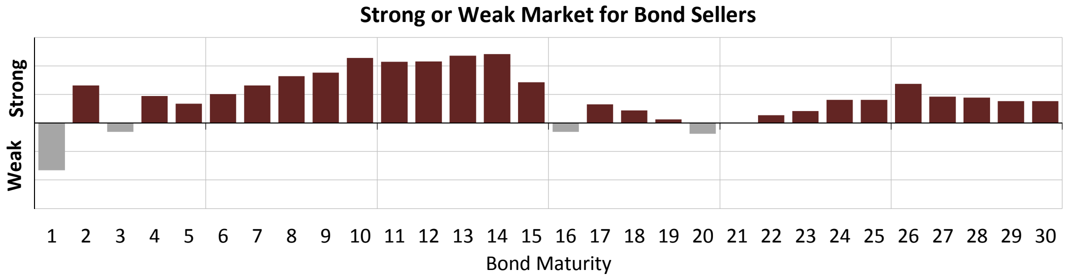
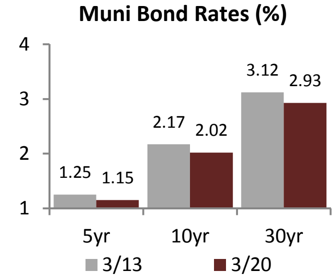
MUNICIPAL ISSUER BRIEF





Heading into this week, the rally in U.S. bond rates has put on a decidedly positive tone for issuers scheduled to borrow. Note the especially strong dynamic at play for bonds maturing 15-years and shorter.

MARKET UPDATE

THE END OF MARCH CONTINUES TO SEE GOOD ISSUER CONDITIONS: State and local entities continue to benefit as interest rates plunged lower last week and signs point to continued opportunities for municipal issuers in the near-term.

INVESTORS & ISSUERS: The dynamic shifted on Wednesday last week

- Much of the broader focus for markets last week hinged on Wednesday afternoon as market observers took the **latest out of the Federal Reserve to mean economic conditions were not as sanguine** as some have been predicting.
- As a result the U.S. Treasury market rallied considerably, which then **pulled tax-exempt borrowing rates much lower** on Wednesday afternoon through Friday evening.
- Most municipal issuers had already sold bonds—**looking to get ahead of the potential for volatility** on Wednesday opting to issuer beforehand.
- This was a mixed bag: many deals were well received and were able to lower borrowing costs (more on specific deals can be found on **page 4**) but rates moved much lower on Thursday meaning these **issuers may have missed out on additional savings.**
- This coming week's calendar is large again but the biggest single deal—$1.7 billion California tobacco bonds—**inflates the total** as it tends to see non-traditional municipal investors.
- We will keep an eye on high-grade competitive issues from Florida as well as negotiated loans out of high-grade Maryland and Virginia issuers for **signs on the entire market**.
- One item to keep in mind is that **several large asset managers have been selling large amounts of their municipal holdings** heading into the Fed's Wednesday meeting. If this continues it can act as a negative influence on exempt rates.

BUYERS BITES:

WHAT IS TRENDING HOT:
1) Longer maturities led the rally
2) Single-A or better state GO
3) Tobacco-backed

CURRENTLY HARDER SELLS:
1) Puerto Rico continues to disengage market

WHO IS REPORTEDLY BUYING:
Mutual funds, large domestic banks, separately managed accounts, insurance companies

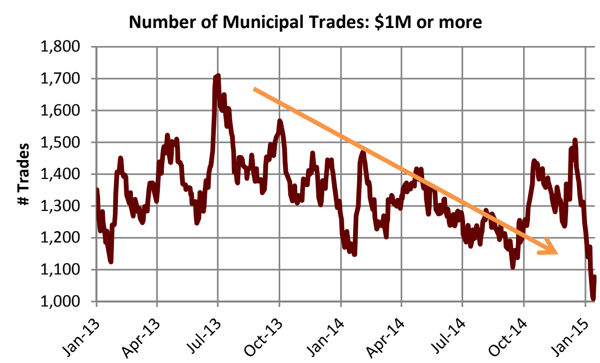


***Figure 1**: As the municipal industry begins to adapt to the new regulations being put in place after the financial crisis, the volume of secondary transactions has diminished. Note that since the Summer of 2013 and through all of 2014, trading in the municipal market has consistently declined with only a few deviations associated with large issuance weeks. In this week's **Topic of the Week** we discuss some of the perhaps overlooked outcomes of the new regulatory regime being put in place. It can be found on **page 3**.*

