



March 7, 2016

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Municipal Bond Volume Falls Six Months in a Row

In February, the municipal bond market saw volume fall from a year earlier for the sixth month in a row. Although new money deals increased to \$12.97 billion from \$10.62 billion a year

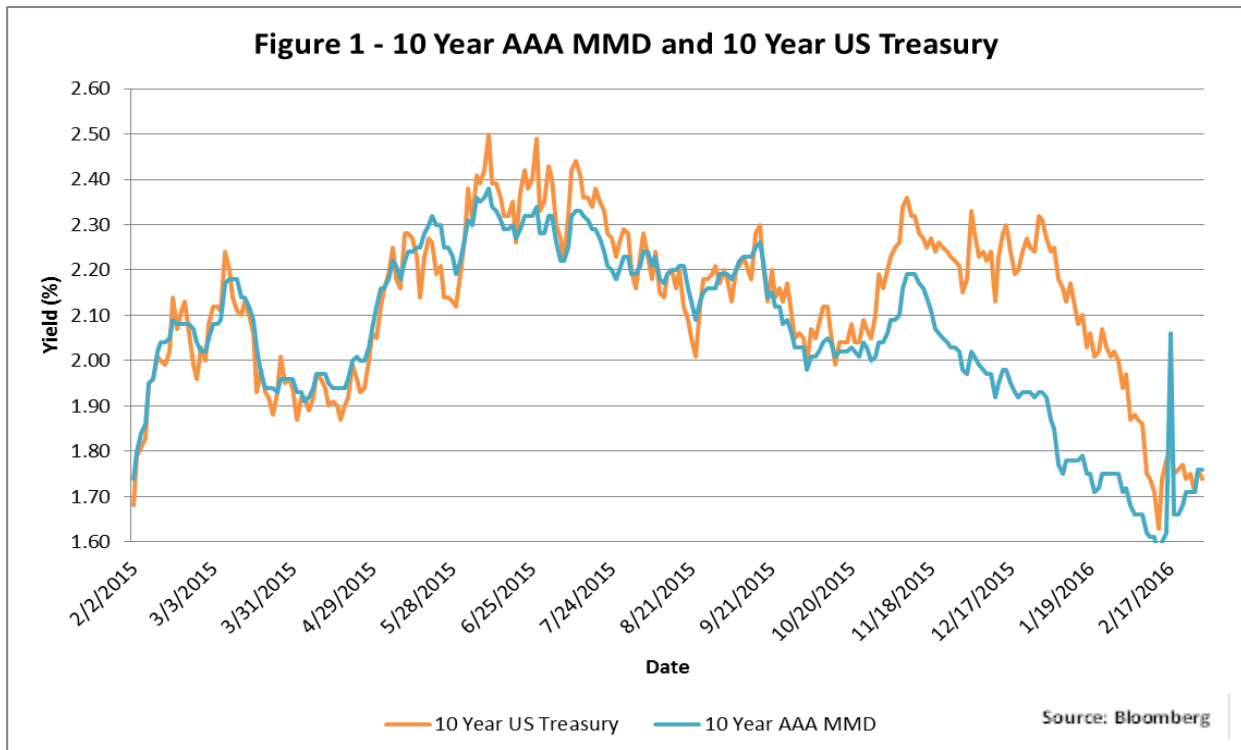
earlier, refunding volume was down once again. In February 2015, there were 570 refunding transactions, totaling \$16.93 billion. In February this year, the market saw only 403 refundings, totaling \$12.97 billion.

The Municipal Market Data (“MMD”) ‘AAA’ Muni Market 10-year yield ended February at 1.76% - 5 basis points (“bps”) above 1.71% at the end of January. The 30-year yield also increased, ending February 5 bps higher than January at 2.80%. The 10-year US Treasury

yield ended February at 1.83%, 11 bps below 1.94% at the end of January. The 30-year Treasury yield also fell, ending February at 2.70%, 5 bps below 2.75% at the end of January. As of February 29th, the ratios of ‘AAA’ General Obligation municipal yields to Treasury yields were:

Year	Yield	% Yield
1-Year	0.39 / 0.68	62.90%
5-Year	0.93 / 1.31	76.23%
10-Year	1.76 / 1.83	101.15%
30-Year	2.8 / 2.61	107.28%

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 the month at .01%, the same level at which it ended both January and December. The 30-day LIBOR increased in February, ending the month at .4358%, up from .4250% at the end of January. Please refer to Figure 2 for historical SIFMA and LIBOR rates.

