

MUNICIPAL BOND MARKET NOTE

JANNEY FIXED INCOME STRATEGY

November 27, 2012



California general obligation spreads tightened by about 15 basis points in November.

Budget dilemmas are going to require political solutions, but lawmaker political will remains elusive.

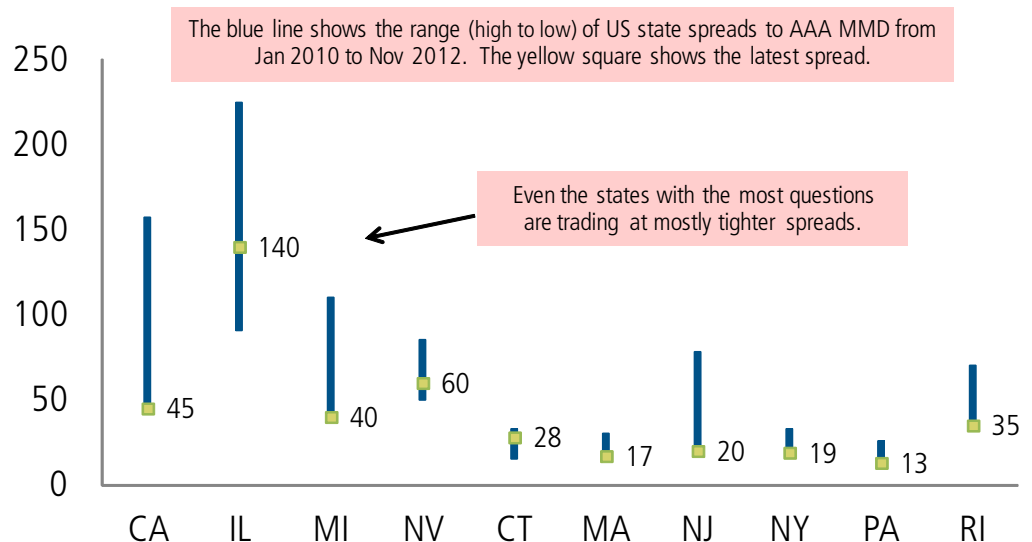
State Fiscal Health Scorecard - November 2012

- U.S. states posted a 10th consecutive quarter of higher tax collections in 2Q12 – 3.2% higher than 2Q11.
- Our state credit spread average fell 6 bps since July, suggesting improving credit conditions.
- Although state credit profiles have mostly improved, considerable risks loom as potential spoilers as we move into 2013.
- Political solutions requiring a significant amount of political will are needed to solve structural budget gaps in select instances.
- Some state credit profiles could worsen, and downgrade risk remains, if near to medium term actions are not taken to battle these gaps. One time fixes, short term budget solutions, and expectations to “grow-out” of deficits are misguided approaches.

Risks Exist Including Some Structural, Not Cyclical, Budget Problems

An “unusual uncertainty” in the prospects for sustained economic growth, the potential impact from the Fiscal Cliff and broader federal budget tightening, and negative political influences all remain as concerns and as impediments to a complete financial resurgence. Some of these factors are and will remain out of the control of even the most well-run state governments. U.S. state credit profiles have mostly improved over the last few years, reflected by tighter general obligation spreads to the AAA benchmark. CA, on the one hand, found some political cover as voters approved Proposition 30’s personal income and sales tax increases. CA GO spreads then tightened by 15 basis points in November. On the other hand there are still a handful of states that possess structural, not cyclical, budget problems. IL and NJ still possess sizeable unfunded pension liabilities despite reform efforts, and IL still has billions of dollars of unpaid bills owed to vendors. Dilemmas such as these are going to require complex and often unpopular political solutions, but lawmaker political will remains elusive, and we are not sure what it will take for them to finally make tough choices. Most troubling is that reform is only going to become more difficult as the consequences from lower federal spending and slower economic growth mount.

Improved Credit Profiles Helped Lead to Tighter U.S. State GO Spreads Recently



Source: Thomson Reuters and Janney FIS. #’s in basis point spread to 10 year AAA MMD.

TOM KOZLIK
Municipal Credit Analyst
215.665.4422
tkozlik@janney.com

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Janney State Fiscal Health Scorecard