TREASURY, IRS SEEK GUIDANCE: Each year the Department of the Treasury and Internal Revenue Service (IRS) ask for public input regarding their annual priority guidance plan. This year, comments are being accepted through May 1 for the upcoming July 2015-June 2016 period. Comments may be submitted at www.regulations.gov and type in IRS-2015-0008 in the search field. Some of the items that seem to appear perennially include: arbitrage rules, definition of political subdivision, and volume cap reallocation. Additionally, currently proposed regulations on the issue price of a bond are pending and should be of great interest to issuers and the market.

TOPIC OF THE WEEK: REGULATORY ENVIRONMENT & MUNICIPALS

TRANSPARENT, LIQUID AND 'FAIR': The Securities and Exchange Commission (SEC) is spearheading an effort to regulate all capital markets much more rigorously in the aftermath of the financial crisis—and using the momentum to make significant changes to the municipal bond market. These efforts come in various forms, whether they are initiatives to improve disclosure, secondary transaction transparency, and primary pricing guidance, or pursuing wrong doing by public issuer officials in a more aggressive fashion. While this may lead to some long-term positives in the marketplace—for both issuers and investors—there is a bigger question to consider as these new rules are being put in place: are there unintended consequences for the tax-exemption of the market itself?

The increased focus on municipal regulations began in earnest when the SEC and the Internal Revenue Service (IRS) signed a Memorandum of Understanding in 2010 that allowed the SEC to work more closely with the IRS' Tax-Exempt Bonds Division (the unit that is responsible for administering the Federal tax laws applicable to state and local government bonds). In 2011, the Municipal Securities Rulemaking Board (MSRB) followed suit with its own MOU with the IRS in which the MSRB would provide the IRS with municipal market data and documents to help enforce tax law requirements for municipal securities. These two documents forged the beginning of the melding of securities law and tax law—two areas that traditionally have occurred in separate spheres but began to merge as Dodd-Frank Act proposals began to be written and allowed a more aggressive tact toward regulating the industry.

Since these regulators decided to work closer together, various initiatives have taken place. Take the Municipalities Continuing Disclosure Cooperation (MCDC) program, for instance, that while officially concluded, **MMA** sees as now entering the stage of its true implications. As **MMA** has stated previously, the long-term goals of better disclosure is a positive for the industry. But, given the bigger picture, MCDC creates heightened headline risk in the near-term and we expect more SEC enforcement action. Because underwriters were likely more inclusive in filings, issuers will bear the brunt of these enforcement actions (many underwriters accepted fines last year).

With expected MCDC headlines looming, several SEC Commissioners have used the momentum to be much more vocal about the industry as a whole. In January Commissioner Michael Piwowar alongside SEC Chair Mary Jo White, put the protection of small municipal investors at the top of their priority list. Last month, Commissioner Luis Aguilar proposed the repeal of the Tower Amendment that would require issuers to file disclosure materials for review before offering securities to investors, and place specific standards on the type of initial and ongoing disclosures issuers must provide to the marketplace. Last week Commissioner Daniel Gallagher made a plea for a legislative change to require or cajole state and local governments to follow GASB pension accounting standards by linking their use to the tax-exemption for their bonds.

As with the SEC's 2012 report on municipal securities, many of the Commissioners' comments reiterate the need to improve price transparency and include best-execution in trading with the aim of protecting small investors by offering rules that are used in exchange-traded markets like stocks. The current municipal market structures uses the tax-exemption as a means to attract capital for public purposes at a certain expense of liquidity and price discovery—in other words, the placement of capital for public infrastructure's importance is valued over the transparency of transactions. Thus, as the market moves toward these new rules, it is more likely that rule-makers will understand the exemption itself creates a market structure that inhibits its regulatory mission. Further, the new rules are apt to inhibit the allocation of capital to the public sector because of its poor return to shareholders. This consequence runs counter to pressing needs for infrastructure funding and already market participants are adapting. Note that the MSRB Fact Book reported that in 2014 both the least amount of secondary trading volume in more than 10 years, and a continued growth of direct loans as a replacement to public offerings. Also, the Federal Reserve showed that dealers on aggregate have reduced their holdings of municipal bonds on their balance sheets. All signs of less capital commitment to the marketplace.

