



April 7, 2015

- **Municipal Bond Volume Continues to Grow**
- **Variable Rate Market Update**
- **First Quarter 2015 Review**

Municipal Bond Volume Continues to Grow

As issuers continue to take advantage of low rates, March ended the first quarter with the most issuance since 2010 and the third highest since 2006. Heavily influenced by refundings, long-term municipal bond issuance surged to \$40.99 billion, marking a 43.7% increase from the \$28.52 billion for the same period in 2014. Solely refunding issues

accounted for \$18.65 billion, which more than doubled the \$9.26 billion from March 2014. Combined refunding and new money and new money only issues made up \$12.01 billion and \$10.37 billion of total issuance, respectively.

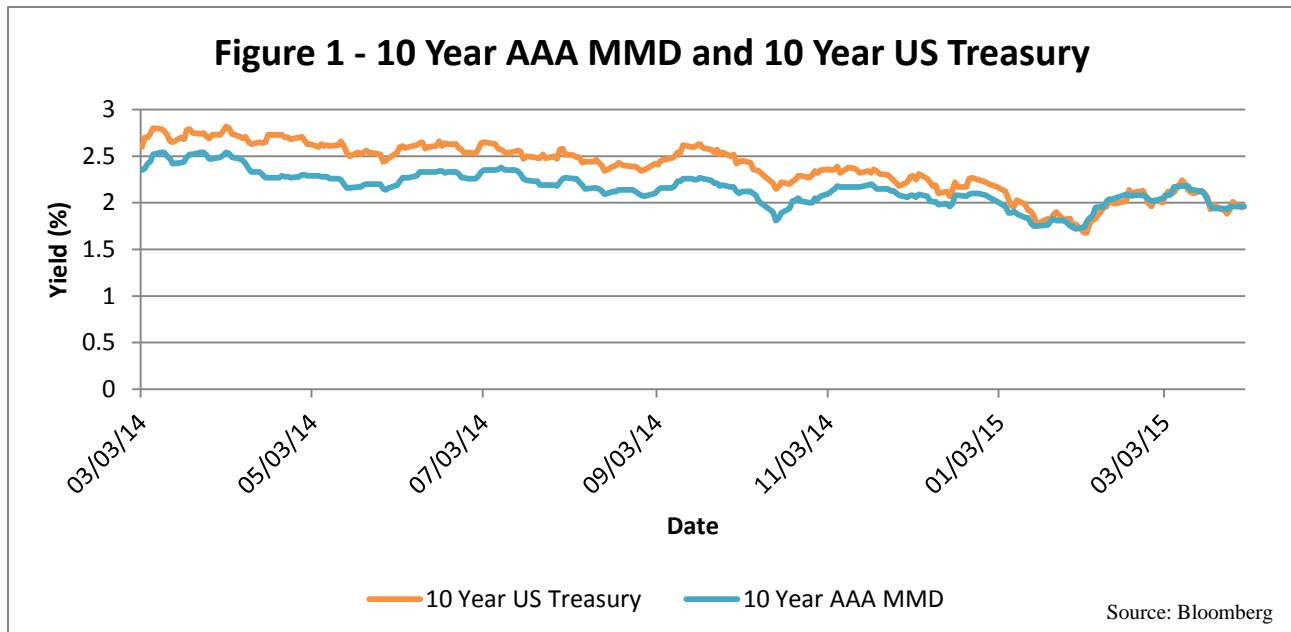
The Municipal Market Data (“MMD”) ‘AAA’ Muni Market 10 year yield ended March at 1.96%, a 6 basis point decrease from 2.02% the end of February. The 30 year yield also decreased, ending March at 2.80%, a 7 basis point rise from the end of February.

The 10-year US Treasury yield

ended March at 1.94%, down 6 bps from 2.00% at the end of the prior month. The 30-year Treasury yield also increased, ending March at 2.54%, down from 2.60% at the end of February. As of March 31st, the ratios of ‘AAA’ General Obligation municipal yields to Treasury yields were:

Year	Yield	% Yield
1-Year	0.19 / 0.26	73.08%
5-Year	1.24 / 1.37	90.51%
10-Year	1.96 / 1.94	101.03%
30-Year	2.8 / 2.54	110.24%

