



## Why is Municipal Issuance Falling Despite Historically Low Interest Rates?

# The Rime of Municipal Issuance

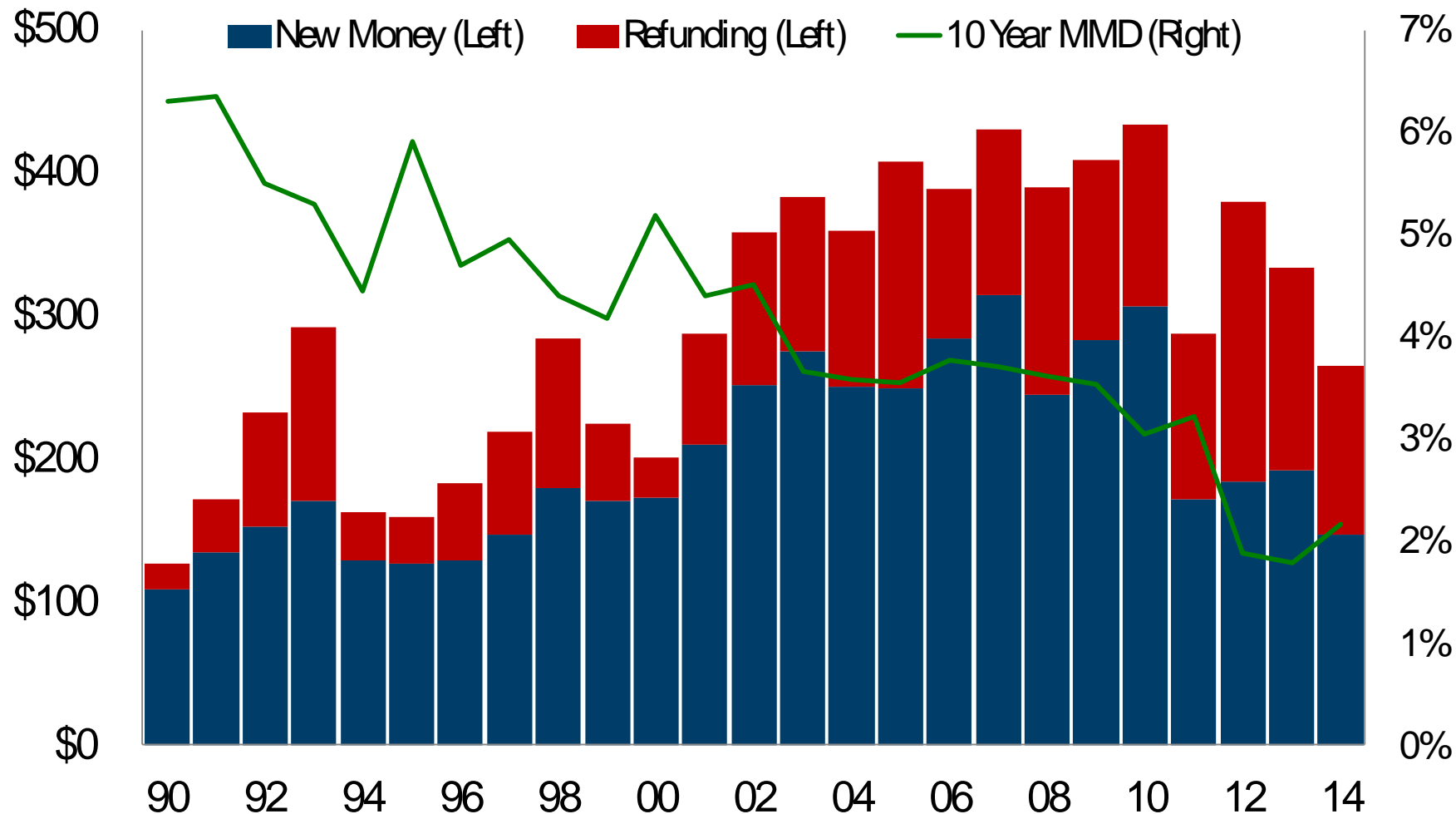
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- Introduction
  
- Six Reasons, “The Rime of Municipal Issuance”
  - Higher Interest Rates = lower refunding amounts
  - Use of Other Debt Like Products (Direct Loans)
  - Austerity Measures
  - Less Flexibility in Spending
  - Political & Voter Attitudes
  - No Broad Public Policy (Political Support)

# The Rime of Municipal Issuance

## New Money & Refunding Issuance Jumped Significantly After 2002

### Municipal Issuance

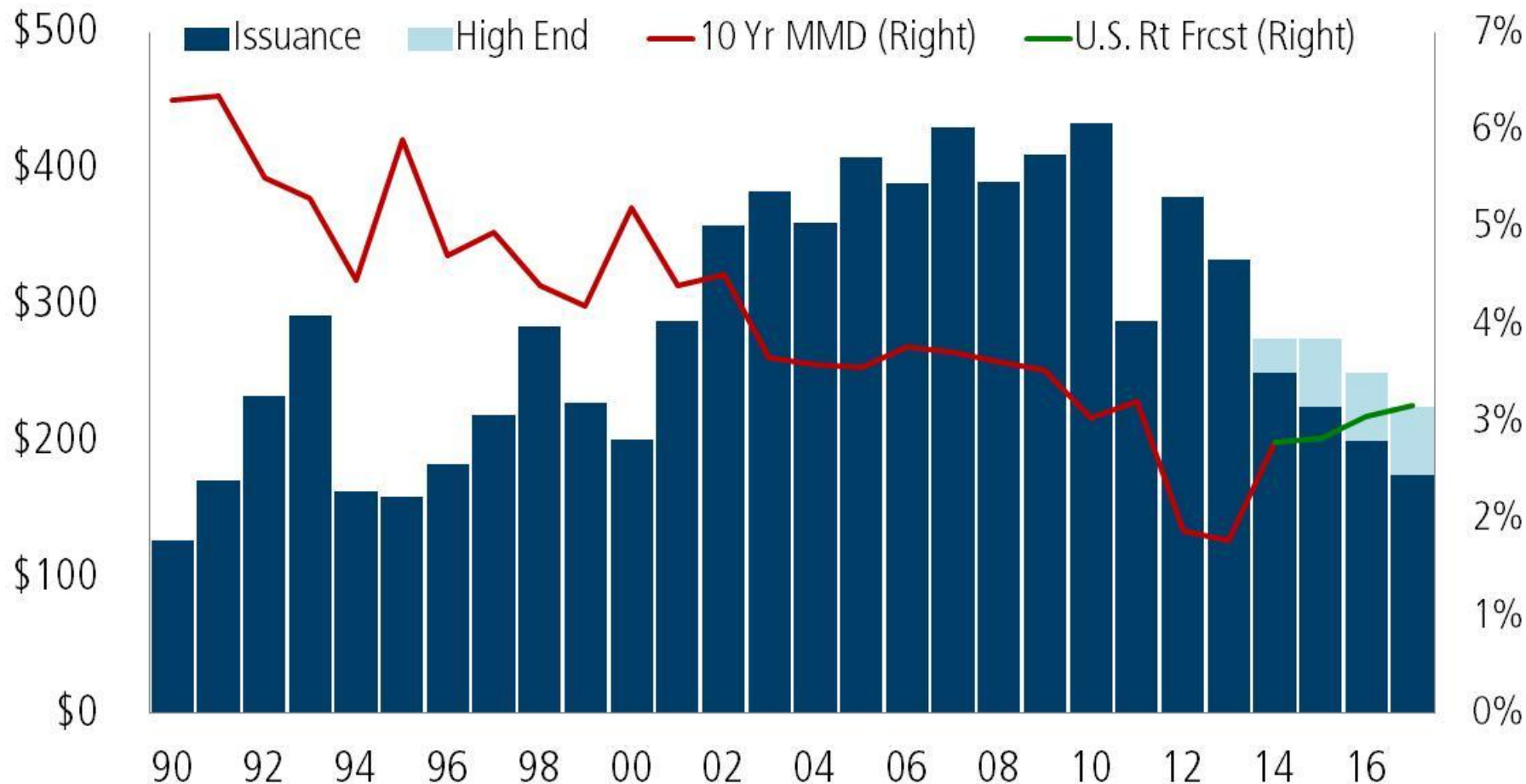


Source Thomson Reuters and Janney FIS. \$ in billions. Includes issuance through the end of October 2014.

