

2015 CMTA Annual Conference



State of the Muni Markets

April 15, 2015



MULTI-BANK
SECURITIES, INC.®

STIFEL

Introductions



Tracey Angelo
City of Richmond
tracey_angelo@ci.richmond.ca.us



John Gallagher
Multi-Bank Securities, Inc.
jgallagher@mbssecurities.com

STIFEL

Anna Van Degna
Stifel
avandegna@stifel.com

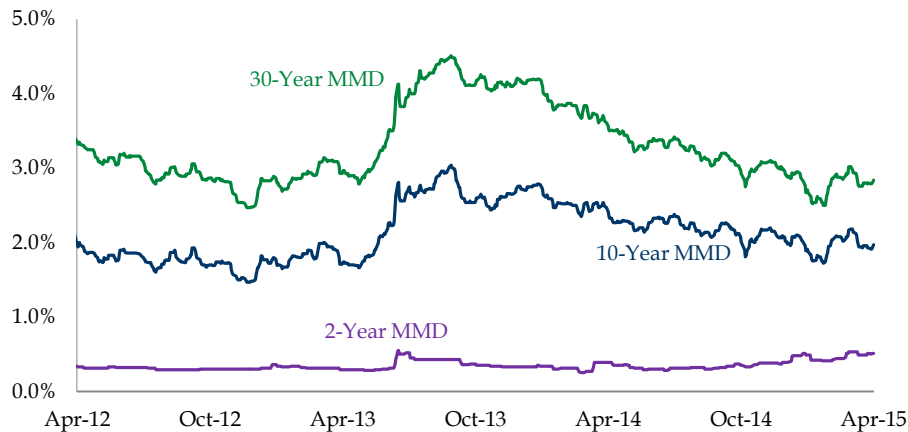
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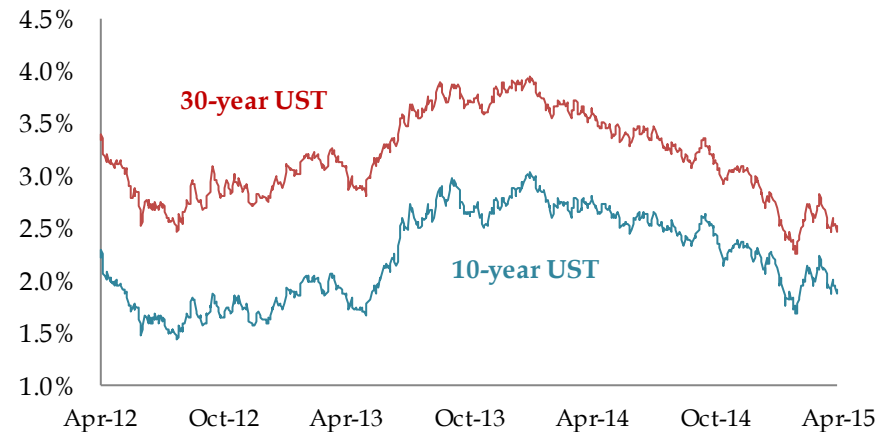
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- **Municipal rates still near multi-year lows despite recent market moves**
 - 30-year AAA MMD index reached lowest level since 2012 on January 30th

**Benchmark Municipal Market Rates
AAA MMD¹ Index - Last 3 Years**



**U.S. Treasury Rates
Last 3 Years**



¹MMD (Municipal Market Data) is an index of 'AAA' rated general obligation bonds.

Municipal Tax-Exempt Interest Rates

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10-Year AAA Municipal Market Data (MMD) ¹ Index

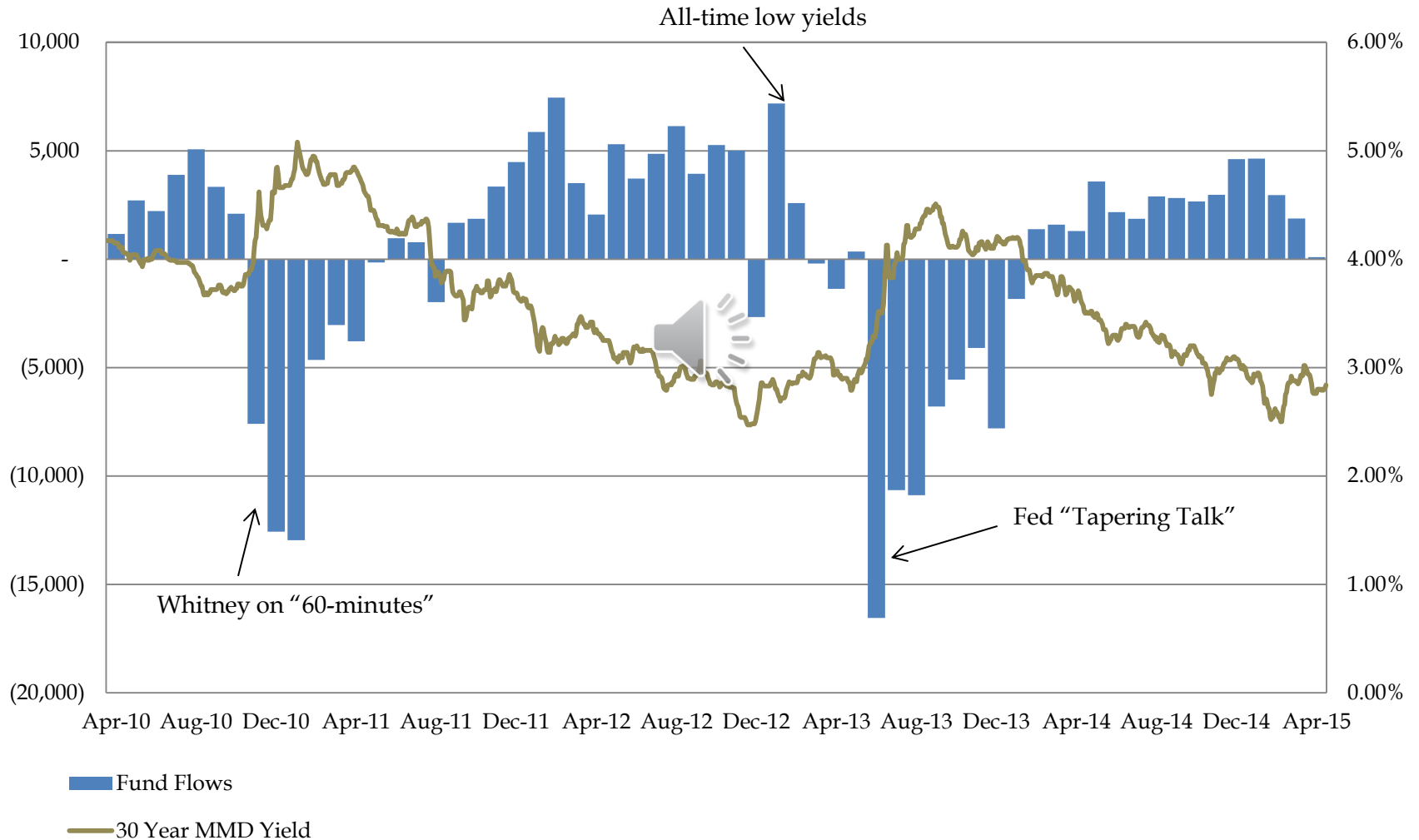


Source: Thomson Financial. As of 4/9/15.

¹MMD (Municipal Market Data) is an index of 'AAA' rated general obligation bonds.

