Municipal Market Focus

Fixed Income Strategies Group

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INTRODUCTION

Remo Di Re, Vice President, Sr. Municipal Bond Credit Strategist

As the month of July ended, the news remained the same for the municipal bond market. The ongoing lack of supply, fewer new issues and growing demand from investors seeking municipal bonds led to additional yield contraction and stronger bond prices. Investor's holding bonds over the past year have likely witnessed significant appreciation in the value of their municipal bonds. The likelihood of continued economic uncertainty coupled with tax increases is likely to continue to place supply constraints on the municipal market. To further exacerbate the supply issue, many of the tax cuts, which were implemented beginning in 2001are scheduled to expire at the end of 2010. A larger pool of investors seeking tax-exempt investment alternatives could potentially continue to drive yields down and prices up as demand continues to outweigh supply. The municipal bond market faced continued negative headline risk throughout the month of July, as Congress was unable to pass an extension of the program that provides Medicaid assistance to states, potentially placing further budgetary strain on state finances.

MARKET COMMENTARY AND REVIEW

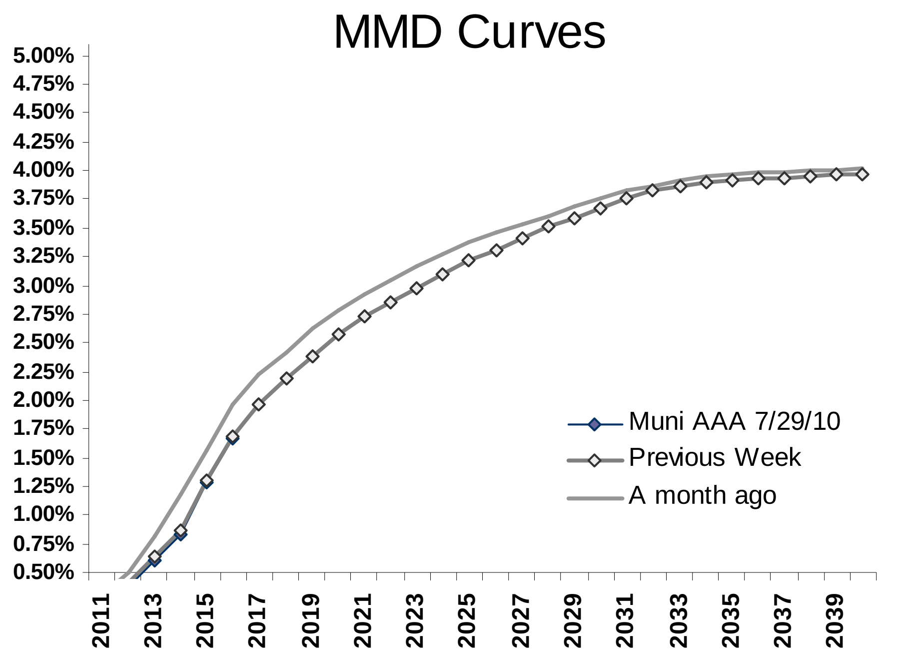
Remo Di Re, Vice President, Sr. Municipal Bond Credit Strategist

General:

During the month of July, municipal yields continued to contract. Both the 10-year and 30-year municipal triple-A rated general obligation yields as reported by Municipal Market Data contracted throughout the month as the 10-year triple-A rated bond contracted 19 basis points from the beginning of the month to the end of the month; while, at the same time the 30-year triple-A rated general obligation bond contracted 4 basis points to close the month yielding under 4% on the long-end of the curve.

Trading:

All of our regional Trading Desks continued the struggle to find municipal bonds for our clients. As supply is likely to remain an issue, investors may not be willing to pay significant premiums for municipal bonds while receiving much lower yields-to-maturity. However with the long end of the municipal curve falling below a 4% yield, it may potentially be a sign that investors are showing less concern with respect to potential inflationary pressures.



Source: *Municipal Market Data*

Issuance:

Despite a steep decline in the issuance of BABs during the month of July overall municipal bond issuance surpassed July 2009 issuance according to data supplied to *Thomson Reuters* and reported in the *Bond Buyer*. The year-over-year increase was approximately 5% according to the article, as 945 new issues came to market totaling $27.4 billion, bringing total issuance for 2010 to $232 billion. With respect to BAB issuance July was reportedly the slowest month since the inception of the program with 84 BAB deals coming to market worth $5.9 billion. In what can be construed as good news for tax-exempt investors, two-thirds of issuance by dollar amount or $18.2 billion according to the article was tax-exempt issues. In total, of the 945 total issues 699, or 74%, were tax-exempt according to the article.

State Round-Up:

As states are projected to face budgetary challenges over the next couple of years due to slow economic recovery, many states will be continually reliant on any assistance they can receive from the federal government. In an article dated July 1, 2010 the *Bond Buyer* reported that Congress failed to pass a six-month extension of enhanced federal matching funds under the Federal Medicaid Assistance Program (FMAP). According to the article, states would be deprived of billions of dollars of expected revenue, which in turn reportedly could lead to drastic cuts in programs and result in the loss of thousands of jobs. Many states according to article included FMAP funds in their annual budget. According to the article 29 states began their fiscal year on July 1, the inclusion of FMAP as part of anticipated revenues for state budgets could potentially cause larger than anticipated deficits during mid-year budget reviews. According to the article FMAP is scheduled to expire at the end of 2010, as is the Build America Bond (BAB) program which has yet to be extended as of this writing. The FMAP and BAB programs were part of the American Recovery and Reinvestment Act signed by the Obama administration in 2009. Despite the challenges many states face with respect to budgetary pressure, Moody's recently issued a report, which speaks to what they categorize as "the resiliency of states." The ratings by the three rating agencies support the strength of the credit quality of the states, despite continued budgetary pressure.