# The Rime of Municipal Issuance

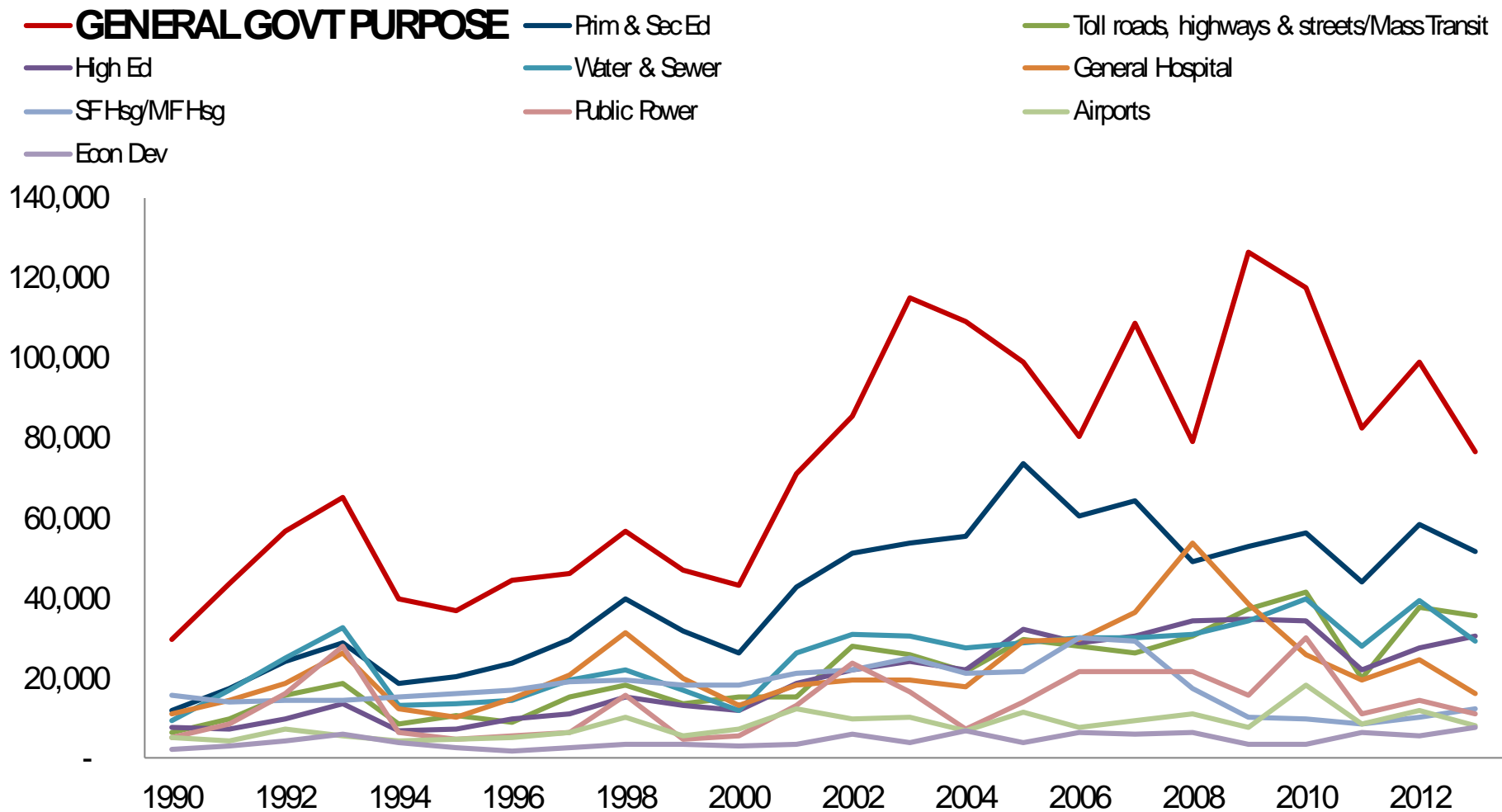
## Review of Janney Municipal Bond Issuance Forecasts

### Municipal Issuance and Projections Through 2017



# The Rime of Municipal Issuance

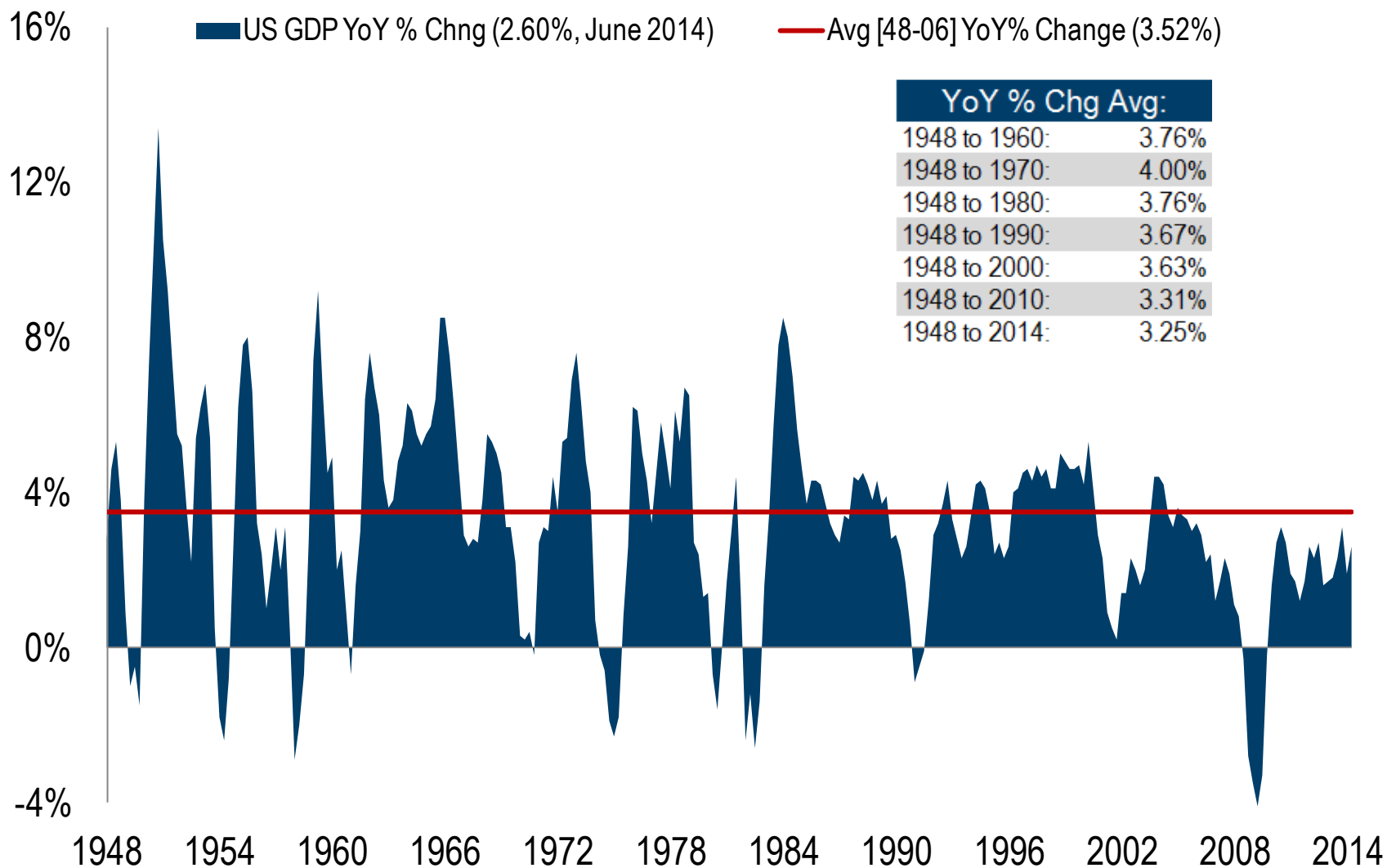
## Municipal Issuance by Use of Proceeds – Top Ten Uses



Source: SIFMA data and Janney FIS. \$ in millions.