Municipal Mutual Fund Flows vs. 30 Yr. MMD

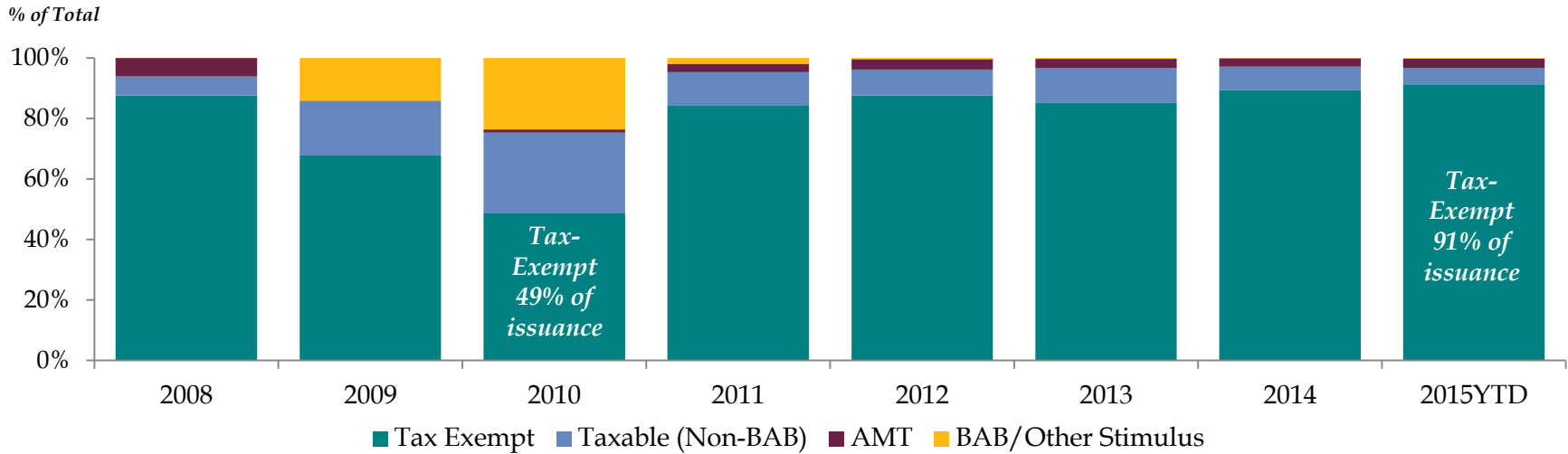
Inverse correlation between MMD Yields and Fund Flows



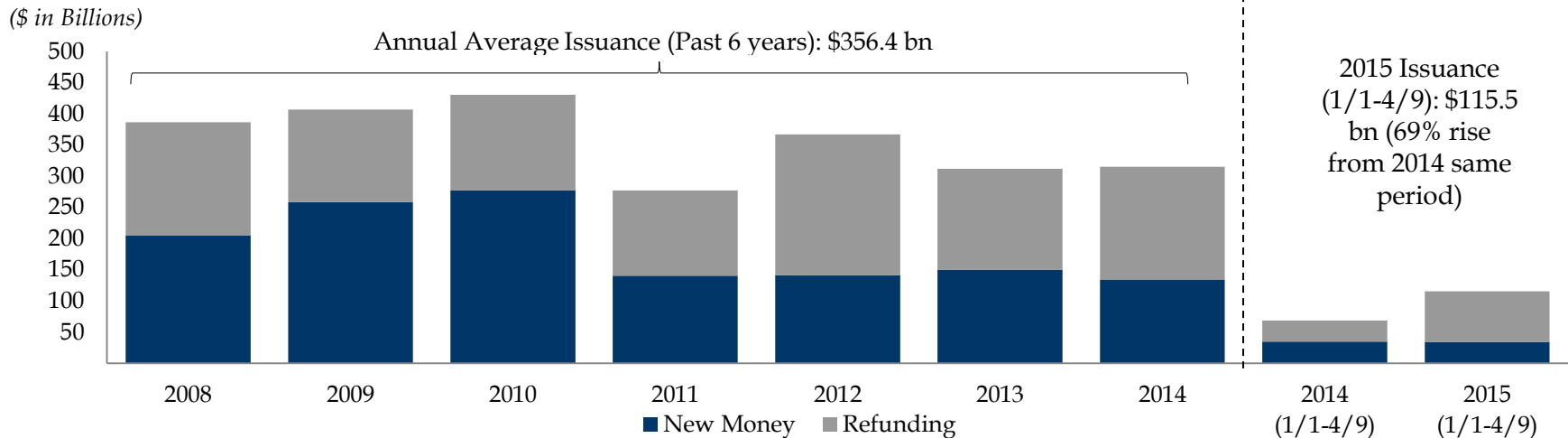
Municipal Market Issuance

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Municipal Market Issuance by Tax Status (%)



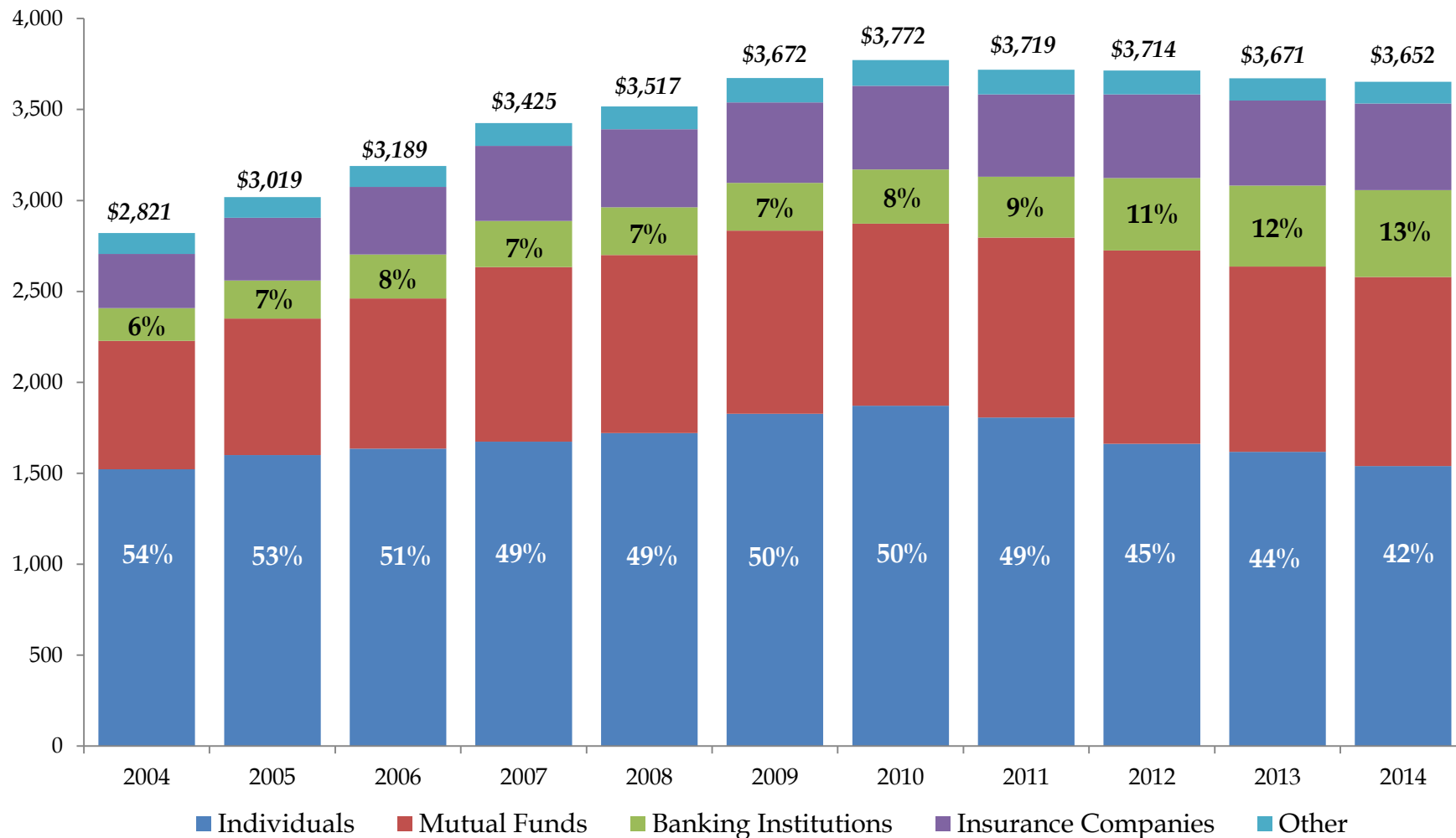
Municipal Market Issuance (\$) By Use of Proceeds



