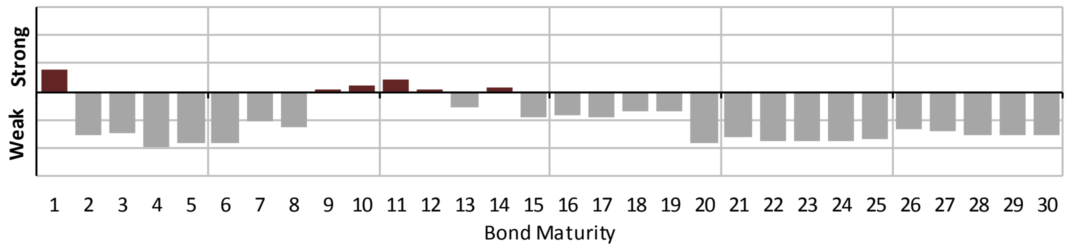
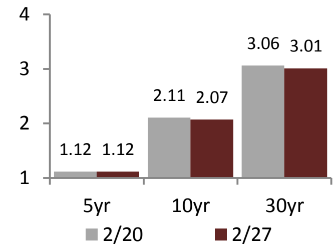
MMA Independent & Data Driven

MUNICIPAL ISSUER BRIEF

Strong or Weak Market for Bond Sellers



Muni Bond Rates (%)



Heading into this week, a negative dynamic has come into play across much of the yield curve that could make the underwriting process less aggressive. Note that bonds in the 10-year area are more neutral as this part of the market has seen increased liquidity and price discovery recently.

MARKET UPDATE

FEBRUARY ENDS ON A STRONG NOTE: Last week, the municipal market continued its improved performance following the lead of U.S. Treasury bonds that rallied on Tuesday while Fed Chair Janet Yellen testified before Congress.

INVESTORS & ISSUERS: A window of stability emerges:

- Once again it was Central Bank speculation that **moved bond markets last week** as Fed Chair Janet Yellen, while testifying before Congress, left the impression with many market participants that interest rates could remain low for a prolonged period.
- This sparked **a rally in U.S. bond markets in the beginning of the week,** which helped much of the municipal issuers selling bonds achieve lower borrowing costs during re-pricings.
- Bigger deals of the week, such as **Atlanta** and **New York's Transitional Finance Authority**, were able to re-price their issues to lower yields (see **page 3** for more details).
- The data continues to show that underwriters are not holding on to as many bonds from deals they are pricing –**a positive dynamic that implies there is more investor interest in the current market** that can allow for more aggressive underwriting.
- Retail, or individual owners, also were **more engaged** in the new-issue market as well as picking up bonds in secondary markets.
- **The MMA price performance index turned positive for the first time in the month on Tuesday** last week and continues to be positive through this morning. This is a good sign heading into March, which is a seasonally difficult time for issuers.
- The relative value of tax-exempt bonds is currently **quite high** and issuers coming to market should consider marketing their bonds to investors that look at the value of multiple bond classes
- These themes could help the state of **California** with its nearly $2 billion offering this week, and the above-average amount of scheduled issuance (~ $8 billion this week).
- Triple-A **Maryland** will sell $900 million GOs on Wednesday; how these deals fare will be influential on the entire marketplace.

BUYERS BITES:

WHAT IS TRENDING HOT:
1) Atlanta water bonds broke to richer levels
2) California GO outperformed post-upgrade
3) Airport sector

CURRENTLY HARDER SELLS:
1) Longer maturities underperform

WHO IS REPORTEDLY BUYING:
Mutual funds, insurance companies, SMAs, cross-over interests

MMA Municipal Total Rate of Return (%)