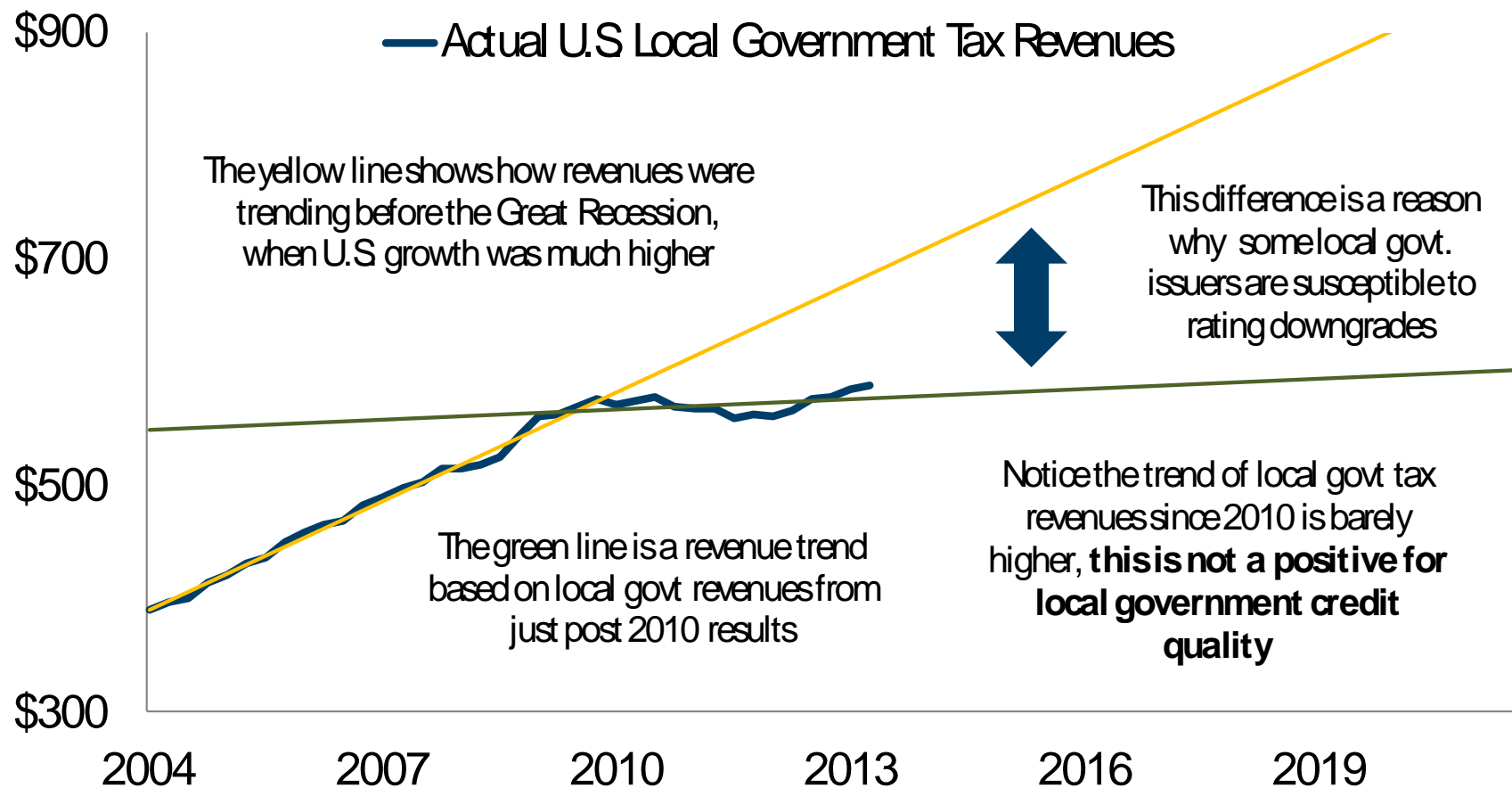
# The Rime of Municipal Issuance

U.S. GDP Growth Expected to Be 2-3% Range, versus 3-4%



# The Rime of Municipal Issuance

## U.S. Local Government Revenues Not Trending Even Close to Pre-2010 Levels

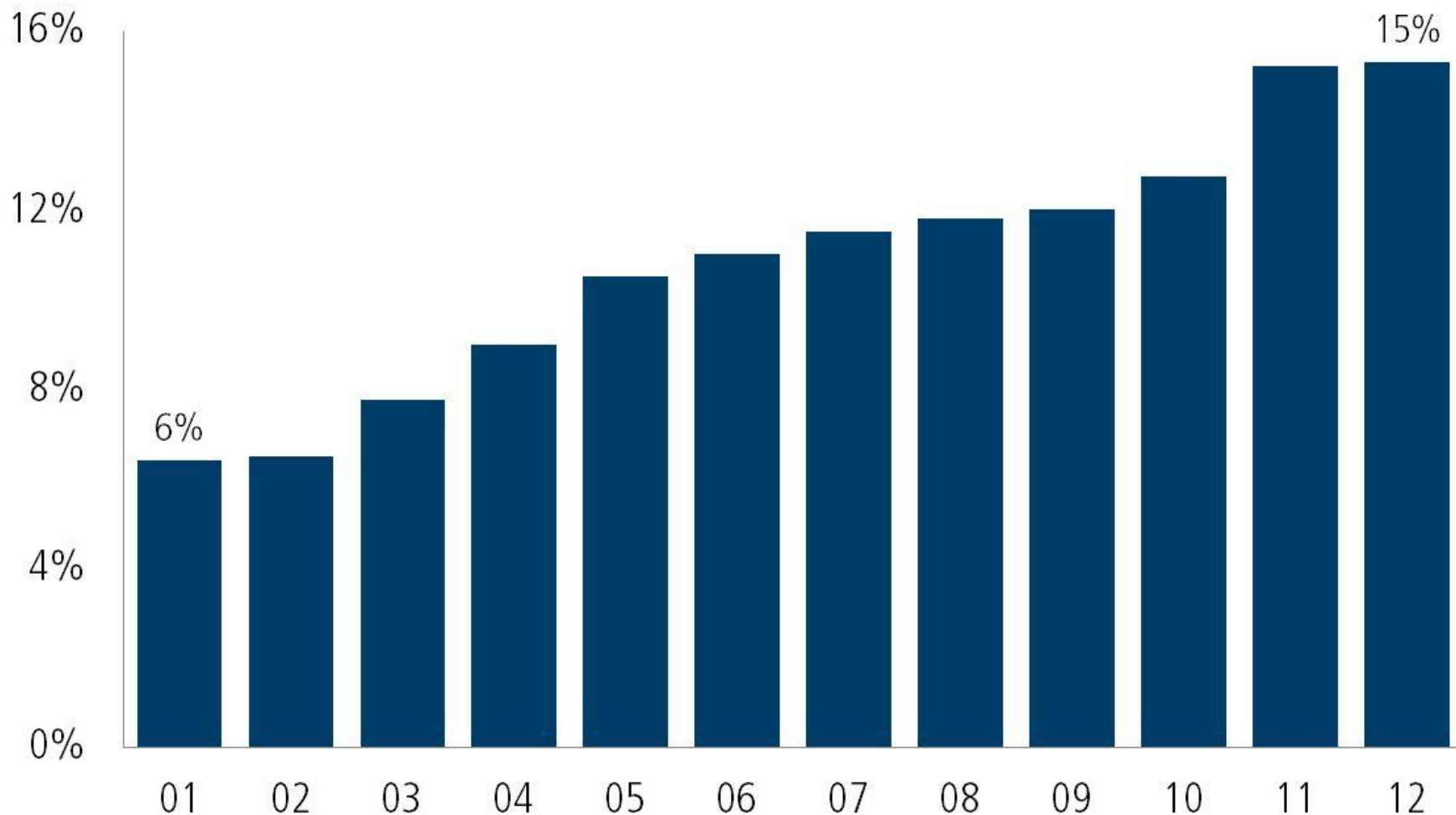


Source: U.S. Census Bureau and Janney FIS.

# The Rime of Municipal Issuance

## Fixed (and Rising) Costs are Crowding Out Other Spending

Annual Required ARC Contribution as a % of Payroll





# The Rime of Municipal Issuance

## No Voter/Political Support & No Broad Public Policy Support for Higher Govt. Spending

### There is Nothing Sexy About Infrastructure

*Recent Trend for Most Important U.S. Problem*

What do you think is the most important problem facing this country today? [OPEN-ENDED]

	August 2014	September 2014	October 2014
	%	%	%
Economy in general	14	17	17
Dissatisfaction with government	18	18	16
Unemployment/Jobs	12	12	10
Healthcare	9	5	8
Immigration/Illegal aliens	15	12	7
Federal budget deficit/Federal debt	3	6	5
Ethical/Moral/Family decline	6	5	5
Ebola virus/Diseases	--	--	5
Situation in Iraq/ISIS	1	3	5
Education	4	3	5
Lack of money	2	1	3
Foreign aid/Focus overseas	7	6	3
Poverty/Hunger/Homelessness	5	3	3
Terrorism	--	4	3
Race relations/Racism	1	3	3
Crime/Violence	2	2	3

Note: Issues mentioned by 2% or fewer not shown

GALLUP

Source: [Gallup](#) as of Oct 26, 2014 and Janney FIS.