The current regulatory objectives are inhibited by the exemption, and therefore there can be confusion regarding the exemption's value. Simply there could come a point where the value of the exemption as a means to provide a subsidy and a low-cost of financing to states and municipalities is considered less important than the regulations focused on small investor protection. Specifically, the fundamental purpose of the exempt market to raise low-cost capital could be replaced by alternative processes and a market structure that conform more comfortably to the new regulatory objectives. **MMA** believes that while there are challenges with the current municipal market structure, the exemption is extremely important in affording issuers access to capital that would not be available in a taxable-like market. The full impact of these regulatory changes should be considered more seriously by the industry.

REGIONAL BOND ISSUES (Moody's/S&P/Fitch)

- **Wisconsin** chose to sell bonds and eventually close its account entirely on Monday last week—choosing to avoid potential volatility associated with the Federal Open Market Committee's conclusion of its latest monetary policy meeting on Wednesday. The result was positive as the state was able to bump levels as much as 5 basis points but it may have missed out on further gains as bond markets rallied after the FOMC meeting on Wednesday afternoon.
- **Honolulu** was the largest issuer of last week and generally found strong interest from retail and institutional investors alike as the market performed well but like Wisconsin it closed the account on Tuesday ahead of the late week rally.
- The **Albuquerque** water utility opted not to sell bonds ahead of the Federal Reserve announcement and instead did on the same day. This roll of the dice proved beneficial as it lowered yields in the afternoon as bond markets rallied.

NORTHEAST

3/19: The **Cheektowaga-Sloan Union Free School District, New York** sold $4.8M general obligation bonds to **Roosevelt & Cross Inc.**; NR/A+/NR; non-callable:

Maturity	Coupon	Yield	+/- AAA 5%
2015	2.00	0.30	NA
2020	2.00	1.30	+9
2025	2.25	1.95	-16

Notes: This deal had BAM and State Aid.

MID-ATLANTIC

3/16: **Ziegler Capital Markets Group** priced $27.8 million revenue bonds for the **Henrico County Economic Development Authority, Virginia**; NR/BBB+/NR; callable at par in 10/1/2020:

Maturity	Coupon	Yield	+/- AAA 5%
2020	2.20	2.20	+95
2025	3.00	3.125	+95
2035	4.00	4.20	+131

Notes: Higher yields were commensurate with the rating

MIDWEST

3/16: **Morgan Stanley & Co.** priced $171 million general obligation bonds of 2015 for **Wisconsin**; Aa2/AA/AA; callable at par in 5/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.54	+29
2025	5.00	2.34	+17
2029	5.00	2.72	+20

Notes: Was able to lower yields as much as 5bps in a single day.

SOUTHEAST

3/17: The **Beaufort County School District, South Carolina** sold $62.5 million general obligation bonds to **Piper Jaffray & Co.**; Aa1/AA;NR (SCSDE); callable at par in 3/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.47	+22
2025	5.00	2.26	+9
2030	3.50	3.07	+50

Notes: Lower coupons beyond 10-years suit insurance companies.

SOUTHWEST

3/18: **JPMorgan Securities LLC** priced $212 million senior lien joint revenue bonds for the **Albuquerque Bernalillo County Water Utility Authority, New Mexico**; Aa2/AA+/AA; callable at par in 7/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.53	+29
2025	5.00	2.34	+20
2033	4.00	3.37	+60

Notes: Priced on the day the FOMC concluded its latest meeting

FARWEST

3/17: **Bank of America Merrill Lynch** priced $857M general obligation bonds for the **City and County of Honolulu, Hawaii**; Aa1/NR/AA+; callable at par in 10/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.59	+34
2025	5.00	2.41	+24
2035	5.00	3.02	+13

Notes: 10-year bond bumped 7 basis points from the retail scale