Buyers of Municipal Bonds

Holder of U.S. Municipal Bonds

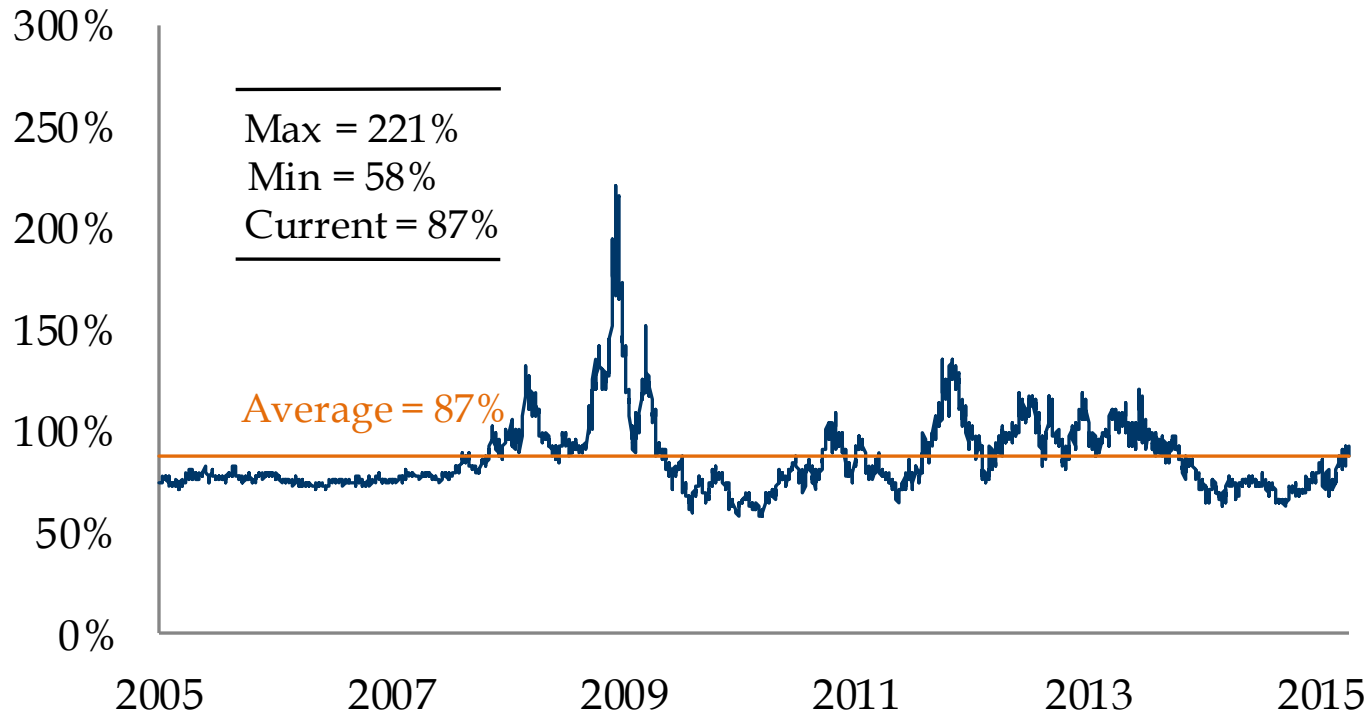
\$ in Billions

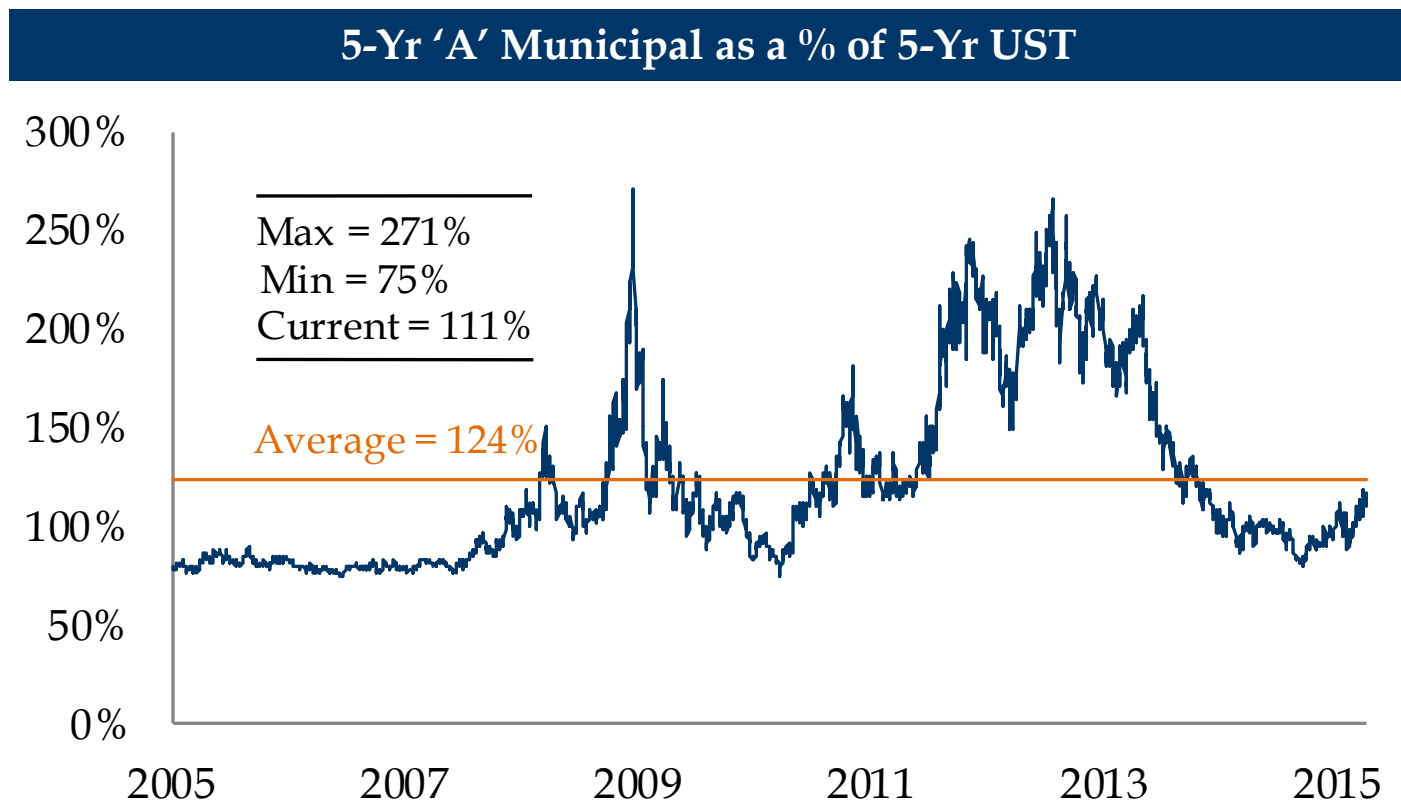


Relative Value: AAA Rated Municipals vs. Treasuries

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5-Yr 'AAA' Municipal as a % of 5-Yr UST

