

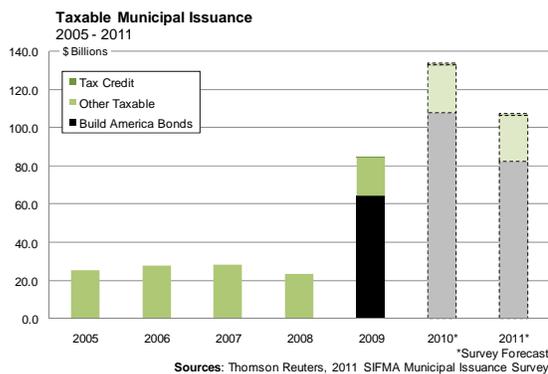
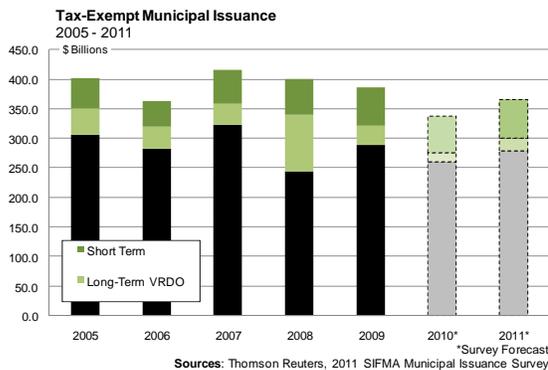
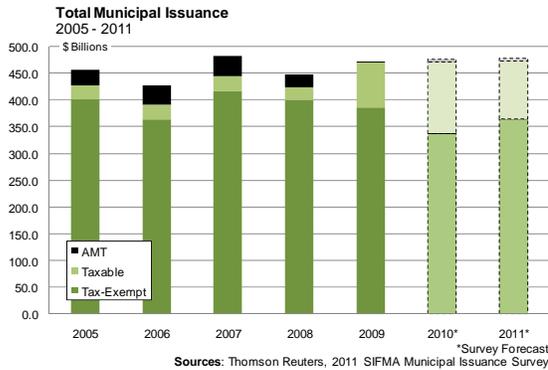
Issuance Forecast Highlights

MUNICIPAL ISSUANCE FORECAST			
\$ Billions	2010 (e)	2011 (f)	% Change
Tax-Exempt Municipal Issuance			
Short-Term Municipal Notes (one year or less)	61.5	65.0	6%
Long-Term Municipal Bonds (more than one year)	276.0	300.0	9%
<i>of which are Variable Rate Demand Obligations (VRDOs)</i>	16.0	21.0	31%
Total	353.5	386.0	9%
Refunding as % of Total	25%	20%	-20%
Taxable Municipal Issuance			
Build America Bonds	108.0	82.5	-24%
Other Taxable Municipal Bonds (no tax credit)	24.9	24.0	-4%
Tax Credit Municipal Bonds	1.0	1.0	0%
Total	133.9	107.5	-20%
AMT			
Total	4.8	6.0	26%
Total	492.2	499.5	1%
<i>of which are Long-Term Municipal Bonds</i>	<i>414.7</i>	<i>413.5</i>	<i>0%</i>

Respondents to the 2011 SIFMA Municipal Issuance Survey¹ expected total municipal issuance, combining both taxable and tax-exempt debt in aggregate, to total \$499.5 billion in 2011, up slightly from their expectation of \$492.2 billion in 2010. Excluding short-term notes, long-term issuance was also expected to change little, a forecasted \$414.7 billion total in 2011 compared with \$413.5 billion in 2010.

Projections for issuance in 2011 were predicated heavily on several assumptions by Survey panelists, as a number of programs are slated to expire in 2011 unless otherwise extended. Three-quarters of the panelists assumed the Build America Bonds (BABs) program will be extended past 2010, although at a lower subsidy rate (32 percent);² of those assuming an extension of the BABs program, panelists were evenly split on the duration of the extension, with half assuming a one-year extension and the other half assuming a two-year extension.³ Other assumptions on specific programs were that the bank-qualified limit will be set to \$30 million permanently and the alternative-minimum tax (AMT) holiday will be continued. The survey was conducted between November 16 and December 1, 2010, before it became likely that Congress would not extend the BABs program past 2010.