State	Fitch	Moody's	S&P	State	Fitch	Moody's	S&P
Alabama	AA-plus	Aa1	AA	Montana	AA-plus	Aa1	AA
Alaska	AA-plus	Aa1	AA+	Nebraska			AA+
Arizona		Aa3	AA-minus	Nevada	AA-plus	Aa1	AA+
Arkansas		Aa1	AA	New Hampshire	AA-plus	Aa1	AA
California	A-minus	A1	A-minus	New Jersey	AA	Aa2	AA
Colorado		Aa1	AA	New Mexico		Aaa	AA+
Connecticut	AA-plus	Aa2	AA	New York	AA	Aa2	AA
Delaware	AAA	Aaa	AAA	North Carolina	AAA	Aaa	AAA
D.C.	AA-minus	A1	A+	North Dakota		Aa1	AA+
Florida	AAA	Aa1	AAA	Ohio	AA-plus	Aa1	AA+
Georgia	AAA	Aaa	AAA	Oklahoma	AA-plus	Aa2	AA+
Hawaii	AA-plus	Aa1	AA	Oregon	AA-plus	Aa1	AA
Idaho	AA (Lease)	Aa1	AA	Pennsylvania	AA-plus	Aa1	AA
Illinois	A	A1	A-plus	Puerto Rico		A3	BBB-
Indiana	AA-plus (Lease)	Aaa	AAA	Rhode Island	AA	Aa2	AA
Iowa	AAA (Implied GO)	Aaa	AAA	South Carolina	AAA	Aaa	AA+
Kansas	AA (Lease)	Aa1	AA+	South Dakota	AA (Lease)		AA
Kentucky	AA-minus (Lease)	Aa1	AA-minus	Tennessee	AAA	Aaa	AA+
Louisiana	AA	Aa2	AA-minus	Texas	AAA	Aaa	AA+
Maine	AA-plus	Aa2	AA-plus	Utah	AAA	Aaa	AAA
Maryland	AAA	Aaa	AAA	Vermont	AAA	Aaa	AA+
Massachusetts	AA-plus	Aa1	AA	Virginia	AAA	Aaa	AAA
Michigan	AA-minus	Aa2	AA-minus	Washington	AA-plus	Aa1	AA+
Minnesota	AAA	Aa1	AAA	West Virginia	AA	Aa2	AA
Mississippi	AA-plus	Aa2	AA	Wisconsin	AA	Aas	AA
Missouri	AAA	Aaa	AAA	Wyoming			AA+

RBC Wealth Management®

Source: *Bond Buyer as of July 1, 2010 State General Obligation ratings. Lease notation represents appropriation requirement*

Build America Bonds (BABs):

On July 29, 2010 House Ways and Means Committee chairman Sander Levin introduced a new bill known as The Investing In American Jobs and Closing Tax Loopholes Act-HR 5893, which would extend the BABs program for an additional two years according to an article in the *Bond Buyer*. Based on the newly introduced legislation, the program would reportedly extend the BAB program through 2012, while reducing the subsidy gradually from the current 35% level to 32% for bonds issued in 2011, and to 30% for bonds issued in 2012, according to the article.

	10-yr Tsy	10-yr AAA Muni	30-yr Tsy	30-yr AAA Muni
Beginning of month (7/01/10)	2.949%	2.760%	3.895%	4.010%
Mid-month (7/15/10)	2.996%	2.620%	3.987%	3.980%
End of month (7/31/10)	2.907%	2.570%	3.989%	3.970%

Source: Bloomberg and Municipal Market Data

WASHINGTON AND FEDERAL AGENCY UPDATE, LEGAL AND TAXABILITY ISSUES

July 29, 2010

House Ways and Means

The Bond Buyer reported that House Ways and Means Committee Chairman Sander Levin introduced a new jobs bill that reportedly includes the extension of the Build America Bond program. In addition to the extension of the Build America Bond program through 2012, the legislation reportedly would also extend the municipal provision that encourages banks to buy more tax-exempt debt from smaller issuers. The small-issuer exemption for bank-qualified bonds would reportedly be extended for one more year. According to the article, the Levin legislation would also extend for one year programs that cover recovery zone economic development bonds and recovery zone facility bonds. In addition to the one year extension of the recovery zone bonds, the legislation would reportedly provide an additional $10 billion to the recovery zone economic development bonds and $15 billion to the recovery zone facility bonds. The last part of the legislation covering municipal bonds will reportedly extend for one year the exemption from the alternative minimum tax for all private-activity bonds (PABs), reportedly including private activity bonds issued to refund debt sold after 2003. The legislation according to the article would also exempt water and sewer exempt-facility bonds from state volume caps for PABs, and allow Federal Home Loan Banks to guarantee tax-exempt bonds through 2011.

FINANCIAL STATE OF THE STATES

July 1, 2010

State of Tennessee

The *Bond Buyer* reported that Governor Phil Bredesen signed into law the state's $29.9 billion spending plan for fiscal 2011. According to the article, the new spending plan plugs what was a projected $150 million budget shortfall. According to the article the state reportedly plans to issue approximately $194.1 million in new general obligations bonds, while at the same time planning to tap $245 million in reserve funds to reportedly balance the budget.

State of Massachusetts

Governor Deval Patrick signed into law Massachusetts $27.6 billion fiscal 2011 budget according to an article in the *Bond Buyer*. At the same time the article reported that lawmakers were continuing their work on legislation that would reportedly restructure general obligation bonds to reduce fiscal 2011 debt-service costs. The state began fiscal 2011 on July 1, 2010. The restructuring plan would reportedly refinance $300 million of general obligation bonds, which would enable debt service to be pushed out to later years. The governor according to the article also cut $457 million from the budget, reportedly using the line-item vetoes. The state's budget included approximately $372 million in Federal Medical Assistance Percentages funds, which according to the article Congress has yet to extend the program past December 31, 2010.

July 2, 2010

State of Nevada

The State of Nevada experienced growth in taxable sales of 2% for the first time in 20 months when comparing taxable sales for the month of April 2010 to April of 2009 according to an article in the *Bond Buyer*. April's reported gross revenue collections from sales and use taxes were $255.9 million, a 6.35% increase from April of 2009 according to the article. The increase in revenue, while positive, still reportedly reflects an aggregate revenue decline of 6.6% for the first 10 months of fiscal 2011.

State of Illinois

The *Bond Buyer* reported that Governor Pat Quinn signed a fiscal 2011budget, which reportedly closes the state's $12 billion budget gap with $1.4 billion in spending cuts, borrowing and other one-time maneuvers and reportedly leaves the state with $6 billion of unpaid bills. Some of the cuts Governor Quinn reportedly made include $241million from public K-12 education, $100 million from higher education and $312 million from human services programs. The governor also reportedly signed an executive order directing state agencies to cut travel and overtime expenses.

July 7, 2010

Commonwealth of Pennsylvania

Governor Ed Rendell signed his final budget as governor a few days after the June 30 deadline according to an article in the *Bond Buyer*. The governor, who signed the $28 billion general fund budget for fiscal 2011, is in the last year of his second term. In the wake of the current economic downturn plaguing the entire country, Pennsylvania, according to the article is now operating at a funding level equivalent to 1997. The article reported that both chambers of the General Assembly passed the fiscal 2011 capital plan which reportedly authorizes $1.5 billion of general obligation bonding capacity for the current year.

State of Iowa

Iowa Governor Chet Culver revised figures from the Department of Management to show the state closed out fiscal 2010 with an ending general fund balance of approximately $275 million according to a report in the *Bond Buyer*. According to the article the positive revision was reportedly a combination of cost-saving measures and an improving economy in the state.

State of New York

The *Bond Buyer* reported that the New York State Legislature adjourned prior to passing a complete fiscal 2011 budget plan. According to the article, the Legislature passed a few bond-related bills despite being mired in what the article called political deadlock. The state has been reportedly operating with weekly extender bills since its fiscal year began on April 1, 2010.

State of Arizona

The *Bond Buyer* reported the state was forced to revise disclosure notices to the bond market after the state reportedly lost a line of credit it had with Bank of America. According to the article, the line of credit had reportedly been used several times during the past year to cover revenue shortages. The line of credit reportedly lapsed with the beginning of the new fiscal year after the state treasurer decided not to renew the line of credit.