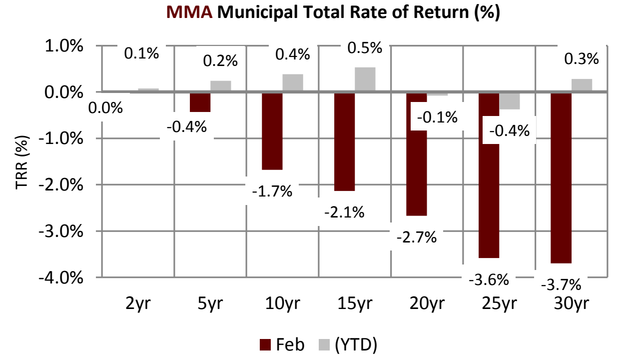


***Figure 1**: The chart above quantifies municipal investor returns in the month of February (maroon bars) and year-to-date (grey bars) for a buyer that owned various maturities. Note how poor the month of February was for buyers (and issuers alike) mostly because of the large losses that occurred in the first two weeks of the month that now has year-to-date performance generally neutral. Many investors in bond funds get updated on their performance at the end of each month. These negative results could have investors pulling cash out of funds in the next week or two when they realize how bad the month really was, which could make for a negative bias for issuers as March continues.*

MMA TESTIFIES ON CHAPTER 9 FOR PR: MMA's Managing Director Robert Donahue testified at a House Judiciary Subcommittee on a bill that would allow Puerto Rico access to Chapter 9 bankruptcy protection for its agencies on Thursday last week. **MMA** supported the bill. For more on the hearing, click here. (See **page 2** for more on happenings in Washington, D.C.)

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WASHINGTON D.C. ROUNDUP

WASHINGTON HEATS UP, MUNICIPALS TAKE NOTICE: While the environment in Washington, D.C. may be as partisan as ever, Congress has been active introducing legislation and holding hearings (even if any real lawmaking won't be done any time soon). The scene has still been creating headlines, some of which are pertinent to the municipal industry. First up:

SENATE TAX REFORM HEARINGS BEGIN: The Senate Finance Committee held a hearing last week on Tax Reform Growth and Efficiency. While there was no specific focus on municipal securities or infrastructure, various bond programs were mentioned, both pro and con. Laura D'Angelo Tyson, the former Chair of the Council of Economic Advisors, gave a positive comment on the Build America Bonds program when asked how to attract private sector funding to meet the country's infrastructure needs. On the other hand, staff from the Congressional Research Service (CRS) referenced its report issued earlier this month on tax-exempt bonds and suggested repealing the exemption for private activity bonds (PABs), which could help fund corporate tax reform efforts. Recall that the Senate Finance Committee has 5 working groups on tax reform, one of which focuses on municipals. See more in the **MMA** 1/20 brief and for more on the Obama budget and private capital (including new PAB-like bonds) see the 2/7 brief.

MEANWHILE, REPRESENTATIVES SHOW SUPPORT: Reps. Rangy Hultgren (R-IL) and Dutch Ruppersberger (D-MD) are circulating a letter to their House colleagues that calls upon the House leadership to refrain from eliminating the tax-exemption on municipal securities. The letter is similar to ones House members have sent to leadership in previous years. These types of bipartisan letters are helpful to build support for maintaining the tax-exemption. **MMA** continues to be concerned that tax reform efforts—while perhaps not happening anytime soon—may include eliminating or damaging the tax-exemption.

Which leads to the importance of issuer advocacy:

STATE AND LOCALS RELEASE REVISED ADVOCACY PAPER: State and local government associations revised their State and Local Fiscal Facts: 2015, which presents important topics affecting governments to members of Congress and the public. Information in the document, which was endorsed by 11 groups including the National Governors Association (NGA), the US Conference of Mayors (USCM), and the National Association of Counties (NACo), includes commentary on debt service, pensions and bankruptcy. Notably, the paper shows that generally, debt service accounts for about 5% of state and municipal governments' general budgets. Additionally, in the past 5 years, every state, and many local governments, has made some type of reforms to pension benefit levels and/or contribution rate structures. For more, read the document here.

Over on the regulatory front:

SEC APPROVES MSRB MA QUALIFICATION STANDARDS: The Securities and Exchange Commission (SEC) has approved new baseline Municipal Advisor (MA) qualification standards as set by the Municipal Securities Rulemaking Board (MSRB). In addition to MSRB rule changes to provide for these new standards, the MSRB will begin administering MA qualification exams sometime in 2016.