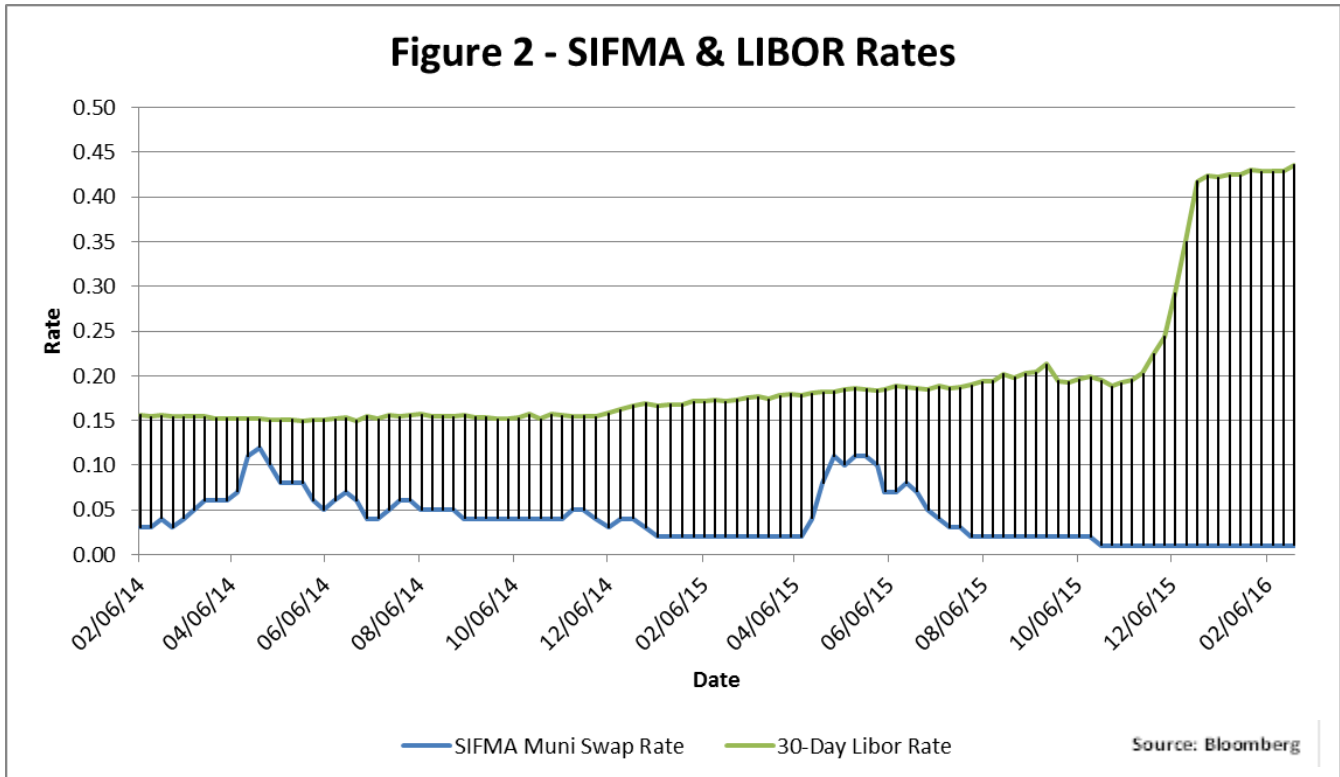
2015 Was another Year of Improving Credits

At this time last year, we were noting that after years of focusing on fiscal responsibility, the nation's states, municipalities, and other public finance market participants had begun to show real progress in repairing their finances. The trend continued into 2015, although much work remains to be done by governments at all levels. Puerto Rico will likely need legislative relief to avoid

absolute insolvency and Illinois and Pennsylvania have not had a state budget in months. Even so, progress has been, for the most part, undeniable.