State of Ohio

The State of Ohio began its new fiscal year with revenue declining slightly from original expectations leaving the state to begin its new fiscal year with a $140 million budget surplus, according to an article in the *Bond Buyer*. Although the state was reportedly beginning its new fiscal year with a $140 million budget surplus, the article reported that the state is potentially facing an $8 billion budget deficit as it heads into a new biennial budget next year.

July 7, 2010

State of Mississippi

The *Bond Buyer* reported that although Mississippi did not meet its revenue projections for fiscal 2010, Governor Haley Barbour reportedly said the decline in revenue was as steep as expected, which reportedly will leave the state with an ending general fund balance of between $50 million and $60 million. The article quoted Governor Barbour saying, “June’s revenue confirms what has been clear throughout the last 12 months the fiscal 2010 budget spent too much money.” According to the article, the state's tax collections in June was 8.85%, or $54 million less than projected by the state, while the general fund for all of 2010 reportedly took in 8.28%, or $405 million less than had been originally projected.

State of Washington

The *Bond Buyer* reported that the secretary of state's office had reportedly received more than 380,000 signatures by supporters to reportedly place a measure on the November ballot asking voters to consider a state income tax on high-wage earners. The state reportedly does not have an income tax and the new income tax if passed would apply to high-wage earners making in excess of $200,000 in annual income.

July 12, 2010

State of Texas

The *Bond Buyer* reported that June marked the third straight month that sales tax revenue improved according to Comptroller Susan Combs. Comptroller Combs said "while overall economic activity is no longer contracting, a resumption of solid growth in sales tax collections is not yet in evidence." The state reportedly has no income tax and is reportedly heavily reliant on sales tax revenue to operate the state budget according to the article. According to the article Comptroller Combs reportedly attributed the gain in sales tax revenue to rising collection in the oil- and gas-processing sectors.

July 13, 2010

State of New Jersey

The New Jersey Senate reportedly passed a cap limiting annual property tax increases to 2%; following passage of the legislation Governor Chris Christie signed the legislation into law according to articles in the *Bond Buyer*. The newly signed legislation capping property taxes at an annual increase of 2% is for school districts, counties, cities, and towns according to the article, the current cap is reportedly 4% and includes many exemptions.

State of Oklahoma

According to an article in the *Bond Buyer* the Oklahoma Tax Commission reported it disbursed $109.8 million in sales tax revenue to 505 cities and towns in the month of June, which reportedly represented an increase of $3.4 million from June 2009.

July 14, 2010

State of Nebraska

The *Bond Buyer* reported that Nebraska's general fund receipts for the month of June were reportedly $309 million, or approximately $35 million below original budget projections. In aggregate, total general fund receipts for fiscal 2010 were reportedly $76 million dollars below budgetary projections according to the article. Governor Dave Heineman according to the article was voicing concerns that the state could reportedly be facing a $660 million, two-year budget shortfall.

State of Michigan

The *Bond Buyer* reported that Governor Jennifer Granholm would reportedly not continue to push for a reduction in Michigan's sales tax, which the governor had proposed lowering to 5.5% from the current 6%. As part of the proposal, which the governor reportedly said would raise an additional $500 million in revenue for the state the governor, was also proposing phasing out, what according to the article has been a very unpopular 22% surcharge on the Michigan business tax.

July 15, 2010

State of Virginia

The State of Virginia posted a preliminary fiscal 2010 surplus of $220 million, citing a rebound in income and corporate taxes collected, according to an article in the *Bond Buyer*. The state, according to the article had projected a $1.8 billion budget shortfall approximately six-months ago. The state reportedly began experiencing an upward shift in revenue beginning May 2010. According to the Bond *Buyer* article, Virginia's economy has been brighter than most states, as a result of the two key factors: government employment and a large military presence. The state reported an unemployment rate of 7.1%, well below the national average which reportedly is 9.7%.

State of Oklahoma

Since experiencing the worst revenue decline since the Great Depression, State Treasurer Scott Meacham was encouraged by the state's last report on sales tax collections, according to an article in the *Bond Buyer*. According to the article, general fund revenue for fiscal 2010 totaled $4.6 billion, which was $945 million less than fiscal 2009 and $816 million less than originally budgeted. The treasurer reported that for the month of June, which is the last month of the fiscal year, revenue collections totaled $477.4 million, which was $10 million more than June of 2009 but $35 million less than expected, according to the article. The treasurer, in the article was quoted as saying, "from the budget standpoint, the worst is behind us, this should be the worst year we will ever see."

July 16, 2010

State of Arizona

Moody's Investors Service downgraded the issuer credit rating of Arizona to Aa3 from Aa2 as a result of the continuing financial stress and diminished borrowing capacity the state is experiencing. In addition to the issuer downgrade, *Moody's* also lowered the appropriation debt rating of the state to A1 from Aa3. The downgrade of Arizona according to *Moody's* came after the state took extraordinary measures to close a $3 billion budget deficit in the current fiscal year that began July 1, 2010. To close the budgetary shortfall, the state, according to the report mortgaged some state office buildings and issued $450 million of bonds backed by state lottery revenues.

July 19, 2010

State of Indiana

The *Bond Buyer* reported the state withdrew nearly half of its $1.3 billion reserve fund to reportedly offset revenue collections, which were approximately $1 billion below original projections. According to the article, the state began its two-year 2010-2011 budget cycle; in July 2009. According to the article Governor Mitch Daniels warned that the state would be forced to drain all of its reserves by the end of June 2011, the current budget period, if revenue continues to precipitously decline.

July 20, 2010

State of South Dakota

The *Bond Buyer* reported the state closed fiscal year 2010 without the necessity of having to tap into state reserves to eliminate a reported $3.5 million budget deficit. The state was reportedly able to avoid tapping reserves as a result of higher than projected sales tax revenue. The state reportedly maintains two reserve funds; state budget reserve fund and the property tax reduction fund which have $43.4 million and $63.6 million respectively. The state according to the article does not issue general obligation debt and reportedly relies primarily on sales tax revenue. According to the article sales tax revenue for fiscal 2010 fell 2.4% from 2009 totals however, the decline slowed throughout the year, and at the end of the fiscal year the state reportedly brought in $2.5 million more than projected.

July 21, 2010

State of New Jersey

The New Jersey Legislature was scheduled to meet in early August to discuss the state's projected $10.5 billion structural for fiscal 2012, according to an article in the *Bond Buyer*. According to the article, the state Office of Legislative Services (OLS) calculated on July 12 a reported $10.47 billion structural deficit for the next fiscal year. The state's 2011 budget reportedly does not include $3 billion of the state's pension contribution.

July 26, 2010

State of Connecticut

The *Bond Buyer* reported that the state completed its June 30 fiscal year end with a $393.3 million surplus, according to an announcement made by Governor M. Jodi Rell. The figure reportedly represented an increase of $150 million from original projections, and could potentially place the state in a better financial position allowing it to borrow less in the municipal market. According to the article the state originally planned to borrow $1.3 billion based on the two-year budget that reportedly passed in September of 2009. The state now plans to borrow $956 million based on the plan submitted by Governor Rell.

