RAYMOND JAMES

OVERVIEW OF THE MUNI MARKET WITH A FOCUS ON CREDIT TRENDS AND THEMES

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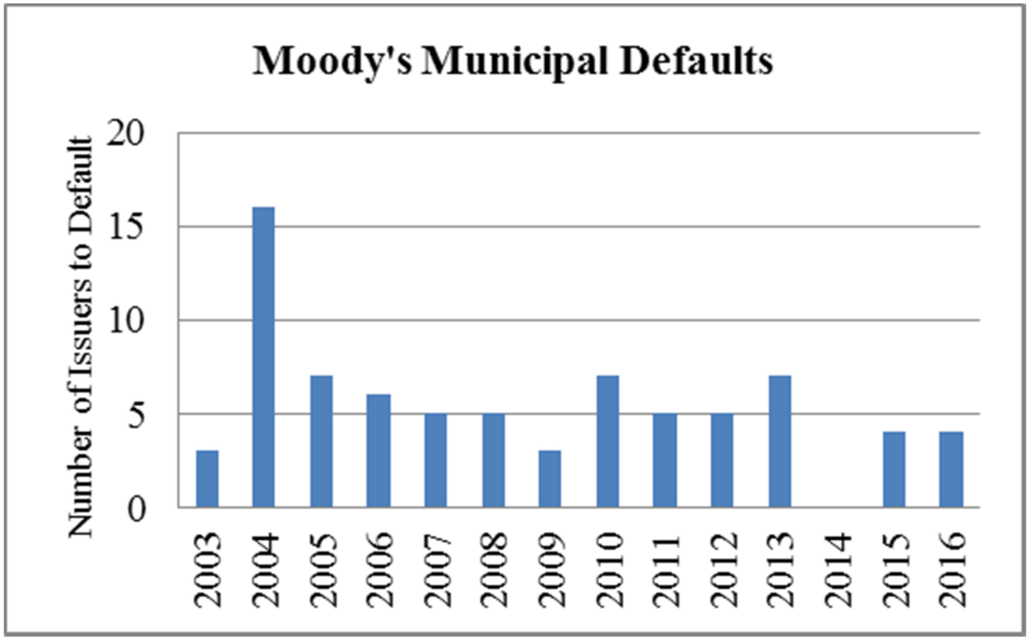
MUNICIPAL BONDS HAVE MANY FUNDAMENTAL CREDIT STRENGTHS

- Taxable and tax-exempt munis can offer relative value, diversity, and high credit quality.
- States and municipalities can’t go away.
- Large and diverse tax bases.
- Monopolistic nature of municipal utilities.
- Intercept and receiver programs.
- Covenants and other legal protections.