# The Rime of Municipal Issuance

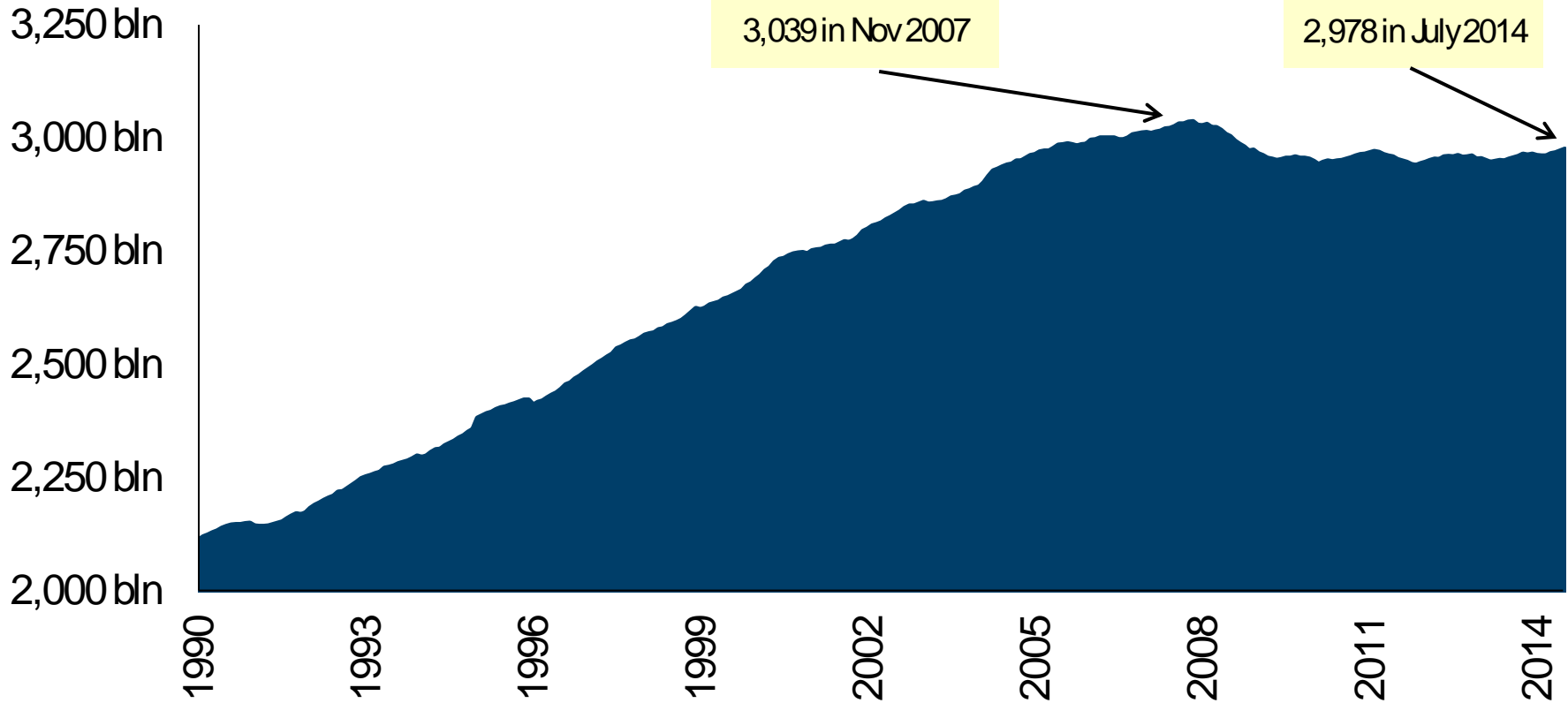
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- **What would change our issuance forecasts?**
  - **Lower rates = more refundings**
  - **Shift back to traditional financings**
  - **Rising trend of revenues**
    - **Stronger economic growth**
    - **Higher taxes and fees**

## Appendix

# The Rime of Municipal Issuance

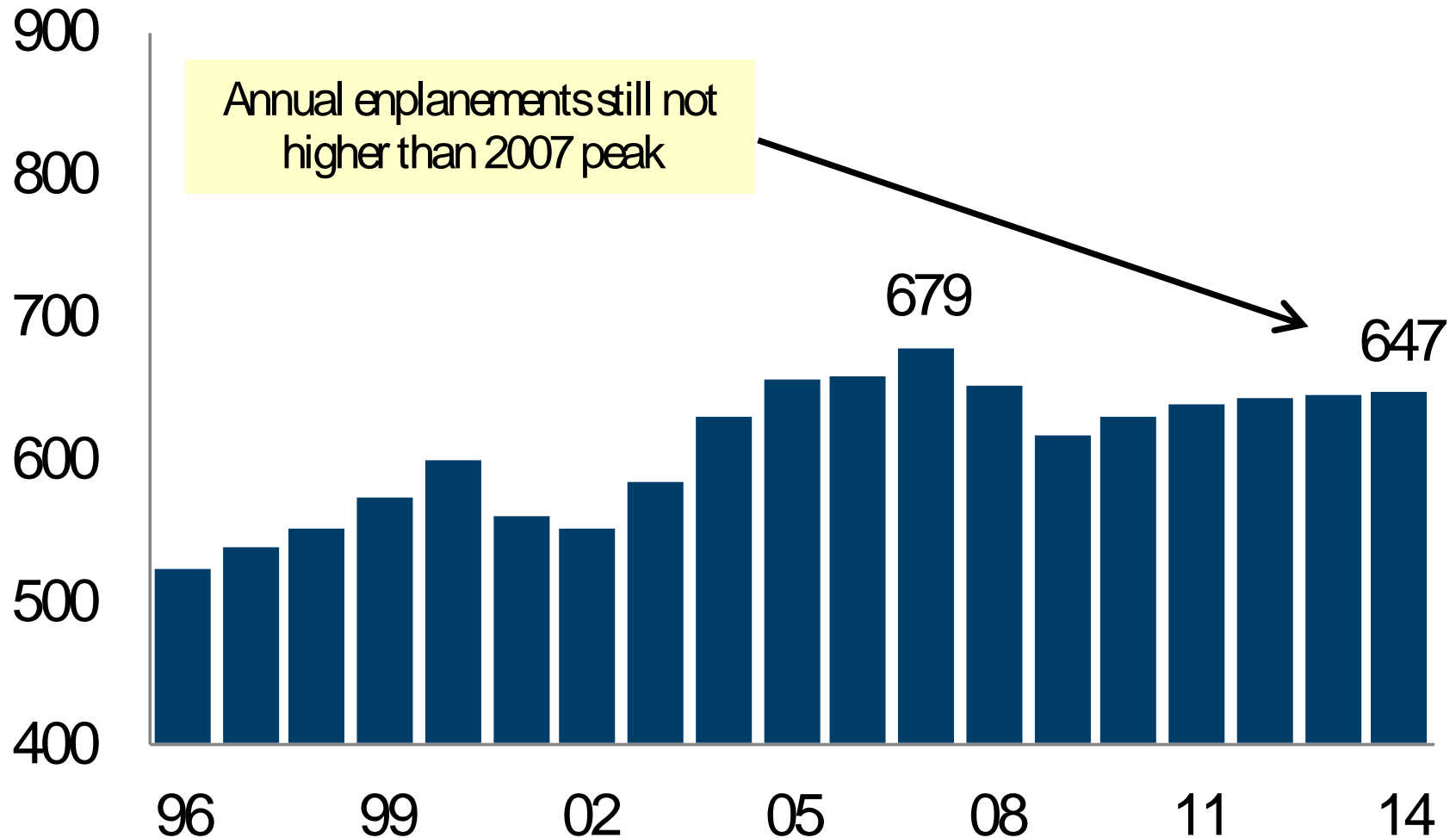
Vehicle Miles Traveled Still Near November 2004 Levels



Source : U.S. Department of Transportation and Janney FIS.