July 27, 2010

State of New Mexico

According to an article in the *Bond Buyer*, the New Mexico Board of Finance will schedule a meeting for some time in August to reportedly consider spending cuts due to lower-than-expected revenue in early fiscal 2011. The article reported that revenue was $32 million below projections for fiscal 2010, with another $160 million decline projected for fiscal 2011, which began July 1, 2010 according to the article. Governor Bill Richardson, according to the article, is planning to propose spending cuts of 3% on state programs and aid to public schools. According to state officials the drop in revenues is reportedly a result of the state's weak economy. According to the article, Katherine Miller, Secretary of the Department of Finance and Administration, said the state could use approximately $130 million from cash reserves, however, another $150 million would reportedly need to be cut from the $5.4 billion fiscal year 2011 budget according to Secretary Miller.

July 27, 2010

State of California

In an article in the *Bond Buyer*, State Controller, John Chiang warned California may once again pay many bills with IOUs, as it did last year. Governor Schwarzenegger, according to the article said, he would not sign a budget unless it includes reforms to state employee pensions, the state tax system, and a new budget rainy-day fund. Two California leaders, according to the article are on record saying they will be ready to get the state budget done, however it is reportedly likely the budget will not be completed until after the November election. Governor Schwarzenegger will reportedly be termed out of office at the end of the year and legislators would then work with a new governor to prepare a budget plan.

July 27, 2010

State of Georgia

As a result of Congress' inability to pass an extension of the federal Medicaid Assistance Fund Program, Governor Sonny Perdue, according to an article in the *Bond Buyer*, ordered most state agencies to cute their budget by 4%. The cuts, according to the article, reportedly, applied to all state agencies with the exemption of K-12 schools.

July 27, 2010

State of California

The *Bond Buyer* reported that as a result of California's inability to adopt a new budget, Governor Arnold Schwarzenegger reportedly ordered three-day-per-month furlough for employees paid out of the general fund. According to the article, similar furloughs were reportedly in place for most of the fiscal year ended June 30.

July 23, 2010

Commonwealth of Puerto Rico

The *Bond Buyer* reported that the Commonwealth was planning to issue approximately $2.55 billion of restructuring and new-money debt before the end of the year due in large part to signs of increasing economic activity according to the article. The Commonwealth completed fiscal 2010, which ended on June 30 with $7.69 billion of total revenue. The $7.69 billion of revenue was $21 million ahead of budget projections and reportedly $18 million more than revenue from the prior year. According to the Government Development Bank, the fiscal 2011 budget also reduces the Commonwealth's structural deficit to nearly 11% of revenue compared to nearly 46% of revenues collected in fiscal 2009. In an effort to continue to get its fiscal house in order Governor Luis Fortuno and the Commonwealth's legislators have reportedly slashed expenses by $2.12 billion, or 19%, to $9.13 billion in fiscal 2011 from $11.25 billion in fiscal 2009. According to the article, a majority of the savings has been achieved as a result of decreased payroll costs following the implementation of layoffs and early-retirement incentives by the administration according to the article.

The Commonwealth's fiscal 2011 budget includes $7.69 billion of base revenue and $442.5 million of new revenue, for an aggregate budget revenue total of $8.13 billion. The Commonwealth will used $1 billion of sales-tax bond proceeds for its stabilization fund, which in turn will reportedly help close the 2011 projected budget deficit. According to Government Development Bank President Carlos Garcia, "the stabilization fund is already fully funded, partly from the transfer of the excess monies last year and also from additional monies from the latest (sales-tax bond) offering that was carried out in the month of June, so, the $1 billion is already available for this current budget." In addition to a fully funded stabilization fund according to the *Bond Buyer* article, equally as important to note, is that the Commonwealth fiscal 2011 budget does not rely on the extension of the Federal Medicaid Assistance Percentages (FMAP) program, as we believe, has been the case with many state budgets. The FMAP has not yet been extended by Congress and reportedly faces a December 31, 2010 expiration date.

July 26, 2010

Commonwealth of Puerto Rico

The *Bond Buyer* reported that as a result of the Commonwealth's heavy dependence on oil to provide electricity, residents of the Commonwealth face electric bills that are reportedly twice what residents on the U.S. mainland pay. In an effort to change the Commonwealth's reliance on oil, the Governor reportedly signed into law legislation that aims to increase the island's renewable energy sources and reportedly establishes a fund to help residents pay for energy upgrades for their homes and businesses. As the sole provider of energy for the Commonwealth, the Puerto Rico Electric Power Authority (PREPA) reportedly has approximately $6 billion of municipal debt outstanding. According to the article all three rating agencies have cited PREPA's heavy reliance on oil as a credit challenge.

INSURANCE COMMENTARY AND CURRENT RATINGS

June 15, 2010

Insurance Update

The *Bond Buyer* reported the National Federation of Municipal Analysts (NFMA), has become concerned with the fact that municipal bond issuers have reportedly increasingly been drawing on bond insurance to temporarily pay for debt service without reporting the action to investors according to the article. The Securities and Exchange Commission's Rule 15c2-12 according to the article only requires such disclosures be made when "material." Issuers according to the article noted that such draw downs are not materially important and that drawing on insurance is a cost-effective means of resolving short-term liquidity problems.

June 16, 2010

Assured Guaranty Ltd.

The *Bond Buyer* reported that through the first half of 2010, Assured Guaranty Ltd. remained the dominant bond insurer covering the municipal bond market. Although Assured Guaranty reportedly continues to dominate the municipal bond insurance market, since the second half of 2008 when the financial crisis began, less than 10% of new volume has been guaranteed by just two insurers according to the article. According to the article, prior to the financial meltdown over 50% of all new issues came to market wrapped by one of the nine municipal bond insurer's that had been reportedly competing in the municipal bond insurance market.

June 21, 2010

Syncora Guarantee, Inc.

The *Bond Buyer* reported that following approval of its remediation plan by its regulator (The New York Insurance Department), Syncora Guarantee will reportedly begin paying claims on regularly scheduled payment dates. According to the article, which highlighted a company press release, "current claims will be paid in full on their regularly scheduled payment dates as they occur on or after July 21, 2010." The insurer reportedly was prohibited from making claims payments beginning in April of 2009. According to the article the approved remediation plan should allow Syncora to maintain statutory surplus as it pays insurance claims that accrued during the 14-month suspension period which reportedly was initiated by the New York Insurance Department.

June 26, 2010

CIFG Assurance North America Inc.