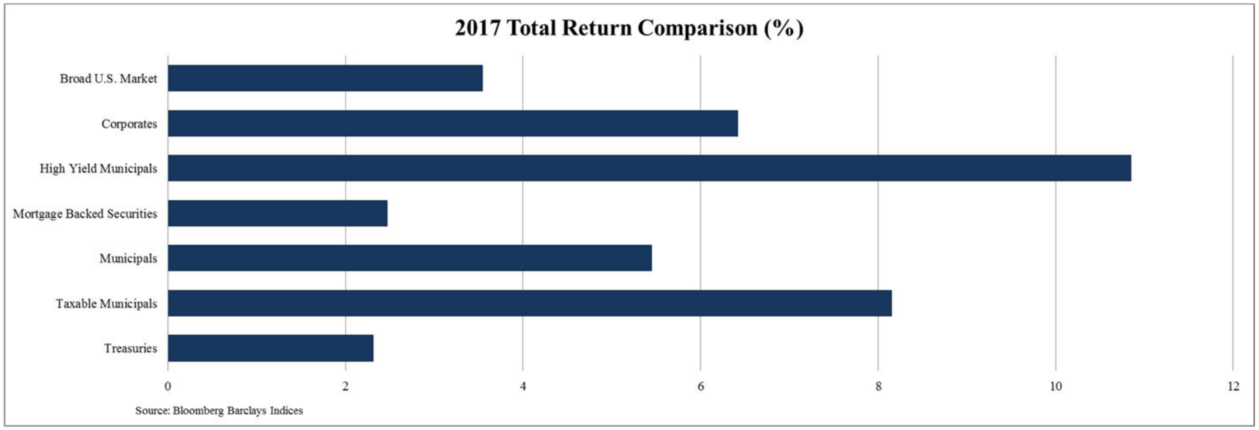
MUNIS REMAIN A RELATIVELY SAFE ASSET CLASS

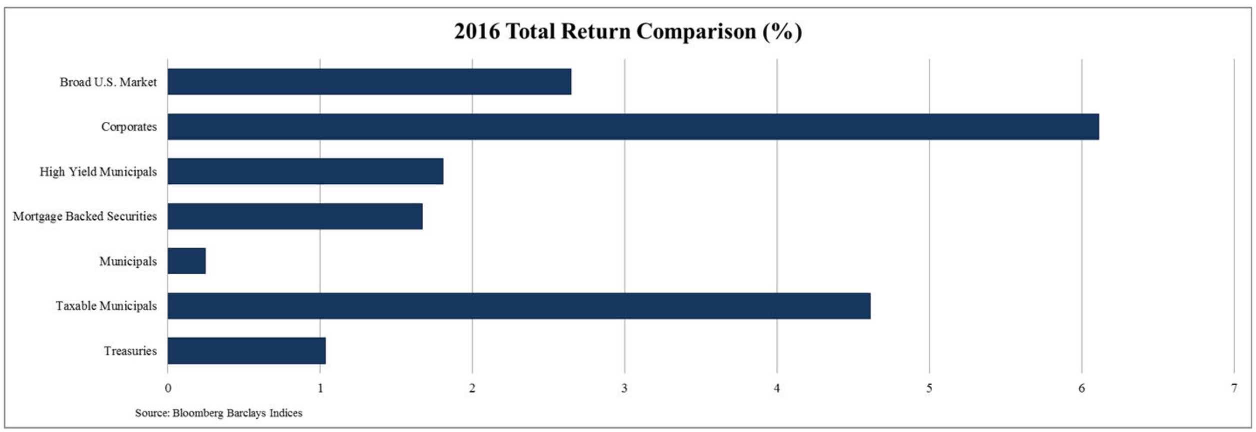


Moody's Cumulative Default Rates, Average over the Period 1970-2015										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Municipals	0.02%	0.03%	0.05%	0.07%	0.08%	0.09%	0.11%	0.12%	0.14%	0.15%
Corporates	1.50%	3%	4.39%	5.58%	6.60%	7.48%	8.24%	8.92%	9.56%	10.16%

- Nearly 20% of outstanding munis are rated AAA and 80% are investment grade.
- Municipal bankruptcies and defaults remain the exception, not the rule.

