

TOP ISSUING SECTOR	
2008	Education
2009	General Purpose
2010	General Purpose
2011	General Purpose
2012	General Purpose
2013†	General Purpose
2014‡	General Purpose

Source: Thomson Reuters, SIFMA 2014 Municipal Issuance Survey  
†Data to December 5, 2013  
‡Survey estimate

## Issuance Forecast Highlights

MUNICIPAL ISSUANCE FORECAST			
\$ Billions	2013	2014 (f)	% Change
<b>Long-Term Issuance</b>			
Tax-Exempt Municipal Issuance	266.7	265.0	-0.7%
Taxable Municipal Issuance	35.5	33.5	-5.7%
AMT Municipal Issuance	10.2	11.0	7.6%
<b>Short-Term Issuance</b>			
	53.6	40.0	-25.4%
<b>Total</b>	<b>366.1</b>	<b>349.5</b>	<b>-4.5%</b>
of which are Long-Term Municipal Bonds	312.5	309.5	-1.0%
Refunding as % of Long-Term Tax-Exempt Total	33%	35%	6.5%
<b>Other Municipal Categories</b>			
VRDO Issuance	8.3	10.0	21.1%
Direct Placements/Bank Loans	N/A	45.0	N/A
Floating Rate Note (FRN) Issuance	12.3	18.5	50.5%

Respondents to the 2014 SIFMA Municipal Issuance Survey<sup>1</sup> expect total municipal issuance, both short- and long-term, to reach \$349.5 billion in 2014, down from the \$366.1 billion estimated issuance in 2013.<sup>2</sup> Both short-term and long-term issuance is expected to fall in 2014, with \$40.0 billion in short-term notes expected in 2014, compared to \$53.6 billion issued in 2013; and \$309.5 billion in long-term bills expected in 2014, compared with \$309.5 billion issued in 2013.

Respondents were polled as to events that would most likely have the greatest effect on the municipal market in 2014. Survey respondents agreed that the curtailment of the tax-exemption on municipal bond interest would have the greatest impact on the municipal market; to a slightly lesser extent, respondents also considered fiscal pressures resulting from underfunded pensions to also have great importance. One respondent opined that the end of quantitative easing was also an highly important factor, while another respondent considered the effect of revisions to the liquidity coverage ratio in Basel III to also play a large role in the municipal market. To a lesser extent, a single big-name default and regulatory reform were considered important factors but playing smaller roles as to their effect in the municipal market.

Respondents projected long-term tax-exempt municipal issuance to reach \$265.0 billion in 2014, a 0.7 percent decline from the projected \$266.7 billion issued in 2013.<sup>3</sup> Long-term taxable municipal issuance is expected to be \$33.5 billion, a 5.7 percent decline from issuance in 2013.<sup>4</sup> On the other hand, long-term alternative minimum tax (AMT) issuance is projected to rise to \$11.0 billion in 2014, a 7.6 percent increase from 2013.<sup>5</sup>

Refundings, which played a large factor for gross volume early in 2013, was expected to rise slightly in 2014, with 35 percent of long-term tax exempt issuance expected as refundings, compared to 33 percent in 2013.<sup>6</sup>

Respondents expected variable-rate demand obligation (VRDO) issuance to rise slightly to \$10.0 billion in 2014, recovering from the record low of \$8.3

<sup>1</sup> The survey was conducted from November 6 – November 20, 2013. 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.

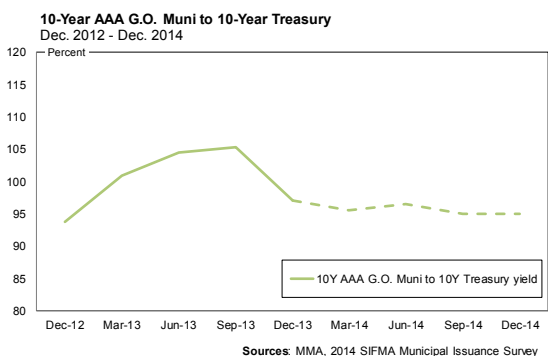
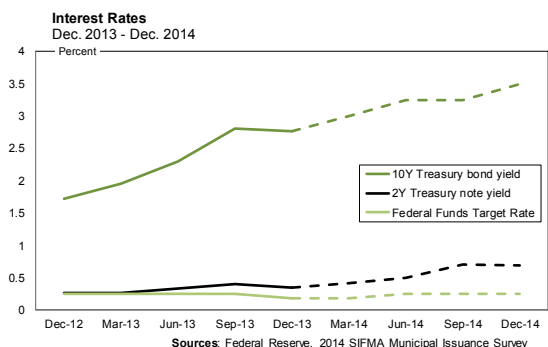
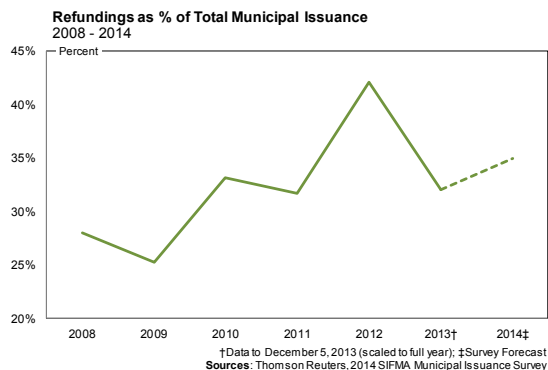
<sup>2</sup> 2013 data are to December 5, 2013, scaled to full year approximations; source: Thomson Reuters.