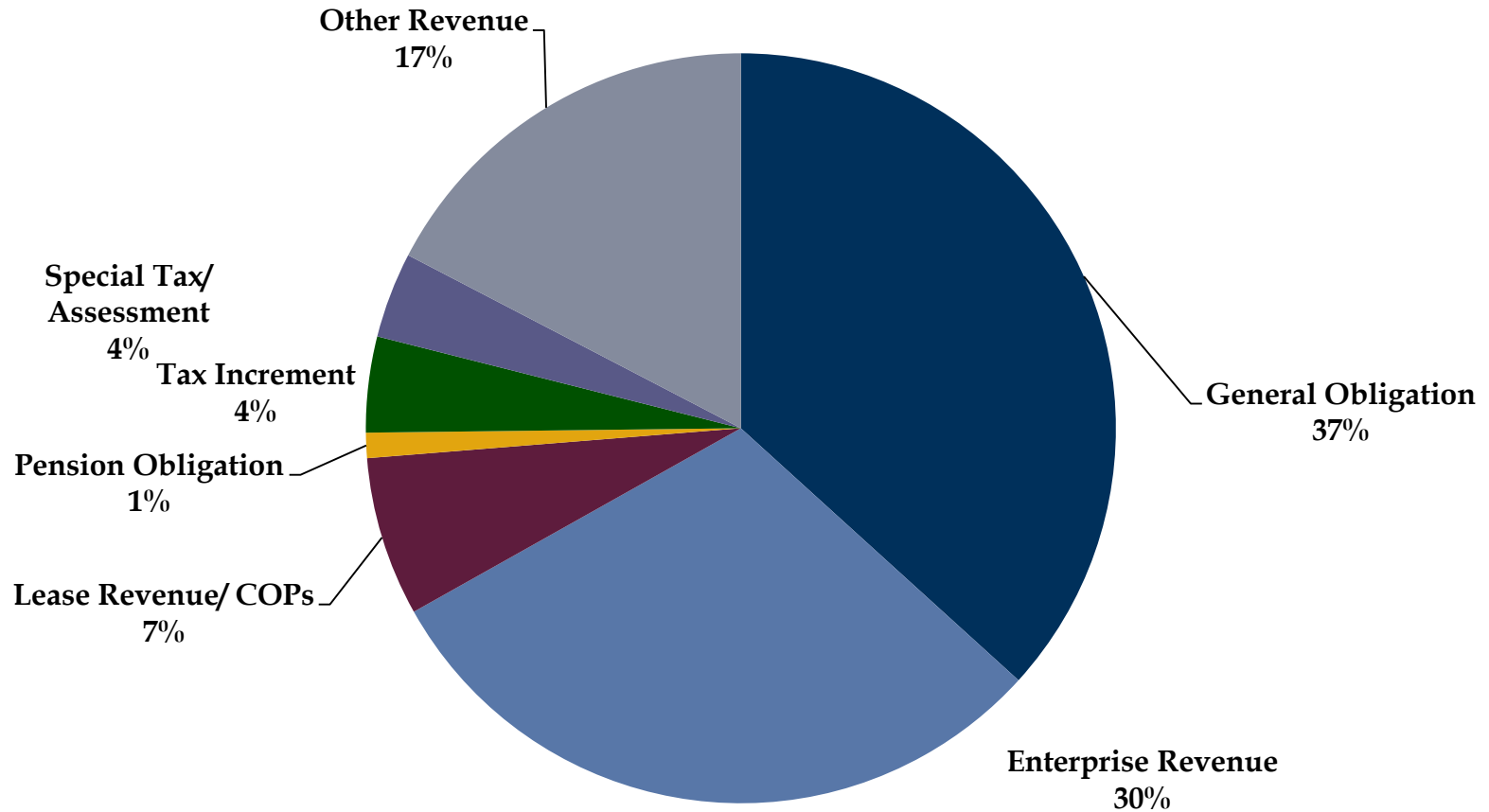




< Typically Higher Grade		Types of Bonds			Typically Lower Grade>	
	General Obligation	Enterprise Revenue	Lease Revenue /COPs	Pension Obligation	Tax Increment	Special Tax/ Assessment
Revenue Pledge	Secured by unlimited ad valorem property taxes	Net revenue of a specified enterprise, such as water, sewer, solid waste, or parking	Lease payments for use of government asset; paid from general fund	Annual general fund payments to satisfy an obligation imposed by law	Incremental property tax revenues above a base level within a defined project area	Lien on property; bonds paid from annual special or assessment
Vote Required?	2/3rds vote threshold; Schools may be 55%	No public vote required	No public vote required	Judicial validation for debt-limited entities	Traditional RDA didn't require a vote; IFDs require a vote	2/3rds vote for CFD; 50%+ for Assessment Districts

California Long-Term Municipal Debt Issuance by Type

January 1, 2014 to Date



■ General Obligation	■ Enterprise Revenue	■ Lease Revenue/ COPs	■ Pension Obligation
■ Tax Increment	■ Special Tax/ Assessment	■ Other Revenue	

- Timing depends on complexity & certainty of financing plan
 - Simple, straightforward financings can be completed in 3 months
 - Most financings are completed within 4 to 6 months
 - Infrequent issuers may need more time for analysis & board approvals
 - Some financings can take years

Financing Plan

(Month 1)

- ◆ Engage financing team
- ◆ Clarify project list
- ◆ Analyze financing options

Preparing Bond Sale

(Month 2)

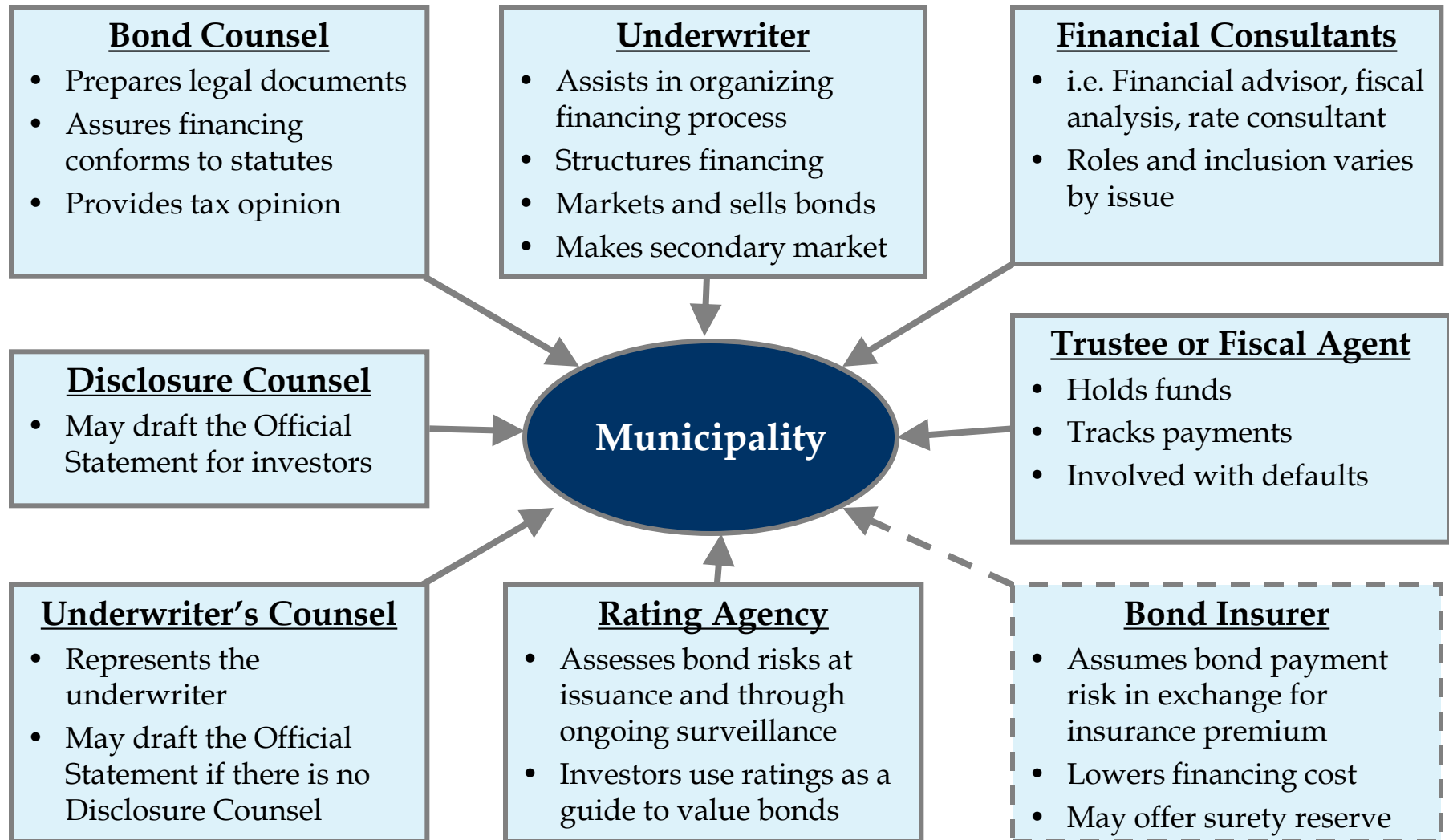
- ◆ Draft legal documents
- ◆ Draft investor disclosure (Official Statement)
- ◆ Review prior continuing disclosure compliance
- ◆ Seek credit rating
- ◆ Secure Council/Board financing approvals