The *Bond Buyer* reported that CIFG sued Assured Guaranty Corp., charging Assured with breach of contract violations for rescinding a reinsurance policy issued to cover the CIFG policy issued for the Xenia Rural Water District. The original Xenia Water District insurance policy written by CIFG reportedly was on $83.3 million of water district bonds. Under the terms of the original reinsurance agreement reportedly signed over 19 months ago, Assured Guaranty agreed to reinsure the Xenia Water District policy according to the article. As part of the reinsurance agreement Assured reportedly based its decision to rescind the policy on a provision in the insurance agreement that reportedly would allow it to exclude from the agreement any policy for a bond that was below investment grade as of October 31, 2008. According to the article, CIFG asserts in its lawsuit that the Xenia bonds were rated investment grade based on its internal scale and separately by *Standard & Poor's*.

June 29, 2010
Ambac Assurance Corp.

The insurance commissioner for the State of Wisconsin, Sean Dilweg formed a nine-person council of advisors to help support the commissioner's efforts to rehabilitate Ambac according to an article in the *Bond Buyer*. According to the article, the newly formed group will reportedly help the insurance commissioner wind down the bond insurer's outstanding policies. The commissioner ordered Ambac to segregate its insurance book reportedly placing $67 billion of its more toxic holdings into a rehabilitation account which will be overseen by the newly formed group in an effort to reportedly allow for a smooth run-off of the policies. Despite not having written any new business Ambac according to the article continues to maintain the second largest municipal insured book with nearly $219 billion in par outstanding.

As of June 31, 2010

Insurer	Moody's	Standard & Poor's	Fitch Ratings
ACA	Not Rated	Not Rated	Not Rated
AMBAC	Caa2 (under review for possible upgrade)	**R	Not Rated
Assured Guaranty	Aa3 (negative outlook)	AAA (negative outlook)	Not Rated
Berkshire Hathaway	Aa1 (stable outlook)	AA+ (stable outlook)	Not Rated
CIFG	Not Rated	Not Rated	Not Rated
FGIC	Not Rated	Not Rated	Not Rated
Assured Guaranty Municipal Corp. (formerly FSA)	Aa3 (negative outlook)	AAA (negative outlook)	Not Rated
National Public Finance (MBIA)	Baa1 (outlook developing)	A (outlook developing)	Not Rated
Radian	Ba1 (stable outlook)	BB- (negative outlook)	Not Rated
Syncora (formerly XLCA)	Ca (outlook developing)	*R	Not Rated

*R-Regulatory Supervision (NYS Insurance Department), **R-Regulatory Supervision (Wisconsin Insurance Department)

TRADER, UNDERWRITING AND STRATEGIST'S CORNER

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Possible Extension of BABs Delayed Until At Least Mid-September

The 111th Congress recessed until September 13, 2010 without voting on the latest pending bill that would extend the popular Build America Bond Program, the "Investing in American Jobs and Closing Tax Loopholes Act of 2010" (H.R.5823). H.R. 5823, as introduced by Rep. Sander Levin on July 28, would extend the popular Build America Bond Program through 2012 yet reduce the subsidy that municipal bond issuers receive under the program from the current 35% of interest due on BABs to 32% in 2011 and 30% in 2012.

Build America Bonds (BABs) enable municipalities to issue taxable bonds to finance capital expenditures, for which they otherwise could issue tax-exempt bonds, and receive a federal subsidy equal to 35% of the interest the municipality pays to bond holders. The proposed subsidy reduction to 32% in 2010 and 30% in 2012 will likely decrease the percentage of new municipal bonds issued as BABs and increase the supply of tax-exempt bonds issued after 2010. However, BAB issuance will likely spike during the last quarter of 2010 as issuers rush to the market to take advantage of the full 35% subsidy.

The BAB program was established in February, 2009 as part of the American Recovery and Reinvestment Act. The Program's original purpose was to stimulate the economy and create jobs, mainly in construction and related industries, by reducing the cost for state and local governments to finance "shovel ready" capital projects. Under the original legislation, the Program was scheduled to expire on Dec. 31, 2010. The Program has been extremely popular to date, with over $122 billion in bonds issued, accounting for approximately 25% of the municipal new issue market and has caused a tightening of supply of tax-exempt bonds. Municipal issuers have lowered their cost of funds due to the federal subsidy and through expanding the buyer base of municipal bonds to individuals and institutional investors who, because of their tax status, were not buyers of tax-exempt municipal bonds.

Retail Trading Desk Interviews, Remo Di Re

Trader Challenges Ahead

This month we reached out and spoke to some of our retail trading desks, including the Minneapolis desk, the Parsippany desk and the Dallas desk. The constant theme or issue across all desks remains the lack of supply. As ours traders are seeking bonds to meet investor demand, yield contraction continues to drive prices higher, which in many cases results in investors having to pay premium prices for their investments. The introduction of the Build America Bond (BAB) program, which was part of the American Recovery Act of 2009, played an important role in reducing the supply of tax-exempt issues that came to market in 2009 and 2010. Following the collapse of the financial markets, when municipal yields in some cases were 200 basis points higher than the comparable Treasury, state and local government issuers significantly held back on the issuance of new debt. The introduction of the BAB program however provided issuers with a more affordable method of meeting their financing needs. The program, which was sponsored by the federal government allowed the U.S Treasury to pay 35% of the interest costs to the issuers of BAB bonds, therefore reducing borrowing costs and the program has had a great deal of success with approximately $122 billion of BABs issued to date. One of our Minneapolis-based traders reiterated the challenges they are facing due to the lack of supply and the current low yield environment. As of the end of July, the 30-year equivalent triple-A rated municipal had dropped below 4.00%. Yield contraction on the long-end of the curve presents further challenges for investors, who may not be willing to purchase 30-year bonds at such challenging yield levels. A trader in Dallas concurred and both believe the more attractive part of the municipal curve for retail investors remains in the 10-15 year range. We believe, based on the high unemployment rate, higher deficits, and low inflationary pressure, interest rates in our opinion should not rise the near-term. In a recent Forbes article, Sean Hanlon wrote, "low inflation is common, not uncommon. We are in a period of low inflation." According to the article, inflation and interest rates historically move together. We believe inflation will remain in check, which according to the article will allow the Federal Reserve to keep interest rates at all time lows. Another factor to consider, according to the article, is the high unemployment rate the country is now mired in, Hanlon notes that "unemployment has a negative correlation with inflation, and high unemployment is associated with low inflation." These factors should mitigate interest-rate risk for investors over the next 2-3 years.

BONDSPEAK

Remo Di Re, Vice President, Sr. Municipal Bond Credit Strategist, Parsippany

State and Local Government Outlook

Many states and local governments began their fiscal years July 1. The outlook for revenue improvement will likely remain challenging through fiscal 2011 for many states, according to a recent article in *Bloomberg News*. A recent report issued by the National Governors Association and the National Association of State Budget Offices reported states are facing cumulative budget gaps of approximately $127.4 billion. According to the article, many of these states will need to fill the gaps on their own, as aid from the federal government continues to wind down. The effect of the upcoming budget cuts may have an adverse impact on the economy, according to the article, which quoted Mark Zandi, chief economist at *Moody's Analytics Inc*. The effect of the projected state and local government cutbacks coming in 2010 and 2011 may trim economic growth by about a quarter percentage point, according to Zandi. State and local governments reportedly reduced the size of their workforce by 190,000 in the 12 months through May, according to the article. Zandi also believes state and local governments may be forced to further reduce the size of their workforces by an additional 200,000 during the next year.