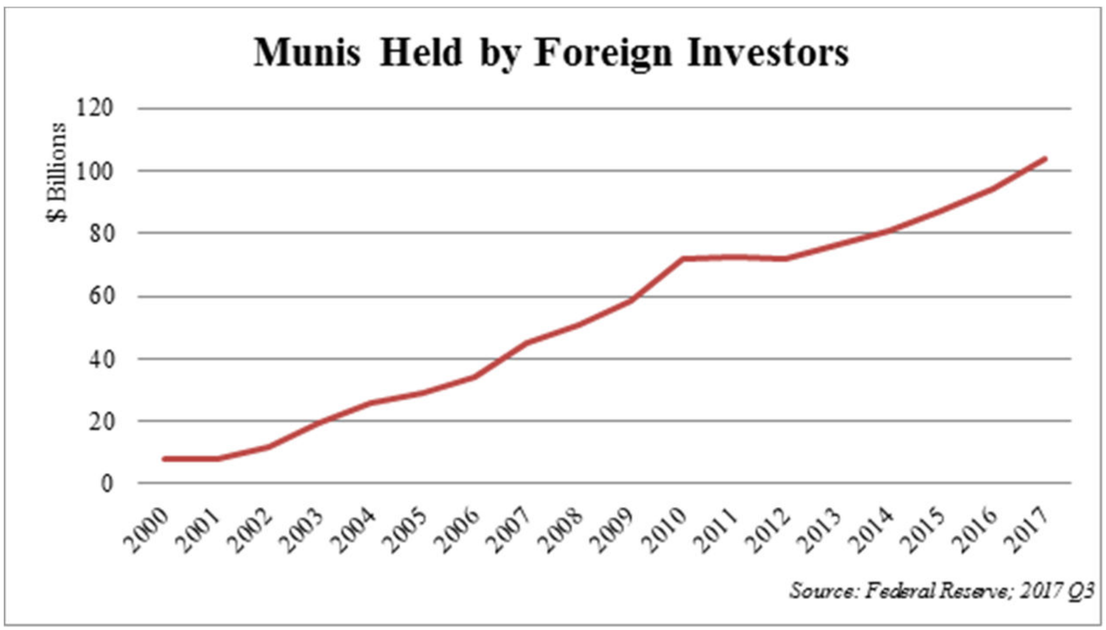
TOTAL RETURN COMPARISON



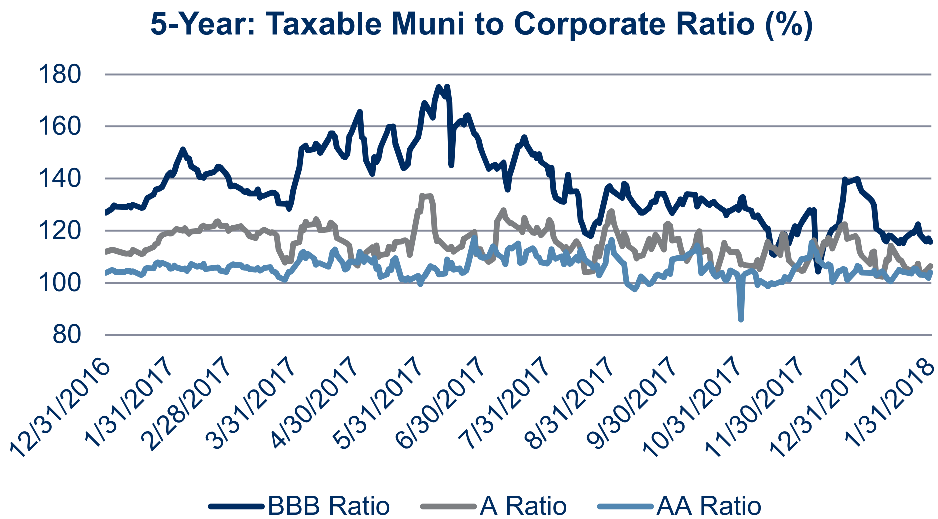


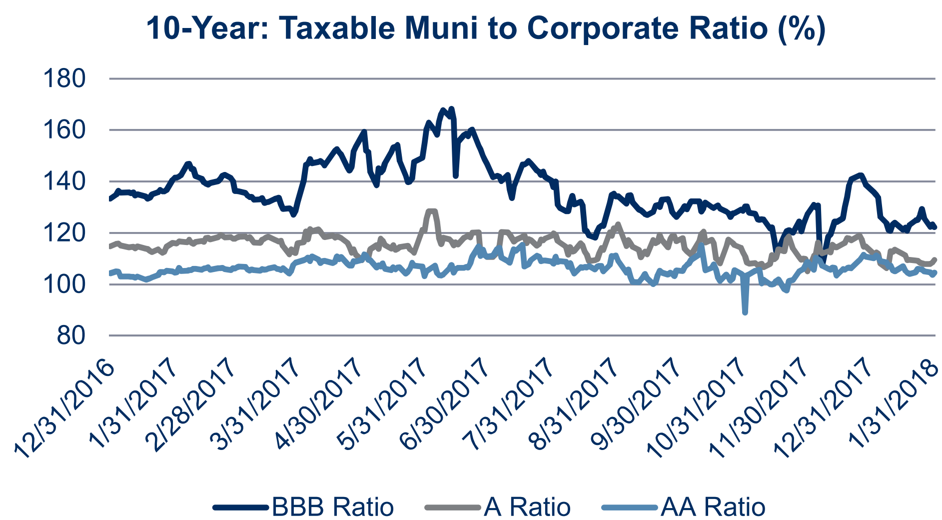
TAXABLE MUNICIPAL BONDS

- Non-U.S. holdings in muni paper has increased exponentially in recent years, increasing from less than $10 billion in 2000 to over $100 billion today.
- Involvement from non-U.S investors has focussed on the higher-yielding Taxable sector (not being eligible for U.S. tax exemption).
- They are attracted by the bonds' relative safety, longer duration, and relative yield. Some are also seeking portfolio diversification.