Pricing and Closing

(Month 3)

- ◆ Market bonds to investors
- ◆ Set interest rates
- ◆ Finalize all documentation
- ◆ Deliver funds at closing

- Post-closing obligations
 - Debt payment, continuing disclosure, tax compliance, additional covenants



- The MA Rule is a 777 page rule that went into effect in July of 2014
- Part of the fallout of the financial crisis of 2008 was the enactment of the Dodd Frank Wall Street Reform & Consumer Protection Act (the “Act”)
 - Caused a review of practices in the municipal marketplace and required the SEC to define municipal advice
- Among other things, the MA Rule requires that non-broker dealer FAs (included under the new term “municipal advisors”) be registered for the first time, and be subject to new regulations, qualifications and testing
 - With those regulations comes the requirement that the MA has a *fiduciary duty* to the issuer, which means it must put the issuer’s interests before its own
- For underwriters, the Act reaffirmed fair dealing requirements, and required underwriters to make various disclosures
 - It also imposed limitations on the type of information that can be communicated by underwriters to municipalities prior to engagement
- Underwriters cannot provide “advice” on a financing to municipal issuers unless:
 - Responding to a Request for Proposals
 - Issuer has an independent financial advisor on that financing
 - Underwriter has been hired for that particular issue
- Objective information and refunding analyses not construed as “advice” by SEC

■ Can you afford the debt?

- Adequate revenues?
- Adequate reserves?
- Adequate coverage cushion?
- What could go wrong?

■ Who's helping you?

- Get good advice from respected professionals

■ Is disclosure adequate?

- Official Statement ("OS") is the issuer's document
- Have you told investors everything they need to know in the OS?
- Have you kept up with continuing disclosure obligations?

Securities Exchange Act of 1934 Rule 10b-5:

"It shall be unlawful for any person. . .

- (a) to employ any device, scheme or artifice to defraud,
- (b) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. . ."

State of the Muni Markets

John Gallagher, Senior Vice President

April 15, 2015

Important Features for Pricing

- TYPES of BONDS
 - GOs – bonds issued by states, cities/towns and school district payable general funds of issuer or appropriations made by state legislature.
 - REVENUE – payable from a specific source of revenue from a project. Government agencies can issue bonds for essential services or act as a conduit issuer for a private entity or 501c.
 - Transportation systems
 - Hospitals
 - Power systems
 - Sewer systems
 - Water systems
 - Other local authorities that generate revenue from providing services to the public

Important Features for Pricing

- TAX STATUS
- Tax-exempt – can be federal or state
- Taxable – municipal securities also can be issued if the purpose of the issuer's financing does not meet certain public purpose or public use tests under the federal tax rules.
- Alternative Minimum Tax (AMT) Bonds – Some municipal securities pay interest that is exempt from gross income under the ordinary federal income tax calculation but are nonetheless subject to the federal alternative minimum tax, or AMT.

Important Features for Pricing

Tax Status

- Bank Qualified (BQ)
 - <\$30mm in annual issuance and allows banks to deduct 80% of interest expense.
 - 20% tax penalty is the TEFRA disallowance.
 - Favorable tax treatment increases the taxable equivalent yield relative to other municipal bonds.
 - Bonds issued by states and their political subdivisions (towns, counties, school districts, sanitation, utility districts) are eligible.

Important Features for Pricing

- Serial vs. Term bonds
- Callable bonds - new issues generally with 10yr calls
- Sinking fund - allows the issuer to retire principal amounts of debt in specific amounts prior to maturity.
- Premium vs. Discount
- Zero Coupon Bond – a type of original issue discount bond on which no periodic interest payments are made. Issued at a deep discount from par, accreting (at the rate represented by the offering yield at issuance) to its full value at maturity.

Important Features for Pricing

- Variable Rate Securities
 - VRDOs
 - ARS
- Pre-refunded bonds
 - Advance refunding
 - Escrow account /funded with Treasuries
- Municipal notes
 - TANs
 - RANs
 - BANs
- Housing bonds
 - Mortgages and mortgage loan repayments


Muni Investor Checklist

- Determine tax status: tax-exempt or taxable
- Maturity range
- Coupon – High coupon provides price protection in a environment of increasing yields.
- Price range (par, premium, discount) will depend on your interest rate or tax position.
- Yield target
- GO (state or local), revenue (if revenue limited to essential service i.e. sewer/water), sectors
- Credit quality (A>)
- Call feature, understanding YTC
- Price fair? One measure of what constitutes a fair price is that it must “bear a reasonable relationship” to the prevailing market price of the security. Brokers conduct this analysis by, among other things, reviewing recent transaction prices for the municipal security and/or the transaction prices for other securities with similar credit quality and features.

Pre-Trade Discovery

- Evaluate credit
 - Rating reports (could be old)
 - Official statements (pull up from EMMA website or ask Dealer). I will tell you how revenues are pledged to pay bondholders and how issuer will use proceeds.
 - Continuing disclosure may provide information such as financial statements
 - Assess default risk
 - Evaluate bond insurance
 - EMMA
 - Price discovery tool- search trade history. Pull up trade prices on same issuer or similar bonds.
 - Search security information
 - Setup price/security alerts through MyEMMA
 - Use benchmarks (MMD AAA tax-exempt Curve and Spread to Treasuries for Taxables)
 - Evaluate trade costs (operational, reporting)

Refining your Search

[Switch User](#) Impersonating Demo User 

Select Account eCD67863 - ABC Bank II ▼

eConnectDirect
econnectdirect.com

Dashboard View/Buy Manage Orders Manage Positions Securities Accounts Reports Institution Find Investing Settings Logout

eConnectDirect CDs CD Marketplace US Agencies Corporates Treasuries Munis CRA's MBS/CMO

For orders less than 100k please call your account executive.

[Request a Quote](#)

Advanced Search - Municipal

Title	Criteria	Omit
Issue:		<input type="checkbox"/>
CUSIP:		<input type="checkbox"/>
Proceeds:	ALL ▼	<input type="checkbox"/>
State:	California ▼	<input type="checkbox"/>
Frequency:	▼	<input type="checkbox"/>

Other/ Category	Only	N/A	Omit
Zero Coupon	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Floating Rate	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Escrowed	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Pre Refund	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Insured	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Taxable	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Subject to AMT	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Bank Qualified	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Territory	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Callable	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Single Call	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Multi Call	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Continuously Callable	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Primary	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Step Coupon	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
General Obligation	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Revenue	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>

Title	Minimum	Maximum	Omit
Maturity:	mm/yy	5 mm/yy	<input type="checkbox"/>
Coupon:	%	%	<input type="checkbox"/>
Yield to Worst:	%	%	<input type="checkbox"/>
Yield to Maturity:	%	%	<input type="checkbox"/>
Price:			<input type="checkbox"/>
Next Coupon:			<input type="checkbox"/>
Moody's Rating:	A ▼	ALL ▼	<input checked="" type="checkbox"/> Or
S&P Rating:	A ▼	ALL ▼	
Fitch Rating:	A ▼	ALL ▼	
Quantity:	100		<input type="checkbox"/>
Current Yield:			<input type="checkbox"/>
Call Protection:			
Exclude Bid Side Only Markets:	<input checked="" type="checkbox"/>		

Sort by: Maturity ▼ ☒ Descending Then by: (None) ▼ ☐ Descending 100 ▼ Bonds Per Page

☐ Prepare Search for quick download only - No display of offerings.