In a recent *Moody's Investors Service* report, the rating agency stated that "despite the narrowing options that states have available to deal with declining revenues, we expect the sector overall to remain resilient, barring a return to severe recessionary conditions. " According to the report, *Moody's* believes that while facing continued high unemployment and weak revenue growth, state and local governments will reportedly need to make further adjustments to lower spending, with some instances of tax increases.

The federal fiscal stimulus, according to the *Moody's* report, was also extremely beneficial for states. It provided states with $135 billion, which in many cases states used the proceeds to cover education and health care costs. The ability of states to use federal stimulus dollars, according to the report, allowed states, to use their diminished revenues to support public safety and other essential public services; while allowing them to avoid politically unpopular tax increases. *Moody's* believes that revenue streams for states and local governments reportedly have begun to stabilize, which should help states and local governments make sounder budgetary decisions based on improved revenue flows. While the municipal bond market has not been immune to negative headline risk, states have taken the tough steps to address budget deficits either by raising taxes when necessary, reducing expenditures and by deficit financing when necessary. As many economists continue to predict a slow economic recovery, we believe many states are likely to continue experiencing budgetary challenges. States and local governments in most cases are required to balance their budgets, and we believe they will likely take the steps necessary to continue to meet their debt obligations.

CURRENT NEWS IN MUNICIPALS

July 1, 2010

Pennsylvania Turnpike Commission

Moody's Investors Service downgraded approximately $2.68 billion of subordinate Turnpike Commission bonds to A3 from A2, and placed a negative outlook on the credit. *Moody's* noted the downgrade was due to expected future bond issuance that could force the turnpike to reduce operating costs and/or cut capital investment in order to maintain its debt-service ratios.

New York City, New York

The *Bond Buyer* reported that the New York City Council passed a $63.1 billion budget, which includes $8.92 billion of bonds to be used to reportedly finance the city's capital program. According to the article the budget appropriates $11.17 billion for capital spending in the fiscal year which began July 1.

Detroit, Michigan

In an article in the *Bond Buyer*, officials of the Detroit Public Schools (DPS) warned they could reportedly be facing structural deficits of approximately $363 million during the new fiscal year, which began July 1. According to the article, DPS reportedly released preliminary documents outlining a $558 million general fund budget, which is down 25% from the districts $748 million 2010 spending plan.

July 2, 2010

State of New York

The *Bond Buyer* reported the State of New York reportedly expects to sell $5.9 billion of bonds to partially finance $10.87 billion of capital spending, which reportedly was approved as part of the fiscal 2011 budget. According to the article the state plans to sell approximately $600 million of general obligation bonds. The remainder will be sold through public authorities.

Miami, Florida

Moody's Investors Service downgraded the City of Miami's $34.5 million of unlimited -tax general obligation bonds to A1 from Aa3, and lowered the rating on $234.5 million of limited-tax general obligation debt to A3 from A2. *Moody's* at the same time lowered the rating on $106 million of non-ad valorem obligations backed by the city covenant pledge to A2 from A1. All of the bonds were assigned negative outlooks.

Metropolitan Washington Airport Authority

Moody's Investors Service revised to negative from stable its outlook on Metropolitan Washington Airport Authority's outstanding debt based on expectations that costs per enplaned passenger will go significantly higher, while debt service coverage is projected to be lower. The action comes prior to a reported $350 million revenue bond transaction scheduled to come to market sometime in August. *Moody's* reportedly projects cost per enplaned passenger to increase more than $21 beginning in fiscal 2011 and debt service coverage to fall below 1.35 beginning in fiscal 2010.

July 6, 2010

Phoenix, Arizona

The *Bond Buyer* reported the Phoenix City Council reportedly adopted a $3.05 billion operating budget for fiscal 2011, after working to close a projected $277.3 million revenue shortfall. The $1.01 billion general fund budget is reportedly down $185.5 million from fiscal 2008. At the same time, according to the article Phoenix cut services and programs by nearly $64 million, while at the same time reportedly cutting city employee pay by 3.2%.

Port of Palm Beach, Florida

Moody's Investors Service downgraded the port's $45.5 million of outstanding debt to Ba1 from Baa3, and reportedly maintained a negative outlook on the debt. The port according to the report is located in one of Florida's wealthiest areas. The downgrade, according to the *Moody's* report, reflects the port's volatile operations combined with multi-year decline in cargo, TEU's (20-foot equivalent units), and cruise passengers, due likely in part according to the report to both the economic downturn and an erosion of the port's market position.

Central Falls, Rhode Island

The *Bond Buyer* reported, that based on reports by Rhode Island officials, the city, which reportedly declared itself, insolvent, repaid $4.1 million of tax anticipation notes on time at the end of June. According to the article, the city, which is switching from court-appointed receivership to state receivership, used $3 million of cash on hand and $1.1 million of state reimbursement from school repairs to reportedly pay off the note.

July 7, 2010

State of Kansas

The *Bond Buyer* reported the state was reportedly planning to finance the fifth phase of a multi-year construction project at the state capital primarily with Build America Bonds. The bonds are rated AA by *Standard & Poor's* and Aa2 by *Moody's Investors Service*. The new issue reportedly consists of $3.7 million of tax-exempt revenue bonds and $39.7 million of taxable Build America Bonds.

July 8, 2010

Connector 2000 Association, Inc.

The *Bond Buyer* reported that investors and the State of South Carolina were fighting over who should get the bigger share of revenue from the now bankrupt Southern Connector toll road. The toll road authority reportedly filed for Chapter 9 bankruptcy protection in June 2010. The Southern Connector toll road has been operating for approximately 9 years and according to the article traffic revenue fell well short of original projections. Investors according to the article own approximately $200 million of senior and subordinate bonds, which were issued in 1998. The South Carolina Department of Transportation (SCDOT) is reportedly requesting more of the toll road money to pay for maintenance of the highway. According to the article, under the original licensing agreement, the state is obligated to maintain the highway but revenues from the toll road reportedly have not been enough to reimburse SCDOT for maintenance expenses.

July 9, 2010

Minneapolis-St. Paul Metropolitan Airports Commission

The *Bond Buyer* reported the commission was planning to come to market with approximately $150 million of mostly new-money senior-lien revenue bonds. The commission reportedly plans to issue the bonds to take advantage of the federal alternative minimum tax holiday. The proceeds of the new bond issue will according to the article reportedly be used to cover some new and routine terminal maintenance and rehabilitation projects at the airports Lindbergh Terminal.