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



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Variable Rate Market Update

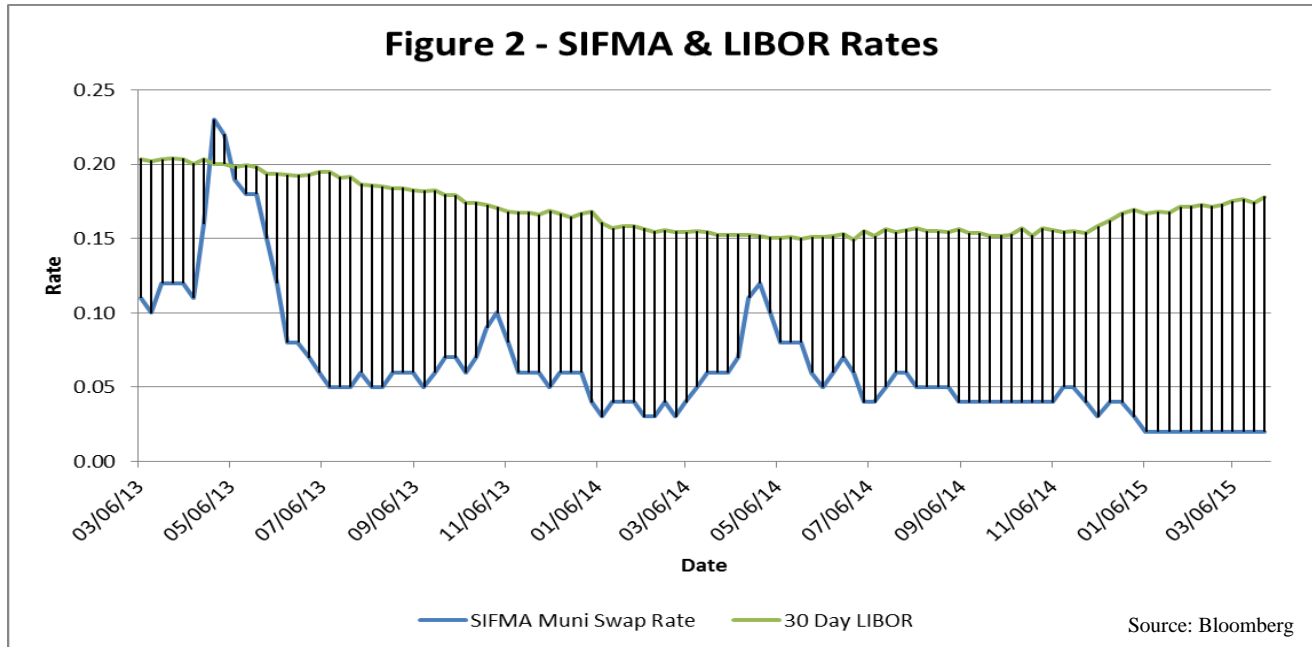
The SIFMA Municipal Swap Index, an average of high-grade, tax-exempt, variable rate bonds, ended March at .02%, the same level seen at the end of February. The 30-day LIBOR increased slightly in March, ending the month at .17625%, up from .1727% at the end of February. Please refer to Figure 2 below for historical SIFMA and LIBOR rates.

First Quarter 2015 Review

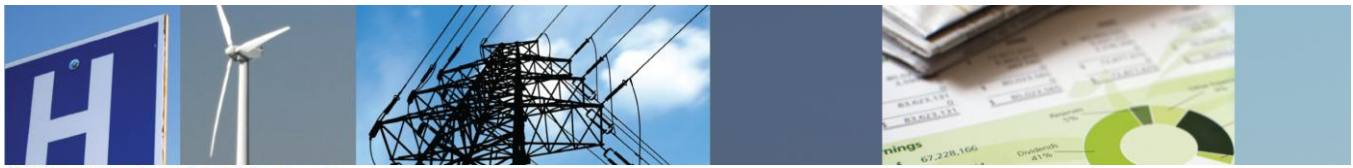
Despite an economy that was continuing to show signs of strength into late 2014 and constant speculation about how soon the Federal Reserve would begin to raise rates, yields on municipal bonds were down around 100 bps in the first quarter of 2015 compared to 2014. The Bond Buyer 20, an index comprised of 20 year General Obligation bonds with an average rating of AA/Aa2 maintained by The Bond Buyer, averaged 3.51% for the first quarter of this year compared to 4.5% for last year. The index got as low as 3.29% in the

second week of the year and finished the quarter at 3.52%, 91 bps below the quarter closing yield in 2014. Similarly, U.S. Treasuries have also been rallying since the end of the 1Q14. The 10 year Treasury finished at 1.98% compared to 2.78% in '14 and 30 year average yield was 114bps from the year prior at 2.57%.

