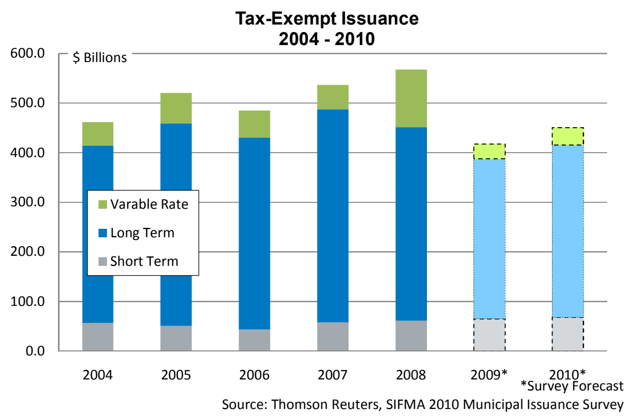
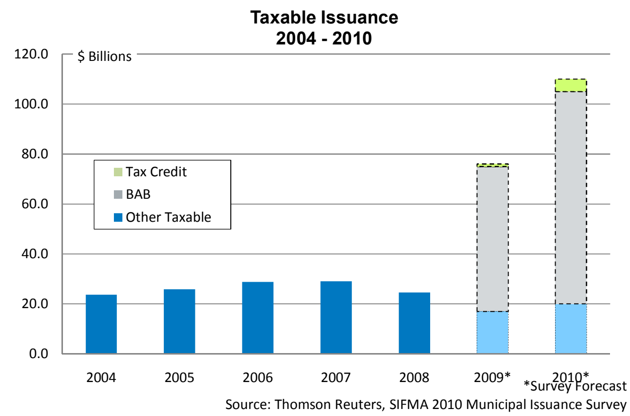
SIFMA 2010 Municipal Issuance Survey

Introduction

Respondents to the SIFMA 2010 Municipal Issuance Survey[1] forecast total municipal issuance, combining both taxable and tax-exempt in aggregate, will increase by 14 percent in 2010. Due to the introduction of several new taxable bonds in 2009, such as Build America Bonds (BABs), taxable issuance is expected to jump by 45 percent in 2010. Although very few tax credit bonds were issued, or are expected to be issued, in 2009, survey respondents anticipate a significant rise in tax credit municipal issuance, particularly for tax credit BABs.

Concerns about the economy and the federal deficit, inflation and the expected extension of the Build America Bond program, featured prominently in the risks and assumptions of survey respondents for 2010, with interest rates expected to rise in mid-2010.





MUNICIPAL ISSUANCE FORECAST

$ Billions	2009 (e)	2010 (f)	% Change
Tax-Exempt Municipal Issuance			
Short-Term Municipal Notes (one year or less)	65	68	5%
Variable Rate Demand Obligations (VRDOs)	30	35	17%
Long-Term Municipal Bonds (more than one year)	322.5	347.5	8%
Total	417.5	450.5	8%
Taxable Municipal Issuance			
Build America Bonds (Direct Pay)	58	85	47%
Other Taxable Municipal Bonds (no tax credit)	17	20	18%
Tax Credit Municipal Bonds	1	5	400%
Total	76	110	45%
Refunding as % of Total	25%	26%	4%

[1] The survey was conducted from November 9 – November 30, 2009. The forecasts discussed in the text and appearing in the accompanying data tables are the median values of the individual member firms' submissions, unless otherwise specified.

Issuance Forecast Highlights

The SIFMA 2010 Municipal Issuance Survey (Survey) projects tax-exempt municipal issuance will total $450.5 billion in 2010, a 7.9 percent rise from $418 billion estimated for 2009, with increased issuance in all categories. Long-term tax-exempt municipal issuance is projected to be $347.5 billion in 2010, up 7.8 percent from the $323 billion estimate for 2009[2], while short-term issuance is projected to increase to $68 billion in 2010 from $65 billion for 2009.[3] Variable rate demand obligation (VRDO) issuance is projected to be $35 billion in 2010, a 16.7 percent increase from the $30 billion estimate for 2009.[4]

On the taxable side, the Survey projects direct pay BAB issuance will be $85 billion in 2010, a 46.6 percent increase from the estimated $58 billion total in 2009.[5] Other taxable municipal bond issuance, which excludes tax credit bonds, is forecast to be $20 billion in 2010, a 17.6 percent increase from the $17 billion estimate in 2009.[6]

Tax credit municipal bond issuance is projected to be $5 billion in 2010, five times the $1 billion estimate for 2009.[7] Although virtually no tax credit Build America Bonds were issued in 2009, respondents expect tax credit BABs to be the largest issuance type of tax credit municipal bond in 2010, followed by qualified school construction bonds (QSCBs), clean renewable energy bonds (CREBs), and qualified zone academy bonds (QZABs).

Refundings are expected to account for 25 percent of total municipal issuance in 2009 and are forecast to rise slightly to 26 percent in 2010.[8]

Over 80 percent of Survey respondents agreed that the largest issuing use-of-proceeds sector would be general purpose bonds in both 2009 and 2010, with a very small minority expecting transportation or education to be the largest sectors instead for both 2009 and 2010. In prior years, both the general purpose and education sectors have been the largest issuing sectors.