In 2014, the rating agencies had only just begun to recognize the turnaround and started to hand out more upgrades than downgrades, a trend that continued into 2015 as well. In 2014, Standard & Poor's and Fitch passed out more upgrades than downgrades for the entire year, but Moody's turned the corner only for the 4th quarter.

Figure 2 - SIFMA & LIBOR Rates



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In 2015, however, all three agencies were more positive throughout the entire year. Moody's, however, remained less optimistic than its competitors with only 52% of its rating actions being upgrades. Fitch had just under 70% upgrades, although they had fewer of both for the year as they saw the credit environment stabilizing. Meanwhile, S&P logged 1,613 public finance rating actions with 65.5% being upgrades and 34.5% being downgrades.

Sources: Moody's Fitch, Standard & Poor's

S&P Offers First Look at Flint Water Impact

Also in February, Standard & Poor's published a short piece looking at what could be in store for Flint and the state of Michigan down the road as a result of the lead contamination of the city's water supply, and the figures are not pretty. S&P believes a reasonable estimate to replace Flint's water infrastructure is between \$700 million and \$1.5 billion. The City of Flint itself has a poverty rate of 40% so its ability to fund the extensive improvements to the system needed to make it safe is deeply in doubt. The residents simply do not have

the resources to spend on higher water bills, so outside help will almost definitely be needed. In addition to the tangible infrastructure replacement costs, the resulting costs of health care and social services that will be needed to deal with the human costs of the contamination are also rising. Throw in class action lawsuits which allege that the state is responsible for the mess and the costs for the state of Michigan could easily get into the billions. Add all of this on top of the help needed for Detroit, and especially its struggling school district, and the Flint water contamination is another serious problem for a state with more than its fair share of them.

Sources: Moody's, Fitch, Standard & Poor's



February 2016 Selected Bond Issues

General Obligation and Essential Service Revenue								
<u>Sale 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>
1/25/2016	\$13.53	Schenectady, NY	General Obligation Refunding Bonds	A2/AA/	5/15/2030	2.710%	60	Insured
2/1/2016	\$19.10	Friendswood, TX	General Obligation Refunding & Improvement Bonds	/AA+/	3/1/2031	2.510%	35	
2/15/2016	\$7.27	Round Lake Beach, IL	General Obligation Bonds	Aa2/ /	1/1/2031	2.850%	77	BQ
2/22/2016	\$38.87	State of Oregon	General Obligation Improvement Bonds	Aa1/AA+/AA+	8/1/2041	2.900%	17	
Education Sector								
<u>Sale 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>
1/18/2016	\$26.58	Colorado Mesa University	Revenue Bonds	Aa2/ /	5/15/2045	3.050%	36	Insured
1/18/2016	\$6.07	Cattaraugus County NY Capital Resource Corp (St. Bonaventure Univ. Project)	University Improvement Revenue Bonds	/BBB-/	5/1/2031	3.410%	121	
2/1/2016	\$7.70	Appalachian State University	Revenue Refunding Bonds	Aa3/ /	10/1/2026	2.410%	59	
2/29/2016	\$30.88	The Ohio State University	Revenue Refunding Bonds	Aa1/AA/AA	6/1/2030	2.630%	48	
Water/Utility Sector								
<u>Sale 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>
2/29/2016	\$62.24	New Braunfels TX	Utility Revenue Bonds	Aa2/AA/AA	7/1/2046	3.700%	90	
2/29/2016	\$9.26	North Baldwin, AL	Water Sewer & Gas Revenue Refunding and Improvement Bonds	/AA-/	12/1/2031	2.700%	37	
2/29/2016	\$36.67	Walton County GA Water & Sewer Authority	Water & Sewer Revenue Refunding Bonds	Aa2/AA-/	2/1/2038	2.870%	24	
2/1/2016	\$6.58	University Area PA Joint Authority	Sewer Revenue Refunding Bonds	/AA/	11/2/2028	2.580%	59	Insured
Healthcare Sector								
<u>Sale 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>
2/1/2016	\$26.26	Carroll City Georgia Hospital Authority	Hospital Revenue Refunding Bonds	Aa2/AA/	7/1/2038	3.300%	75	Insured
2/22/2016	\$9.48	Seward County, KS	Southwest Medical Center Project	A1/ /	8/1/2038	3.050%	48	BQ

Source: Bloomberg

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