

# Overview of Municipal Market Conditions

American Association of Port Authorities  
(AAPA)

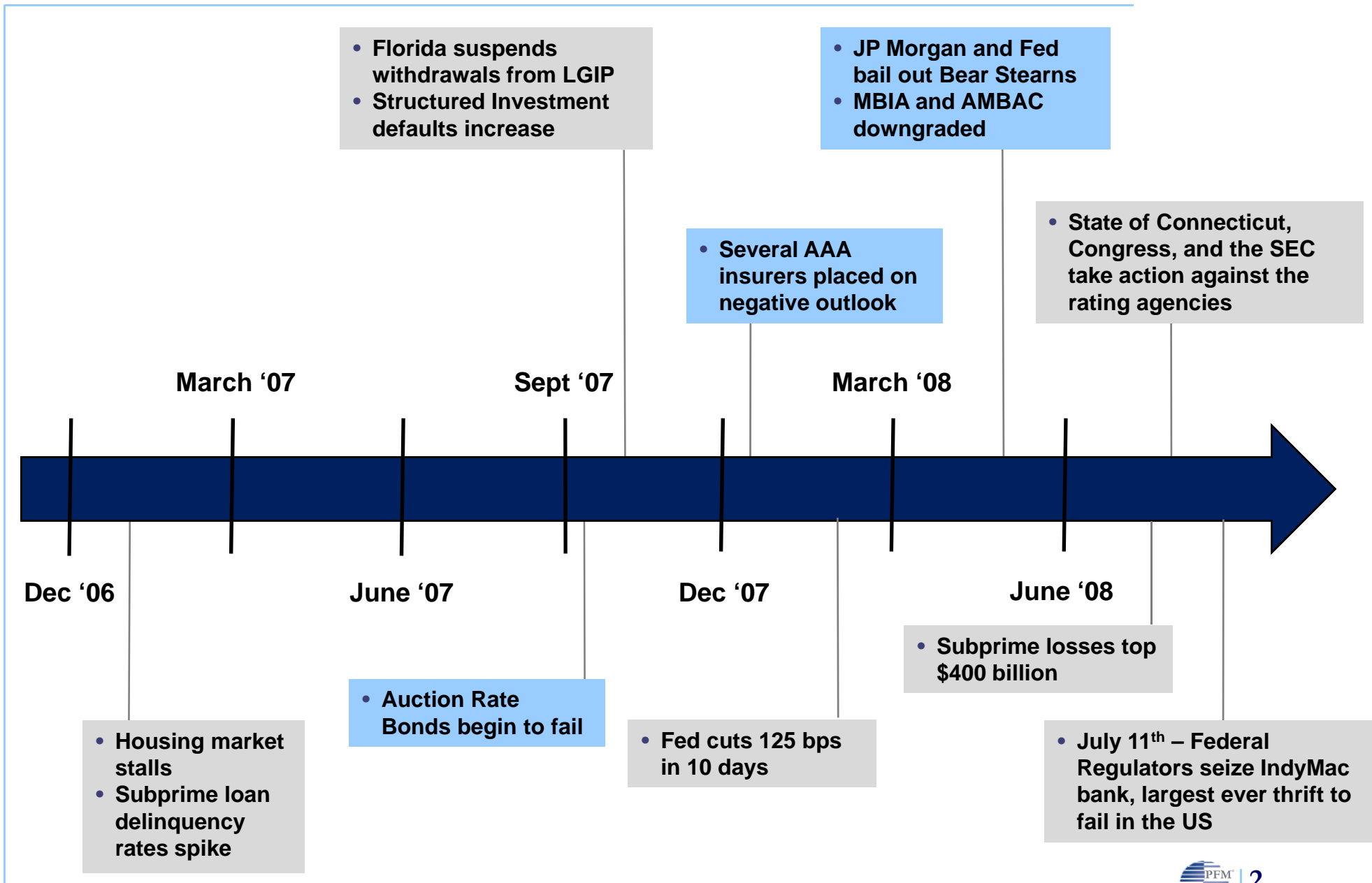
November 18, 2008

JoAnne Carter  
Managing Director

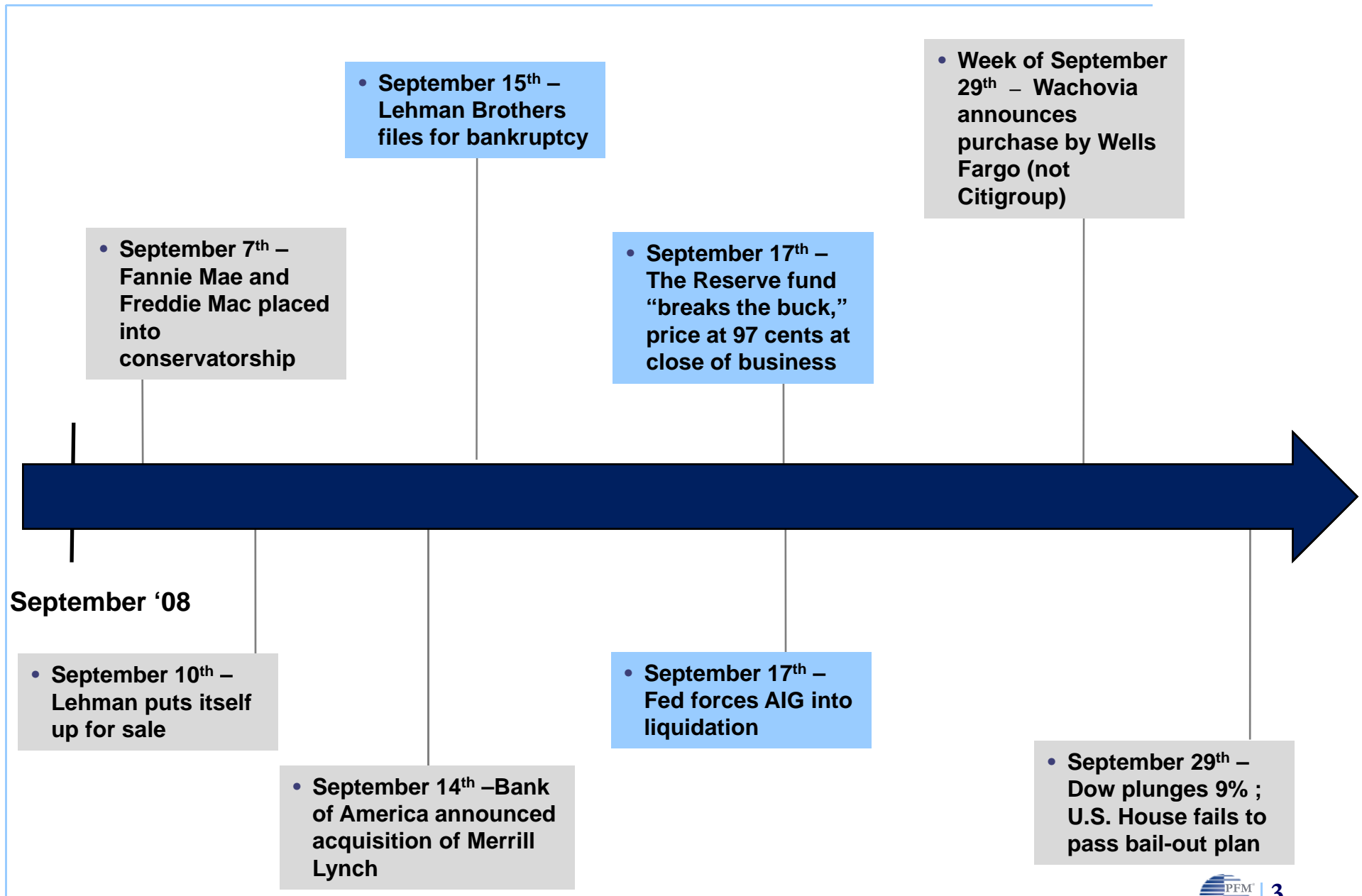
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4350 North Fairfax Drive, Suite 580  
Arlington, VA 22203-1636  
703 741-0175  
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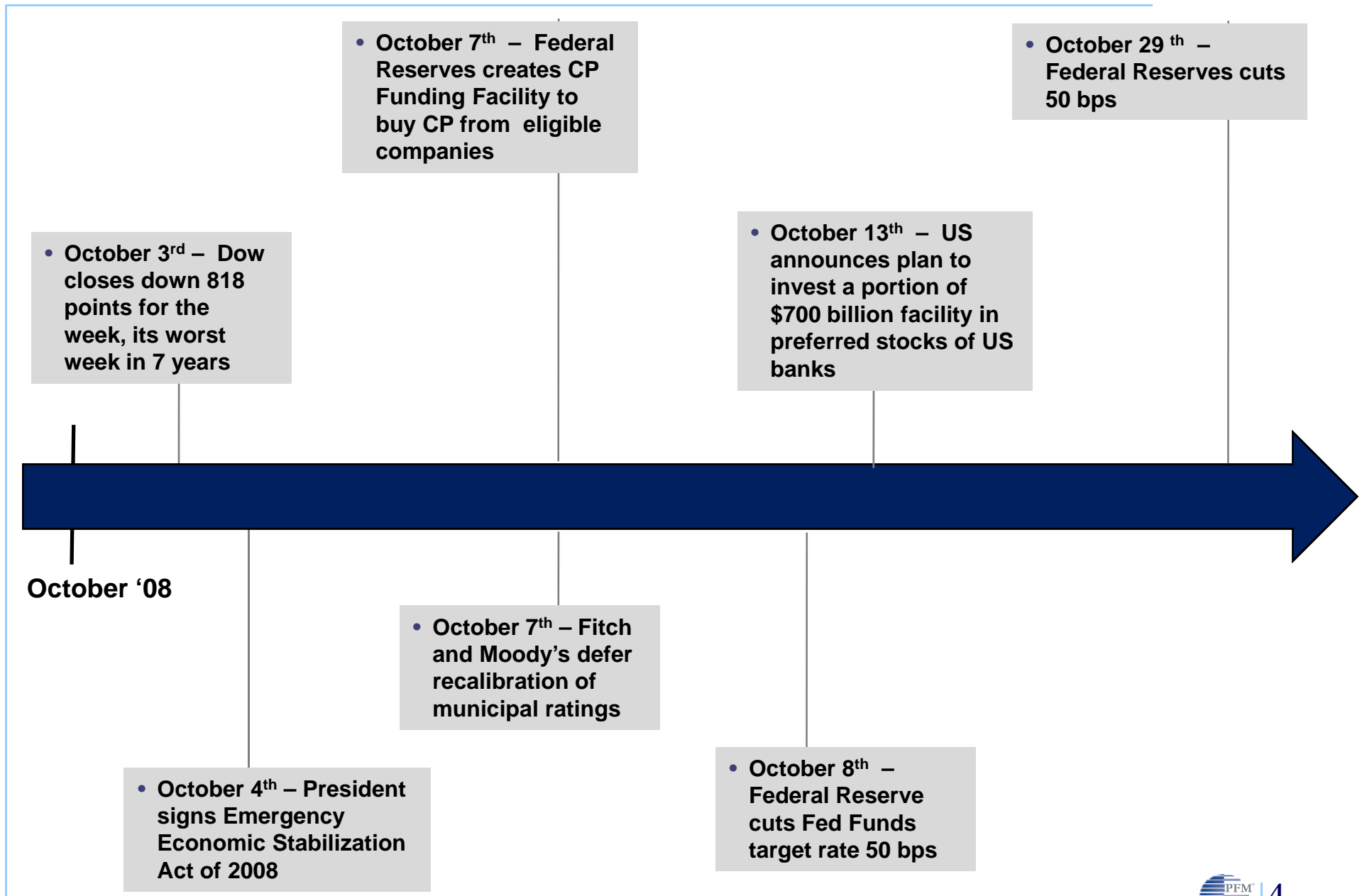
# Credit Crunch: Part 1