TOP ISSUING SECTOR

2004	General Purpose
2005	Education
2006	Education
2007	General Purpose
2008	Education
*2009**	*General Purpose*
*2010**	*General Purpose*

Source: Thomson Reuters, SIFMA Municipal Issuance Survey
*Survey estimate

When asked about risks and assumptions underlying their forecasts, over half of the Survey respondents answering this question indicated that the extension of the BAB program past its current scheduled December 2010 expiry was an important assumption in their issuance forecasts. The absence of significant additional federal stimulus programs or other federal legislation affecting municipal issuance or the value of tax-exempt bonds were also mentioned.

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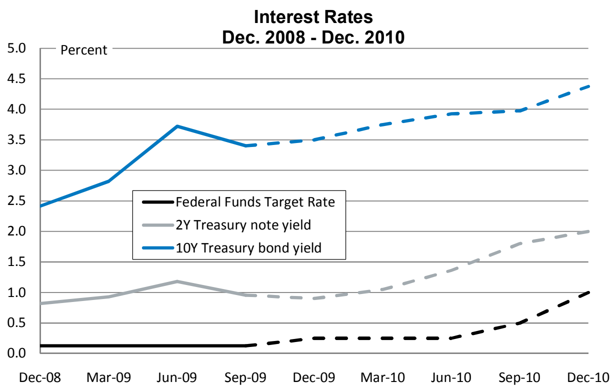
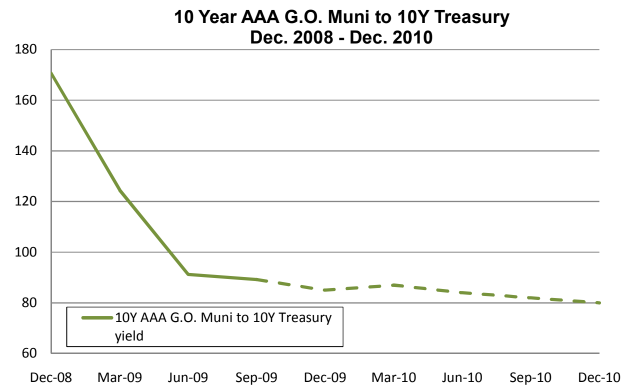
2 Survey estimates for long-term municipal bonds ranged from $250 to $400 billion for 2009 and from $250 to $552 billion for 2010.
3 Survey estimates for short-term municipal notes ranged from $50 to $73 billion for 2009 and from $50 to $100 billion for 2010.
4 Survey estimates for variable rate demand obligations ranged from $27 to $120 billion for 2009 and from $20 to $150 billion for 2010.
5 Survey estimates for direct pay Build America Bonds ranged from $40 to $80 billion for 2009 and from $60 to $160 billion for 2010.
6 Survey estimates for other taxable municipal bond issuance (excluding tax credit) ranged from $1 to $20 billion for 2009 and from $3 to $35 billion for 2010.
7 Survey estimates for tax credit municipal bonds ranged from $47 million to $7 billion for 2009 and from $75 million to $20 billion in 2010.
8 Survey estimates for refunding ranged from 10 to 40 percent for 2009 and from 8 to 45 percent for 2010.

Interest Rate Forecast Highlights



Sources: Federal Reserve, SIFMA 2010 Municipal Issuance Survey



Sources: Bloomberg, SIFMA 2010 Municipal Issuance Survey

Survey respondents offered relatively uniform views on interest rates in the coming year, expecting a gradual rise in early 2010 due to slight inflationary pressures and an improving economy, beginning with increases to the 2-year and 10-year Treasury yields, followed by the federal funds target rate.

The two-year Treasury note yield is expected to rise in early 2010, with respondents forecasting the yield to be 1.05 percent at end-March 30, 1.36 percent by end-June, 1.8 percent at end-September and 2.0 percent by year-end.[9] The 10-year Treasury note yield is also expected to begin rising in the first quarter of 2010, with yields forecast to be 3.75 at end-March, 3.29 percent at end-in June, 3.98 percent at end-September, and 4.38 percent by year-end.[10] The federal funds target rate is expected to stay low throughout the first half of next year, rising to 0.5 percent in the third quarter and then 1.0 percent by the end of 2010.

The ratio of the yield on AAA G.O. municipal securities to the 10-year Treasury benchmark was expected to decrease slightly, returning ratios to where they were before the credit crisis. For the months of March, June, September and December 2010, respondents expect the ratio to be 85 percent, 87 percent, 84 percent, and 80 percent respectively as the 10-year Treasury yield continues its trend higher.

The noted risks to the interest rate forecast are all on the upside. Over half of the Survey respondents answering this question expressed some concern over inflation; however, one respondent noted that "until capacity utilization rises, there is still plenty of room for expansion to keep inflation low." Others stated concern over the size of the federal deficit and expected borrowing needs to play a risk as well.

[9] The two-year Treasury note yield averaged 0.77 percent during the survey period, November 9 through November 30, 2009.
[10] The 10-year Treasury note yield averaged 3.4 percent during the survey period, November 9 through November 30, 2009.

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[11] Multiple responses may be received from a single firm and were counted as separate responses for the purposes of this survey.

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