# The Rime of Municipal Issuance

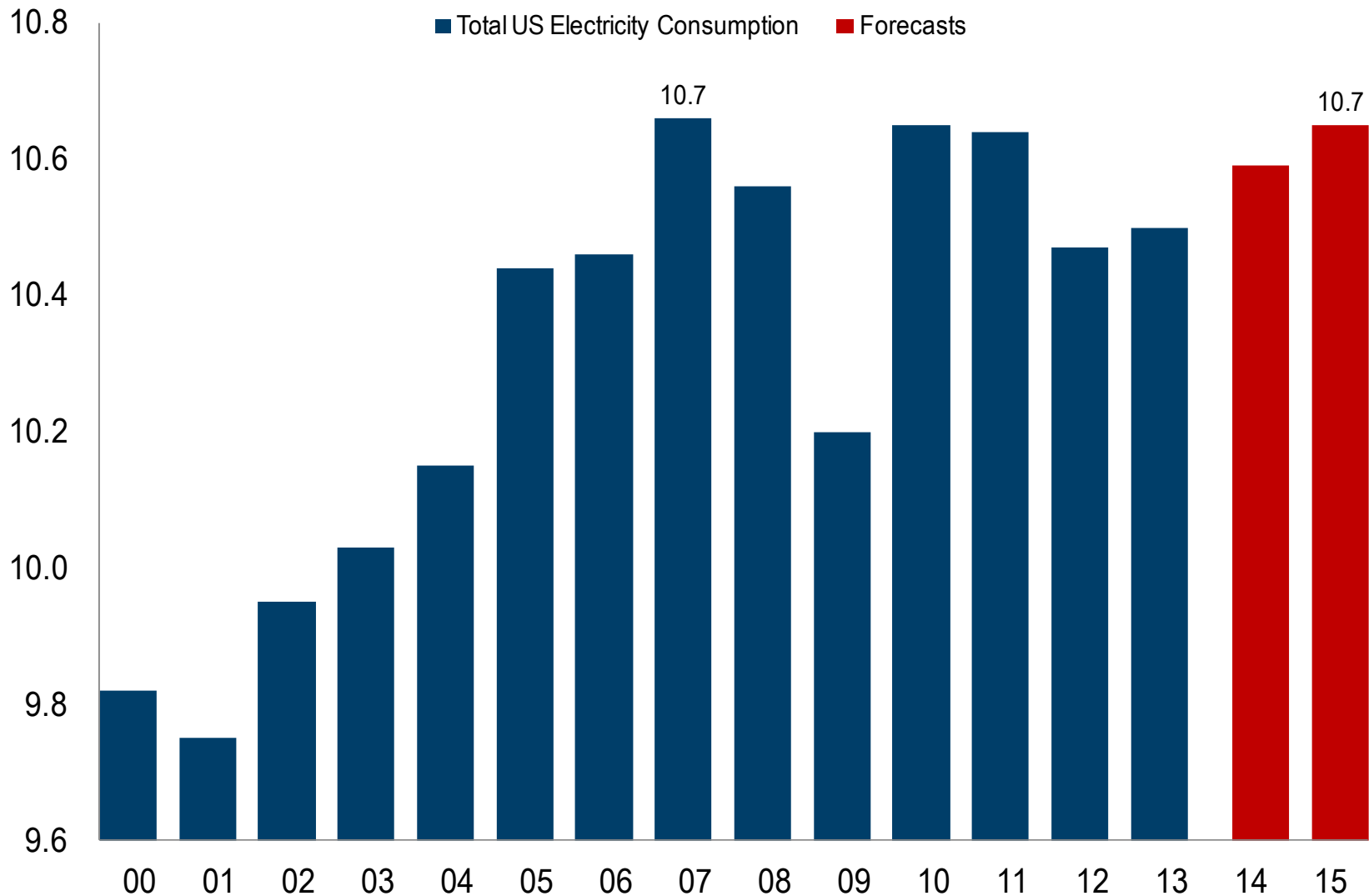
Domestic Passenger Enplanements Still Not Higher Than 2007 Peak



Source : U.S. Department of Transportation and Janney FIS. # in millions. 2014 data is annualized.

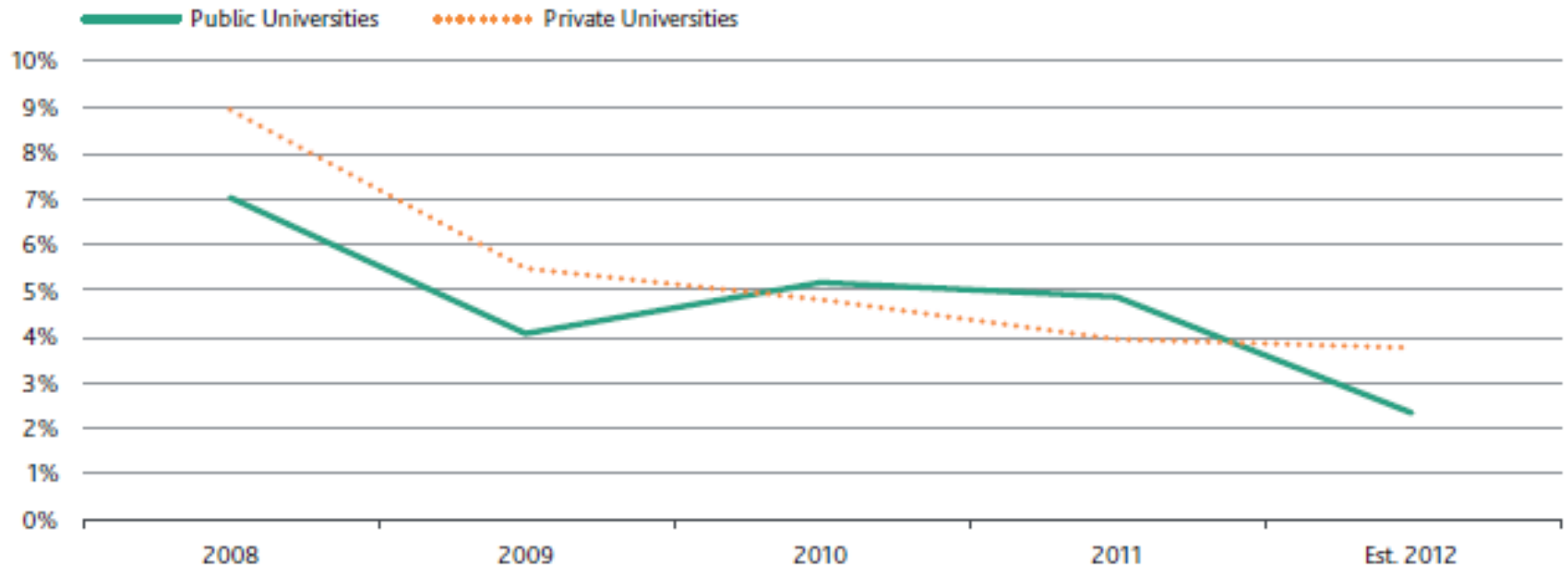
# The Rime of Municipal Issuance

## Electricity Consumption Should Hit 2007 Peak in 2015



# The Rime of Municipal Issuance

## Higher Education Operating Revenue Growth Slows



Source: Moody's MFRA

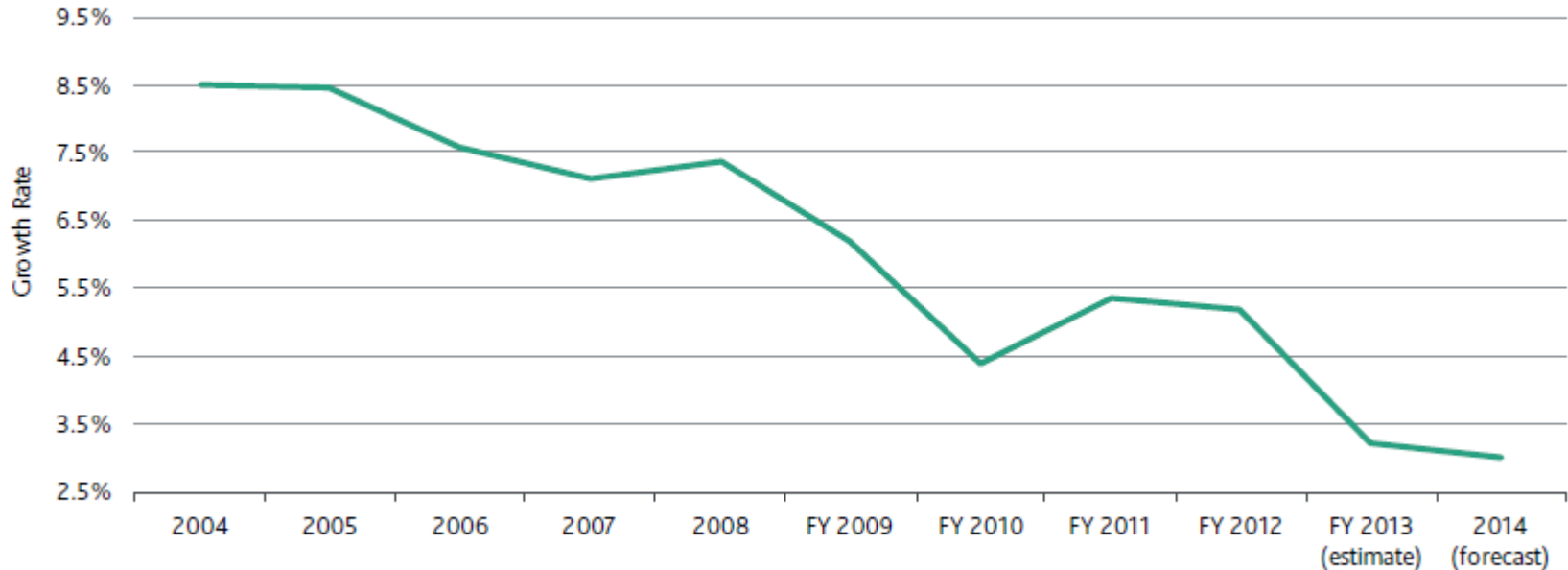
Source: Moody's- US Higher Education Outlook Negative in 2013, p 8 and Janney FIS.