Las Vegas Monorail, Nevada

The *Bond Buyer* reported that the Las Vegas Monorail reportedly defaulted on its July 1, 2010, $9.6 million interest payment due to bond holders. The nonprofit owner and operator of the monorail reportedly filed for Chapter 11 bankruptcy protection in January 2010. The first-tier bonds are reportedly insured by Ambac; however, the Las Vegas Monorail bonds were placed into Ambac's rehabilitation account after the Wisconsin Insurance Department segregated Ambac's policies into two separate accounts.

Xenia Rural Water District, Iowa

Standard & Poor's downgraded the rating of Xenia Rural Water District to D from BB after it failed to make its full June debt service payment. The Xenia Rural Water District reportedly has approximately $83 million of outstanding bonds issued in 2006. The District, according to the report used the remaining balance in the debt service reserve to make the June debt service payment, while CIFG the bond insurer was required to fund the shortfall of $69,000 to cover the full debt service payment. According to the report Xenia, which is facing insolvency, is pushing for a workout plan that reportedly relies on a rate increase and the sale of assets to raise revenue and provide $45.4 million in debt relief. In March, the District approved a 22% rate increase and was entertaining a tentative offer of $110.5 million from the Des Moines Water Works to reportedly buy the District's assets.

July 12, 2010

State of West Virginia

Moody's Investors Service upgraded West Virginia's general obligation debt to Aa1 from Aa2. The rating upgrade according to the report was a result of what *Moody's* noted was conservative fiscal management and a favorable financial performance. The upgrade affects $602 million of general obligation bonds. At the same time, *Moody's* also upgraded $783 million of outstanding lease revenue bonds to Aa2 from Aa3. *Moody's* maintained a stable outlook on both credits.

New Orleans, Louisiana

The *Bond Buyer* reported that Mayor Mitch Landrieu said in his first state of the city address that the great city of New Orleans municipal finances were in shambles. According to the article, Landrieu said the city was reportedly facing a $67 million gap for fiscal 2010. The city, according to the article has less than six months left in fiscal 2010, and will be required to cut expenses by 25% to make up the shortfall.

July 13, 2010

Magen David Yeshivah, Brooklyn, New York

The *Bond Buyer* reported that Magen David Yeshivah received forbearance from its bond insurer ACA, after reportedly failing to meet its financial obligations on $38.5 million of outstanding bonds. Without the forbearance, according to the article, the school reportedly could have faced accelerated principal repayment or property foreclosure.

July 14, 2010

Central College, Iowa

Moody's Investors Service downgraded to Baa3 from Baa2 its underlying rating on Central College's

$23.5 million of outstanding variable-rate bonds reportedly issued in 2008. The outlook, according to the report is stable. According to *Moody's* "the rating action reflects limited financial flexibility, risks of the debt structure, and a continued challenge to meet budgeted enrollment levels."

July 15, 2010

New Jersey Transit (NJT), New Jersey

The *Bond Buyer* reported that NJT reportedly approved a $1.79 billion operating budget and a $1.35 billion capital plan for fiscal 2011, which began July 1. The plan according to the article is similar to NJT's budget of 2010, when it reportedly spent $1.79 billion for operations and $1.39 billion on infrastructure improvements. On May 1, according to the article transit officials filled a projected $300 million fiscal 2011 deficit by implementing a 22% system-wide fare hike and by reportedly reducing expenses.

Miami, Florida

Fitch Ratings downgraded $72 million of outstanding general obligation debt issued by the city to A from AA-, while, at the same time lowering the rating on the city's limited ad valorem bonds to A - from A+. *Fitch* reportedly maintained a negative outlook on the city's rating. According to *Fitch* analyst, Kelly McGary"Miami's financial performance has been volatile historically and remains severely pressured."

July 16, 2010

Sacramento Municipal Utility District (SMUD), California

Fitch Ratings revised its outlook for SMUD's outstanding electric revenue bonds to positive from stable. The positive outlook according to the *Fitch* report was reflective of the district's improved liquidity position, decreased variable-rate debt, and limited new generation needs. SMUD reportedly serves almost 600,000 customers in the Sacramento region.

July 20, 2010

Cinco Municipal Utility District No. 1, Texas

The *Bond Buyer* reported the district, located near Houston, disclosed that the Internal Revenue Service is auditing $5.2 million of revenue bonds the district issued in 2002 to finance water and sewer infrastructure. According to the article, the disclosure did not mention whether the audit was random or examining specific issues.

Commonwealth of Pennsylvania

The *Bond Buyer* reported that Governor Edward Rendell called for a special session of the legislature to begin during the latter part of August to address a reported $472.5 million transportation funding gap. The governor, according to the article, does not support raising tolls on the Pennsylvania Turnpike to support a bond issue, saying that the costs of debt service would be too costly.

City of New Orleans, Louisiana

The *Bond Buyer* reported the city would reportedly be paying $16.3 million to purchase Pendleton Memorial Methodist Hospital, which according to the article was damaged by Hurricane Katrina. The hospital reportedly has not been operating since 2005. The city reportedly plans to spend an additional $110 million to fully renovate the facility, turning it into an 80-bed community hospital. According to the article, funding options include; revenue bonds issued by Orleans Parrish Hospital Service District-A, federal loans, allocations from the city's general fund or capital budget. According to the article, if bonds can be sold by the end of 2010, the debt can be issued as conventional hospital revenue bonds, Gulf Coast Opportunity Zone bonds, or Build America Bonds.

July 21, 2010

Juneau County, Alaska

Moody's Investors Services lowered the county's rating to A2 from A1, reportedly as a result of a weakened general fund and a negative balance in its health services fund. The rating downgrade by Moody's affects $12.4 million of outstanding general obligation debt. According to the Moody's report, "the A2 rating incorporates the expectation that the county's rural $2.1 billion tax base will remain relatively stable, following a 3.6% decline in its equalized value in 2009."

HealthPartners, Inc., Minnesota

Moody's Investors Service upgraded HealthPartners Inc.'s rating to A3 from Baa1, citing a track record of profitability with improved operating performance in fiscal 2008 and 2009. The rating action, according to the report, affects approximately $286 million of outstanding debt.

July 22, 2010

Newark, New Jersey

The *Bond Buyer* reported Newark Mayor Cory Booker had reportedly moved away from a proposal to create a new water utility authority to help close a reported $70 million current-year budget gap. The mayor, according to the article, instead announced that expenditure cuts would come from reportedly placing the city on a four-day work week, as well as implementing additional budgetary cuts.

New York State Thruway Authority

The New York State Thruway Authority approved the issuance of a $600 million personal income-tax bond deal according to an article in the *Bond Buyer*. The authority reportedly will sell $450 million of new money bonds and approximately $150 million of refunding bonds, which will be dependent on market conditions, according to the article.

July 23, 2010

State of California

The *Bond Buyer* reported assessed property values are reportedly likely to decline for the second year in a row, based on a review of data from the state's larger counties performed by the *Bond Buyer*.

According to the article, 11 of 12 of the state's largest counties reportedly experienced a decline in their property tax roll during the current year.