Survey respondents projected tax-exempt municipal issuance to total \$386.0 billion in 2011, a 9.0 percent increase from the \$353.5 billion estimated for 2010. Both short- and long-term tax-exempt municipal issuance were expected to rise modestly in 2011 (6 and 9 percent, respectively). Long-term tax-exempt municipal issuance was projected to be \$300.0 billion in 2011, up 9 percent from the \$276 billion estimate for 2010⁴, while short-term issuance was projected to increase to \$65 billion in 2011 from \$61.5 billion for 2010.⁵ Refundings as a share of tax-exempt issuance were expected to decline to 20 percent in 2011, down from the 25 percent share expected in 2010.⁶



TOP ISSUING SECTOR	
2005	Education
2006	Education
2007	General Purpose
2008	Education
2009	General Purpose
2010*	General Purpose
2011*	General Purpose

Source: Thomson Reuters, SIFMA 2011 Municipal Issuance Survey
*Survey estimate

¹ The survey was conducted from November 15 – December 2, 2010. The forecasts discussed in the text and appearing in the accompanying data tables are the median values of all submissions of individual member firms', unless otherwise specified.

² Survey estimates for BAB subsidies ranged from 25 percent to 34 percent.

³ To see forecasts split by those forecasting either an extension or no extension of the BABs program (and/or other government programs), see page 3.

⁴ Survey estimates for tax-exempt long-term municipal bonds ranged from \$130.5 to \$400 billion for 2010 and from \$145 to \$420 billion for 2011.

⁵ Survey estimates for tax-exempt short-term municipal notes ranged from \$40 to \$150 billion for 2010 and from \$50 to \$200 billion for 2011.

⁶ Survey estimates for refundings ranged from 20 percent to 35 percent in 2010 and from 15 to 35 percent in 2011.

Variable-rate demand obligation (VRDO) issuance is expected to recover somewhat from a low of \$16 billion in 2010 (compared to the 10-year average issuance from the period 2000-2009 totaled \$53.3 billion per year) to \$21 billion in 2011.⁷

On the taxable side, Survey panelists projected BABs issuance to decline 24 percent to \$82.5 billion in 2011 from the estimated \$108 billion total in 2010.⁸ Other taxable municipal bond issuance, excluding direct pay bonds, was forecast to be \$24.0 billion in 2011, a 4.0 percent decline from the \$24.9 billion estimated in 2010.⁹ Tax-credit bond issuance was projected to be \$1.0 billion in 2011, flat from the \$1.0 billion estimate for 2010.¹⁰

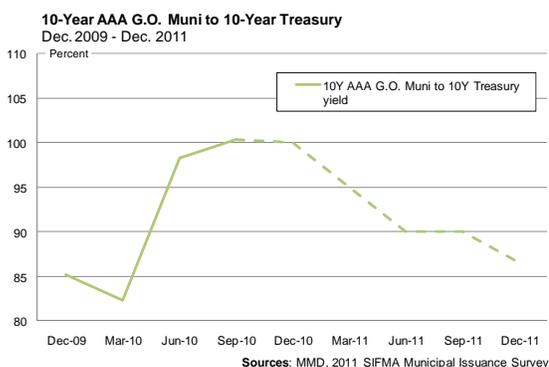
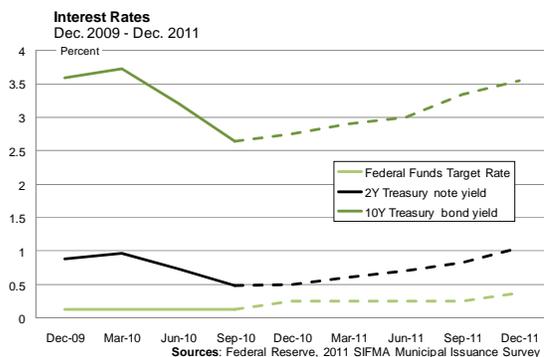
About 80 percent of Survey respondents agreed that the largest issuing use-of-proceeds sector would be general purpose for both 2010 and 2011, with a very small minority expecting utilities or transportation to be the largest sectors instead for both 2010 and 2011. In prior years, both the general purpose and education sectors have been the largest issuing sectors.

Interest Rate Forecast Highlights

Survey respondents offered relatively uniform views on interest rates in the coming year, expecting a gradual rise throughout 2011. The federal funds target rate was expected to remain in the 0 - 0.25 range throughout 2011, before rising to 0.38 percent by December 2011.¹¹

The two-year Treasury note yield¹² was expected to rise gradually from 0.5 percent in December 2010 to 1.05 percent in December 2011.¹³ The 10-year Treasury note yield was also expected to rise throughout 2011¹⁴, with yields projected to climb from 2.75 end-December 2010 to 3.55 percent by year-end 2011¹⁵. The ratio of the yield on AAA G.O. municipal securities to the 10-year Treasury benchmark was expected to decline under 100 percent at year-end 2010 for the months of March, June, September and December 2011, respondents expected the ratio to be 95 percent, 90 percent, 90 percent and 86.5 percent, respectively.

One panelist noted that the failure to extend certain programs (BABs, the AMT holiday and bank-qualified minimums) would drive yields on tax-exempts upward. Other risks to forecasts noted by panelists were shifts in the foreign exchange market and faster-than-expected recovery in the global economy.