State	Bond Ratings (*a lease or ICR)	Spread to 10Y MMD Jul 9, 12	Spread to 10Y MMD Nov 26, 12	2Q12, Quarterly US State Tax Rev (% Change)	Debt & Pension Liability as % of Personal Income	Medicaid as a % of State Spending, FY11	"Seriously Delinquent" Morts. 3Q12	Unemploy. Rate Oct 2012
Total/Average		26	20	3.2%	6.9%	24%	7.0%	7.9%
Alabama	Aa1AA/AA+	23	21	9.6%	8.2%	25%	5.3%	8.1%
Alaska	Aaa/AAA/AA+	0	2	0.2%	14.6%	9%	2.3%	7.1%
Arizona*	Aa3/AA-/NR	30	30	3.9%	N/A	28%	5.0%	8.1%
Arkansas	Aa1/AA/NR	21	7	6.6%	N/A	21%	5.9%	7.2%
California	A1/A-/A-	83	45	-2.6%	8.9%	24%	5.7%	10.1%
Colorado*	Aa1/AA/NR	23	23	11.5%	N/A	19%	3.4%	7.9%
Connecticut	Aa3/AA/AA	28	28	11.2%	22.9%	27%	8.1%	9.0%
Delaware	Aaa/AAA/AAA	0	0	0.5%	10.0%	16%	7.2%	6.8%
Florida	Aa1/AAA/AAA	28	24	4.8%	4.1%	28%	16.8%	8.5%
Georgia	Aaa/AAA/AAA	0	0	4.8%	4.7%	21%	6.7%	8.7%
Hawaii	Aa2/AA/AA	27	20	15.7%	25.8%	16%	6.6%	5.5%
Idaho*	Aa1/AA+/AA	23	22	7.1%	2.5%	26%	4.7%	7.0%
Illinois	A2/A/A	172	140	18.8%	25.0%	29%	10.0%	8.8%
Indiana*	Aaa/AAA/AA+	18	18	4.7%	6.9%	24%	7.4%	8.0%
Iowa*	Aaa/AAA/AAA	18	18	9.9%	2.2%	19%	4.2%	5.1%
Kansas*	Aa1/AA+/NR	24	24	9.1%	11.1%	19%	4.4%	5.7%
Kentucky*	Aa2/AA-/AA-	28	22	1.8%	21.8%	23%	6.1%	8.4%
Louisiana	Aa2/AA/AA	29	19	7.2%	17.4%	24%	6.2%	6.6%
Maine	Aa2/AA/AA+	18	16	3.0%	7.9%	29%	8.7%	7.4%
Maryland	Aaa/AAA/AAA	1	0	4.8%	11.7%	22%	8.7%	6.7%
Massachusetts	Aa1/AA+/AA+	24	17	4.1%	18.3%	20%	6.5%	6.6%
Michigan	Aa2/AA-/AA-	53	40	-21.9%	3.9%	24%	5.5%	9.1%
Minnesota	Aa1/AA+/AA+	5	4	10.0%	4.6%	25%	3.7%	5.8%
Mississippi	Aa2/AA/AA+	25	20	5.0%	18.6%	23%	7.4%	8.9%
Missouri	Aaa/AAA/AAA	0	0	4.8%	4.8%	36%	4.3%	6.9%
Montana	Aa1/AA/AA+	28	27	3.0%	6.6%	16%	2.8%	6.0%
Nebraska*	Aa2/AAA/NR	23	19	3.3%	N/A	17%	3.0%	3.8%
Nevada	Aa2/AA/AA+	65	60	1.3%	4.6%	19%	11.9%	11.5%
New Hampshire	Aa1/AA/AA+	8	6	-2.0%	3.8%	25%	4.6%	5.7%
New Jersey	Aa3/AA-/AA-	40	33	-8.1%	17.0%	22%	12.9%	9.7%
New Mexico	Aaa/AA+/NR	19	15	1.0%	N/A	20%	6.0%	6.3%
New York	Aa2/AA/AA	27	19	-1.2%	6.5%	29%	9.6%	8.7%
North Carolina	Aaa/AAA/AAA	2	0	2.2%	3.8%	22%	5.5%	9.3%
North Dakota*	Aa1/AA+/NR	23	23	40.7%	N/A	15%	1.7%	3.1%
Ohio	Aa1/AA+/AA+	38	23	3.9%	4.2%	23%	7.6%	6.9%
Oklahoma	Aa2/AA+/AA+	28	28	5.8%	5.6%	19%	5.6%	5.3%
Oregon	Aa1/AA+/AA+	19	10	3.5%	8.0%	15%	5.8%	8.6%
Pennsylvania	Aa2/AA/AA+	23	18	-0.8%	8.8%	31%	6.6%	8.1%
Rhode Island	Aa2/AA/AA	54	40	7.3%	12.3%	25%	7.9%	10.4%
South Carolina	Aaa/AA+/AAA	7	1	5.7%	6.7%	20%	6.6%	8.6%
South Dakota*	Aa2/AA+/AA	28	28	10.8%	2.6%	23%	2.4%	4.5%
Tennessee	Aaa/AA+/AAA	3	0	9.4%	2.0%	28%	5.5%	8.2%
Texas	Aaa/AA+/AAA	18	12	14.0%	6.4%	26%	4.1%	6.6%
Utah	Aaa/AAA/AAA	1	0	7.3%	5.9%	14%	4.7%	5.2%
Vermont	Aaa/AA+/AAA	9	2	1.5%	8.4%	27%	5.6%	5.5%
Virginia	Aaa/AAA/AAA	0	0	5.1%	4.7%	17%	3.9%	5.7%
Washington	Aa1/AA+/AA+	29	20	-3.4%	7.5%	24%	6.8%	8.2%
West Virginia	Aa1/AA/AA	30	24	9.2%	14.2%	13%	4.0%	7.5%
Wisconsin	Aa2/AA/AA	29	20	8.7%	5.8%	17%	5.5%	6.9%
Wyoming*	NR/AAA/NR	23	7	3.6%	N/A	7%	2.0%	5.2%

Sources: MMD spreads per Thomson Reuters; Change in state tax revenues from Rockefeller Institute; Debt & Pension Liability as % of Personal Income from Fitch Ratings- Mar 28, 2012; Medicaid % of Expenditures from NASBO; Mortgage foreclosure & 90 days past due data (non-SA) from the MBA; Unemployment rate (SA) per Bureau of Labor Statistics and Janney FIS.

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