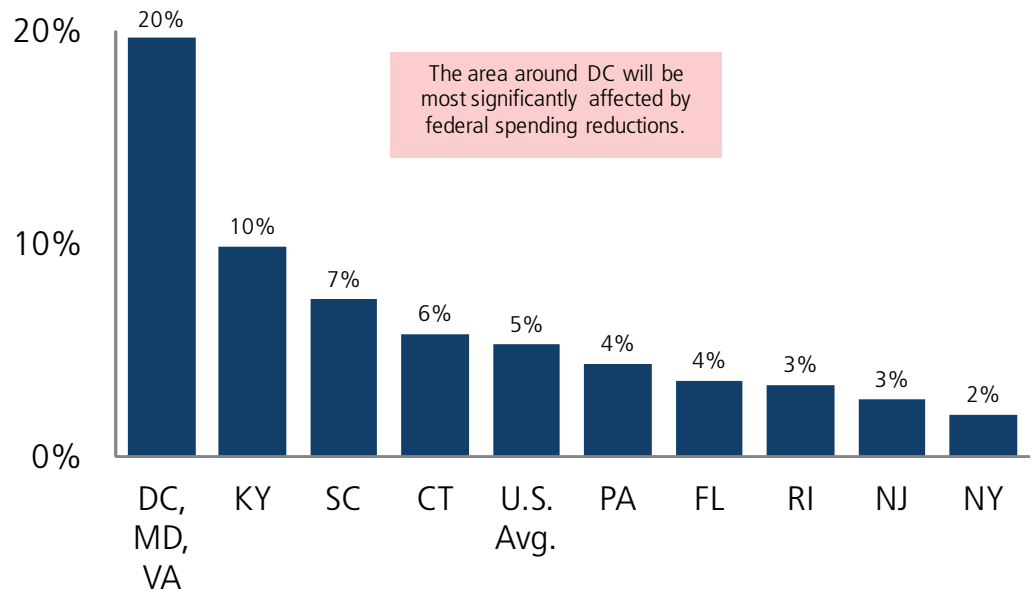
Puerto Rico faces acute challenges to its long term financial stability.

Specific proposals to increase revenues may change but significant increases are needed and the clock is ticking.

revenues have lagged the national trend but remained positive recently. And in the 1Q2013 Pennsylvania's tax revenues were 2.0% higher than in 1Q2012.

Investor attention should remain "on notice" as state governments still have a multi-year road to full recovery and there are numerous factors that still need to be addressed by states, as we have noted in past State Fiscal Health Updates. Ongoing credit challenges continue to include unfunded pension liabilities especially in Connecticut, Illinois, Maine, New Jersey and Pennsylvania. Lower federal government spending will also pose select challenges, especially in Maryland and Virginia for example.

### Select Spending on Procurement, Salaries, Wages as a % of State GDP



Source: Pew and Janney FIS.

### PUERTO RICO- THE CLOCK IS TICKING

With more than \$70 billion in government and public corporation debt, \$35 billion of unfunded pension liabilities and a sputtering economy, Puerto Rico faces acute challenges to its long term financial stability. Top government financial officials and leaders of the three major public corporations in Puerto Rico outlined and explained financial plans for the immediate future as well as beyond at the Puerto Rico Credit Conference in sunny San Juan on May 17. Presentations, which cover previously released information as well as new information, can be found on the GDB website at <http://www.gdb-pur.com/PRCC2013/Presentations.html>. Actions and potential solutions presented at the meeting addressed some questions about the Commonwealth's fiscal plans, but left others yet to be answered. The administration has been in office for only 5 months, so we expect more to come.

- Largely due to a weak economy, budget deficits persist, with non recurring measures such as "scoop and toss" adding to future problems;
- Specific proposals to increase revenues may change but significant increases are needed and the clock is ticking;
- Pension funding levels will fall to near zero, but the significant reforms enacted in April will go far towards alleviating future budget pressures;
- New bond issuance by the Commonwealth and the Highway and Transportation Auth. is needed to restore financial stability to the Government Development Bank's "fragile" balance sheet;
- Concrete legislative action is needed to avert downgrade to below investment grade.

For more detail on Puerto Rico please see the following in depth Janney research:

- Puerto Rico Highway and Transportation Authority- A Bumpy Road dated June 13, 2013
- Puerto Rico Update- the Clock is Ticking dated June 3, 2013 **Alan Schankel**

Concrete legislative action is needed to avert a Puerto Rico downgrade to below investment grade.

Detroit attracted much market focus at week's end, as the state appointed Emergency Manager, Kevyn Orr, released his proposed plan.

The proposal highlights the potential differential in treatment between essential purpose municipal utility debt, and general obligation debt.

## The FY13 Puerto Rico Deficit Ballooned to \$1.6 Billion

Fiscal Year	Revenues	Expenses	Refinanced Debt Service	Deficit
2009	\$7.6 bln	\$10.7 bln	\$0.2 bln	-\$3.3 bln
2010	\$7.6 bln	\$9.9 bln	\$0.5 bln	-\$2.8 bln
2011	\$8.1 bln	\$9.3 bln	\$0.6 bln	-\$1.8 bln
2012	\$8.6 bln	\$9.3 bln	\$0.8 bln	-\$1.5 bln
2013	\$8.3 bln	\$9.1 bln	\$0.8 bln	-\$1.6 bln
2014	\$9.8 bln	\$9.8 bln	\$0.6 bln	-\$0.6 bln

Source: Financials, credit conference information and Janney FIS.

## LOCAL GOVERNMENTS ON THE PERIPHERY

### Detroit Emergency Manager Puts a Scare into Bondholders

Detroit attracted much market focus at week's end, as the state appointed Emergency Manager, Kevyn Orr, released his proposed plan for settlement with creditors including bond investors as well as past and current city workers. Mr. Orr handicapped the chances of a bankruptcy filing at 50-50, and his detailed 128 page proposal may represent only the opening salvo in negotiations, but we see little chance of acceptance by either bondholders, represented primarily by bond insurers, or current and future retirees, the potential beneficiaries of \$9.2 billion of unfunded pension and non-pension benefits.