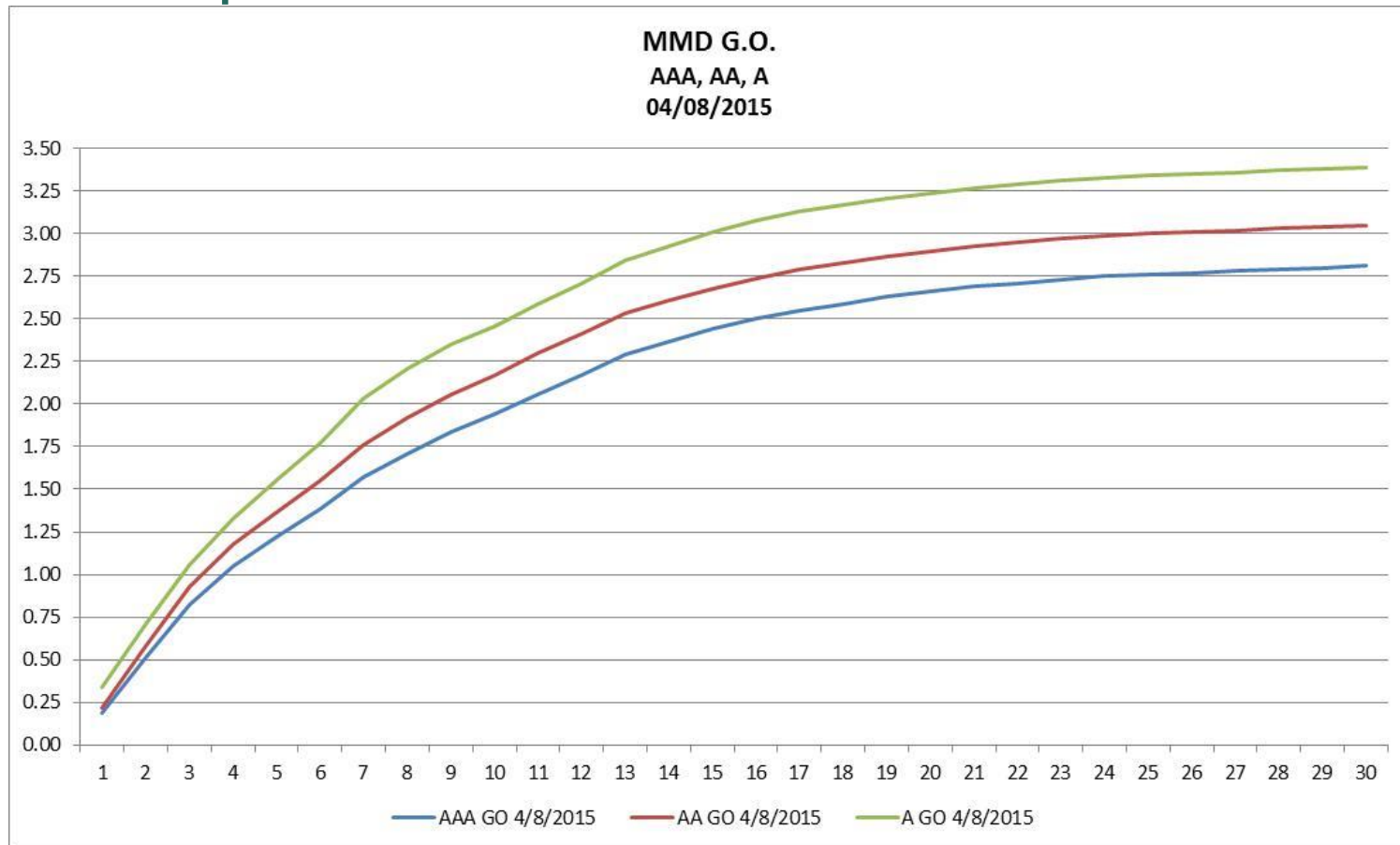
Save Query as: ▼

Market Awareness and Discovery



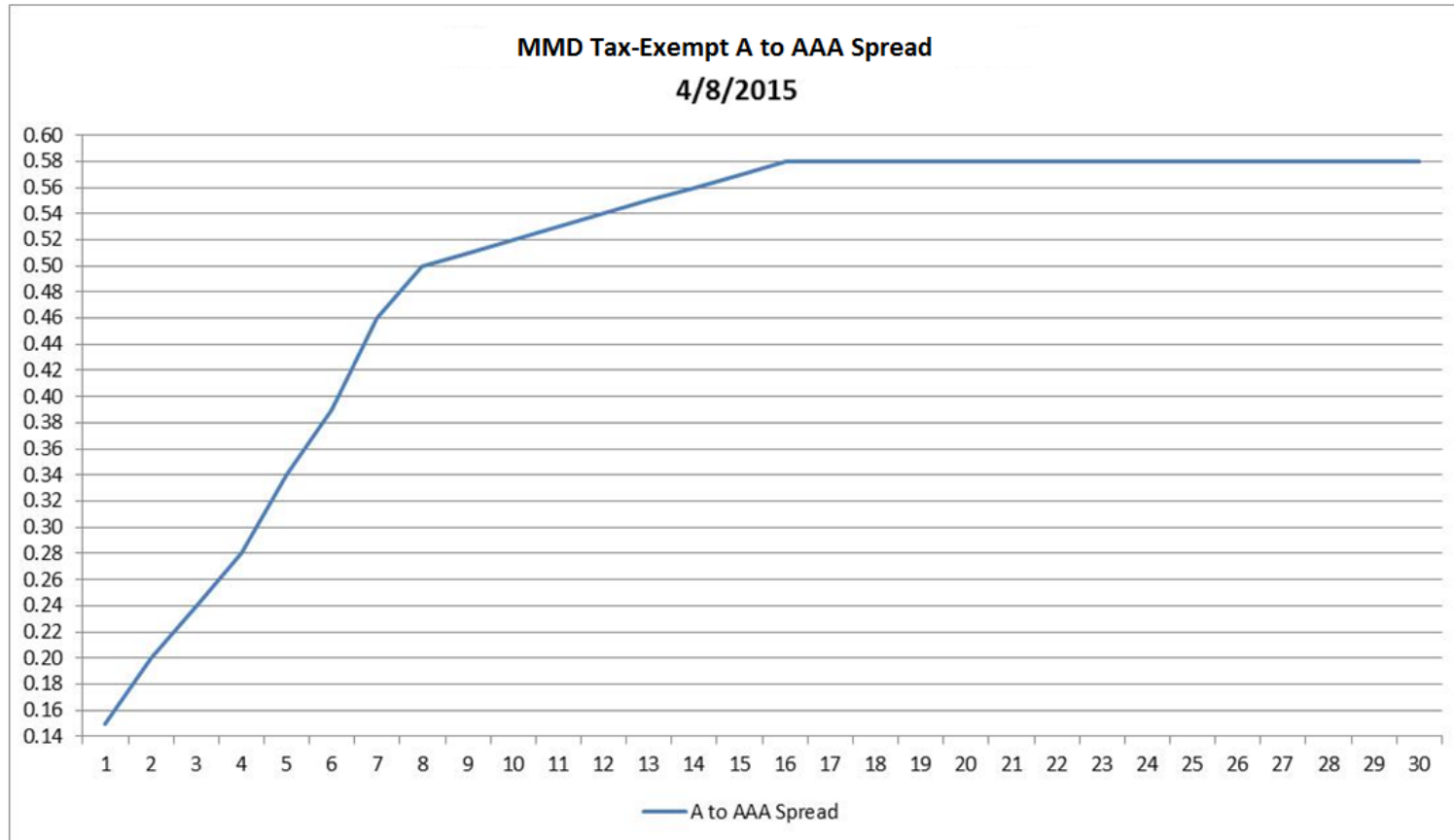
	Order	Qty	Inc	Type	Issue Description	Coupon	Moody/ S&P	Maturity	ST	Price	Yield to Worst	Yield to Mat
<input type="checkbox"/>		750	5	Firm	California St 6.2 10/01/19 Aa3/A+ 13063A7G3 Extraordinary Calls - Gen Purp/Pub Impt Use - TAXABLE - Material Events	6.2	Aa3/ A+	10/01/2019	CA	118.864 	1.785	1.785
<input type="checkbox"/>		170	5	Firm	Riverside Calif Redev Agy 2.65 09/01/19 -/AA- 76904RBA4 TAXABLE - Material Events	2.65	-/ AA-	09/01/2019	CA	104.167	1.66	1.66
<input type="checkbox"/>		250	5	Firm	Vista Calif Redev Agy Suc 2.3 09/01/19 -/AA 928328AE3 TAXABLE - AGMC insured	2.3	-/ AA	09/01/2019	CA	102.726	1.652	1.652
<input type="checkbox"/>		110	5	Firm	Vista Calif Redev Agy Suc 2.3 09/01/19 -/AA 928328BR3 TAXABLE - AGMC insured	2.3	-/ AA	09/01/2019	CA	102.769	1.642	1.642
<input type="checkbox"/>		225	5	Firm	Chaffey Calif Un High Sch 2.129 08/01/19 Aa2/AA- 157411PD5 TAXABLE - Material Events	2.129	Aa2/ AA-	08/01/2019	CA	101.835	1.684	1.684
<input type="checkbox"/>		300	5	Firm	University Calif Revs For 1.796 07/01/19 Aa2/AA 91412GSB2 TAXABLE - Material Events	1.796	Aa2/ AA	07/01/2019	CA	101.098	1.526	1.526
<input type="checkbox"/>		250	5	Firm	California St For Previo 2.25 05/01/19 Aa3/A+ 13063CKL3 TAXABLE - Material Events	2.25	Aa3/ A+	05/01/2019	CA	103.432	1.375	1.375
<input type="checkbox"/>		285	5	Firm	Vista Calif Redev Agy Suc 1.9 09/01/18 -/AA 928328AD5 TAXABLE - AGMC insured	1.9	-/ AA	09/01/2018	CA	101.924	1.316	1.316
<input type="checkbox"/>		105	5	Firm	Vista Calif Redev Agy Suc 1.9 09/01/18 -/AA 928328BQ5 TAXABLE - AGMC insured	1.9	-/ AA	09/01/2018	CA	102.144	1.25	1.25
<input type="checkbox"/>		190	5	Firm	La Mirada Calif Redev Agy 1.717 08/15/18 -/AA 50368RAP6 TAXABLE - Material Events - AGMC	1.717	-/ AA	08/15/2018	CA	102.030	1.095	1.095