# The Rime of Municipal Issuance

## Falling Health-Care Revenue Growth, Forecasts Not Great Either

EXHIBIT 1

Median Annual Revenue Growth Rate Reaches Historic Low in Fiscal 2013



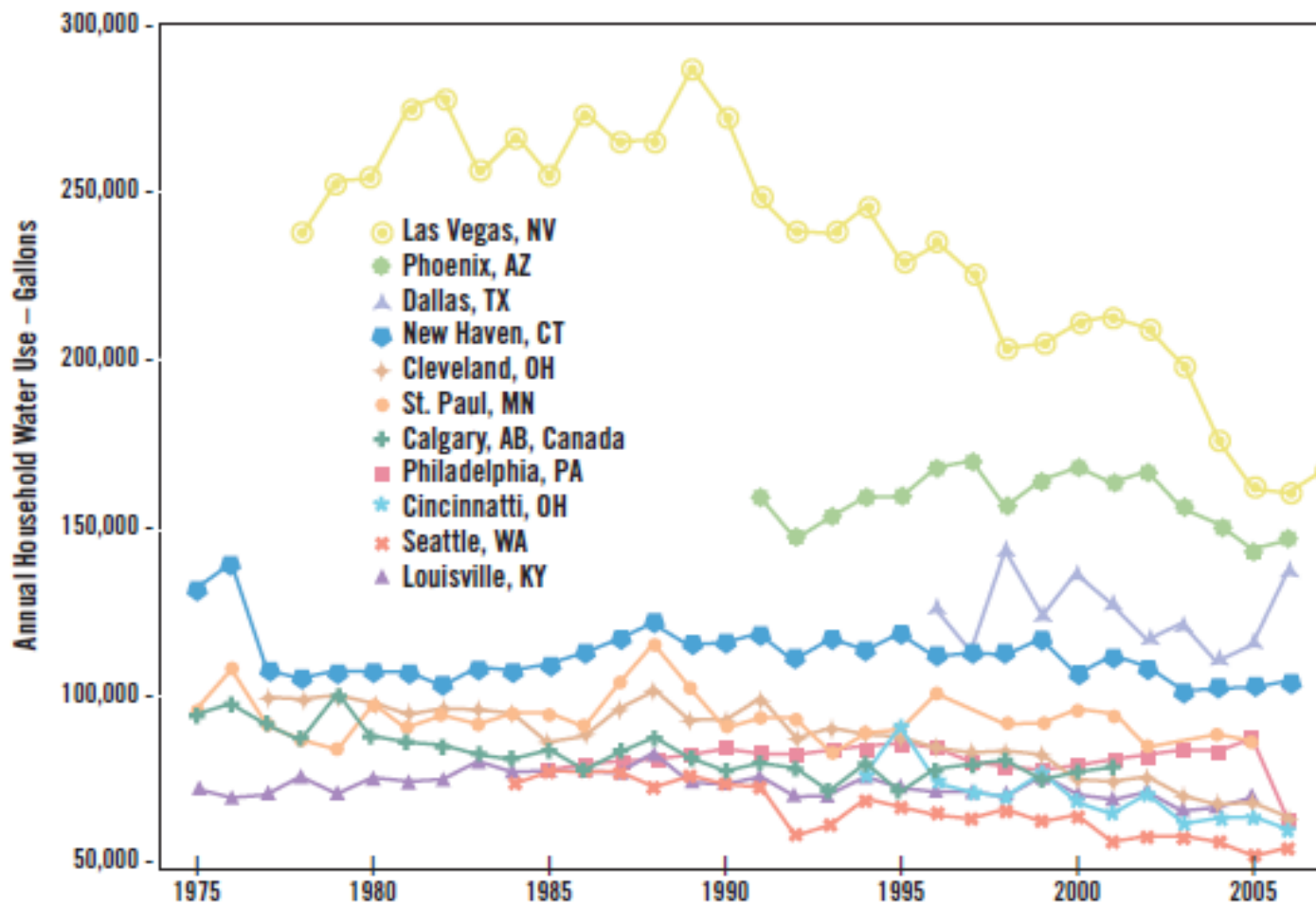
Source: Moody's Investors Service

Source: Moody's- 2014 Outlook US Not for Profit Hospitals, p 2 11-25-13 and Janney FIS.



# The Rime of Municipal Issuance

## North American Water Use Per Household – 1975- 2007



“Across the U.S., water use per household has declined on average 13% since 1975-by far more in some places,” CERES Dec 2012 report

Source : P. Comes, T. Rockaway, and B. Kornstein, “North American Water Usage Trends Since 1992,” Water Research Foundation, 2010; CERES Dec 2012 report; and Janney FIS.

# The Rime of Municipal Issuance

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## What are Texas Citizens Focused on Right Now?

Q5. What would you say is the most important problem facing the state of Texas today?  
[Randomize]

	1. Border security	23%
	2. Immigration	18
★	3. Political corruption/leadership	9
★	4. Education	7
	5. The economy	6
	6. Health care	5
	7. Unemployment/jobs	4
	8. Water supply	3
	9. Crime and drugs	3
	10. Moral decline	2
★	11. Social welfare programs	2
★	12. Transportation/roads/traffic	2
	13. Abortion	2
	14. Redistricting	1
	15. State budget cuts	1
	16. Gas prices	1
	17. State government spending	1
	18. Taxes	1
	19. Gay marriage	1
	20. Environment	1
	21. Insurance rates	1
	22. Voting system	1
	23. Electoral fraud	1
	24. Gun control/gun violence	1
★	25. The media	1
	26. Utility rates	1
	27. Energy	0
	28. Housing	0
	29. State courts	0
	30. Property rights	0

# The Rime of Municipal Issuance

## What are Pennsylvania Citizens Focused on Right Now?

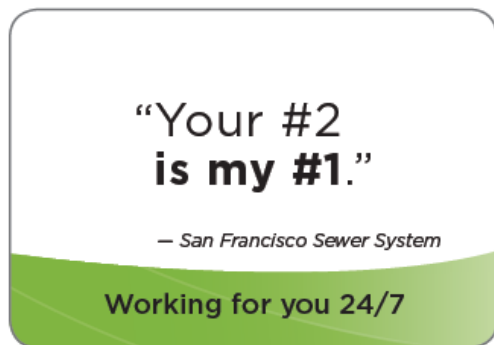
MIP\_PA. What do you think is the MOST IMPORTANT problem facing PENNSYLVANIA TODAY?