### Detroit's Obligations

Unsecured Obligation Type	Approx Amt (\$ in millions)	Approx Percent of Total (%)	Secured Obligation Type	Approx Amt (\$ in millions)	Approx Percent of Total (%)
General Obligation Bonds/Notes	\$650	6%	Sewer Rev Bonds	\$3,400	46%
COPs	1,400	12%	Water Rev Bonds	2,600	35%
Unfunded OPEB Liabilities	5,700	49%	Secured GO (State Aid)	450	6%
Unfunded Pension Liabilities	3,500	30%	Swap Pymts (Gambling Tax)	890	12%
Other Liabilities	300	3%	Other	100	1%
<b>Total</b>	<b>\$11,550</b>	<b>100%</b>	<b>Total</b>	<b>\$7,440</b>	<b>100%</b>

Source: City of Detroit, Proposal for Creditors, and Janney FIS.

The proposal highlights the potential differential in treatment between essential purpose municipal utility debt, and general obligation debt. Under the proposal, unsecured (no dedicated supporting revenue stream) GO and certificate of participation bondholders and retirees will receive roughly equal treatment. About \$11.5 billion in bond debt and pension and post-employment benefits would be exchanged for only \$2 billion of new bonds, which would have only limited claim on city revenues over their 20 year maturity. Holders of \$6 billion in secured debt issued by the water and sewer issuers would receive significantly better recoveries, perhaps as much as 100% of par under the proposal. In the municipal bond world, a general obligation pledge is almost sacrosanct, and although the legal foundation of a GO pledge varies by issuer and state, the general understanding is that a GO issuer must raise taxes or other revenues in sufficient amounts to meet general obligation debt service obligations. In Detroit we run into the reality often explained using a blood and stone metaphor. The city's population (taxpayers) fell by nearly two thirds since 1950 and by one third in the past 20 years. The unemployment rate is above 18%. Resources to meet ongoing debt and retirement benefits are inadequate. Bond security must be evaluated in terms not only of the legal structure of promises to pay, but more importantly on the adequacy of revenue and other resources supporting the debt. **Alan Schankel**

### Defaulting Michigan School Districts - An Exception Not the Rule

The school districts of Pontiac and Buena Vista, in Michigan, have both recently defaulted on bond

There are 47 other school districts in Michigan with deficits but Moody's notes, "they are unlikely to reach the crisis levels faced by Buena Vista and Pontiac because to date there have been no disruptions to their state aid distributions."

We think that most of what is going on in Rhode Island is political theatre and the state will make good on its duty to pay the bonds.

Broad economic data out of Pennsylvania has been largely mixed.

## The "Outliers" - Notable Municipalities in Distress

Issuer	Underlying Rating	Fiscal Emergency	Receivership	Mediation	Bankruptcy	Default
Central Falls, RI	Caa1		X	X	X	
Detroit, MI	Caa2	X	X			X
Harrisburg, PA	Withdrawn		X			X
Jefferson Cty, AL	Caa3			X	X	X
Menasha, WI	Ba2					X
Moberly, MO	Not Rated					X
Pontiac SD, MI	B3	X				X
San Bernardino, CA	Not Rated	X			X	
Scranton, PA	Not Rated					X
Stockton, CA	Caa3	X		X	X	X
Vallejo, CA	Withdrawn			X	X	X
Victor Valley, CA	Ba1					X
Wenatchee, WA	Ba2					X

Source: Moody's and Janney FIS.

payments mostly due to crisis level financial situations and a lack of state aid payments. The defaults reflect a severe amount of financial instability from extraordinary circumstances due to extreme population losses and other educational pressures such as charter school options. Overall there are 47 other school districts in Michigan with general fund deficits but Moody's notes, "they are unlikely to reach the crisis levels faced by Buena Vista and Pontiac because to date there have been no disruptions to their state aid distributions."

## Will Rhode Island Default on its Moral Obligation?

Much has been made recently about Rhode Island's willingness (or potential lack thereof) to make good on \$75 million of Rhode Island Economic Development Corp. 38 Studios bonds. At risk is not only potential increased financing costs for state and local governments within Rhode Island if the state defaults on its moral obligation, but also an echo that could reverberate throughout the entire country and could potentially result in higher financing costs for all state and local governments. We think that most of what is going on in Rhode Island is political theatre, however, and the state will in fact make good on its duty to pay the bonds. As historical context, a similar situation occurred in the late 1990s when the State of Indiana fulfilled its moral obligation to pay creditors of \$33 million Indiana Development Finance Authority- Qualitech Steel Corporation bonds after the corporation filed for bankruptcy. Most recently Moody's downgraded 38 Studios debt to Baa1 from A1 and placed State of Rhode Island general obligation (Aa2- "Negative"), and appropriation debt (Aa3- "Negative") on review for downgrade on Monday June 17th amid questions of the state's willingness to honor its moral obligation to replenish a reserve fund and make future payments on the 38 Studios debt. **Tom Kozlik**

## COMMONWEALTH OF PENNSYLVANIA CREDIT OBSERVATIONS

### States Possess the Sovereign Ability to Raise Revenue and Cut Spending

Broad economic data out of Pennsylvania has been largely mixed, and there are some underlying issues requiring attention from political actors which are mostly related to the spending side of the state's ledger. Investors should remember that state governments are among the highest quality credits in the municipal universe due to their sovereign ability to raise revenue and lower spending. In other words, states can raise taxes when required- and they also can more easily than local governments for example, cut spending. But, there are social and political limits political actors must adhere to in line with both of these options. During the recovery, states mostly utilized spending cuts in order to minimize financial damage and keep them in a better position to return to a trend

Overall PA economic activity and employment both received a temporary boost.

It is of interest to note that the PA employment market was largely positive compared to national levels coming out of the 2008 recession.