## Credit Crunch: Part 2



## Credit Crunch: Part 2 (con't)



# Demise of Triple-A Bond Insurers

	Moody's	S & P	Fitch
Ambac	Baa1 Watch Developing	AA Negative	Withdrawn
Assured Guaranty <sup>1</sup>	Aaa Negative Watch	AAA Stable	AAA Stable
Berkshire Hathaway	Aaa Stable	AAA Stable	Not rated
CIFG	B3 Watch Developing	B Developing Watch	Withdrawn
FGIC	B1 Negative	BB Negative Watch	CCC Evolving Watch
FSA <sup>1</sup>	Aaa Negative Watch	AAA Negative Watch	AAA Negative Watch
MBIA	Baa1 Watch Developing	AA Negative	Withdrawn
Syncora <sup>2</sup>	Caa1 Watch Developing	BBB- Negative Watch	Withdrawn

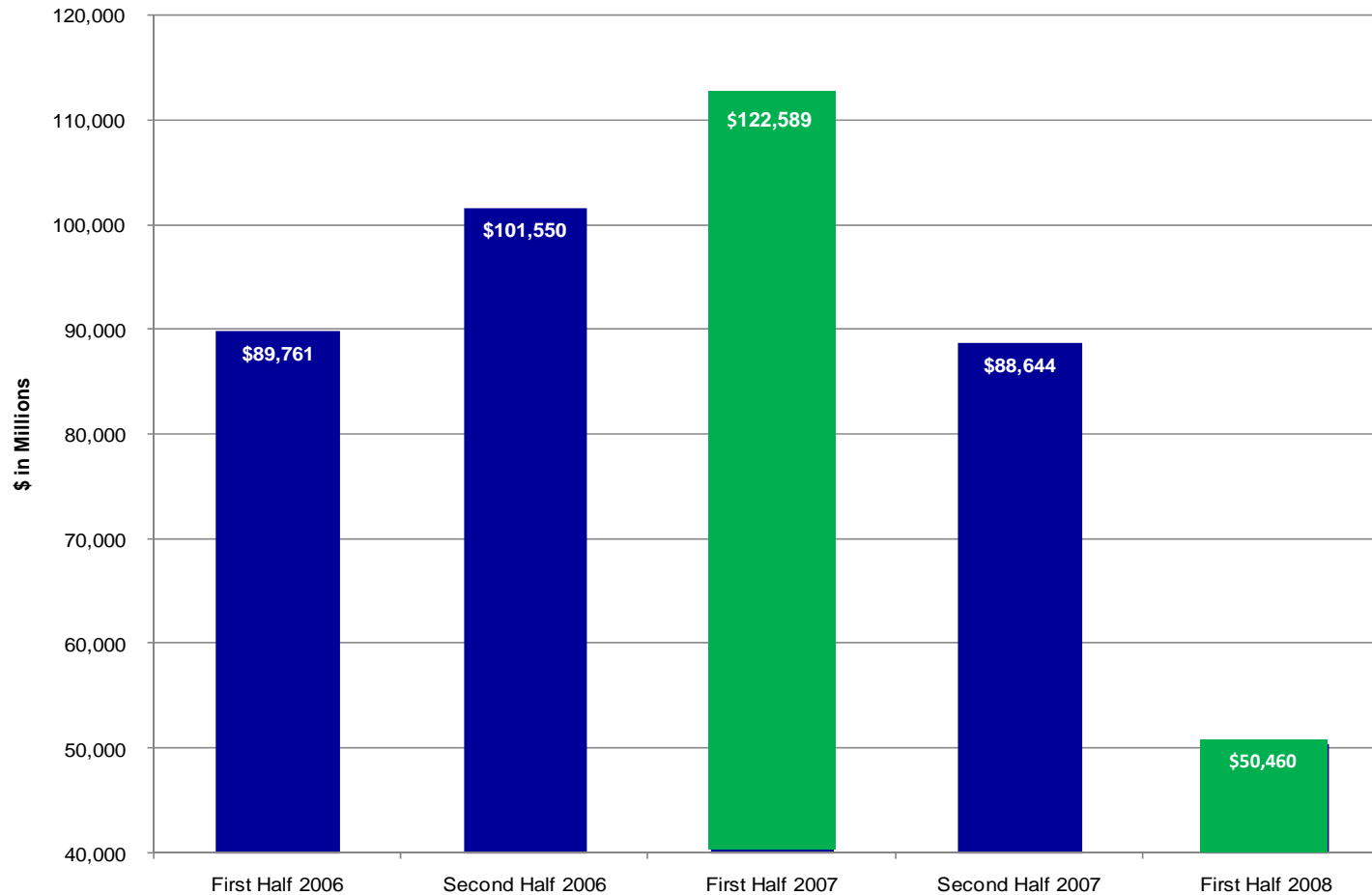
Data as of 11/14/2008.

1. Pending acquisition of FSA by Assured Guaranty, announced 11-14-08.

2. Formerly XL Capital.

# Reduction in Triple-A Insured Paper

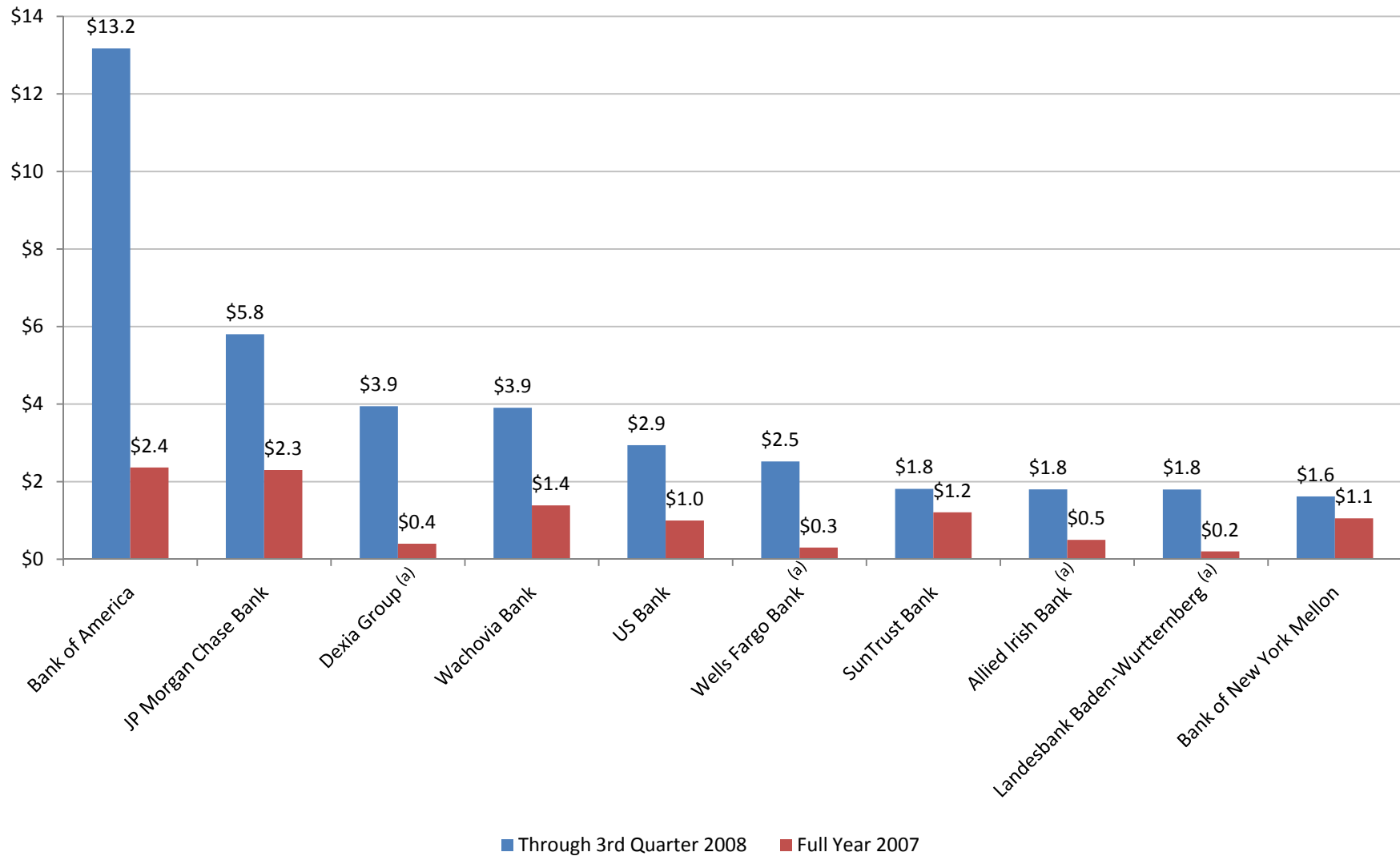
## Total Insured Volume (New Issuance)



Source: *The Bond Buyer*.