Aug 2007	Oct 2010	Aug 2011	Aug 2012	May 2013	Aug 2013	Oct 2013	Jan 2014	Jun 2014	Aug 2014	Sept 2014*	Oct 2014*	
10%	4%	12%	13%	17%	23%	21%	19%	23%	29%	30%	25%	Education, school ★
0%	17%	38%	30%	11%	21%	17%	26%	21%	16%	16%	20%	Unemployment, personal finances
9%	14%	11%	15%	16%	16%	17%	11%	15%	14%	13%	14%	Government, politicians
12%	8%	5%	4%	7%	5%	8%	11%	9%	10%	11%	9%	Taxes
15%	39%	9%	12%	18%	7%	5%	5%	5%	3%	4%	5%	Economy
1%	0%	3%	3%	4%	3%	4%	2%	5%	5%	3%	5%	Energy issues, gas prices
11%	1%	1%	2%	3%	3%	2%	1%	1%	2%	1%	2%	Crime, drugs, violence, guns
10%	7%	2%	3%	3%	6%	8%	4%	3%	2%	2%	2%	Healthcare, insurance
8%	2%	3%	2%	2%	3%	4%	3%	5%	3%	2%	2%	Roads, infrastructure, transportation ★
1%	2%	2%	1%	1%	0%	1%	1%	1%	1%	0%	1%	Environment

# The Rime of Municipal Issuance

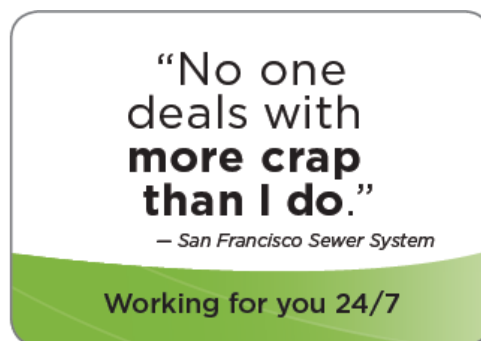
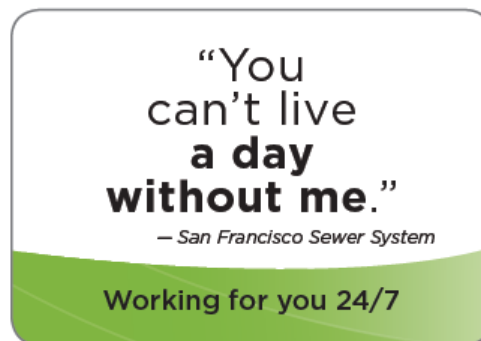
## Public Awareness Campaign - A Fresh Idea to a Messy Problem

SFPUC launched [“Learn About Me”](#) campaign to build public awareness of City’s aging sewer system, Oct 2013.



*Images of the ads were featured on [sfwater.org](#) and shared on social media channels to increase awareness of the campaign online*

Focus groups revealed that there was very little awareness of the condition of the city’s sewer system.



Summary Report: April 2014



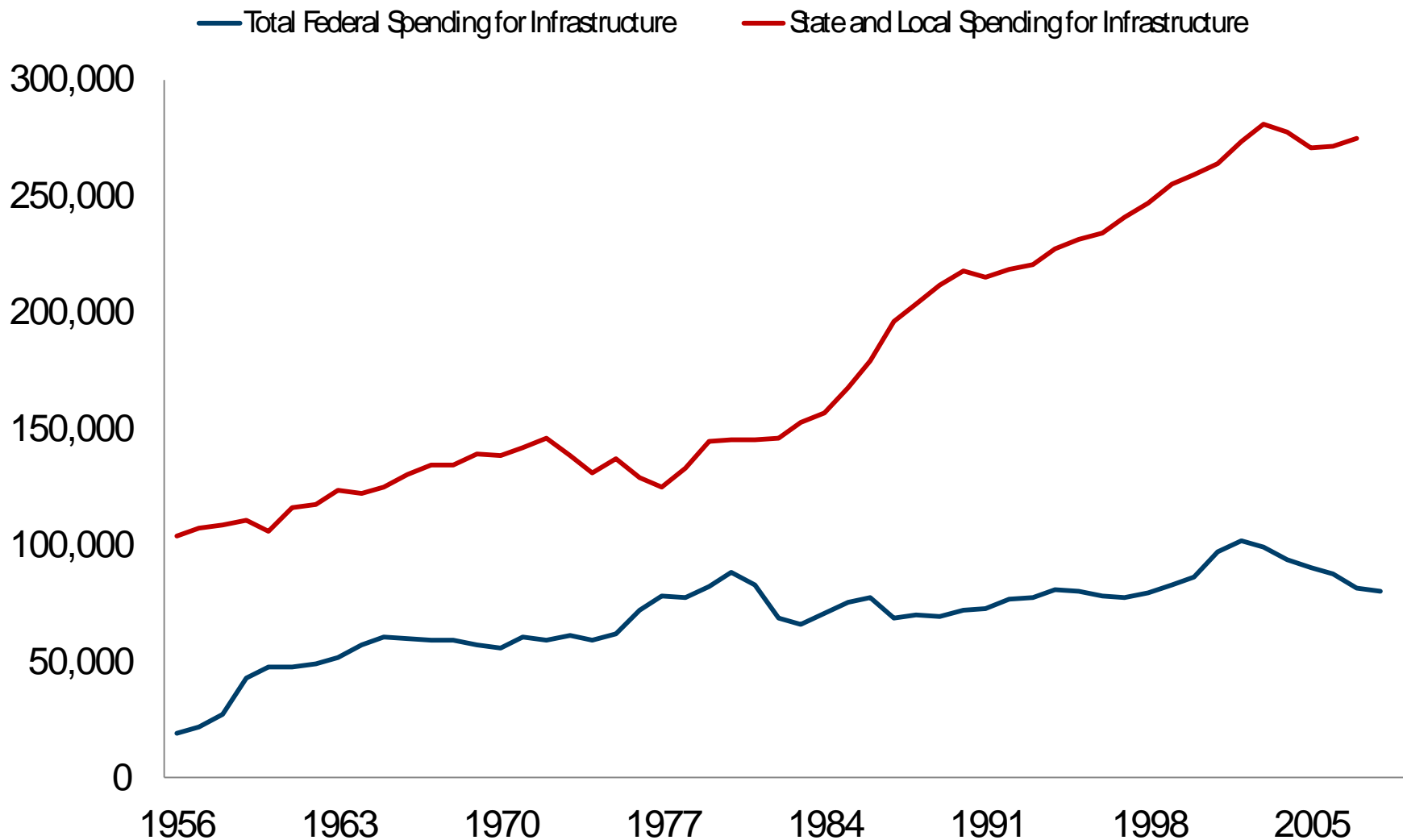
Total media buys: \$63,034

“The main focus of the ad campaign was to bring attention to San Francisco’s hidden “City under the City.” .

Source: [www.sfwater.org](#) and Janney FIS. [Link to “Learn About Me” Summary Report.](#)

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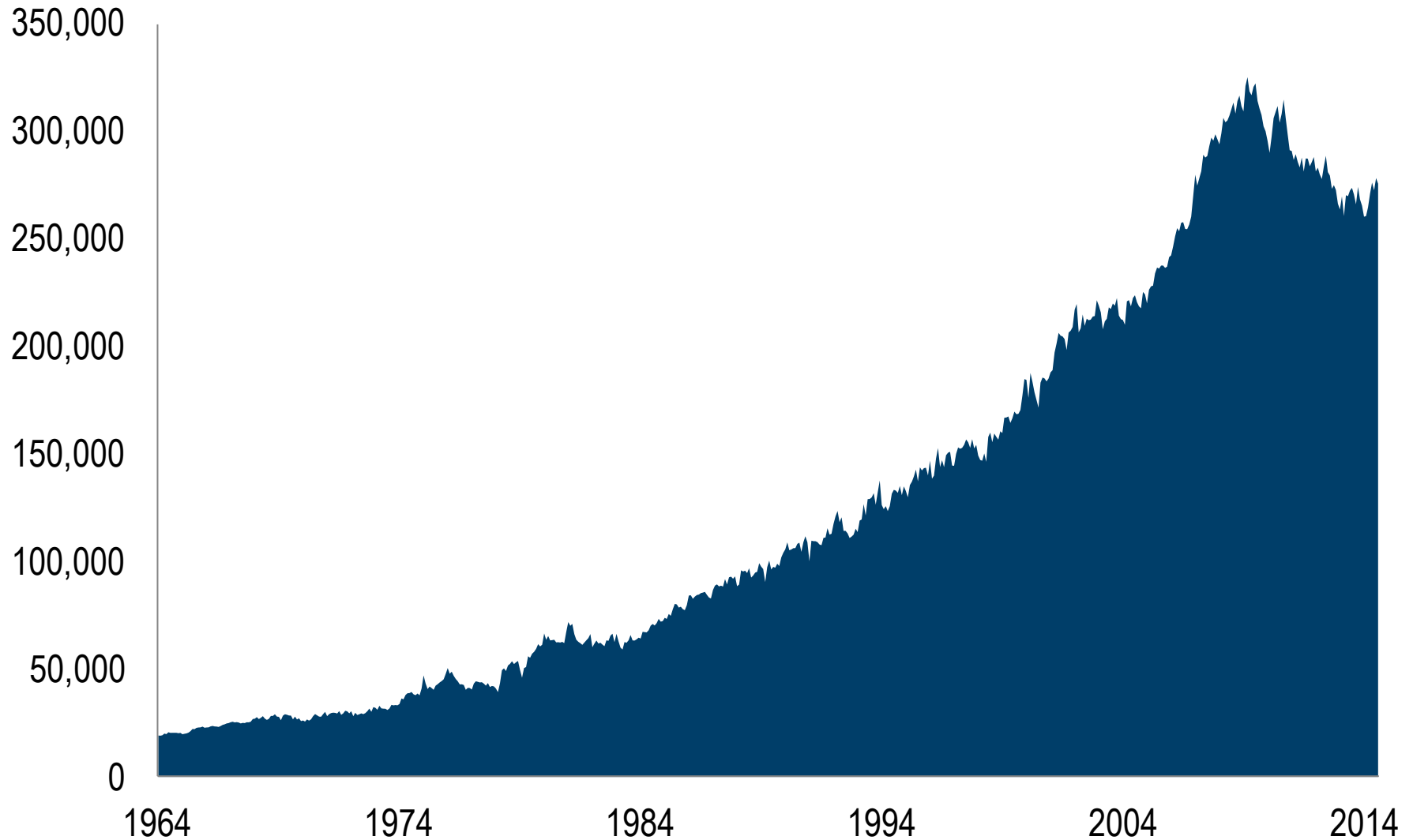
## Annual Infrastructure Spending (\$ in millions)