Tax-Exempt AAA MMD Yield Curve



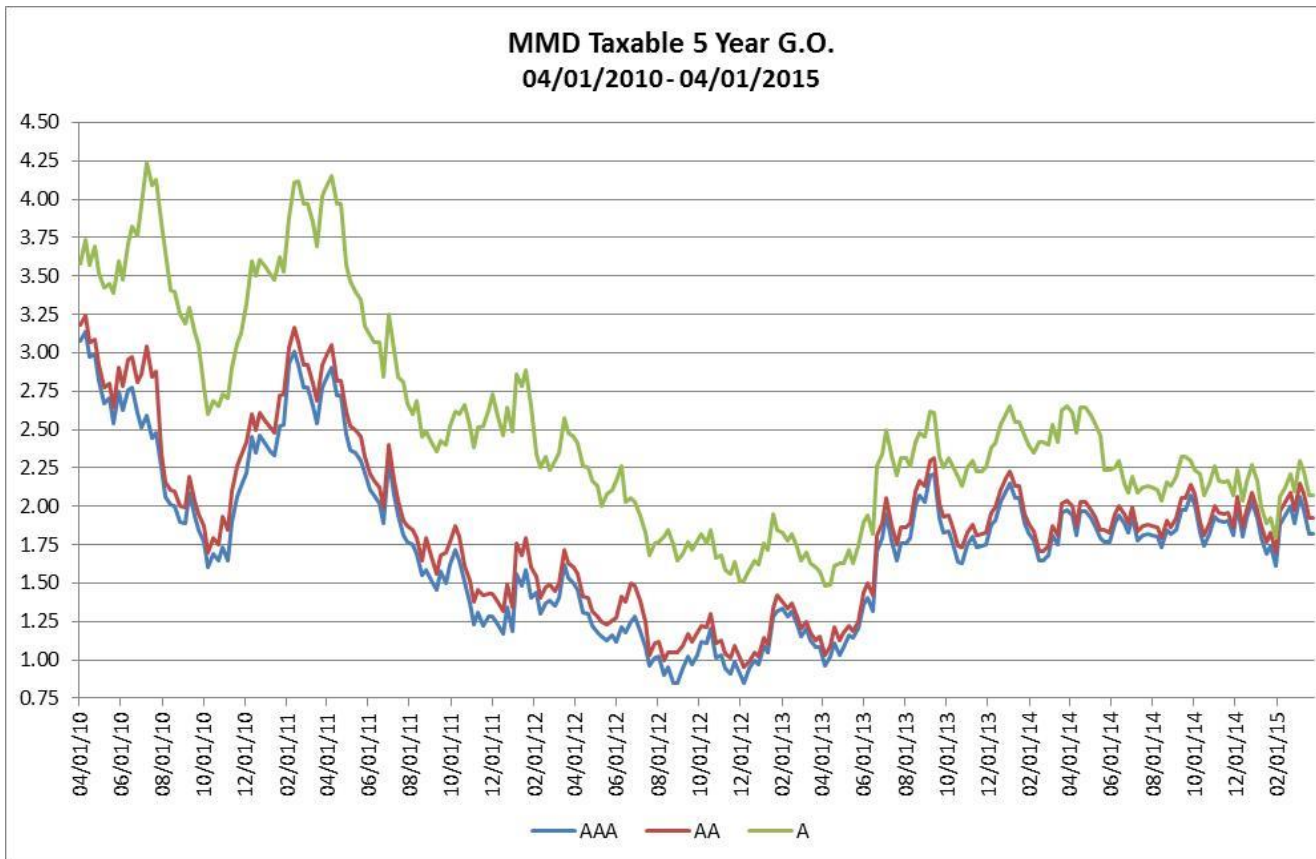
Source: TM3. As of 4/8/2015.