# Letter of Credit Activity

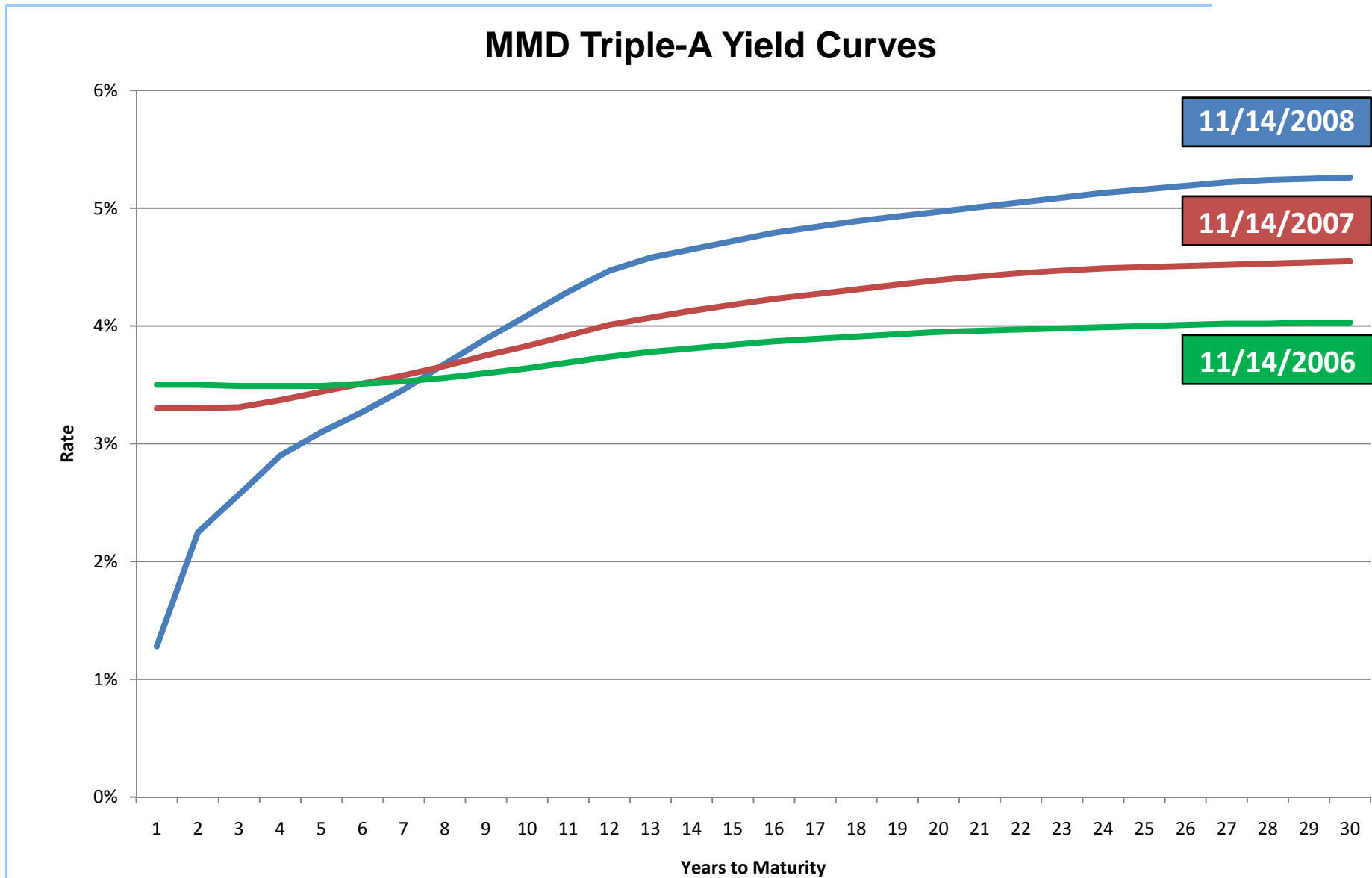
## Top LOC Providers



Source: *The Bond Buyer*.

(a) Firms were not ranked in Top 10 in 2007.