MSRB FACT BOOK SHOWS 19% INCREASE IN CONTINUING DISCLOSURE: The MSRB has published its annual FACT BOOK that includes market statistics for 2014, as well as for 4 years prior. A key highlight of the report—in 2014, continuing disclosure submissions to EMMA increased 19%. As **MMA** has noted to our institutional clients, the Municipalities Continuing Disclosure Cooperation (MCDC) program is likely behind the increase. The book also notes that municipal trades decreased by 16%, hitting the lowest point in trading in more than 10 years.

And, despite some of the negative headlines, a few positives on pensions:

PENSIONS IMPROVE, FOR SOME: The Center for State and Local Government Excellence released a report last month, *Success Stories of Well Funded Pension Plans*. The publication reviews the practices of 4 well-respected and funded pension plans—Delaware Public Employees' Retirement System, Illinois Municipal Retirement Fund, Iowa Public Employees' Retirement System, and North Carolina Retirement Systems—and provided key elements that these plans share which lead to their success. This case study provides readers with valuable strategies for success and highlights how these plans made changes to their plan designs to maintain high funding levels.

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

- With New York City issuers leading the primary slate for a second week in a row, the question was whether there would be appetite for the city's credit. The overall verdict came back positive as the **NYC Transitional Finance Authority** was able to lower yields, which gave the broader market a sign that retail and large insurance companies were buying tax-exempt bonds.
- **Mecklenburg County, North Carolina** is a triple-A credit and largely influential for leading benchmarks and the entire market-place as a whole. Its competitive issue was bid aggressively and it was not just a small amount of the dealer community paying attention. It had 9 different firms submit bids—an elevated amount that showed dealer sponsorship of the market.
- **Atlanta** offered the largest deal of the week. Fairly quickly it became evident that this deal would fare well as early reads on the day of pricing showed large oversubscriptions on shorter maturities that resulted into bumped levels there. Many customers did not get full allotments and ended up buying in the secondary markets to help the broader positive tone.

NORTHEAST

2/26: **Wells Fargo Securities** priced $784 million future tax-secured subordinate bonds for the **New York City Transitional Finance Authority**; Aa1/AAA/AAA; callable at par in 5/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.53	+42
2025	5.00	2.43	+35
2030	5.00	2.83	+33

Notes: Bumped 10-years and out

MID-ATLANTIC

2/24: **Mecklenburg County, NC** sold $100 million general obligation school bonds to **Wells Fargo Securities**; Aaa/AAA/AAA; callable at par in 4/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.16	+4
2025	5.00	2.08	-3
2035	3.25	3.35	+51

Notes: TIC was 2.626% with a cover bid of 2.634%

MIDWEST

2/23: The **Laurel County School District Finance Corporation, KY** sold $15.5M revenue bonds to **Hutchinson, Shockey, Early & Co.;** Aa3/NR/NR; callable at par in 3/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2015	4.00	0.25	NA
2020	4.00	1.65	+53
2027	4.00	2.75	+45

Notes: 4% coupons have outperformed 5% in the AAA space

SOUTHEAST

2/24: **Loop Capital Markets** priced $1.245 billion water and wastewater revenue refunding bonds for **Atlanta, GA**; Aa3/AA-/A+; callable at par in 5/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.51	+39
2025	5.00	2.54	+43
2043	5.00	3.41	+38

Notes: Bumped 5-7 basis points 10-years and in

SOUTHWEST

2/25: **Piper Jaffray & Co.** priced $8.1M general obligation bonds for the **Canutillo Independent School District, TX**; NR/A+/AA-; PSF (NR/AAA/AAA); callable at par in 8/15/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2015	2.00	0.30	NA
2028	4.00	2.23	-11
2032	4.00	2.45	-20

Notes: Negative spreads to AAA Benchmark even with 4% coupons

FARWEST

2/25: **Stifel Nicolaus & Co.** priced $12.3M tax allocation bonds for the **Highland Redevelopment Agency, CA**; NR/A/NR; AGM insured; callable at par in 12/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.78	+67
2025	5.00	2.66	+56
2034	3.50	3.68	+91

Notes: The 3 1/2 coupon offers a parish yield that retail supports