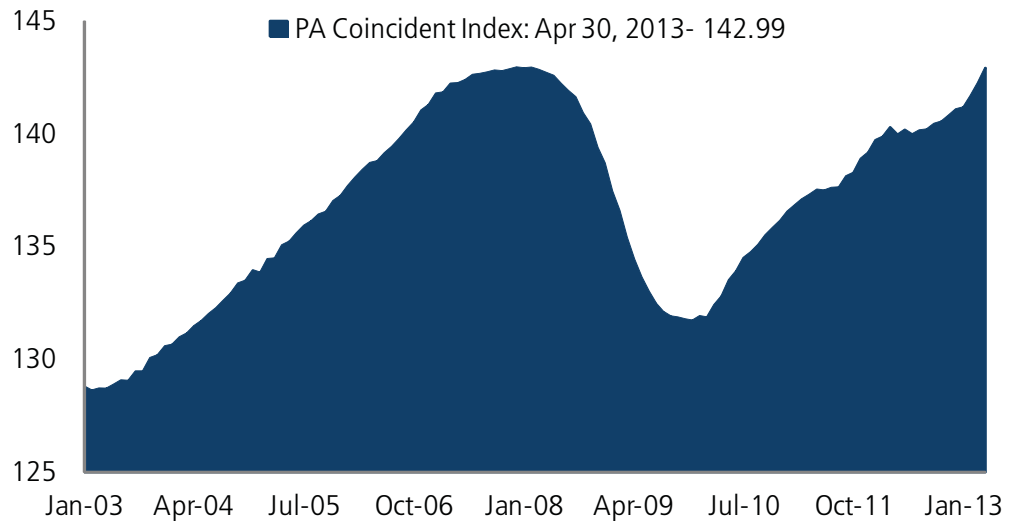
The PA labor market has lagged recently as the national labor market caught up in recent months.

of positive economic growth.

## PA Recently on a Positive Course, but Trends Weakening

A year to two ago the Pennsylvania economy was kick-started mostly by shale drilling activity. Please see the November 12, 2010 Janney Municipal Bond Market Monthly for the introduction to this in, "Drilling in the Marcellus Shale Might be Big for Pennsylvania." Overall economic activity and employment both received a temporary boost. The affect from this shot in the arm has mostly dissolved recently. And indicators are now closer to the national medians. Although recent quarter by quarter gross state product (GSP) is not available the Pennsylvania Coincident Index, which is a composite of economic data including non-farm employment, the unemployment rate, average hours worked in manufacturing, and real wages and salaries from the Philadelphia Fed Reserve, reached 142.99 as of April 30, 2013, just under its high of 143.00 attained in the beginning of 2008. So, this is an indicator that tells us that economic activity in the state has been on the upswing.

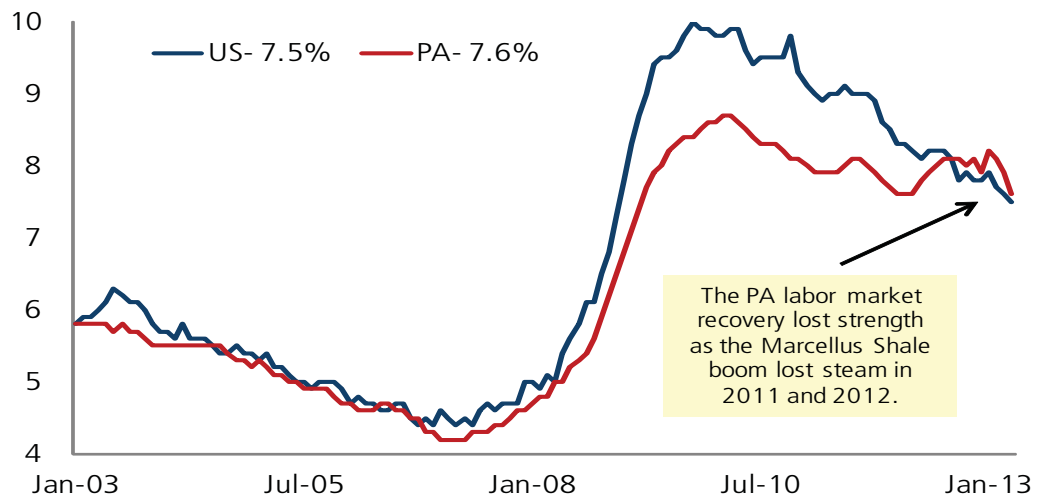
## Pennsylvania Coincident Index is On Its Way to New Highs



Source: Philadelphia Federal Reserve and Janney FIS.

On the employment market front there are a couple of important trends to note. It is of interest to note that the PA employment market was largely positive compared to national levels coming out of the 2008 recession. We attribute this to two factors. The first, is because PA employment related to the housing sector was not quite as concentrated as other states such as CA, FL or NV, for example.

## Pennsylvania Labor Market Now on Par With National Levels



Source: Bureau of Labor Statistics and Janney FIS.

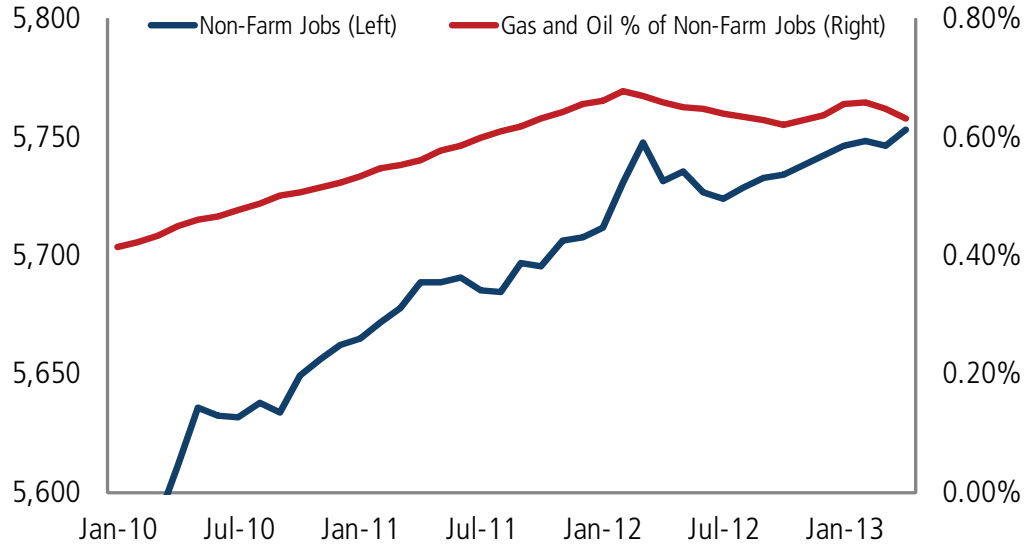
Most significantly in PA was activity related to jobs that were created directly and indirectly from Marcellus Shale drilling.

Problem is that the Marcellus Shale activity seems to have peaked in the beginning of 2012.

There are several factors that are currently a strong threat to Pennsylvania's ability to produce recurring structurally balanced spending plans.