Tax-Exempt Credit Spreads



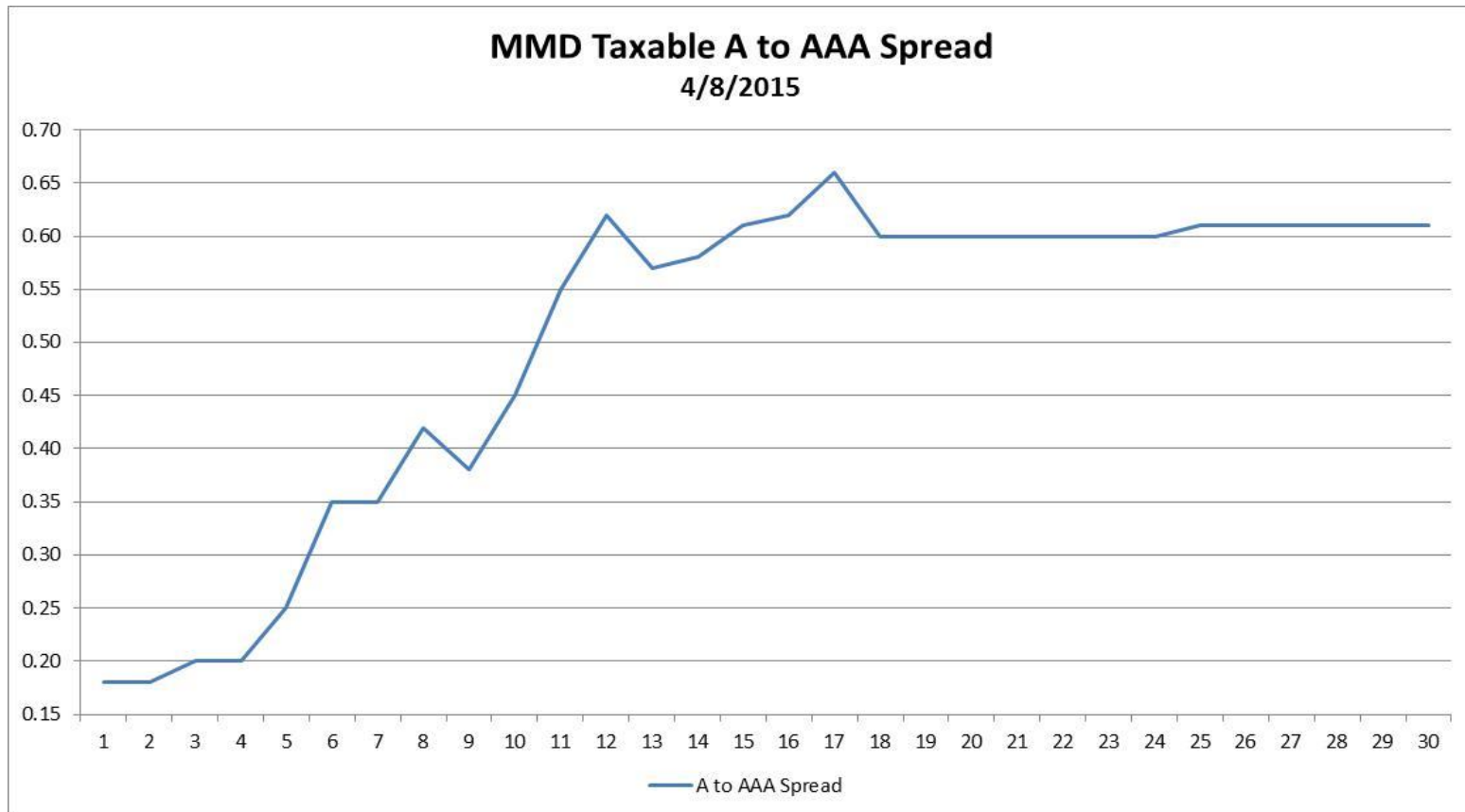
Source: TM3. As of 4/8/2015.

5year Taxable Credit Spreads



Source: TM3. As of 4/1/2015.

Taxable Credit Spreads



Source: TM3. As of 4/8/2015.

Post-Trade Discovery

- EMMA alerts for ratings, financial information or trades
- Disclosure events
- Monitor trade prices EMMA. 15 minutes to report.
- 90 percent of trade history on a CUSIP is within the first 90 days of issuance.
- The relatively illiquid municipal market lacks centrally-posted and continuous quotes.
- Evaluation services (S&P, IDC)
- Bloomberg – search functions

EMMA Trade Details

Security Details

BROWNSVILLE (CITY OF), TEXAS (CAMERON COUNTY) GENERAL OBLIGATION REFUNDING BONDS, SERIES 2013A (TX)

BROWNSVILLE TEX REF-SER A (TX)*

CUSIP: 116405JC6*

Dated Date: 11/15/2013

Maturity Date: 02/15/2019

Interest Rate: 5.0 %

Principal Amount At Issuance: \$3,800,000

Initial Offering Price: 115.8

Initial Offering Yield: 1.78

 Add this security to your alerts.

[Learn More](#)

Issuer Homepage ^{Pilot}

■ BROWNSVILLE TEX

[See other securities in this issue](#)

[Start a new search](#)

Official Statement

Continuing Disclosure

Trade Activity

Ratings



Trade Summary

View daily summary of trade price and yield information for this security.

View daily summary of price and yield information for trades in this security, including a graph of trade prices over time. [Learn more about trade prices.](#)

Display results

Find in results:

[First](#) [Previous](#) [1](#) [2](#) [3](#) [Next](#) [Last](#)

	Trade Date	High/Low Price (%)	High/Low Yield (%)	Trade Count	Total Trade Amount (\$)
	03/26/2015	113.677 / 113.602	1.38 / 1.362	2	200,000
	03/24/2015	113.477 / 113.377	1.444 / 1.42	2	100,000
	03/23/2015	114.331 / 113.781	1.347 / 1.213	3	300,000
	03/20/2015	113.618 / 113.618	1.39 / 1.39	1	150,000
	03/19/2015	113.458 / 113.458	1.432 / 1.431	2	100,000
	01/23/2015	115.067 / 114.967	1.2 / 1.177	2	50,000
	01/16/2015	114.236 / 113.236	1.621 / 1.385	3	75,000
	11/10/2014	116.876 / 115.457	1.26 / 0.942	4	1,320,000
	11/06/2014	115.637 / 115.637	1.22 / 1.22	2	90,000
	11/05/2014	115.472 / 115.472	1.261 / 1.261	1	1,345,000



Trade Details

View historical trade price and yield information for this security.



Trade Price and Yield Graphs

View graphs of trade prices and yields for this security over time.



Price Discovery Tool

Find and compare trade prices of other securities with similar characteristics.

Sourcing Bonds/Liquidity

- Ways to Source Bonds
 - Primary market
 - CDRN (negotiated Calendar/CDRC (Competitive) functions on Bloomberg
 - IPREO provides New issuance software
 - Secondary Market
 - Have your dealers send inventory
 - PICK
- Liquidate Bonds
 - Work an order
 - Bid wanted - ideally provide at least an hour lead time so you can get the best bids
 - Liquid bonds vs. Illiquid bonds
- Tools to Use
 - Bloomberg Functions to search Municipal offerings
 - PICK
 - IMGR
 - DES, YA, TDH
 - Trade platforms (i.e. eConnectDirect®, Municenter, Bonddesk)

Are Munis a Safe Investment?

- Default rates (after 10 years)

Default Rates		
Rating	Municipal	Corporate
AAA	0.00	0.50
AA	0.01	0.90
A	0.05	2.50
BBB	0.30	4.75

Source: Moody's 1970-2012 with 10 year season

Sector	Default Rate
Housing	39.7%
Hospitals & Health Care	30.1%
General Obligation	6.8%
Infrastructure	5.5%
Education	4.1%
Cities (Non-General Obligation)	4.1%
Utilities	2.7%
Water & Sewer	2.7%
Counties	2.7%
Other	1.4%

- Recovery rate of 67 cents vs 16 cents for corporates
- Do your credit work, research is key and have strong risk oversight
 - Set appropriate investment policies
- Issuer transparency will increase

Long-Term Trends

- Regulation
- SEC and MSRB working to increase pre-trade and post-trade transparency.
- Rule G-30: MSRB Rule G-30 requires that broker-dealers charge fair and reasonable aggregate prices to customers.
- Credit risks matter – Risk mitigation through surveillance and setting appropriate Investment policies. Less due diligence for higher-rated GOs vs. low-rated revenue bonds.
- Oil/gas revenues put pressure on some states (Alaska, ND, WY have the largest % of revenues of total taxes).

Long-Term Trends

- Bankruptcies/state issues (Detroit, Puerto Rico, NJ, Illinois) pension issues.
- Continued upgrades vs downgrades due to economy, structural changes to local government criteria. Health care and higher education have negative outlook.
- Continued increase in bond insurance on new issuance 5.6% in 2014.
- Transparency
- Bond flows determine market technicals.
- Tax reform proposals to curtail the tax benefits of municipal bond investments may once again make some headlines, but we do not expect to see this come to fruition in 2015.
- Increase in interest rates and returns on portfolios and credit spreads.
- Supply \$330BLN in 2014



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