# Change in MMD Triple-A Yield Curve

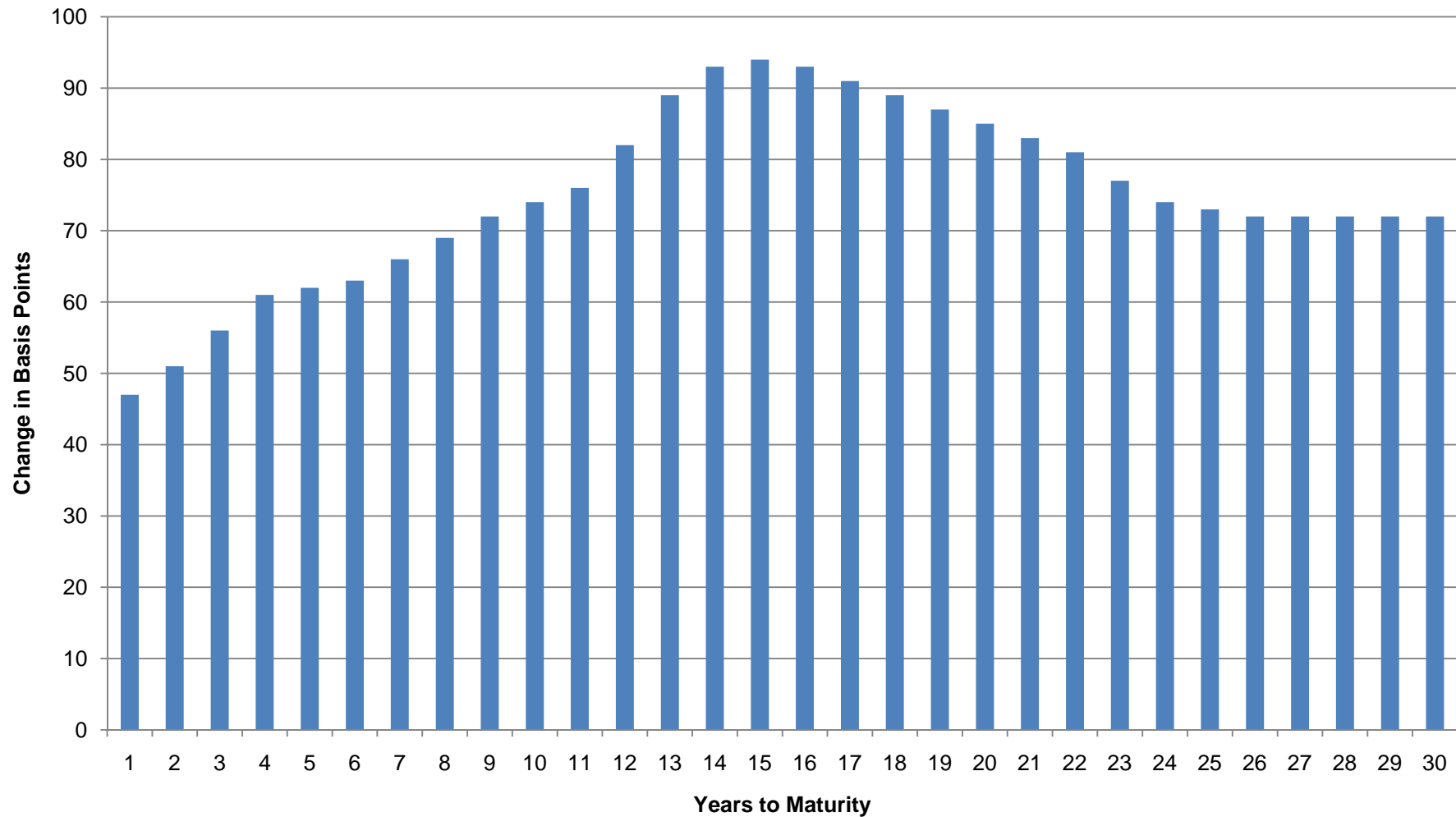


Source: TM3, data as of 11/14/2008



# Change in MMD Triple-A Yield Curve

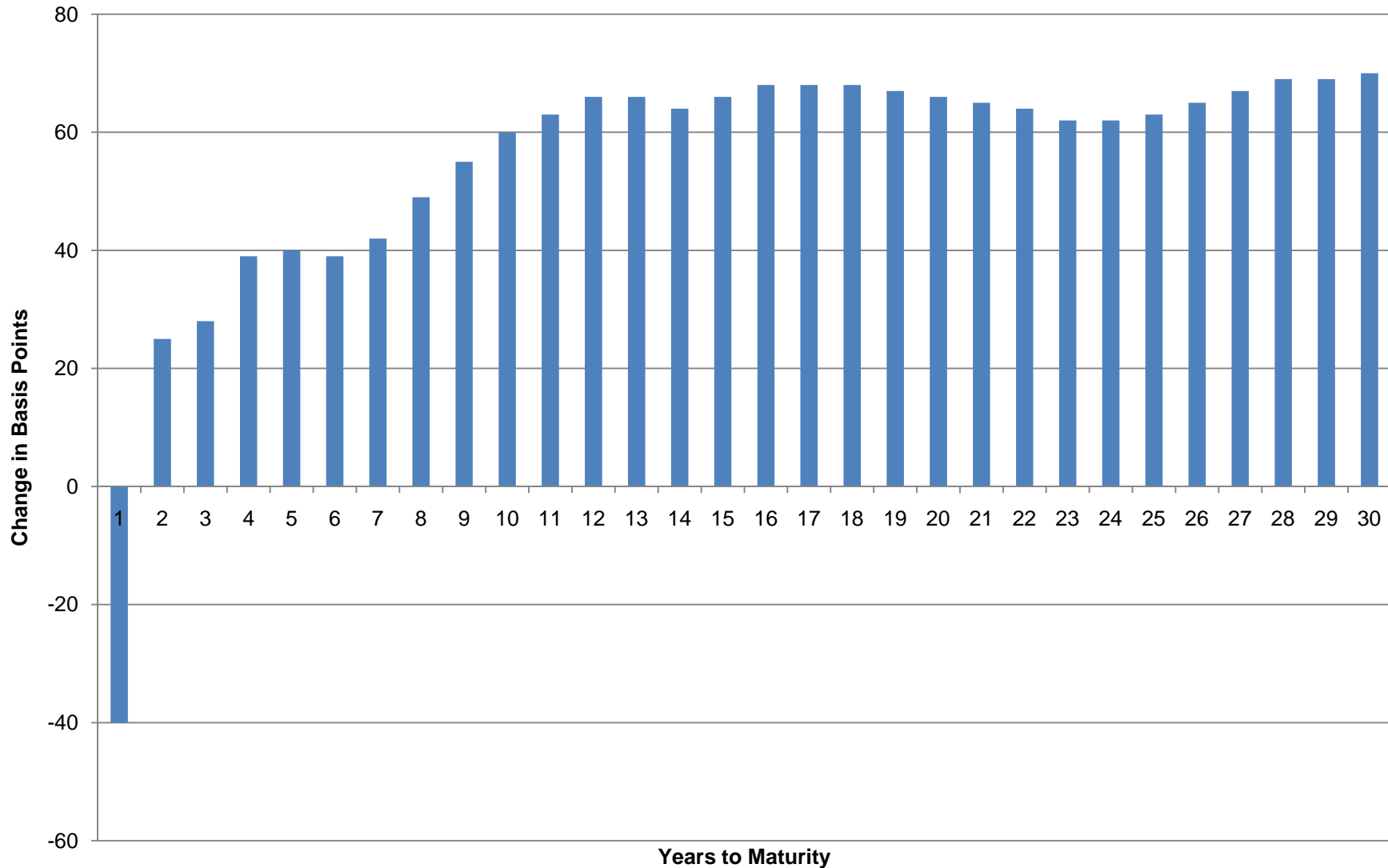
**Change in Triple-A MMD Yield Curve  
9/12/2008 to 10/02/2008**



Source: TM3, as of 11/14/2008.

# Change in MMD Triple-A Yield Curve

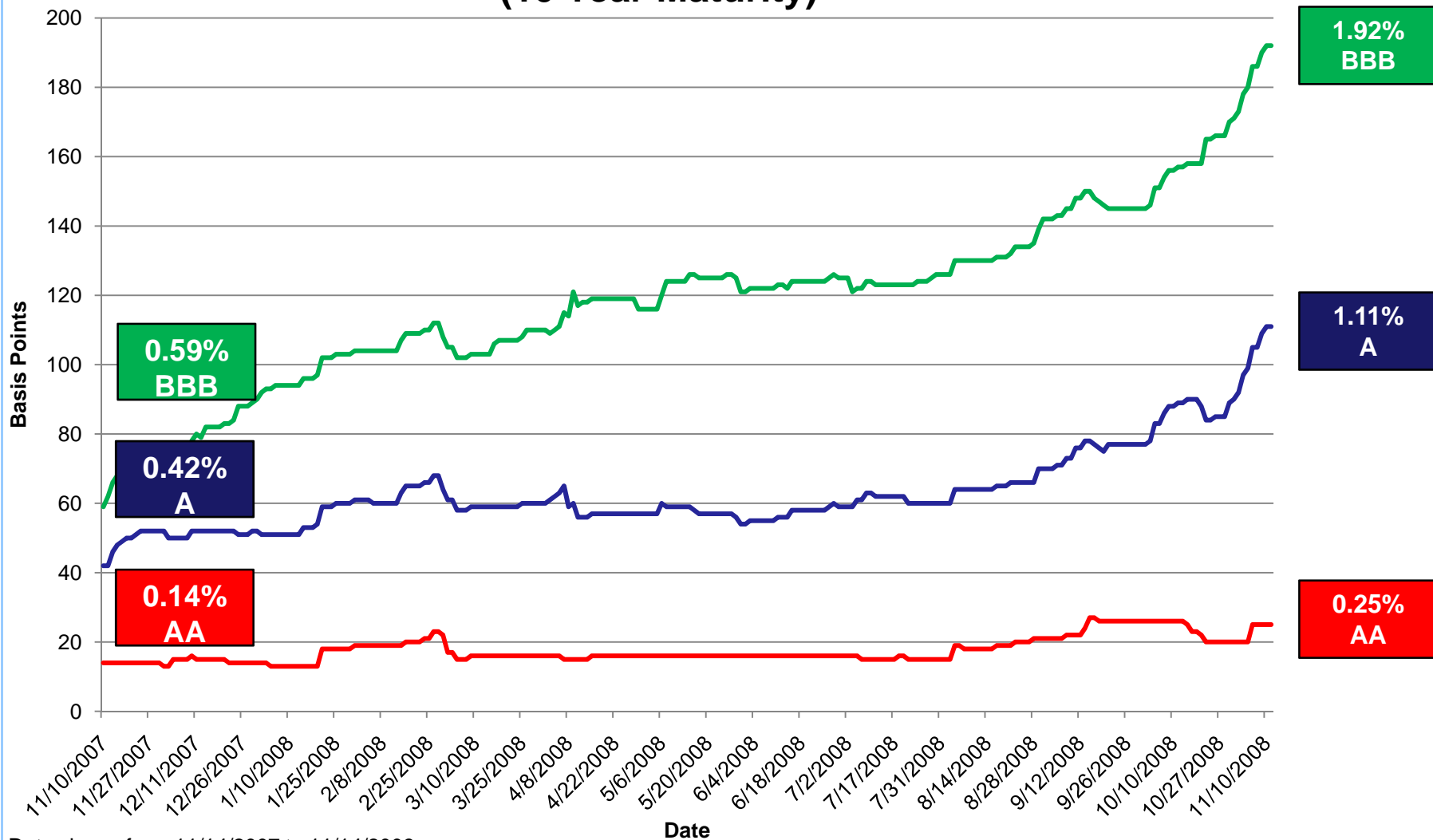
Change in MMD Triple-A Yields  
9/12/2008 to 11/14/2008



Source: TM3, data as of 11/14/2008

# Credit Spreads Widen

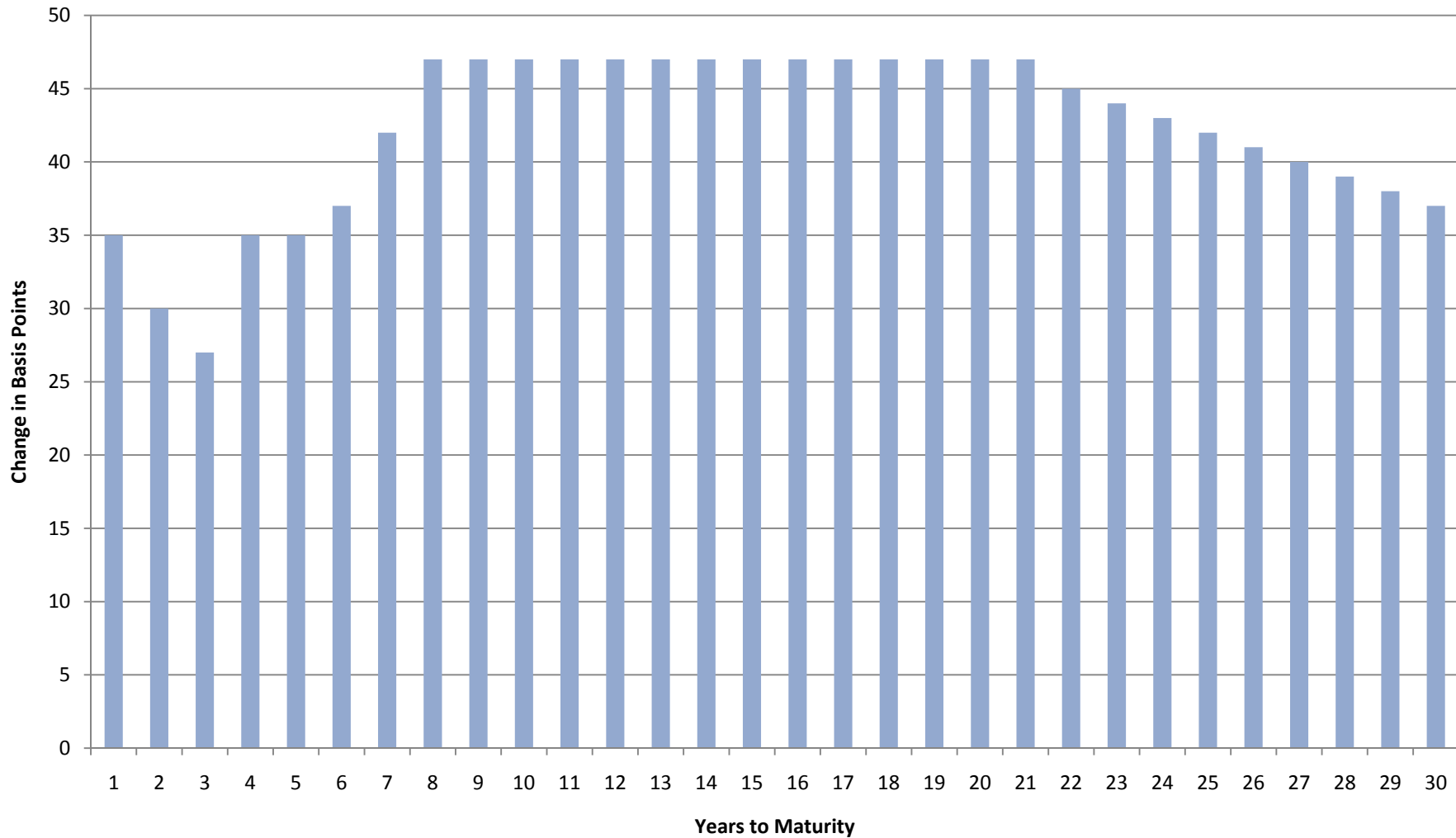
## Revenue Spread vs. MMD Triple-A Benchmark (10 Year Maturity)



Data shown from 11/14/2007 to 11/14/2008  
Source: TM3, as of 11/14/2008.

