Overview of Municipal Market Conditions

American Association of Port Authorities (AAPA)

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Credit Crunch: Part 1

- Florida suspends withdrawals from LGIP
- Structured Investment defaults increase
- JP Morgan and Fed bail out Bear Stearns
- MBIA and AMBAC downgraded
- Several AAA insurers placed on negative outlook
- State of Connecticut, Congress, and the SEC take action against the rating agencies
- Subprime losses top $400 billion
- July 11th – Federal Regulators seize IndyMac bank, largest ever thrift to fail in the US

Timeline:
- March ’07: Florida suspends withdrawals from LGIP
- Sept ’07: Structured Investment defaults increase
- March ’08: JP Morgan and Fed bail out Bear Stearns
- June ’07: Auction Rate Bonds begin to fail
- Dec ’07: Fed cuts 125 bps in 10 days
- June ’08: Subprime losses top $400 billion
- July 11th – Federal Regulators seize IndyMac bank, largest ever thrift to fail in the US

Key Events:
- Housing market stalls
- Subprime loan delinquency rates spike
- State of Connecticut, Congress, and the SEC take action against the rating agencies
- Subprime losses top $400 billion
- July 11th – Federal Regulators seize IndyMac bank, largest ever thrift to fail in the US
Credit Crunch: Part 2

- **September 14th** – Bank of America announced acquisition of Merrill Lynch
- **September 15th** – Lehman Brothers files for bankruptcy
- **September 17th** – The Reserve fund “breaks the buck,” price at 97 cents at close of business
- **September 10th** – Lehman puts itself up for sale
- **September 7th** – Fannie Mae and Freddie Mac placed into conservatorship
- **Week of September 29th** – Wachovia announces purchase by Wells Fargo (not Citigroup)
- **September 29th** – Dow plunges 9%; U.S. House fails to pass bail-out plan
- **September 17th** – Fed forces AIG into liquidation
Credit Crunch: Part 2 (con’t)

- October 7th – Federal Reserves creates CP Funding Facility to buy CP from eligible companies
- October 29th – Federal Reserves cuts 50 bps
- October 8th – Federal Reserve cuts Fed Funds target rate 50 bps
- October 4th – President signs Emergency Economic Stabilization Act of 2008
- October 7th – Fitch and Moody’s defer recalibration of municipal ratings
- October 3rd – Dow closes down 818 points for the week, its worst week in 7 years
- October 13th – US announces plan to invest a portion of $700 billion facility in preferred stocks of US banks
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# Demise of Triple-A Bond Insurers

<table>
<thead>
<tr>
<th></th>
<th>Moody’s</th>
<th>S &amp; P</th>
<th>Fitch</th>
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<tbody>
<tr>
<td>Ambac</td>
<td>Baa1 Watch Developing</td>
<td>AA Negative</td>
<td>Withdrawn</td>
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<tr>
<td>Assured Guaranty¹</td>
<td>Aaa Negative Watch</td>
<td>AAA Stable</td>
<td>AAA Stable</td>
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<td>Berkshire Hathaway</td>
<td>Aaa Stable</td>
<td>AAA Stable</td>
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<td>CIFG</td>
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<td>FGIC</td>
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<tr>
<td>Syncora²</td>
<td>Caa1 Watch Developing</td>
<td>BBB- Negative Watch</td>
<td>Withdrawn</td>
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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

<table>
<thead>
<tr>
<th>Period</th>
<th>Total Insured Volume (New Issuance)</th>
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<tbody>
<tr>
<td>First Half 2006</td>
<td>$89,761</td>
</tr>
<tr>
<td>Second Half 2006</td>
<td>$101,550</td>
</tr>
<tr>
<td>First Half 2007</td>
<td>$122,589</td>
</tr>
<tr>
<td>Second Half 2007</td>
<td>$88,644</td>
</tr>
<tr>
<td>First Half 2008</td>
<td>$50,460</td>
</tr>
</tbody>
</table>

Source: The Bond Buyer.
Letter of Credit Activity

Top LOC Providers

- **Bank of America**: $13.2
- **JP Morgan Chase Bank**: $5.8
- **Dexa Group (a)**: $2.4
- **Wachovia Bank**: $2.3
- **US Bank**: $2.9
- **Wells Fargo Bank**: $1.4
- **SunTrust Bank**: $2.5
- **Allied Irish Bank (a)**: $1.8
- **Landesbank Baden-Wurttemberg (a)**: $1.8
- **Bank of New York Mellon (a)**: $1.8
- **$1.6**

Source: *The Bond Buyer.*
(a) Firms were not ranked in Top 10 in 2007.
Change in MMD Triple-A Yield Curve

MMD Triple-A Yield Curves

Source: TM3, data as of 11/14/2008
Change in MMD Triple-A Yield Curve

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

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

AMT Revenue Spread vs. Triple-A MMD Rates

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

<table>
<thead>
<tr>
<th>Year</th>
<th>10 Year Treasury</th>
<th>RBI</th>
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<tbody>
<tr>
<td>Maximum</td>
<td>15.750%</td>
<td>14.320%</td>
</tr>
<tr>
<td>Minimum</td>
<td>3.180%</td>
<td>4.380%</td>
</tr>
<tr>
<td>Average</td>
<td>7.428%</td>
<td>8.180%</td>
</tr>
<tr>
<td>As of 11/14/08</td>
<td>3.860%</td>
<td>5.980%</td>
</tr>
</tbody>
</table>

Source: Bloomberg as of 11/14/2008.
Municipal Bond Issuance

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

Source: The Bond Buyer,
Municipal Bond Issuance Volume

Weekly Municipal Bond Issuance

$'s in billions

9/15/2008  $2.4 B
9/22/2008  $1.7 B
9/29/2008  $1.3 B
10/6/2008  $2.6 B
10/13/2008 $4.6 B
10/20/2008 $6.3 B
10/27/2008 $6.7 B

Source: TM3.
Port Issuance

2007
Total = $4.6 billion

- Fixed Rate Volume 54%
- Variable Rate Volume 46%

- Insured Volume 77%
- Uninsured Volume 23%

2008 YTD
Total = $3.2 billion

- Fixed Rate Volume 50%
- Variable Rate Volume 50%

- Insured Volume 74%
- Uninsured Volume 26%

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.

10/22/08 $19.092 billion

10/1/08 $14.638 billion

10/9/08 $13.768 billion

10/30/08 $15.111 billion

11/14/08 $17.517 billion

5-year History ($ in billions)

Max $20.5
Min $1.5
Avg $10.2

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*

- **October 2008**
  - State GO & Related Ratings
  - 50 Largest Local Government Issuers

- **November 2008**
  - Higher Education
  - Health Care

- **December 2008**
  - Housing
  - Airports
  - Ports
  - Toll Roads
  - Public Power
  - Mass Transit

- **January 2009**
  - Local Government GO Ratings
  - Local Government Water & Sewer
  - State & Local Government Sales/Special Tax
  - All remaining credits

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

- 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
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-revaluate 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 rated between A+ and AA

Expected General Obligation Ratings Shift

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

Additional Market Impact

• Equipment Financing
• Swaps
• Investment Contracts
• Public Private Partnerships
Questions?