Texas Education Agency, Texas

According to an article in the *Bond Buyer*, a proposal to invest approximately $100 million of Texas Permanent School Fund (PSF) money in charter schools reportedly remains a possibility. The Texas Education Agency reportedly sidelined the idea in its most recent meeting, however the agency decided to reportedly keep the funding a possibility in the long-term PSF investment strategy adopted by the board.

Regional Transportation Authority (RTA), Illinois

The RTA of Illinois reportedly will be receiving $442 million of bonding proceeds for capital projects, according to an article in the *Bond Buyer*. The proceeds reportedly represent the first installment of a $2.7 billion transit funding package, which is part of the state's capital budget.

July 26, 2010

Detroit, Michigan

The *Bond Buyer* reported the City of Detroit was planning to issue approximately $100 million of general obligation bonds to finance the purchase and renovation of the former MGM Grand casino into a new police station. According to the article, the City Council with the reported support of Mayor Dave Bing approved the measure. The debt, according to the article reportedly would be structured as unlimited-tax general obligation bonds, paid from property taxes but carrying a pledge of the state revenue sharing aid.

Carroll County, New Hampshire

Moody's Investors Service downgraded Carroll County's general obligation rating to A1 from Aa3, assigning the rating a negative outlook. The outstanding general obligation bonds are reportedly secured by the county's unlimited general obligation property tax pledge. The downgrade, according to the Moody's report, reflects the growing general fund balance receivable from the county's nursing home enterprise fund and the possibility of liquidity pressure and general fund balance deterioration, should the receivable continue to grow.

Modoc County, California

The *Bond Buyer* reported that county officials turned to the state for a bailout in an effort to avoid insolvency. According to the article, after years of lax accounting, the county reportedly found itself with a $12.5 million deficit. The county reportedly has been in conversations with California Treasurer Bill Lockyer's office to discuss an aid package. The county's fiscal problems reportedly began in 2009, after the controller's office learned that funds earmarked for school purposes had been borrowed to keep a money losing hospital operating.

July 27, 2010

Vail, Colorado

The *Bond Buyer* reported that revenue collections in the ski resort town of Vail have been reportedly projected to remain stagnant over the next five years. Town officials, according to the article, project revenue in 2015 of $43.5 million, reportedly slightly less than 2009 collections. According to Kathleen Halloran, Vail's manager of budgets and financial reports, total tax revenue reportedly dropped 25% in fiscal 2009 from fiscal 2008.

Gilbert, Arizona

The *Bond Buyer* reported that sales tax revenue in the city reportedly showed signs of rebounding. Assistant town manager Marc Skocypec reportedly told city officials that sales tax revenue began posting year-to-year increases in February. The town manager reported that sales tax revenue for the month of April totaled $4.4 million, up from $3.9 million in April 2009.

Miami, Florida

The *Bond Buyer* reported that city officials were meeting to figure ways to close, what is reportedly projected to be a $100 million budget deficit for the upcoming fiscal year. According to the article, the city is facing multi-year deficits and millions in unfunded pension liabilities. For the current fiscal year, the city is reportedly spending $89.6 million for pension obligations, which increases to $115.5 million in fiscal 2011, according to city manager Carlos Migoya. According to the article, the city's current financial crisis is further exacerbated by the fact that 50% of the revenue that supports the city's budget comes from property taxes and assessed values, which according to the article are projected to drop by 15.5%.

July 28, 2010

Wheaton Franciscan Services Inc., Wisconsin

Moody's Investors Service revised its outlook to stable from negative on Wheaton Franciscan Services Inc.'s Baa2 rating, as a result of what *Moody's* cited as "progress in turning around its financial performance." The revision reportedly affects $854.7 million of debt issued through the Wisconsin Health and Educational Facilities Authority.

Rockford, Illinois

Moody's Investors Service downgraded the general obligation rating of the city to Aa3 from Aa2, affecting approximately $147 million of debt. The rating action according to the *Moody's* report also covers $3.4 million of new money general obligation bonds schedule to come to market. According to the *Moody's* report, "the rating downgrade reflects the deficit cash balance in the city's general fund, continued weakening of several tax increment and internal services funds, and numerous budgetary pressures, including sales tax revenue shortfalls and mandated expenditures associated with public safety operations and pensions."

Memorial Health, Kentucky

Standard & Poor's revised its outlook to stable from negative and affirmed the A-minus rating on Memorial Hospital and Health Center, a 131-bed hospital located in the town of Jasper. The revision, according to the Standard & Poor's report, was a result of stronger operating results for the un-audited 2010 fiscal year. The stronger operating results were reportedly achieved through the execution of the hospital's cost containment and revenue enhancement initiatives.

Indianapolis, Indiana

The *Bond Buyer* reported the Indianapolis-Marion County City Council reportedly approved a plan to sell the city's water and sewer system to a local non-profit utility. Citizens Energy Group, a non-profit trust which reportedly runs the city's gas utility, would pay at least $425 million and assume nearly $1.5 billion of outstanding debt to reportedly acquire the assets of the system.

New York Metropolitan Transportation Authority (MTA)

The *Bond Buyer* reported the authority released its preliminary 2011 budget. The 2011 budget reportedly relies on a combination of planned fare and toll increases, labor concessions, efficiency savings and recurring actions taken this year to close a $1.03 billion deficit, according to the article. The MTA reportedly will propose fare hikes that are designed to increase fare and toll revenue 7.5%. The initial fare hike, according to the article, is projected to raise $413 million in 2011and another proposed fare hike in 2013, is projected to raise an additional $457 million.

July 29, 2010

District of Columbia

The *Bond Buyer* reported that the three rating agencies expressed concerns about the District of Columbia's financial status, following the reported foreclosure on a troubled hospital. According to the article, on July 9 the district reportedly foreclosed on Union Medical Center. The agencies reportedly expressed their concern because the foreclosure means the hospital relies on the district to meet some of its payroll and supply obligations. The rating agency analysts involved in talks with the city, according to the article, stated they view the district's declining general fund balance unfavorably.

FINANCIAL MARKET FORECASTS

The Royal Bank of Canada regularly issues its *Financial Market Forecasts*, and below we include highlights from the most recent *Financial Markets Monthly*. Additional information can be found by going to www.rbc.com/economics and clicking on the following link:

http://www.rbc.com/economics/quicklink/pdf/rates.pdf

%-end of quarter as of July 9, 2010

	09Q4	10Q1	10Q2	10Q3	10Q4	11Q1	11Q2	11Q3	11Q4
Fed Funds Rate	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.75	1.25	2.00
3-month T-bills	0.06	0.16	0.18	0.25	0.30	0.45	0.95	1.50	2.25
2-Year Bonds	1.14	1.02	0.61	0.80	1.10	1.40	1.85	2.10	2.50
5-Year bonds	2.69	2.55	1.79	2.00	2.15	2.40	2.70	2.90	3.20
10-Year bonds	3.85	3.84	2.97	3.25	3.40	3.60	3.85	4.00	4.10
30-Year bonds	4.63	4.72	3.91	4.15	4.20	4.25	4.40	4.45	4.50

Source: RBC Economic Research Forecast