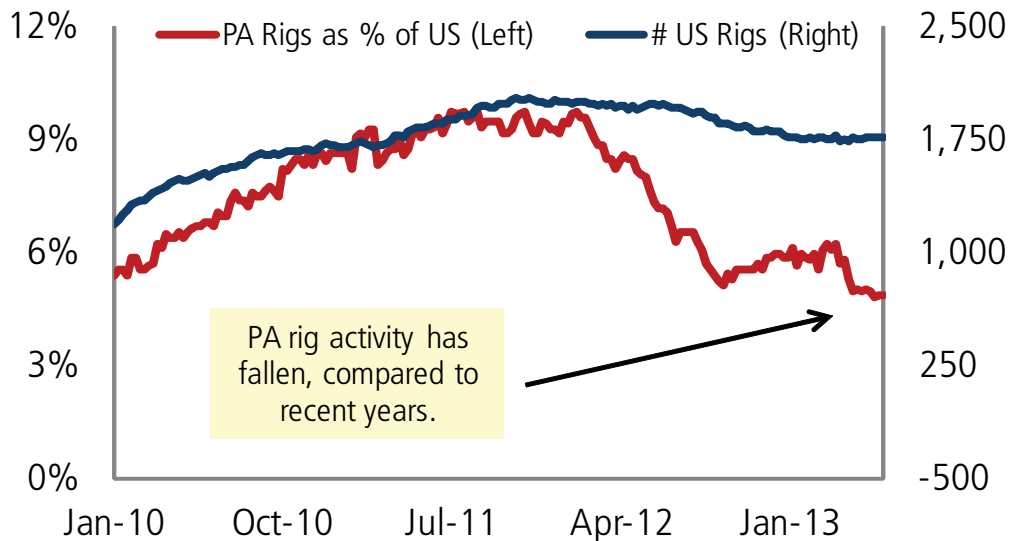
And the second is that natural resources, mining; construction (especially as interest rates fell) as well as the leisure and hospitality sectors helped create this most recent charge. Most significantly in PA was activity related to jobs that were created directly and indirectly from Marcellus Shale drilling and natural gas extraction activity. Problem is that the Marcellus Shale activity seems to have peaked in the beginning of 2012, right around the same time that the US employment market caught up with the PA employment market. Now, PA is uncharacteristically lagging the US.

### PA Gas and Oil Sector Jobs Momentum Stalled Recently



Source: Bureau of Labor Statistics and Janney FIS.

### Total # of Gas and Oil Rigs is Leveling Off, and Falling in Pennsylvania



Source: Baker Hughes, Bloomberg and Janney FIS.

### Pennsylvania's Financial Position is Weakening

Budget negotiations in PA have mostly resulted in on-time and structurally balanced budgets. 2009 was the exception where timing is concerned. In 2009 the budget was about 3 months late due to a \$3 billion impasse. In years past Pennsylvania has been able to mostly create structurally balanced budgets, until recently. There are several factors that are currently a strong threat to Pennsylvania's ability to produce recurring structurally balanced spending plans. The key threat is unfunded pension liabilities which are anticipated to deteriorate even further in the near term due to underfunding.

“The underlying rating and outlook for the Commonwealth of PA was lowered in July 2012 by Moody’s and S&P.”

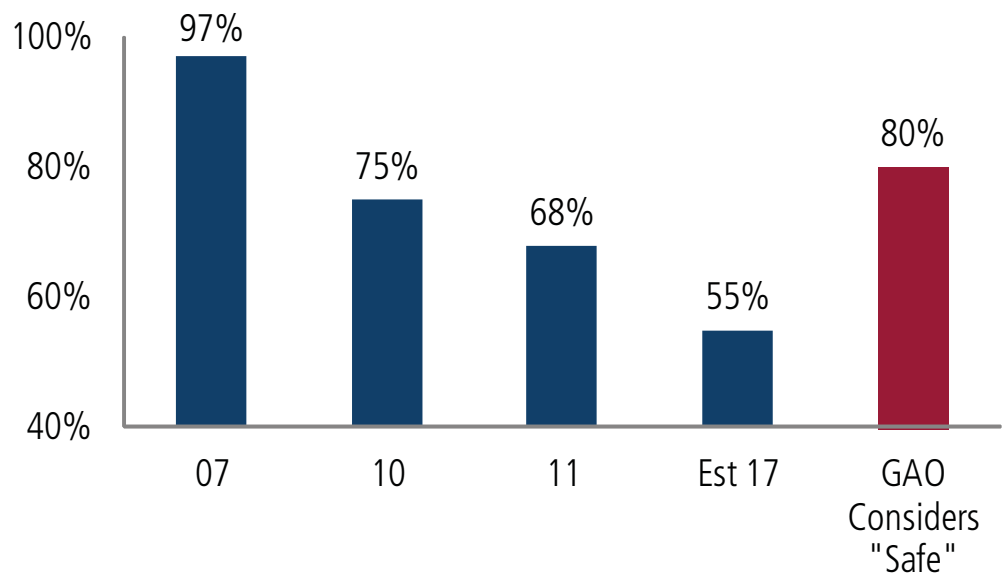
PA’s pension plan deterioration has occurred for two key reasons. The first, is because of recent investment loses.

The second, is because PA has not fully funded its actuarially required contribution since 2004.

## The Rating Agencies Hit Pennsylvania During the Summer of 2012

The underlying rating and outlook for the Commonwealth of Pennsylvania was lowered in July 2012 by Moody’s and S&P. Moody’s downgraded the state’s underlying rating to Aa2 (Stable) from Aa1 (Negative) and S&P lowered the outlook on its AA underlying rating to (Negative) from (Stable). The common and probably the most significant factor cited by each rating agency within the recent reports was the recent deterioration of the Commonwealth’s pension funded ratio. Pennsylvania’s funded ratio fell from a high of 97% in 2007 to 68% in 2011, and is expected to continue to decline, and is cited as “a very significant source of pressure for the state in the foreseeable future,” according to S&P. A sensitivity analysis shows that the funding level will continue to fall to the mid-high 50% range by 2017 unless changes are instituted.

### Pennsylvania Pension Plan Funded Ratio is Forecast to Deteriorate



Source: S&P and Janney FIS.