Source: [Public Spending on Transportation and Water Infrastructure, CBO](#) and Janney FIS.

# The Rime of Municipal Issuance

U.S. Public Construction Spending (\$ in millions)

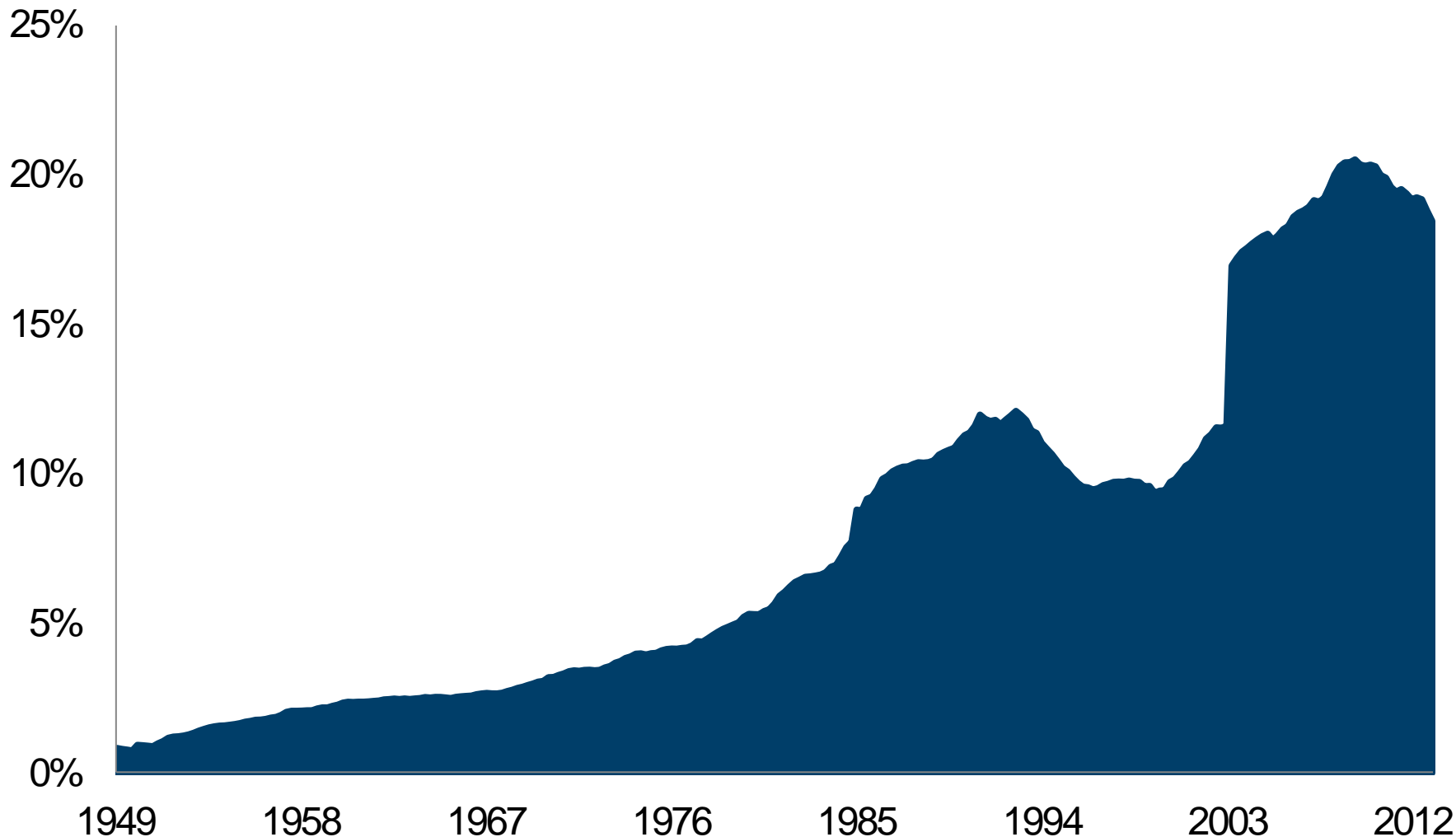


Source: U.S. Census Bureau and Janney FIS. [Construction put in place: new buildings and structures- additional description.](#)

# The Rime of Municipal Issuance

While Not Greece, Portugal or Italy, Govt. Debt Levels Higher Than in Past

State and Local Government Debt as % of U.S. GDP



# The Rime of Municipal Issuance – An Update

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- “For example, the top priority in our planning must be given to transportation, and to health and efficiency in industries to the national defense and the national economy...But more specifically, our highway net is inadequate locally, and obsolete as a national system.”
- A 50 billion dollar highway program in ten years is a goal toward which we can -- and we should -- look.
  - Who said it? Richard Nixon (while Vice President) in an [address to the Governors Conference July, 12, 1954](#)
- “In the coming decade, the most significant challenge facing the nation in transportation services will be to improve a deteriorating physical infrastructure of roadways, railroads, waterways and mass transit systems, in order to conserve costly energy supplies while promoting effective transportation services.”
  - Who said it? President Jimmy Carter Jan. 16, 1981 [State of the Union Address](#)
- "We simply cannot allow this magnificent system to deteriorate beyond repair. The time has come to preserve what past Americans spent so much time and effort to create, and that means a nationwide conservation effort in the best sense of the word. America can't afford throwaway roads or disposable transit systems. The bridges and highways we fail to repair today will have to be rebuilt tomorrow at many times the cost."
  - Who said it? President Ronald Reagan in a [1982 radio address](#)
- “Clinton said, ‘We have to break out of the old categories and think about whether we are going to invest in the future.’ Clinton drew extensively from Reich's book, which he was toting around, with bits of paper stuck in several pages. Reich's core point in "The Work of Nations" was that a nation had only two resources within its borders--its workers and its "infrastructure" of roads, communications systems, and other common public assets--that stayed put....Reich argued that a nation needed to spend money on the nonmobile resources: education and job training for its workers; roads, bridges, high-speed rail, and other forms of infrastructure.”

▪ President Elect Bill Clinton in [The Agenda by Bob Woodward p. 20-21 Jun 6, 1994](#)



# The Rime of Municipal Issuance

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Tom Kozlik, Director and Municipal Credit Analyst, joined Janney Montgomery Scott in 2008 after time at UBS and Bear, Stearns. In his current role Mr. Kozlik advises Janney's retail and institutional clients about the strengths and weaknesses of municipal market credit profiles and offers guidance about how other trends might affect issuer credit profiles. He has been voted to Institutional Investor's All America Fixed Income Team and to Smith's Research and Gradings Municipal All-Star Team. Mr. Kozlik graduated from the Schreyer's Honors College at the Pennsylvania State University with a degree in Political Science with Honors and earned a Masters of Governmental Administration from the Fels Institute of Government at the University of Pennsylvania. He co-taught a graduate level class at the University of Pennsylvania titled the Business of Public Finance Investment Banking which is offered to students at the Fels Institute of Government and Wharton Business School.

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