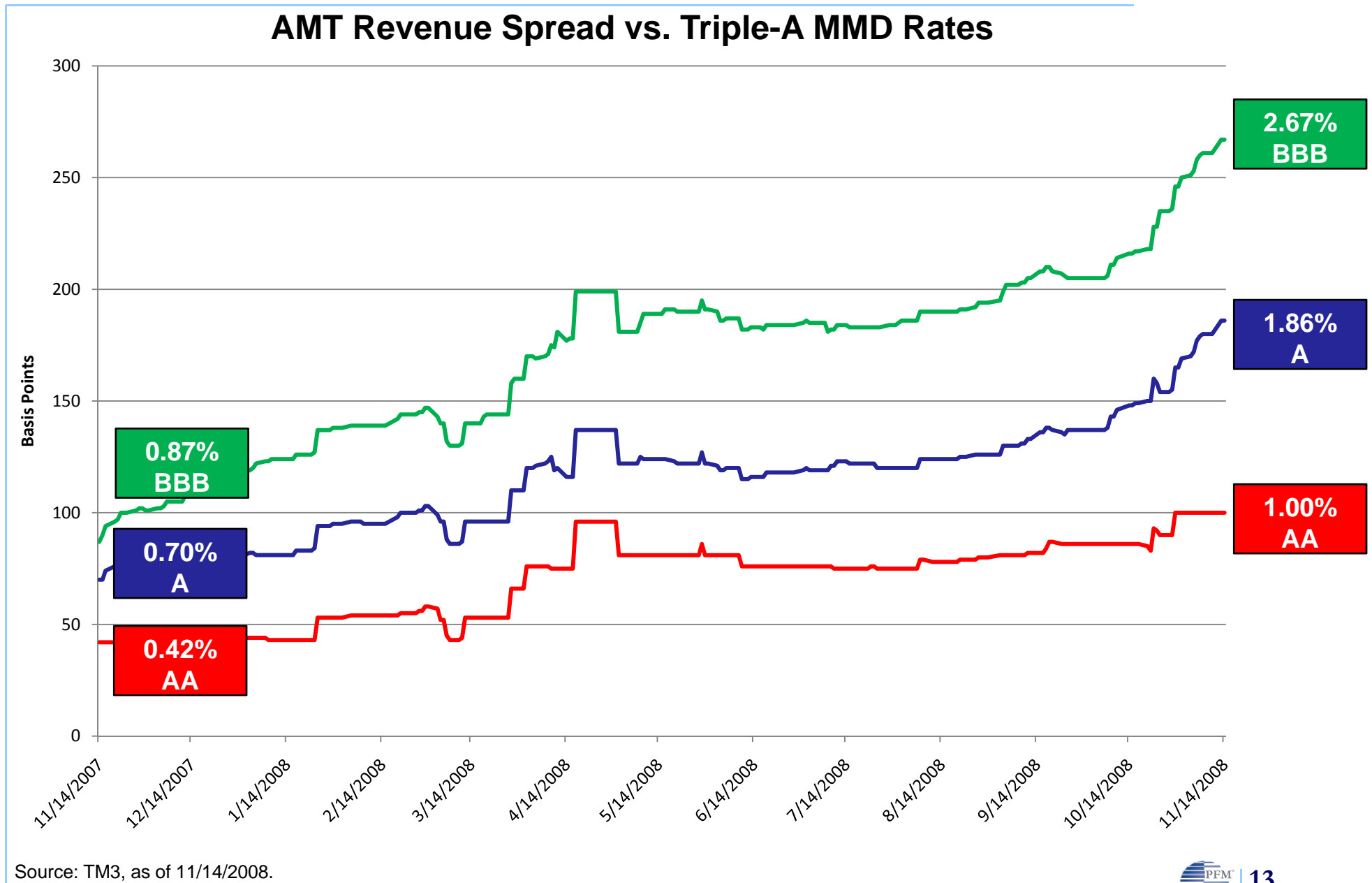
# AMT Spreads

## Change in AMT Penalty 11/14/2007 - 11/14/2008



Source: TM3, as of 11/14/2008.

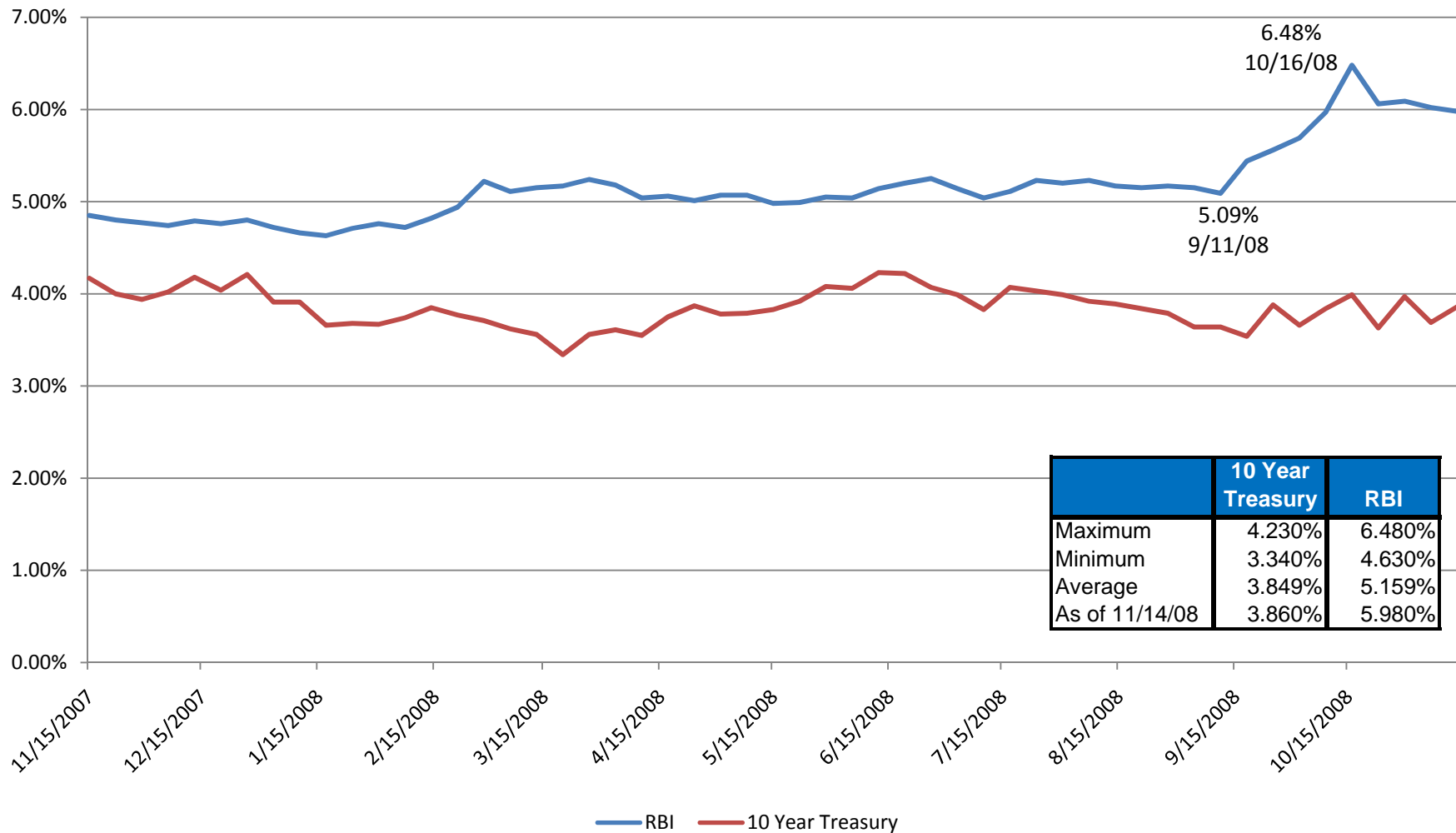
# AMT Spreads



Source: TM3, as of 11/14/2008.

# Municipal Bond Rates vs. Treasury Rates

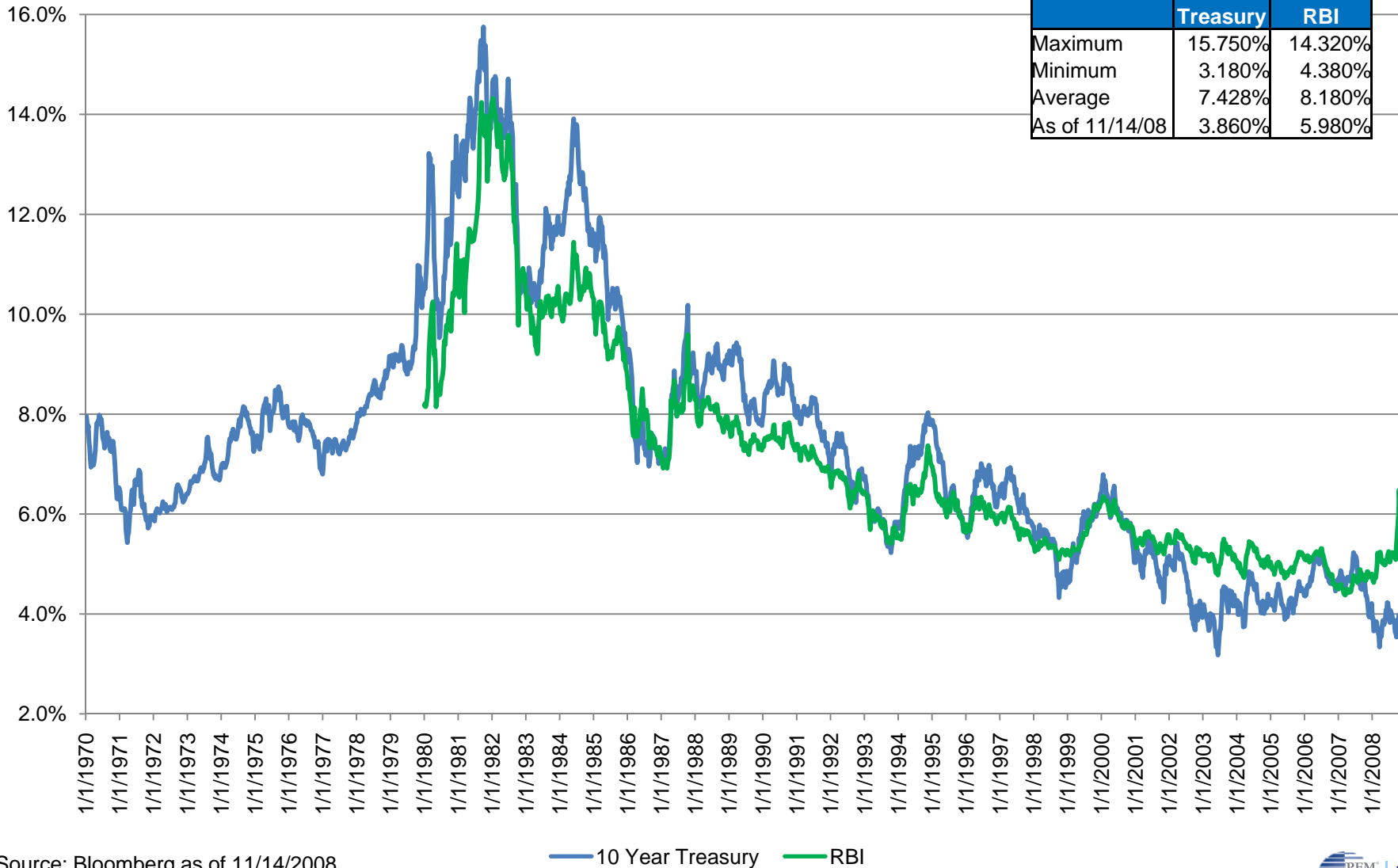
## 10 Year Treasury Rates vs. 25 Year Revenue Bond Index One Year History