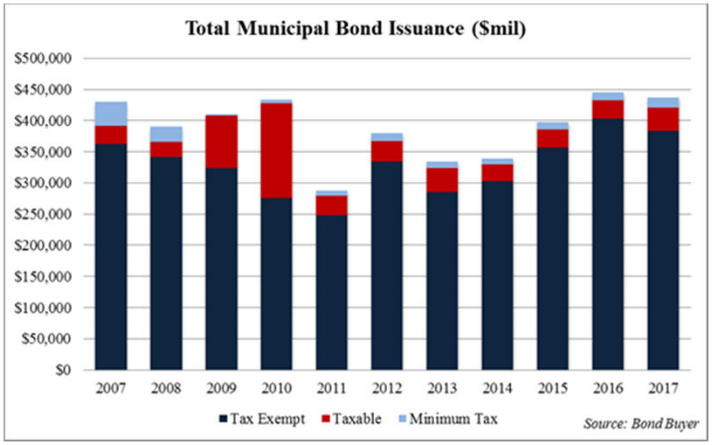


TAXABLE MUNI TO CORPORATE RATIO



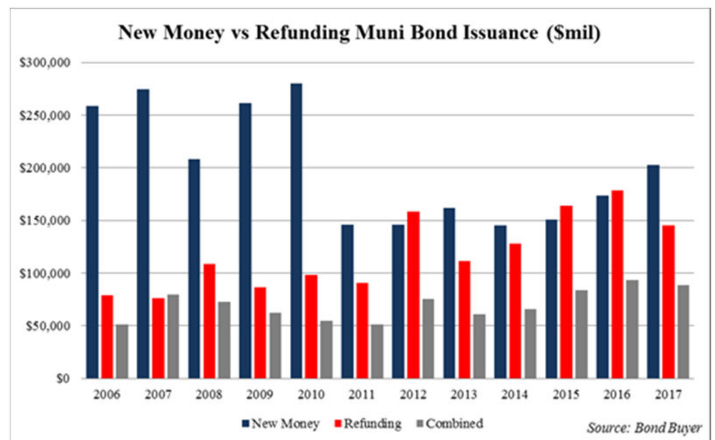


MARKET SUPPLY



- New issue supply has remained fairly muted.
- That trend is expected to continue into 2018.

- The majority of issuance in the municipal bond market is tax-exempt.
- Taxable issuance surged in 2009 and 2010 due to the ARRA.



EFFECT OF TAX REFORM ON THE MUNICIPAL MARKET

Investors

- Corporate tax rates being reduced to 21% from 35% will make tax-exempt municipals less attractive to some Insurance Companies and Banks.
  - These buyers will be at higher relative yields, but still buyers. Taxable munis may become more attractive.
  - Life insurance companies, however, may become more active in the tax-exempt muni market because the tax plan clarifies their burden.
- Other municipal investors:
  - Individual and Professional Retail: Increased demand for tax-frees due to the loss of various deductions.
  - Increased demand for taxable munis from a wide cross-section of buyers will further increase liquidity in the sector.
  - Arbitrage accounts: Ratio driven/opportunistic buyers who will be mindful of, but not beholden to, the new benchmark entry points of insurance companies and banks as that evolves from past norms.
- Passage of the tax reform plan settles the risk of retroactive changes for the municipal tax exemption.
- Will the expectation of a reduction in municipal supply offset the loss of participation by some tax-exempt institutional investors?

Issuers

- The elimination of tax-exempt advance refundings reduces budgetary flexibility and may increase costs for issuers in managing their debt capital structure.
- Tools to somewhat mitigate tax reform:
  - Forward Delivery Bonds – Cost is driven by the shape of the yield curve but only has limited applications.
  - Shorter Calls – Not a demand issue as investors will buy at certain levels however, this optionality will be costly.
  - Taxable Bonds – Can be used to advance refund tax-exempt bonds although costly.
  - Alternative structures – VRDNs, FRN's, Put Bonds, can be use to reduce cost or provide flexibility, but have inherent risks.
  - Synthetic Structures – Can be used to manage variable rate debt and provide additional flexibilities.