The deterioration has occurred for two key reasons. The first, is because of recent investment loses. The second, is because PA has not fully funded its actuarially required contribution or (ARC) since 2004. These rating actions, while negative, need to be kept in perspective. The PA pension funding ratio is a concern to monitor, but should by no means cause investors to stay away from Pennsylvania or related bonds. Many states have instituted changes to their pension plans to shore up the funding percentages and PA could do so and could get back on track by making its full ARC payment. In addition, the Commonwealth still possesses the sovereign ability to cut spending and raise revenue and remains at the mid range of state credit quality despite the pension pressures. **Tom Kozlik**

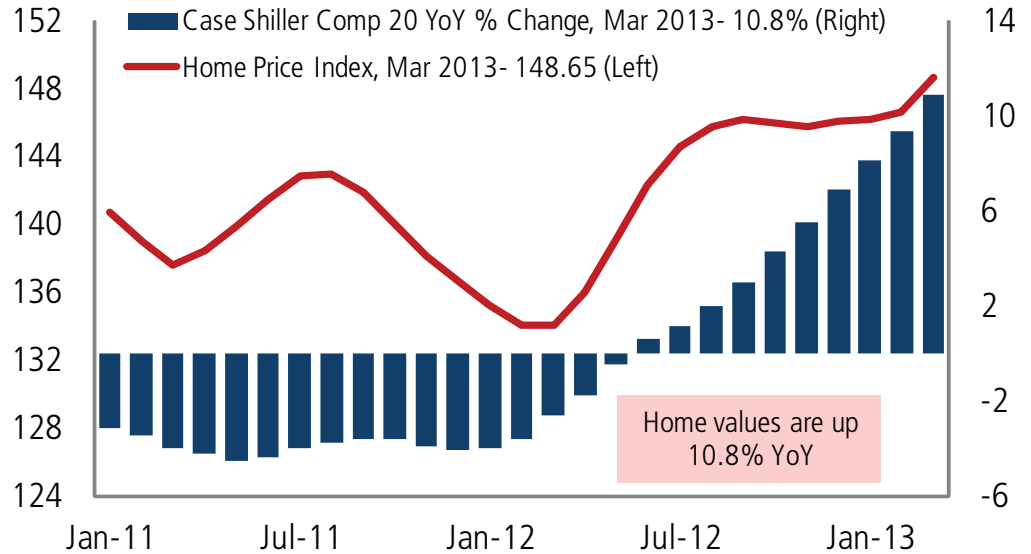
## PA LOCAL GOVERNMENT FUTURE - LOWER STATE AID AND RATINGS

### Housing Market is Up, but We Still Expect Credit Pressures

The positive news where local governments are concerned is that the housing market, or the base of most local governments revenues, is on a tear. Case Shiller data for the month of March was up just over 10% YoY, continuing a trend of 10 straight higher quarters. The strength of this recovery varies by region, but in Pennsylvania specifically we can see that home values are well above the national index. The negative where home values are concerned is that although this market strengthening is a positive, it usually takes two-three years for high home values to work their way through the tax revenue results. Investors should expect a bit of a lag.

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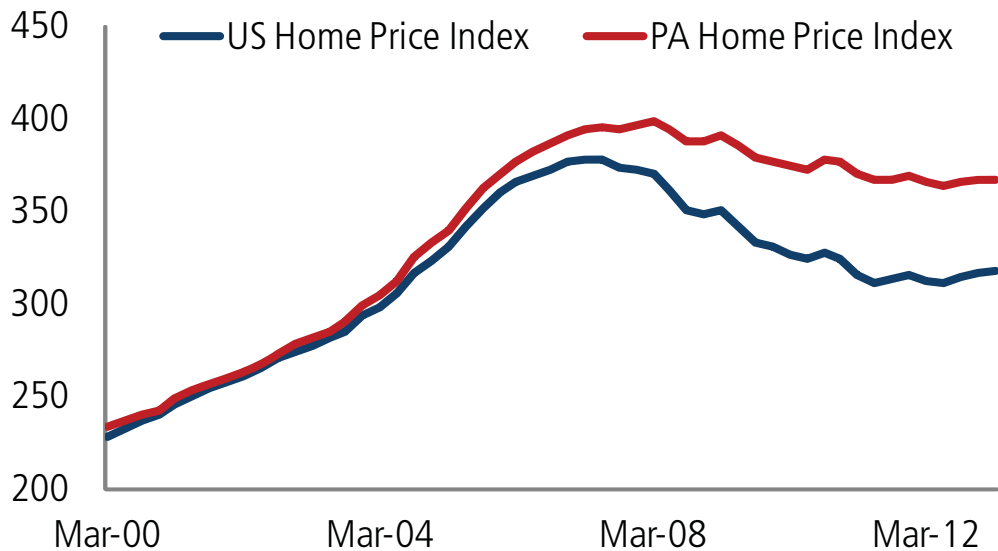
## Good News is Housing Prices are On the Rise



Source: Case Shiller, Bloomberg and Janney FIS.

Case Shiller data for the month of March was up just over 10% YoY, continuing a trend of 10 straight higher quarters.

## Pennsylvania Home Prices Declined Less than U.S. Prices



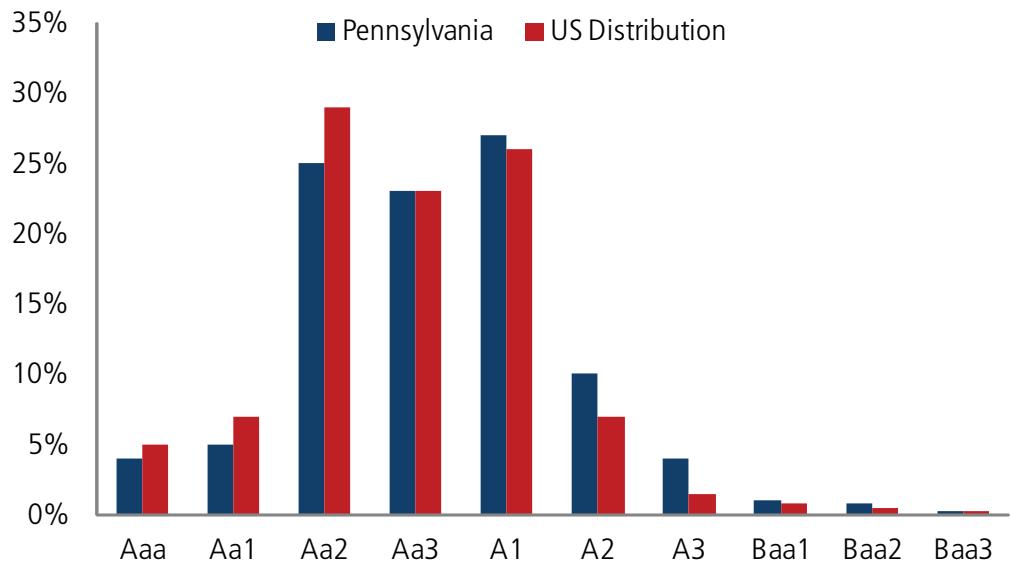
Source: FHFA Home Price Index, Bloomberg and Janney FIS.