⁷ Survey estimates for tax-exempt VRDOs ranged from \$1 billion to \$35 billion for 2010 and from \$1 to \$60 billion for 2011.

⁸ Survey estimates for Build America Bonds ranged from \$60.5 billion to \$134.0 billion for 2010 and from \$0 to \$100 billion for 2011.

⁹ Survey estimates for other taxable municipal bond issuance (excluding tax credit) ranged from \$5 to \$31 billion for 2010 and from \$3.5 to \$50 billion for 2010.

¹⁰ Survey estimates for tax credit municipal bonds ranged from \$0 billion to \$15 billion for 2010 and from \$0 billion to \$5 billion in 2010.

¹¹ The range for the federal funds target rate was 0.0 to 0.25 percent in December 2010, 0 to 0.25 percent in March 2011, 0.0 to 0.75 percent in June 2011, 0 to 1.25 percent in September 2011, and .13 to 1.5 percent in December 2011.

¹² The range for the two-year Treasury note yield was .03 to 0.8 percent in December 2010, .4 to 1.0 percent in March 2011, 0.4 to 1.25 percent in June 2011, 0.5 to 1.5 percent in September 2011, and 0.6 to 2 percent in December 2011.

¹³ The two-year Treasury note yield averaged 0.51 percent during the survey period, November 15 through December 2, 2010. The Survey predicts the two-year Treasury yield will be 0.60 percent in March 2011, 0.70 percent by end-June 2011, and 0.82 percent in September 2011.

¹⁴ The range for the 10-year Treasury yield was 2.4 to 3 percent for December 2010, 2.4 to 3.8 percent for March 2011, 2.5 to 4.0 percent in June 2011, 2.6 to 4.5 percent in September 2011, and 2.7 to 5.0 percent in December 2011.

¹⁵ The 10-year Treasury note yield averaged 2.9 percent during the survey period, November 15 through December 2, 2010. The Survey predicts the 10-year Treasury yield will be 2.9 percent end-March 2011, 3.0 percent end-June, and 3.35 percent end-September.

Alternate Forecasts: Those Forecasting an Extension of BABs

MUNICIPAL ISSUANCE FORECAST (With BABs Extension)			
\$ Billions	2010 (e)	2011 (f)	% Change
Tax-Exempt Municipal Issuance			
Short-Term Municipal Notes (one year or less)	63.0	67.5	7%
Long-Term Municipal Bonds (more than one year)	286.0	298.0	4%
<i>of which are Variable Rate Demand Obligations (VRDOs)</i>	15.5	20.5	32%
Total	364.5	386.0	6%
Refunding as % of Total	25%	20%	-18%
Taxable Municipal Issuance			
Build America Bonds	106.0	85.0	-20%
Other Taxable Municipal Bonds (no tax credit)	24.0	22.0	-8%
Tax Credit Municipal Bonds	1.0	1.0	0%
Total	131.0	108.0	-18%
AMT			
Total	4.5	5.5	26%
Total	500.0	499.5	0%
<i>of which are Long-Term Municipal Bonds</i>	421.5	411.5	-2%

Alternate Forecasts: Those Forecasting No Extension of BABs

MUNICIPAL ISSUANCE FORECAST (Without BABs Extension)			
\$ Billions	2010 (e)	2011 (f)	% Change
Tax-Exempt Municipal Issuance			
Short-Term Municipal Notes (one year or less)	55.0	57.5	5%
Long-Term Municipal Bonds (more than one year)	205.0	325.0	59%
<i>of which are Variable Rate Demand Obligations (VRDOs)</i>	20.0	50.0	150%
Total	280.0	432.5	54%
Refunding as % of Total	33%	20%	-39%
Taxable Municipal Issuance			
Build America Bonds	125.0	0.0	-100%
Other Taxable Municipal Bonds (no tax credit)	24.9	50.0	101%
Tax Credit Municipal Bonds	0.1	0.0	-100%
Total	150.0	50.0	-67%
AMT			
Total	5.0	20.0	26%
Total	435.0	502.5	16%
<i>of which are Long-Term Municipal Bonds</i>	360.0	395.0	10%

SURVEY PARTICIPANTS¹⁶

BB&T CAPITAL MARKETS

B.C. ZIEGLER & CO.

CITIGROUP INC.

EDWARD JONES

ESTRADA HINOJOSA

FIRST SOUTHWEST COMPANY

HERBERT J. SIMS & CO., INC.

JANNEY MONTGOMERY SCOTT LLC

JEFFERIES & COMPANY, INC.

J.P. MORGAN CHASE & CO.

MORGAN KEEGAN & COMPANY, INC.

MORGAN STANLEY

ROOSEVELT & CROSS, INC.

STERNE AGEE

STONE & YOUNGBERG LLC

¹⁶ 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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