EFFECT OF TAX REFORM ON MUNICIPAL CREDIT

- We may not know the effects of the new tax law until well into 2018.
- Any boost to economic growth from the new tax law may be modest and will depend on how businesses and individuals deploy tax savings; growth may not offset the negative impact on government deficits.
- If government spending cuts follow to offset the increase in the federal deficit due to the tax cuts, the result could dampen the impact of tax cuts.
- The $10,000 limit on state and local tax deductions may:
  - Blunt the effect of lower federal rates for many taxpayers;
  - Reduce governments' financial flexibility by making state/local taxes more expensive and increasing anti-tax sentiment;
  - Widen tax-rate disparities among states and metro areas; and,
  - Reduce the tax incentive for home ownership, compounded by the higher standard deduction and limits on the mortgage interest deduction.
- Other provisions may be negative for non-profit hospitals, housing finance agencies, and private colleges and universities.
  - For hospitals, the repeal of the individual insurance mandate will increase the uninsured population and raise uncompensated care costs, hurting operating margins and cash flow.
  - Housing finance agencies may see reduced equity investment in MF projects due to the corporate tax rate reduction because investors will have less incentive to buy the tax credits that help finance them.
  - Private colleges will see a negative effect on alumni giving due to the increased standard deduction available to individuals and modifications to the estate tax.

RATING AGENCY OUTLOOKS

2017 Outlooks					
Moodys		S&P		Fitch	
Sector	Outlook	Sector	Outlook	Sector	Outlook
Airports	Positive	Airports	Stable	Colleges and Universities	Stable
Community Colleges	Stable	Charter Schools	Stable	Local Governments	Stable
Higher Education	Stable	Electric Cooperatives	Stable	Nonprofit Continuing Care Retirement Communities	Stable
Independent K-12 Schools	Stable	GARVEEs and Mass Transit	Stable	Not-for-Profit Hospitals and Healthcare	Negative
Local Governments	Stable	Higher Education	Stable	Public Power And Electric Cooperative	Stable
Not-for-Profit Healthcare	Stable	Not-for-Profit Healthcare	Stable	States	Stable
Not-for-Profit Organizations	Stable	Ports	Stable	Transportation	Stable
Ports	Stable	Public Power	Stable	Water & Sewer	Stable
Public Power Electic Utilities	Stable	States	Mixed		
State Housing	Positive	Toll Roads	Positive		
States	Stable	Water Utility	Stable		
Toll Roads	Positive				
Water & Sewer	Stable				

2018 Outlooks					
Moodys		S&P		Fitch	
Sector	Outlook	Sector	Outlook	Sector	Outlook
Airports	Positive	Charter Schools	Stable	Colleges and Universities	Stable
Community Colleges	Stable	Higher Education	Negative	Local Governments	Stable
Higher Education	Negative	Local Government	Stable	Nonprofit Continuing Care Retirement Communities	Stable
Independent K-12 Schools	Stable	Not-for-Profit Healthcare	Stable	Not-for-Profit Healthcare	Negative
Local Governments	Stable	Public Power And Electric Cooperative	Stable	Public Power And Electric Cooperative	Stable
Not-for-Profit Healthcare	Negative	States	Mixed	States	Stable
Not-for-Profit Organizations	Stable	Transportation	Stable	Transportation	Stable
Ports	Stable	Utilities	Stable	Water & Sewer	Stable
Public Power Utilities	Stable				
State Housing	Stable				
States	Stable				
Toll Roads	Stable				
Water & Sewer	Stable				

CA SECTORS WORTH A LOOK

- **Tax Allocation Bonds**
  - Dissolution of the RDAs in 2012 has been credit positive.
  - Steady AV growth; declining volatility.
  - Debt service coverage continues to grow (refundings and AV growth).
  - Closed liens.

- **School District GOs**
  - Unlimited ad valorem property tax pledge.
  - Statutory lien.
  - Lockbox structure.
  - AB 1200 process.

2018 CREDIT TOPICS AND TRENDS

- **Stability and resiliency continue to characterize the muni market sector, broadly**:
    - States, generally, have budgetary flexibility and revenues are still showing modest growth.
    - Local governments have built reserves over the past several years.
    - Essential service utility sector continues to show healthy debt service coverage, liquidity metrics, and generally has autonomous rate-setting authority which allows it to adjust revenues as needed to fund operations.
- **There are some headwinds, however:**
    - Pension liabilities are generally rising, as is headline risk.
    - Investors may begin to focus more on differentiation between security types. Increasing focus on pensions may have investors favor revenue bonds in the coming years.
        - In the case of extreme fiscal stress, it is better to be a secured creditor.
- **Careful credit selection is always prudent.**
- **Increased volatility can provide some attractive entry points for investors.**

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