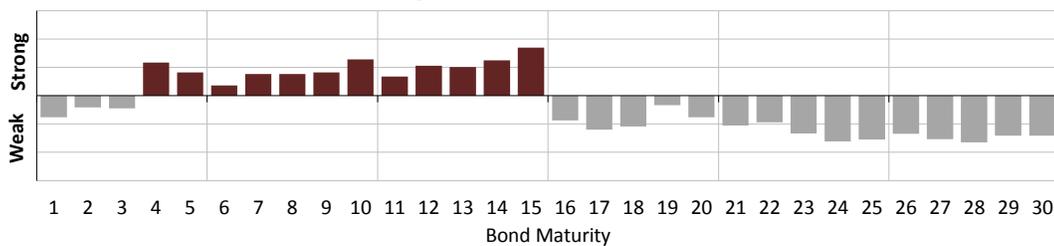
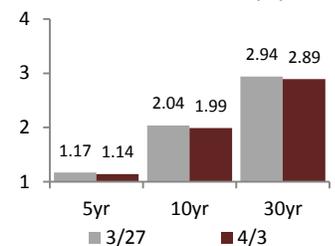


MUNICIPAL ISSUER BRIEF

Strong or Weak Market for Bond Sellers



Muni Bond Rates (%)



This week, bonds maturing in the 4- to 14-year part of the curve look relatively attractive to issuers. This is in part due to secondary selling that has been associated with individuals' preparations for tax payments. Dealer positions also appeared heavier than the norm.

MARKET UPDATE

CHALLENGING START TO WEEK ENDS WITH POSITIVE TONE: With the help of a rally in Treasury markets on Friday, municipal bond issuers may see better conditions headed into this week if momentum is sustained.

INVESTORS & ISSUERS:

- With Easter and Passover last week, many issuers opted to sell bonds on Monday and Tuesday **to get ahead of the holidays**.
- Opposite of the previous week, **this generally did not help** those issuers as there were various underlying negative dynamics.
- This includes **continued selling in secondary markets** by several large asset managers, and in general, resistance by individuals to invest in, once again, near historically low yields.
- As a result, **several of the larger deals struggled** through retail periods, most notably New York City Municipal Water Finance Authority and the California Department of Water Resources, both of which had to adjust yields cheaper to close accounts.
- On Wednesday, the state of Utah sold its GO credit competitively at what ended up to be aggressive prices. **For this to occur during generally challenging conditions is noteworthy.** A large portion of the deal was constructed with a 3 1/2% coupon maturing in 2026 that was likely created for an insurance company in mind—issuers should take note of last week's *MIB* in which [we discussed](#) what investors are buying municipal bonds.
- The first Friday of every month is when the U.S. Department of Labor publishes employment statistics—arguably the most important economic data. Last Friday, a low nonfarm component rallied Treasury bonds. The municipal market was open for transaction but inexplicably the Municipal Securities Rulemaking Board was closed. Also, MMD was not set for April 3. The absence of MMD **reinforced that this data is not an index.**

BUYERS BITES:

WHAT IS TRENDING HOT:

- 1) Utah GO
- 2) 3 1/2 and 4% coupons in 20-year range
- 3) 5-year call options

CURRENTLY HARDER SELLS:

- 1) The intermediate part of the curve
- 2) New York, California water utilities

WHO IS REPORTEDLY BUYING:

Property & Casualty Insurance Cos., regional banks, SMAs

Cumulative Weekly Municipal Bond Issuance (\$B)

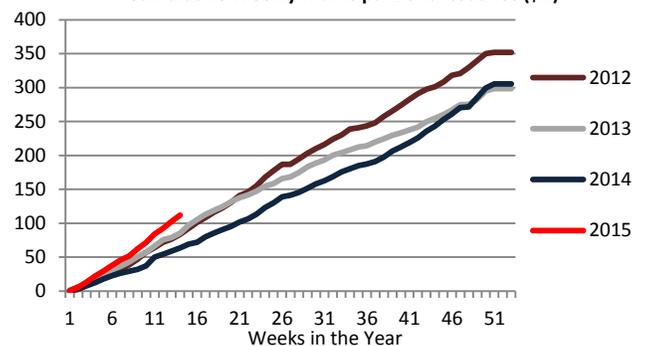


Figure 1: Low borrowing costs for issuers has encouraged a significant amount of refundings through the first three months of 2015, **70.0% of this year's issuance has been refundings**. In fact, this is the fastest start to the year since at least 2012, in large part led by issuers choosing to call bonds to capture low borrowing costs. The chart above tracks 2015 issuance (in red) compared to previous years. Were it not for rate induced refundings, underwriters' 2015 business models might reflect extreme budgetary pressure.