However, local governments broadly and Pennsylvania's specifically are under credit pressure on several fronts.

Local governments broadly and Pennsylvania's specifically are under credit pressure on several fronts. Although state and local tax revenues have increased, they are generally weaker compared to 6 years ago. That means state aid is likely to continue to fall in the near term and locals are going to have to continue to rely on creative/destructive budgeting practices to balance spending plans. We should note that we are seeing a steady stream of local governments raising tax rates to keep up with spending plans. How long this options remains politically viable will remain to be seen. There are also continued spending pressures on local governments- meaning budgets are still expected to rise mostly due to pensions, salaries and other employment benefits despite limited revenue growth. Overall, we believe that PA local governments will continue to make the tough choices needed in order to make it through this very difficult budget season. However, lower ratings are likely inevitable due to the broader influences, but we still think ratings overall will remain bound in the low "Aa" and high "A" categories in PA. **Tom Kozlik**

PA local government rating mirror those of the national distribution.

## PA Local Government Ratings are Very Close to the National Distribution



Source: Moody's and Janney FIS.

From a policy perspective Act 47 offers aid to second class cities and below which are negatively affected by forces such as short term swings

## ACT 47 PROGRAM FOR DISTRESSED MUNICIPALITIES- PENNSYLVANIA

### What is Act 47?

The Pennsylvania Municipalities Financial Recovery Act of 1987 or "Act 47" as it is usually referred to, is an assistance plan which aids Pennsylvania municipalities which are officially designated as "distressed." From a policy perspective Act 47 offers aid to second class cities (those with a population of 250,000 to 999,999) and below which are negatively affected by forces such as short term swings in the business cycle or which experience other damaging longer term negative economic forces. Aid is available in several forms and allows the government units to continue to provide their day to day delivery of government services. Legally, the statute empowers the PA Department of

### Qualifications for an Act 47 Distressed Determination

#### QUALIFICATIONS

- The municipality has maintained a deficit over a 3-year period, with a deficit of one percent or more in each of the previous fiscal years.
- The municipality's expenditures have exceeded revenues for a period of three years or more.
- The municipality has defaulted on payment of principal or interest on any of its bonds, notes, or rental due any authority.
- The municipality has missed a payroll for thirty days.
- The municipality has failed to make required payments to judgment creditors for thirty days beyond the date of the recording of the judgment.
- The municipality, for a period of at least thirty days beyond the due date, has failed to forward taxes withheld on the income of employees, or has failed to transfer employer or employee contributions for Social Security.
- The municipality has accumulated and has operated at a deficit equal to five percent or more of its revenues for each of two successive years.
- The municipality has failed to make the budget payment of its minimum municipal obligation, as required by the Municipal Pension Plan Funding Standard and Recovery Act, during the fiscal year for which the payment was budgeted and failed to take action within that time period to make required payments.
- The municipality has sought to negotiate resolution or adjustment of a claim in excess of thirty percent against a fund or budget and has failed to reach an agreement with creditors.
- The municipality has filed a municipal debt readjustment plan pursuant to Chapter 9 of the U.S. Bankruptcy Code.
- The municipality has experienced a decrease in a quantified level of municipal service from the preceding fiscal year, which has resulted from the municipality reaching its legal limit in levying real estate taxes for general purposes.

Source: PA Municipal Financial Recovery Act of 1987, P.L. 246, No. 47 and Janney FIS.

Aid is available in several forms and allows the government units to continue to provide their day to day delivery of government services.

The local government entities must meet at least one of the above criteria to qualify as an Act 47 distressed municipality.

Municipalities are eligible to receive assistance in several forms after the distressed designation is requested, reviewed and confirmed.

There is strong incentive for participation in Act 47 in our view.

of Community and Economic Development (DCED) to declare municipalities as financially distressed. This "distress" designation allows every eligible Pennsylvania county, city, borough, incorporated town, township and home rule municipality, with a few exceptions, access to a menu of support after it is determined to be fiscally troubled. The local government entities must meet at least one of the above criteria to qualify as an Act 47 distressed municipality.

Municipalities are eligible to receive assistance in several forms after the distressed designation is requested, reviewed and confirmed. In the short term the goals of Act 47 are to allow municipalities to continue to provide for the health, safety and welfare of its residents by continuing to provide daily and essential public sector services. Emergency no interest loans and grants allow participants to continue to meet debt payments and other creditor obligations. Other crucial assistance exists in the appointment of the recovery coordinator, appointed by DCED, and the coordinator's recovery plan. The recovery plan lays out in detail how the available assistance and other modifications will help the municipality get back to a position that will allow them to return to sound economic ground.

## Examples of Assistance Available for Act 47 Municipalities

### Available Assistance

- Appointment of a recovery coordinator, who creates a recovery plan.
- Emergency grants and no interest loans.
- Revenue enhancements such as the ability to levy a non-resident wage tax.
- Assistance with negotiating new collective bargaining contracts
- Priority position for all PA funded economic and community development programs.

Source: PA Municipal Financial Recovery Act of 1987, P.L. 246, No. 47 and Janney FIS.

## What if a Municipality Ignores Act 47 and its Recovery Plan?

The question surfaces, "What happens if a municipality ignores Act 47?" There have been some special cases in the way the Commonwealth has handled Act 47 oversight controls (See Philadelphia, Pittsburgh below) and there has also been resistance from municipalities to Act 47 oversight. If a municipality fails to adopt or implement an Act 47 financial plan Pennsylvania can withhold state appropriated or other state funds as explained in Section 251 of the Act, "...the municipality shall not receive a grant, loan, entitlement or payment from the Commonwealth or any of its agencies." So, if a municipality ignores Act 47 participation or ignores the recommendations of the coordinator it will not be able to take advantage of the program's assistance and it will also not receive other state disbursements. This is strong incentive for participation in Act 47 in our view.