Source: Bloomberg as of 11/14/2008.

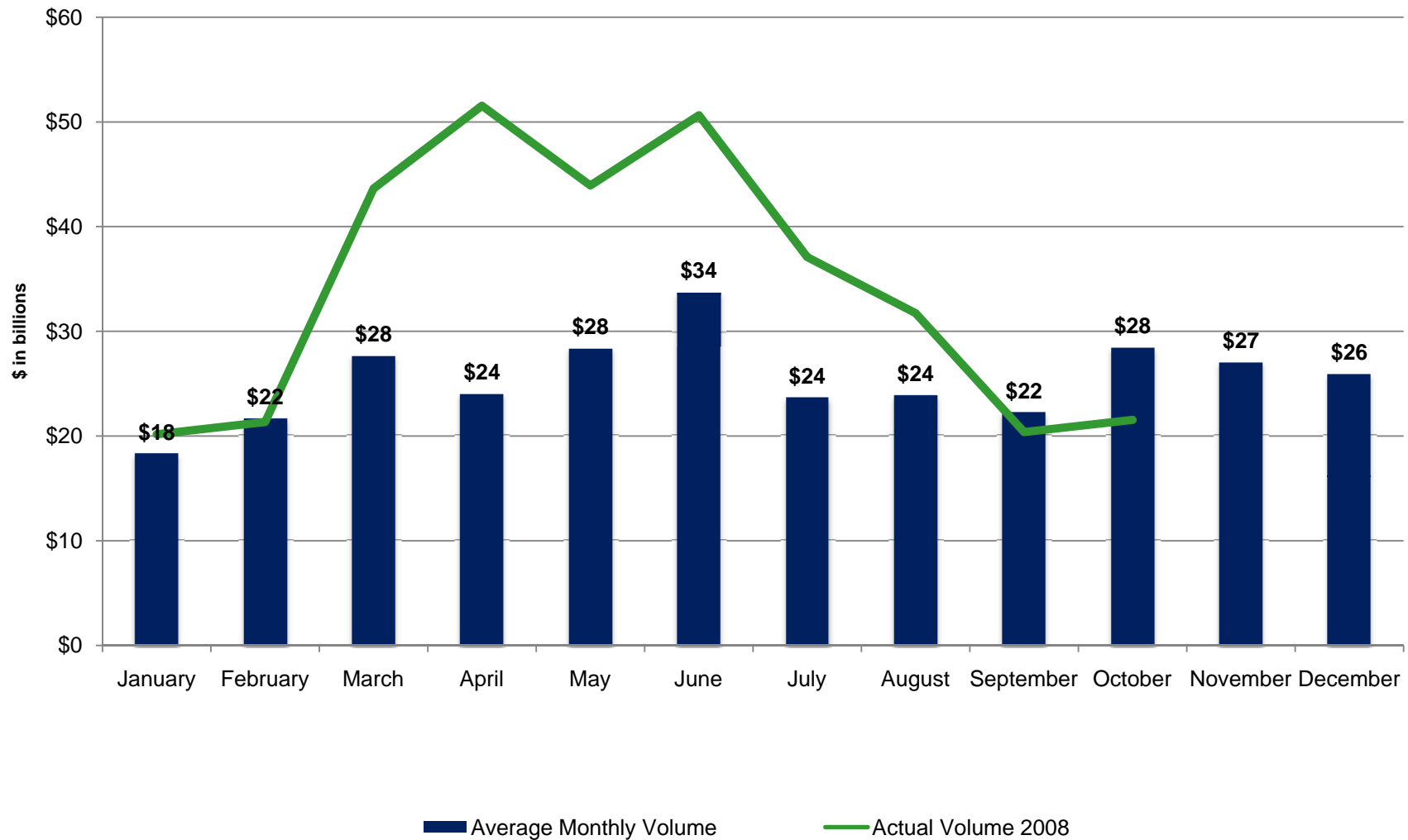
# Municipal Bond Rates vs. Treasury Rates

## 10 Year Treasury Rates vs. 25 Year Revenue Bond Index Since Jan. 1, 1970



# Municipal Bond Issuance

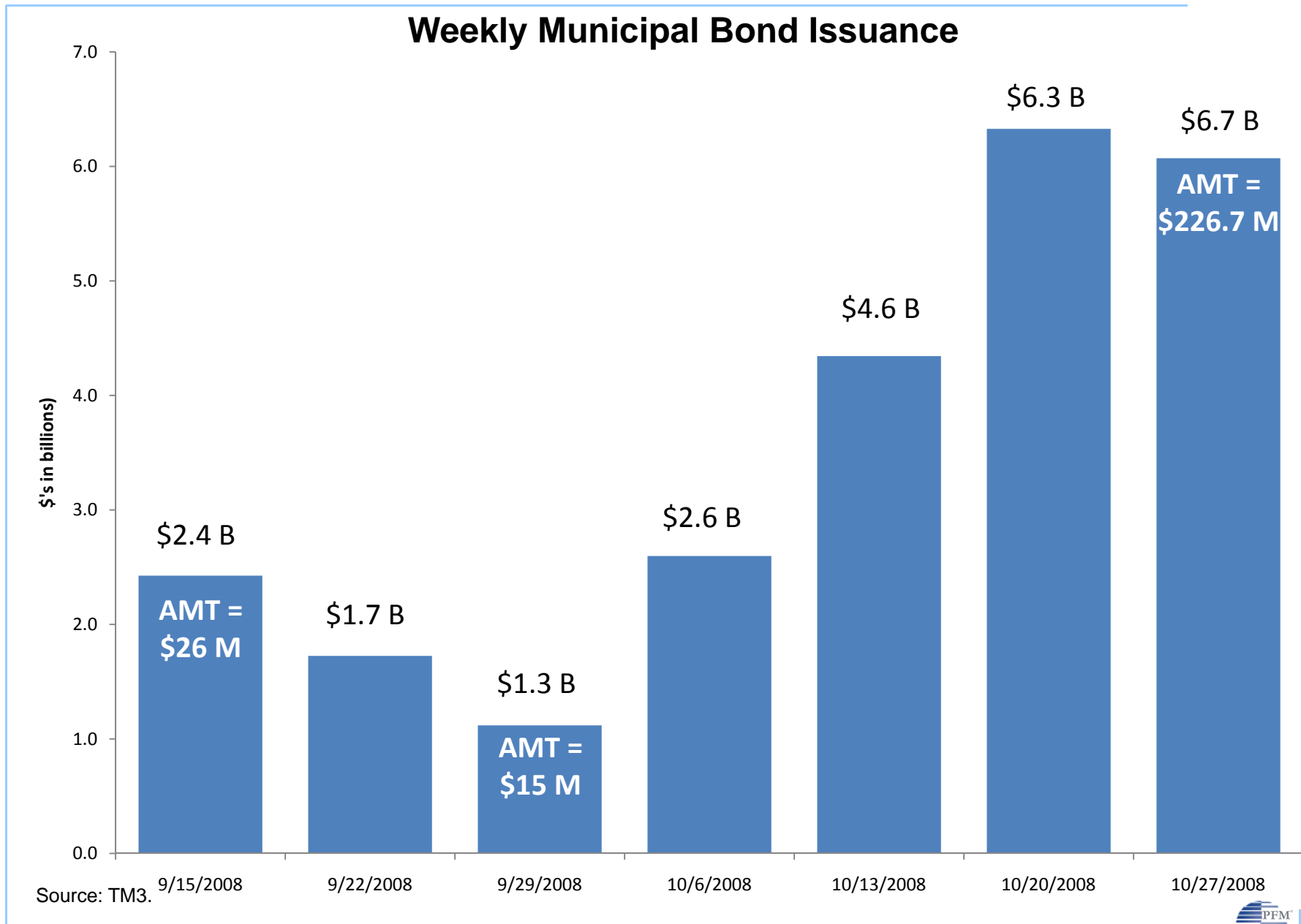
National Average Total Volume Issued by Month  
(1999-2008)