S&P REPORT SEES POSITIVE TONE FOR STATE & LOCALS: Standard and Poor's last week published a new report, *U.S. State and Local Government Credit Conditions Forecast: The Economy Looks to Pick Up Steam in 2015 After a Slow Start*. The report, which should be accessible by S&P clients, indicates that "an upswing in housing, jobs and wages mean that state and local governments should experience a pickup in tax revenue growth rates." While the report takes on a positive tone, and gives a special "shout out" to states that have high export activity, it also does mention that challenges remain, especially for regions that rely heavily on income from the energy sector.

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

- **Three large deals from last week that influenced the broader market (highlighted in yellow):**
- The **New York City Municipal Water Finance Authority** started selling bonds to retail on Monday and Tuesday to get ahead of the presumed holiday lull. The issuer had to sell bonds at slightly higher yields than expected as the general market was trending cheaper during that time. Note that many of the issuer's bonds traded at firmer prices in the latter half of the week with the market's improved tone.
- **Utah** sold competitively on Wednesday morning, and was won by an aggressively bid by JP Morgan. This occurred in part because the underwriter structured the deal based on pre-sale orders from an insurance company, allowing the low borrowing costs to occur. The bid reinforced the importance of the demand component to an issuer's success.
- **The California Department of Water Resources** was also forced to cheapen prices as the market struggled to start the week.

NORTHEAST

3/31: **Raymond James & Associates** priced \$451 million water & sewer second general resolution revenue bonds for the **NYC Municipal Water Finance Authority**; Aa2/AA+/AA+; callable at par in 6/15/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2025	5.00	2.20	+15
2030	5.00	2.85	+40
2039	5.00	3.17	+33

Notes: These bonds traded better in secondary markets post sale

MID-ATLANTIC

3/31: **RBC Capital Markets** priced \$18 million revenue bonds for the **North Penn Water Authority, Pennsylvania**; Aa3/NR/NR; callable at par in 5/1/2023:

Maturity	Coupon	Yield	+/- AAA 5%
2020	2.25	1.80	+63
2025	4.00	2.63	+58
2035	5.00	3.32	+59

Notes: At +60, this was slightly wider spread for an Aa3 issuer

MIDWEST

3/30: **Stifel Nicolaus & Co.** priced \$25 million limited general obligation bonds for **Upper Arlington, Ohio**; Aaa/AAA/NR; callable at par in 12/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	4.00	1.41	+24
2025	4.00	2.19	+14
2034	3.125	3.32	+62

Notes: Lower coupon structures for this deal across the curve

SOUTHEAST

3/31: **Johnston County, North Carolina** sold \$18 million general obligation bonds to **Morgan Stanley & Co.**; Aa2/AA+/NR; callable at par in 2/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2020	5.00	1.35	+18
2025	5.00	2.10	+5
2035	3.50	3.17	+44

Notes: +5 in 10 years was a strong level

SOUTHWEST

3/31: **Utah** sold \$223 million general obligation bonds to **JPMorgan Securities LLC**; Aaa/AAA/AAA; callable at par in 1/1/2025:

Maturity	Coupon	Yield	+/- AAA 5%
2019	5.00	1.09	+11
2025	5.00	1.97	-8
2026	3.50	2.26	+12

Notes: 10-year bond was callable 6-mos. prior to maturity (7/2025)

FARWEST

4/1: **JPMorgan Securities LLC** priced \$766 million power supply revenue bonds for the **California Department of Water Resources**; Aa2/AA/AA+; non-callable:

Maturity	Coupon	Yield	+/- AAA 5%
2021	2.00	1.59	+19
2021	5.00	1.59	+19
2022	5.00	1.78	+16

Notes: Despite drought headlines, the issuer only had to cut slightly