## Effectiveness of Act 47

From a short term perspective Act 47 generally succeeds in accomplishing the goals originally intended. With the financial assistance and through the leadership of the designated coordinators Act 47 municipalities have continued to deliver everyday government services and been able to pay debts and creditors. The program has been a credit positive from bond-holders' perspectives because cities, especially those with outstanding bonds such as Scranton and Reading, receive a "second chance" to reestablish policies, update procedures and consolidate debts.

There are however, some criticisms of Act 47 especially from a long term effectiveness perspective. These criticisms are important from a continued sustainability and growth outlook. Many Act 47 members share the same symptoms of financial illness. There is typically a disparity between a demand for government services and the availability of resources in most of the participating municipalities- in other words demand is usually high but resources are low in the Act 47 municipalities for one reason or another. Unfortunately, the local Pennsylvania tax structure is not set up to recognize this imbalance of demand. The tax structure is locally, instead of regionally focused. Additionally, some elements of Pennsylvania law hold back government's options to levy taxes or do not consider a municipality's lack of ability to raise additional revenue when awarding binding arbitration contracts. (Author's note- please see the Pennsylvania Economy League's 2003 study titled, "Structuring Healthy Economies" for more details about the structural symptoms of distress affecting Pennsylvania municipalities.) There are several of these structural problems, not to mention rising health care

Philadelphia is the only Pennsylvania municipality not subject to Act 47.

Pittsburgh's Act 11 contains an important requirement worth mentioning, in that Pittsburgh requires the Governor's authorization to file for Chapter 9.

The City of Philadelphia saw its rating upgraded to "A-" from "BBB+" by Standard and Poor's last week.

and other post employment benefit costs (OPEBs), that the Commonwealth's governments currently face. It is likely that there is some accuracy to these criticisms as of the 27 municipalities which have entered the Act 47 program only six have had the determination rescinded. It is important to note that Pittsburgh just filed a request to have the city's Act 47 designation lifted.

## Philadelphia and Pittsburgh

Philadelphia (A2/A-/A-) is the only Pennsylvania municipality not subject to Act 47. The Pennsylvania General Assembly suspended the provisions of Act 47, in 1991, due to the extreme financial difficulties Philadelphia was experiencing of which Act 47 was not capable of solving. A replacement oversight Act was created after a long and very difficult negotiation between state, regional, and city leaders. The City of Philadelphia is instead subject to the Pennsylvania Intergovernmental Cooperation Authority Act (PICA Act) for Cities of the First Class, Act 6 of 1991. In addition, customized legislation was passed in 2004 for the City of Pittsburgh (A1/BBB/A). The PA General Assembly enacted the Intergovernmental Cooperation Authority Act for Cities of the Second Class or Act 11 of 2004. Act 11 is slightly different than the PICA Act because Act 11 operates in conjunction with the provisions of Act 47. Pittsburgh's Act 11 contains an important requirement worth mentioning, in that Pittsburgh requires the Governor's authorization to file for Chapter 9. **Tom Kozlik**

## Pennsylvania City Classification Types

Type	Population Range (in Residents)
First Class	1 million or more
Second Class	250,000 - 999,999
Second Class A	80,000-249,999
Third Class	Cities less than 250k that have not elected Second Class A status

Source: Janney FIS.

## Additional Reading and Sources:

PA Dept. of Community and Economic Development List of Act 47 Distress Determinations

<http://www.newpa.com/local-government/services-we-provide-local-governments/request-assistance/list-of-act-47-distress-determinations>

## PHILADELPHIA UPGRADED TO "A-" BY S&P

### Message Delivered to Investors - Improved Financial Standing

The City of Philadelphia saw its rating upgraded to "A-" from "BBB+" by Standard and Poor's last week, bucking the trend that we are generally seeing (and anticipating) at the local government sector level. In addition, this is just weeks after the city hosted its first in-depth investor conference in recent memory. The investor conference was held in April. Philadelphia is the fifth largest city in the US with a population that increased .6% to 1.526 million according to 2010 Census data. The population increase was the city's first in 60 years. S&P rewarded the city with the upgrade as a result of management's, "progress in restoring its general fund balance through cost containment as well as stronger revenue streams." The rating agency also noted several other positives for the city's finances:

- A proactive administration that has taken action to rebalance operations, evidenced by surpluses in fiscal years 2010, 2011, and 2012 that reversed a trend of general fund deficits;
- Fiscal oversight provided by PICA and the discipline of its 5-year plan;
- Economic diversification, despite the recession, into growth-oriented sectors, such as health care, higher ed., and services, which should position the city for growth as recovery ensues

Negatives still exist however, most notably the city's elevated debt level and pressures that will continue related to growing health care and pension promises. S&P's rating outlook is "Stable." Moody's rates Philadelphia an "A2" with a "Stable" outlook while Fitch rates the city an "A-" with a "Stable" outlook. **Tom Kozlik**