Source: *The Bond Buyer*,

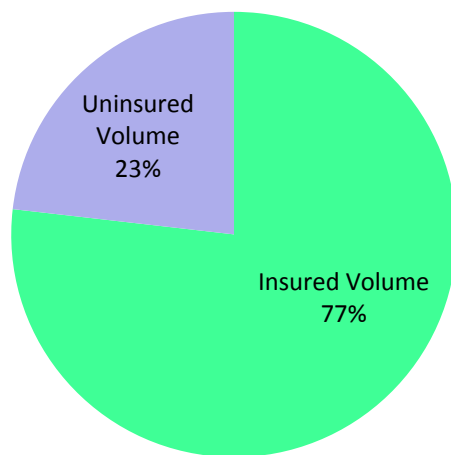
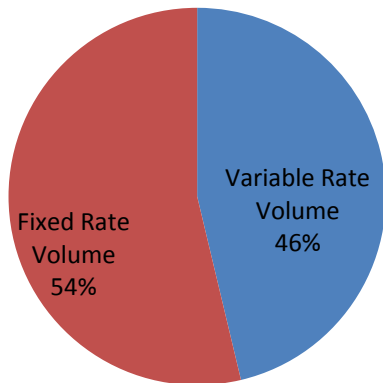


# Municipal Bond Issuance Volume

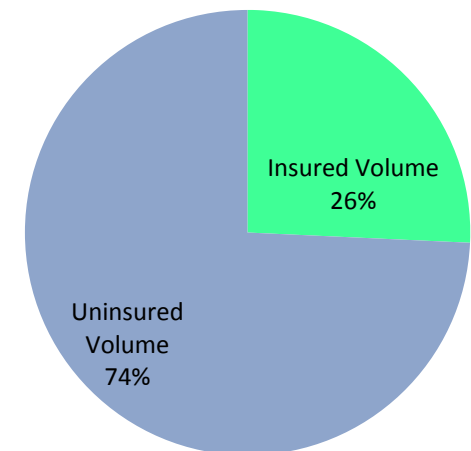
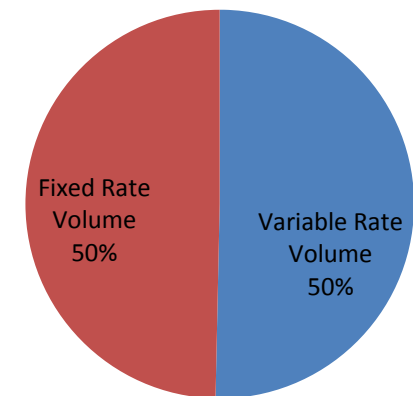


# Port Issuance

**2007**  
**Total = \$4.6 billion**



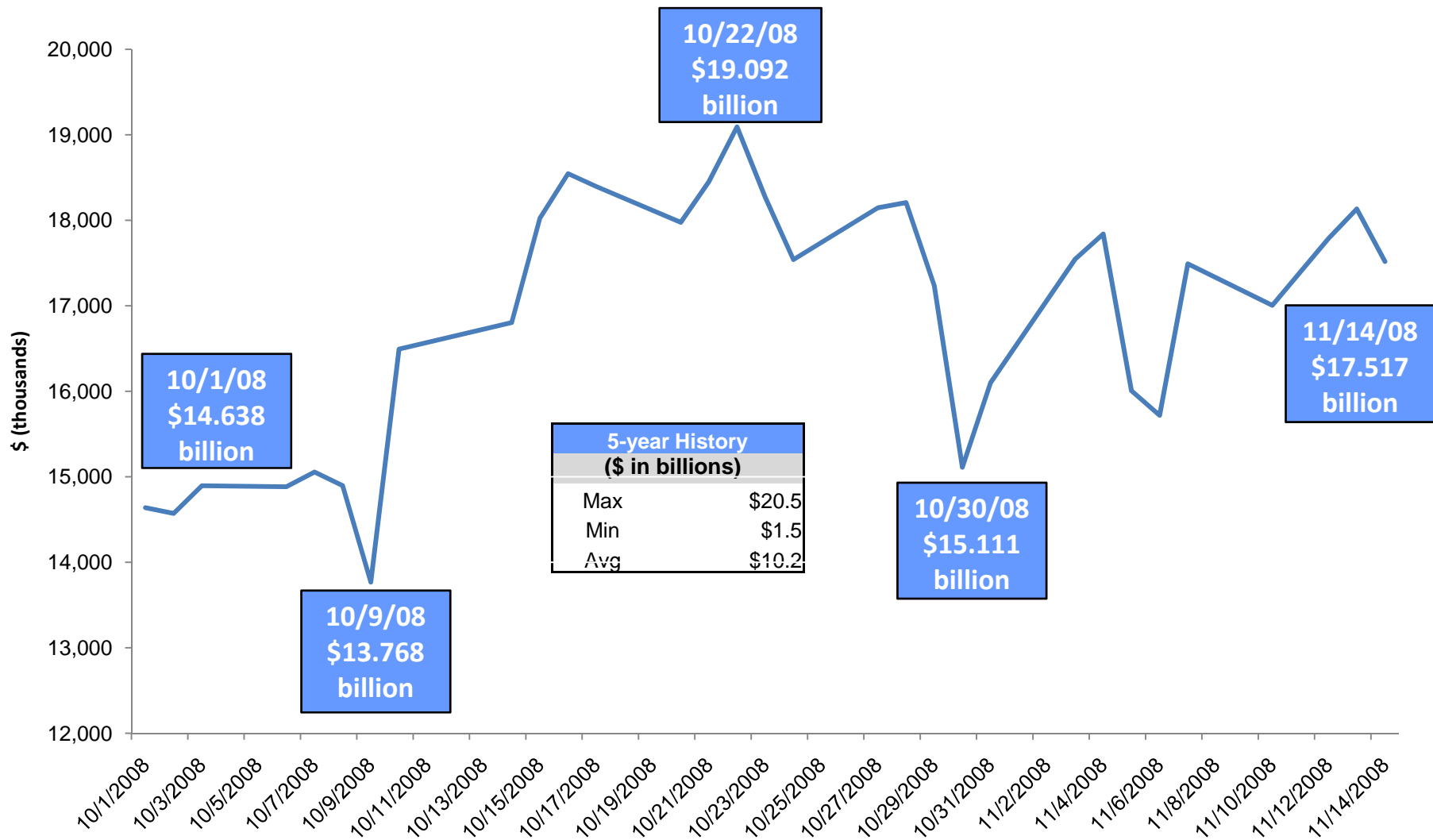
**2008 YTD**  
**Total = \$3.2 billion**



Source: TM3, as of 11/14/2008.

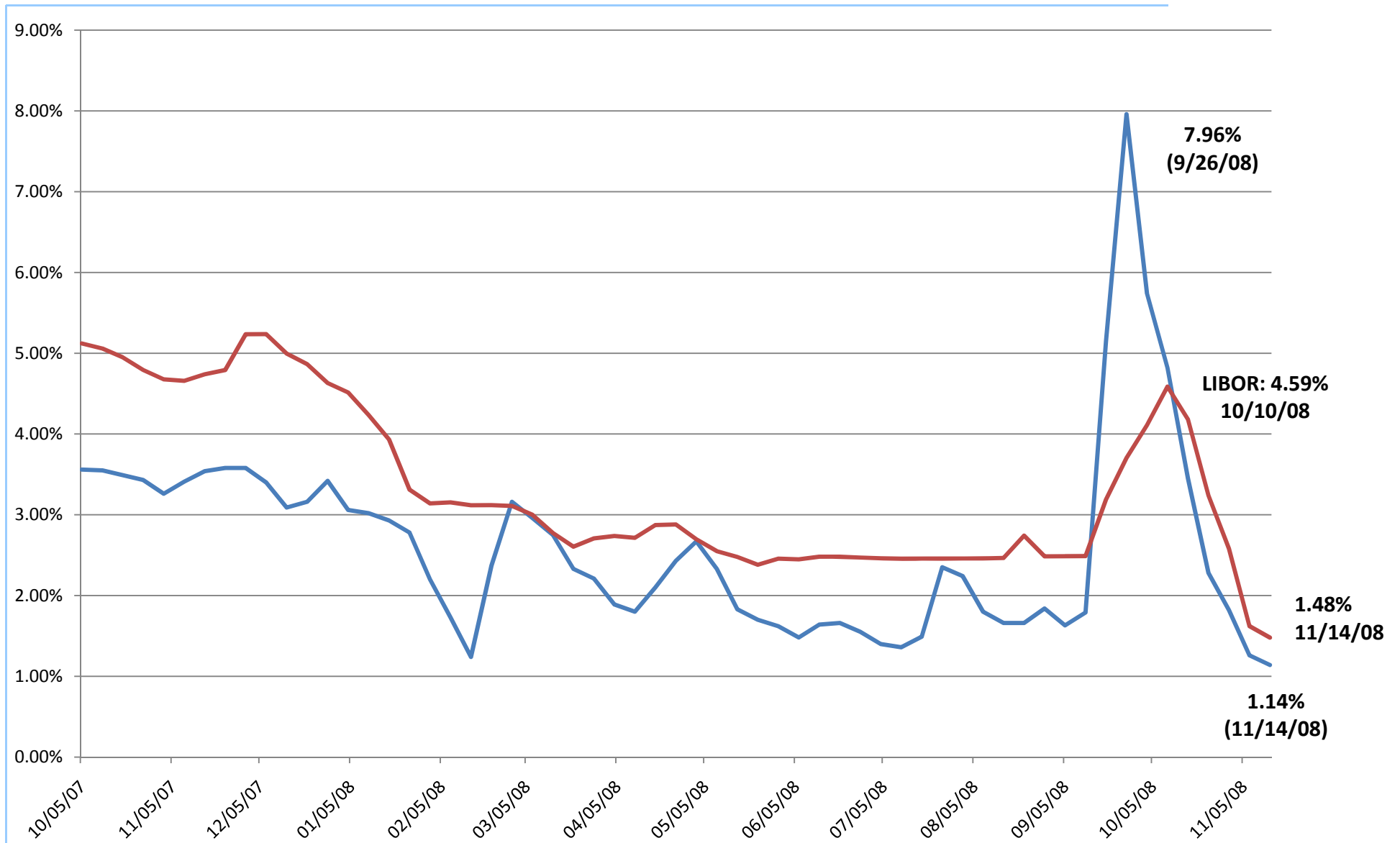
# Outlook for Municipal Bond Transactions

*Market conditions that began in September have led to significant pent-up municipal bond supply.*



Source: TM3, as of 11/14/2008.