<sup>3</sup> Survey estimates for long-term tax-exempt municipal bonds ranged from \$240.0 to \$340.0 billion for 2014.

<sup>4</sup> Survey estimates for long-term taxable municipal bonds ranged from \$25.0 billion to \$75.0 billion for 2014.

<sup>5</sup> Survey estimates for long-term AMT municipal bonds ranged from \$8.0 billion to \$75.0 billion for 2014.

<sup>6</sup> Survey estimates for refundings as a percentage of long-term tax-exempt issuance ranged from 8.0 percent to 45.0 percent in 2014.



billion estimated to be issued in 2013.<sup>7</sup> Direct placements/bank lending was expected to rise from estimates last year (\$37.5 billion) to \$45.0 billion, or 12.9 percent of long-term issuance, in 2014.<sup>8</sup> Respondents also expected floating rate note issuance (FRN) issuance in the municipal market to reach a new high in 2014, with \$18.5 billion of issuance, up by 50.5 percent from \$12.3 billion in 2013.<sup>9</sup>

A narrow majority of respondents (55 percent) agreed that the largest issuing use-of-proceeds sector will be general purpose for 2014; little more than a quarter (27 percent) expected education to be the largest issuing sector, and the balance to transportation. In prior years, both the general purpose and education sectors have been the largest issuing sectors, by gross amount.

Respondents expressed a wide range of views regarding municipal defaults, defined for the purpose of the survey as the occurrence of a missed interest or principal payment or the filing for bankruptcy. The median expectation for number of issuers to default was 25 issuers for a par value of \$1.5 billion in 2014.<sup>10</sup>

### Interest Rate Forecast Highlights

Survey respondents offered relatively uniform views on interest rates in the coming year. The federal funds rate was expected to remain unchanged in 2014.<sup>11</sup> The two-year Treasury note yield was expected to rise from 0.34 percent end-December 2013 to 0.69 percent by end-December 2014.<sup>12</sup> The 10-year Treasury note yield was also expected to climb from 2.77 percent end-December 2013 to 3.5 percent end-December 2014.<sup>13</sup> The ratio of the yield on 10-year AAA G.O. municipal securities to the 10-year Treasury benchmark was expected to gradually decline from 97 percent end-December 2013 to 95.0 percent by end-September 2014 and remain there in end-December 2014.<sup>14</sup>

<sup>7</sup> Survey estimates for VRDO issuance ranged from \$5.0 to \$25.0 billion in 2014.

<sup>8</sup> Survey estimate for bank loans/direct purchases ranged from \$10.0 billion to \$65.0 billion in 2014.

<sup>9</sup> Survey estimates for floating rate note issuance ranged from \$10.0 billion to \$30.0 billion in 2014.

<sup>10</sup> Survey estimate for the number of issuers to default ranged from 5 to 50 issuers. Par value estimated to be in default ranged from \$0.3 billion to \$5.0 billion.

<sup>11</sup> The range for the federal funds target rate was 0 percent to 0.25 percent in December 2013, 0 percent to 0.25 percent in March 2014, 0 percent to 0.25 percent in June 2014, 0 percent to 0.25 percent in September 2014, and 0 percent to 0.5 percent in December 2014.

<sup>12</sup> The range for the two-year Treasury note yield was 0.25 percent to 0.4 percent in December 2013, 0.3 percent to 0.55 percent in March 2014, 0.35 percent to 0.75 percent in June 2014, 0.4 percent to 0.9 percent in September 2014, and 0.4 percent to 1.1 percent in December 2014.

<sup>13</sup> The range for the 10-year Treasury yield was 2.5 percent to 2.85 percent in December 2013, 2.60 percent to 3.25 percent in March 2014, 2.80 percent to 3.50 percent for June 2014, 2.90 percent to 3.50 percent in September 2014, and 2.85 percent to 3.75 percent in December 2014.

<sup>14</sup> The range for the 10-year AAA G.O. muni yield as a percentage of the 10-Year Treasury bond yield was 90 percent to 162.5 percent in December 2013, 87 percent to 155 percent in March 2014, 90 percent to 139 percent in June 2014, 88 percent to 139 percent in September 2014, and 85 percent to 134 percent in December 2014.

## **SURVEY PARTICIPANTS**

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