# MUNICIPAL BOND MARKET MONTHLY

June 20, 2013



## Status of Act 47 Distressed Municipalities (Updated in June 2013)

#	City	County	Population	Filed for Distress Determination	Distress Determination Rescission	Detailed Status / Examples of State Assistance	Long Term Bonds (Direct)	Moody's Rating	S&P Rating	Fitch Rating
1	City of Altoona	Blair	46,300	5/3/12	Active	Revised recovery plan filed Dec 10, 2012	Yes	-	A-	-
2	City of Harrisburg	Dauphin	49,500	12/15/10	Active	Final recovery plan filed Aug 22, 2011	Yes	-	Withdrawn	-
3	City of Reading	Berks	88,000	11/12/09	Active	Filed recovery plan May 28, 2010	Yes	Baa2	-	-
4	Westfall Township	Pike	2,300	4/14/09	Active	Filed Chap. 9 on April 10, 2009	No	-	-	-
5	City of New Castle	Lawrence	30,600	1/5/07	Active	Revised recovery plan Nov 28, 2012	Yes	-	-	-
6	City of Nanticoke	Luzerne	10,400	5/26/06	Active	Revised recovery plan Dec. 10, 2012	No	-	-	-
7	Township of Plymouth	Luzerne	5,900	7/27/04	Active	Revised recovery plan Jun 7, 2010	No	-	-	-
8	City of Pittsburgh	Allegheny	305,700	12/29/03	Active	Filed rescission report Nov 8, 2012	Yes	A1	BBB	A
9	Borough of West Hazleton	Luzerne	4,590	3/27/03	Active	\$52k grant	No	-	-	-
10	Borough of Greenville	Mercer	5,900	5/8/02	Active	Revised recovery plan June 14, 2011	Yes	-	A (Stable)	-
11	City of Chester	Delaware	33,900	4/6/95	Active	\$713K grant	No	-	-	-
12	Borough of Millbourne	Delaware	1,100	1/7/93	Active	No details	No	-	-	-
13	City of Johnstown	Cambria	20,900	8/21/92	Active	Revised recovery plan Dec. 30, 2010	Yes	-	BBB (Stable)	-
14	City of Scranton	Lackawanna	76,100	1/10/92	Active	Revised recovery plan Aug. 12, 2012	Yes	-	Withdrawn	-
15	City of Duquesne	Allegheny	5,600	6/20/91	Active	No details	Yes	-	BBB-	-
16	Borough of Rankin	Allegheny	2,100	1/9/89	Active	No details	No	-	-	-
17	Borough of Franklin	Cambria	6,500	7/26/88	Active	\$90k grant	No	-	-	-
18	Borough of Braddock	Allegheny	2,200	6/15/88	Active	No details	No	-	-	-
19	City of Clairton	Allegheny	6,800	1/19/88	Active	\$411k grant	No	-	-	-
20	City of Aliquippa	Beaver	9,400	12/22/87	Active	\$31k grant	No	-	-	-
21	City of Farrell	Mercer	5,100	11/12/87	Active	\$187k grant	No	-	-	-
-	Borough of Shenandoah	Schuylkill	5,100	5/20/88	4/16/93	No details	No	-	-	-
-	Borough of Ambridge	Beaver	7,100	4/10/90	4/16/93	No details	Yes	-	-	-
-	Borough of Wilkensburg	Allegheny	16,000	1/19/88	11/10/98	No details	Yes	-	A (Stable)	-
-	Borough of East Pittsburgh	Allegheny	1,800	11/13/92	12/17/99	No details	No	-	-	-
-	Borough of North Braddock	Allegheny	4,900	5/22/95	4/11/03	No details	No	-	-	-
-	Borough of Homestead	Allegheny	3,200	3/22/93	3/28/07	No details	No	-	-	-

Source: Census Data, Financial Statements, PA DCED, Moody's, S&P, Fitch, and Janney FIS.

# MUNICIPAL BOND MARKET MONTHLY

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## Select Recent Changes to Ratings & Outlooks (as of June 20, 2013)

Issuer	State	Recent Rating Action	Date	Underlying Rating(s)	Notes
New Haven (City of)	CT	Downgraded to A2 from A1 by Moody's	17-Jun-2013	A2/A-/A	FY12 deficit and deficit expected in FY13
York (City of)	PA	Downgraded to Ba1 from Baa3 by Moody's	17-Jun-2013	Ba1/BBB-	Large cumulative deficit
RI Econ Dev Corp	RI	Downgraded to Baa1 from A2 by Moody's	17-Jun-2013	Baa1	38 Studios moral ob debt questions
Rhode Island (State of)	RI	Under review for a downgrade	17-Jun-2013	Aa2/AA	State GO and Appr from 38 Studios
Coatesville (school dist)	PA	Downgraded to Baa2 from A2 by Moody's	16-Jun-2013	Baa2/A	6 year structural imbalance
Miami-Dade Water/Sewer	FL	Downgraded to Aa3 from Aa2 by Moody's	14-Jun-2013	Aa3/A+/A+	Narrowing debt service coverage
Philadelphia (City of)	PA	Upgraded to A- from BBB+ by S&P	14-Jun-2013	A2/A-/A-	Improved financial profile
Nassau County	NY	Downgraded to A from A+ by Fitch	11-Jun-2013	A2/A+/A	Negative fund balances
Illinois (State of)	IL	Downgraded to A3 from A2 by Moody's	6-Jun-2013	A3/A-/A-	Failure to enact pension reform
Rutgers University	NJ	Downgraded to AA- from AA by S&P	4-Jun-2013	Aa3/AA-	Merger with U of Med and Dentistry
Illinois (State of)	IL	Downgraded to A- from A by Fitch	3-Jun-2013	A3/A-/A-	Failure to enact pension reform
Mercer (County of)	NJ	Downgraded to Aa2 from Aa1 by Moody's	31-May-2013	Aa2/AA+	Narrowing financial position
Rutgers University	NJ	Downgraded to Aa3 from Aa2 by Moody's	30-May-2013	Aa3/AA-	Merger with U of Med and Dentistry
University of Pittsburgh	PA	Outlook raised to Positive from Stable	29-May-2013	Aa1/AA	Several strengths cited
Temple Univ Health	PA	Downgraded to BB+ from BBB- by Fitch	28-May-2013	Ba1/BBB-/BB+	Operating losses & thin ds coverage

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

# MUNICIPAL BOND MARKET MONTHLY

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## State and Other Select Issuer Ratings (June 20, 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	A3	Negative	6/6/2013	A-	Negative	1/25/2013	A-	Negative	6/3/2013
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	Rw Dwgd	6/17/2013	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 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
Puerto Rico Hgwy Trans- Bumpy Road	June 13, 2013	Note	Solvency requires additional revenues
Puerto Rico- The Clock is Ticking	June 3, 2013	Note	Need political action to avert downgrade
21st Century Manufact. Renaissance	June 3, 2013	Note	Onshoring and reshoring jobs in the US
Why Municipal Bonds?	May 16, 2013	Monthly	Several reasons to consider municipal bonds
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

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.

## Definition of Outlooks

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.

Cautious: Janney FIS believes there are factors which introduce the potential for declines in issuer or sector credit quality that may result in potential credit ratings downgrades.

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

## Definition of Ratings

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

Marketweight: Janney FIS expects the target asset class or sector to perform in line with the comparable benchmark (below) in its asset class in terms of total return

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

## Benchmarks

Asset Classes: Janney FIS ratings for domestic fixed income asset classes including Treasuries, Agencies, Mortgages, Investment Grade Credit, High Yield Credit, and Municipals employ the "Barclay's U.S. Aggregate Bond Market Index" as a benchmark.

Treasuries: Janney FIS ratings employ the "Barclay's U.S. Treasury Index" as a benchmark.

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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