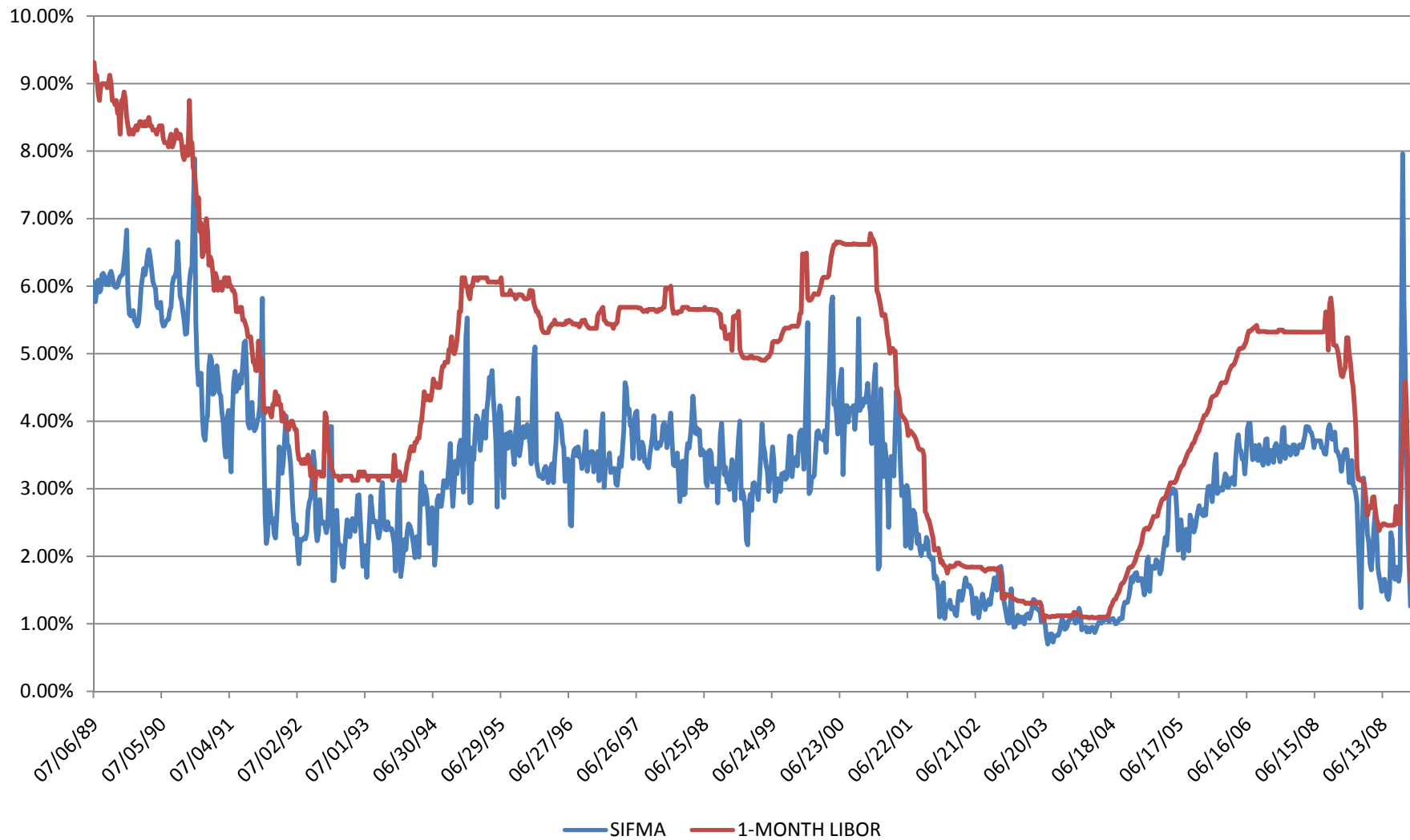
# Securities Industry and Financial Markets Association (SIFMA) Index vs. 1-Month LIBOR



Source: Bloomberg as of 11/14/2008.

# Variable Rate History

## SIFMA vs. 1-Month LIBOR (July, 1989 to Present)



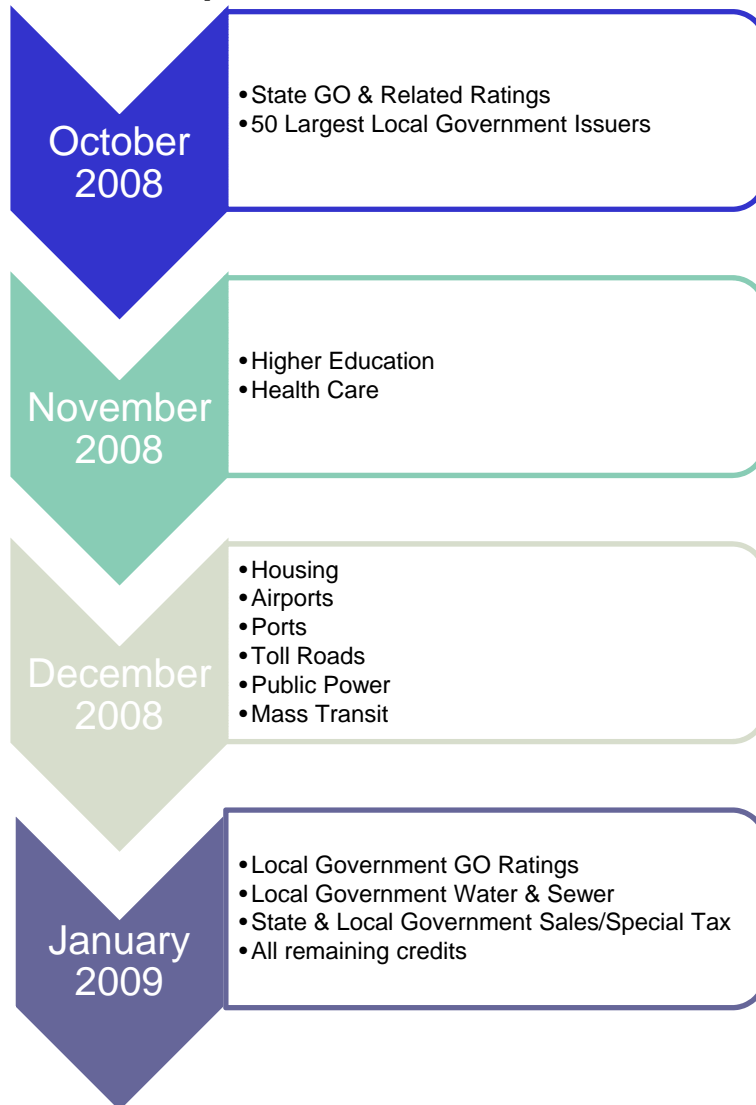
Source: Bloomberg as of 11/14/2008.

# Changes at Credit Agencies

- Municipal bonds default less often than corporate bonds
- Moody's & Fitch proposing single rating scale for corporate & municipal bonds
- New approach would drive most public finance ratings upward, on average
- On October 7, 2008, Moody's & Fitch placed recalibration of ratings on hold due to market turmoil

# Moody's Global Scale Ratings

## September 2008 Timeline\*



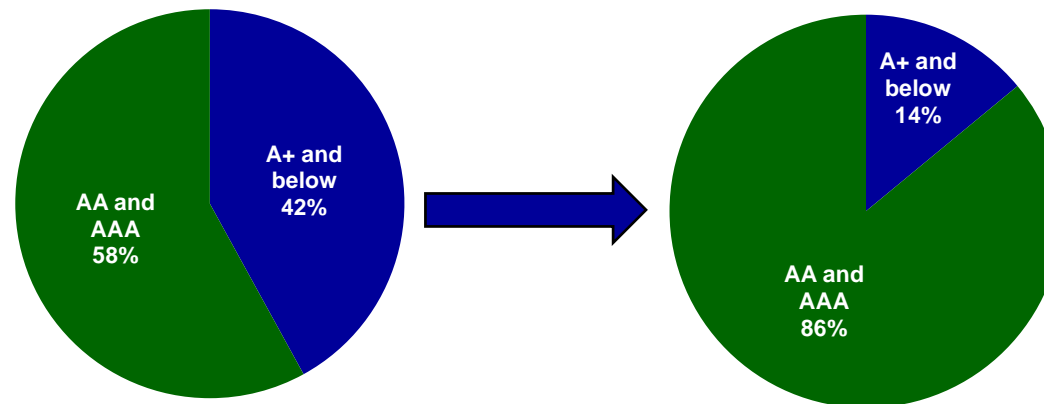
- Proposed single ratings scale (Global Scale Rating, or “GSR”) across all sectors including municipal bonds
- Sector specific methodology to be published prior to each migration
- Representative credits will be recalibrated to set benchmarks for transition process

\* On October 7, 2008 Moody's announced the GSR schedule will be postponed based on municipal market disruptions.

# Fitch Exposure Draft

- Proposed recalibrating U.S. public finance ratings to be consistent with Fitch's international rating scale
  - On October 7, 2008, Fitch announced that they are postponing their recalibration efforts based on current market conditions and will re-evaluate in the first quarter of 2009
- Expect upward revisions of one to two notches on tax-supported bonds
  - Typically 2 notch increase if rated between BBB and A
  - Typically 1 notch increase if rate between A+ and AA

## Expected General Obligation Ratings Shift



Source: Fitch Ratings "Exposure Draft: Reassessment of Municipal Ratings Framework." July 31, 2008.



# Standard & Poor's Ratings

- S&P has, in the past, and will continue to use, the same rating scale across the structured finance, corporate, and government sectors
- S&P reaffirmed their methodology in May 2008
- Reviewed the U.S. Public Finance criteria in light of historical default experiences
- In part, due to these efforts, the distribution of U.S. Public Finance ratings have moved up the rating scale
- Placing a larger emphasis on management factors during rating process

Source: Standard & Poor's "Standard & Poor's Reaffirms Its Commitment to the Goal of Comparable Ratings Across Sectors and Outlines Related Actions." May 6, 2008.

# Additional Market Impact

- Equipment Financing
- Swaps
- Investment Contracts
- Public Private Partnerships

**Questions?**