The decline in rates drove a large amount of refunding activity which increased the overall amount of issuance for the quarter. With overall long term bond issuance totaling \$102 billion of par, 2015 represented the largest 1st



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quarter since \$104 billion in 2010 and was up 59% from 2014's \$64.5 billion. The large increase in refundings hid an overall reluctance by municipal bond issuers to take on new debt, however. Issues that were solely new money were down 8% from 2014 and were only 28% of the quarter's business, whereas in 1Q14 new money made up 49% of total issuance. Issuer's unwillingness to issue new debt figures to be a major story of 2015. Although final data is not in, all indicators point to the municipal bond market contracting yet again due to maturities exceeding new money issues and the total amount of muni bonds outstanding appears to be under \$3.65 trillion, down from the high of \$3.73 trillion reached in early 2013.

Among different types of issuers, the higher education sector showed the greatest increase in activity from last year to this year, but that appears to be primarily due to an abnormally small amount of bonds issued in the first quarter last year. State agencies and special districts (like school and fire districts) also saw large increases in bonding activity so far in 2015. The increase in school district issuances, which generally require direct electoral approval, suggests that the public may be changing its attitude in regards to issuing new debt, at least for clearly identified projects.

In addition to overall bond yields declining, the credit spread for lower rated investment grade bonds

declined as well. At the end of the 1Q14 BBB level G.O. bonds traded about 130 bps higher than their AAA peers. At the end of this year that spread had declined to only about 96 bps; indicating that increased demand has encouraged (or forced, depending on your point of view) investors to be more aggressive in their assessment of lower rated issuers.

Sources: Thomson Reuters, The Bond Buyer, The Federal Reserve Bank



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March 2015 Selected Bond Issues									
General Obligation and Essential Service Revenue									
<u>Sale Week</u>	<u>Par (\$ mil)</u>	<u>Issuer</u>	<u>Project</u>	<u>Ratings</u>	<u>Final Maturity</u>	<u>Yield</u>	<u>Spread to MMD</u>	<u>Notes</u>	
2/16/2015	\$8.76	Richland County, OH	General Obligation Refunding Bonds	/AA/	12/1/2040	3.500%	67	Fed BQ	
2/16/2015	\$5.05	Ulster County, NY	General Obligation Refunding Bonds (Economic Defeasance)	/AA/	11/15/2023	1.980%	6		
2/16/2015	\$12.29	Town of Southington CT	General Obligation Advance Refunding Bonds	/AA/	9/1/2028	2.950%	52		
Education Sector									
<u>Sale Week</u>	<u>Par (\$ mil)</u>	<u>Issuer</u>	<u>Project</u>	<u>Ratings</u>	<u>Final Maturity</u>	<u>Yield</u>	<u>Spread to MMD</u>	<u>Notes</u>	
2/16/2015	\$11.78	Arlington TX Higher Education Finance Corp.	Education Revenue Refunding Bonds	/AAA/	2/15/2040	4.000%	119	Insured	
2/23/2015	\$20.02	University of Nebraska	Adv Refunding Revenue Bonds (Kearney Student Facilities Project)	Aa1/AA/	7/1/2035	3.400%	67		
3/30/2015	\$21.02	Missouri Health & Educational Facilities	Revenue Bonds (Maryville University Project)	Baa2/ /BBB	6/15/2045	4.100%	130		
Water/Utility Sector									
<u>Date</u>	<u>Par (\$ mil)</u>	<u>Issuer</u>	<u>Project</u>	<u>Ratings</u>	<u>Final Maturity</u>	<u>Yield</u>	<u>Spread to MMD</u>	<u>Notes</u>	
2/2/2015	\$54.81	East Bay (CA) Municipal Utility District	Wastewater System Revenue Refunding Bonds	Aa2/AAA/AA+	6/1/2037	2.600%	20		
2/16/2015	\$30.81	Trigard Water System	Water Revenue Bonds	A1/AA-/	8/1/2045	3.330%	46		
3/2/2015	\$8.84	Monroeville PA Municipal Authority	Sewer Revenue Refunding Bonds	A2/AA/	12/1/2027	3.030%	64	Insured	
3/23/2015	\$14.14	Duckett Creet MO	Sewer Revenue Refunding Bonds	Aa3/ /	12/1/2025	2.500%	47		
Healthcare Sector									
<u>Date</u>	<u>Par (\$ mil)</u>	<u>Issuer</u>	<u>Project</u>	<u>Ratings</u>	<u>Final Maturity</u>	<u>Yield</u>	<u>Spread to MMD</u>	<u>Notes</u>	
3/2/2015	\$69.81	MI State Hospital Financing Authority	Ascension Health Care Group	Aa2/AA+/AA+	11/15/2033	3.220%	52		
3/16/2015	\$26.90	CA State Health Facilities Financing Authority	Marshall Medical Ctr Revenue Refunding Bonds	/A+/	11/1/2033	3.320%	59	Insured	

Source: Bloomberg

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