



HOT TOPICS IN THE MUNICIPAL BOND MARKET

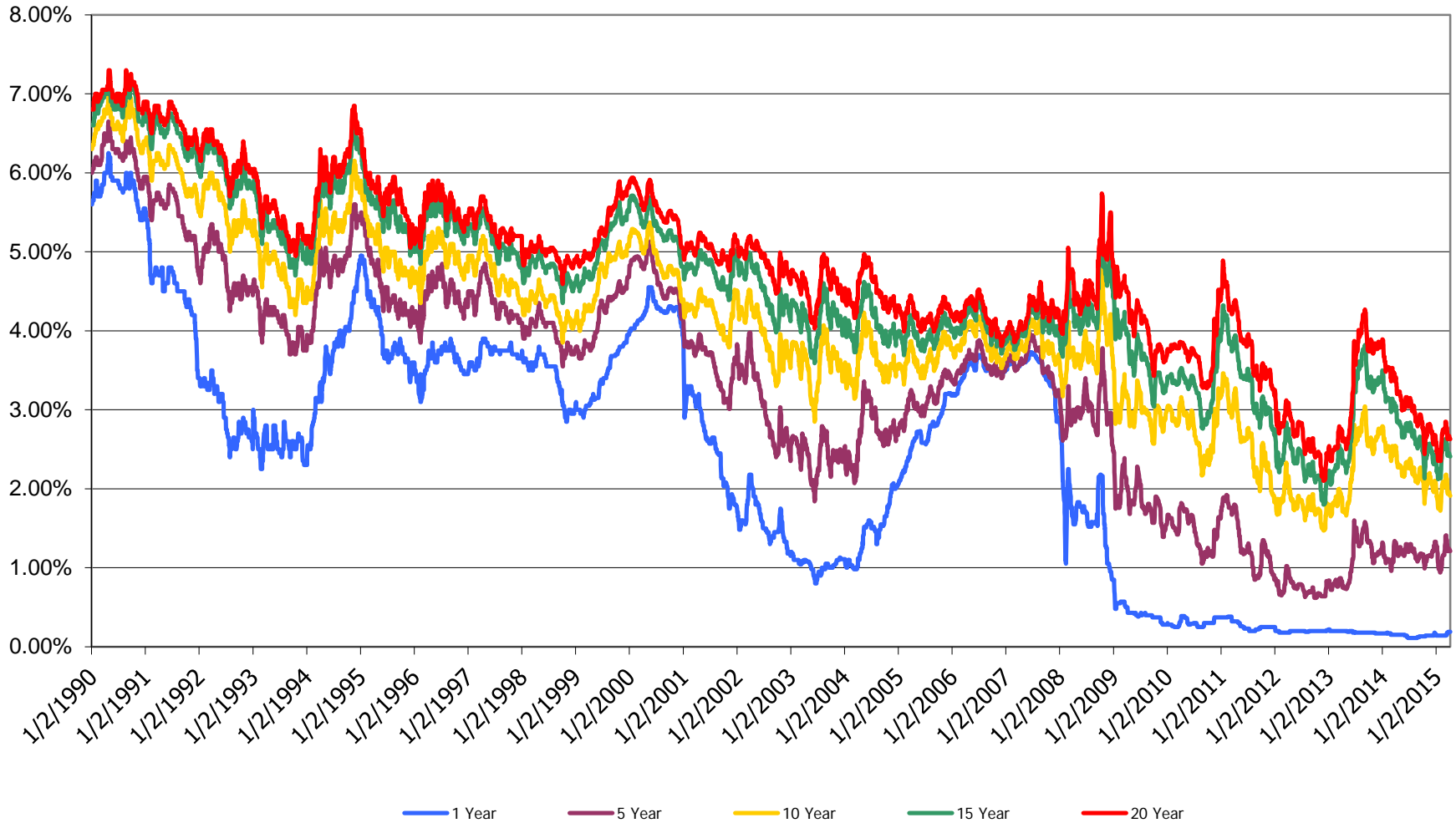
ILLINOIS COMMUNITY COLLEGE
CHIEF FINANCIAL OFFICERS
SPRING CONFERENCE

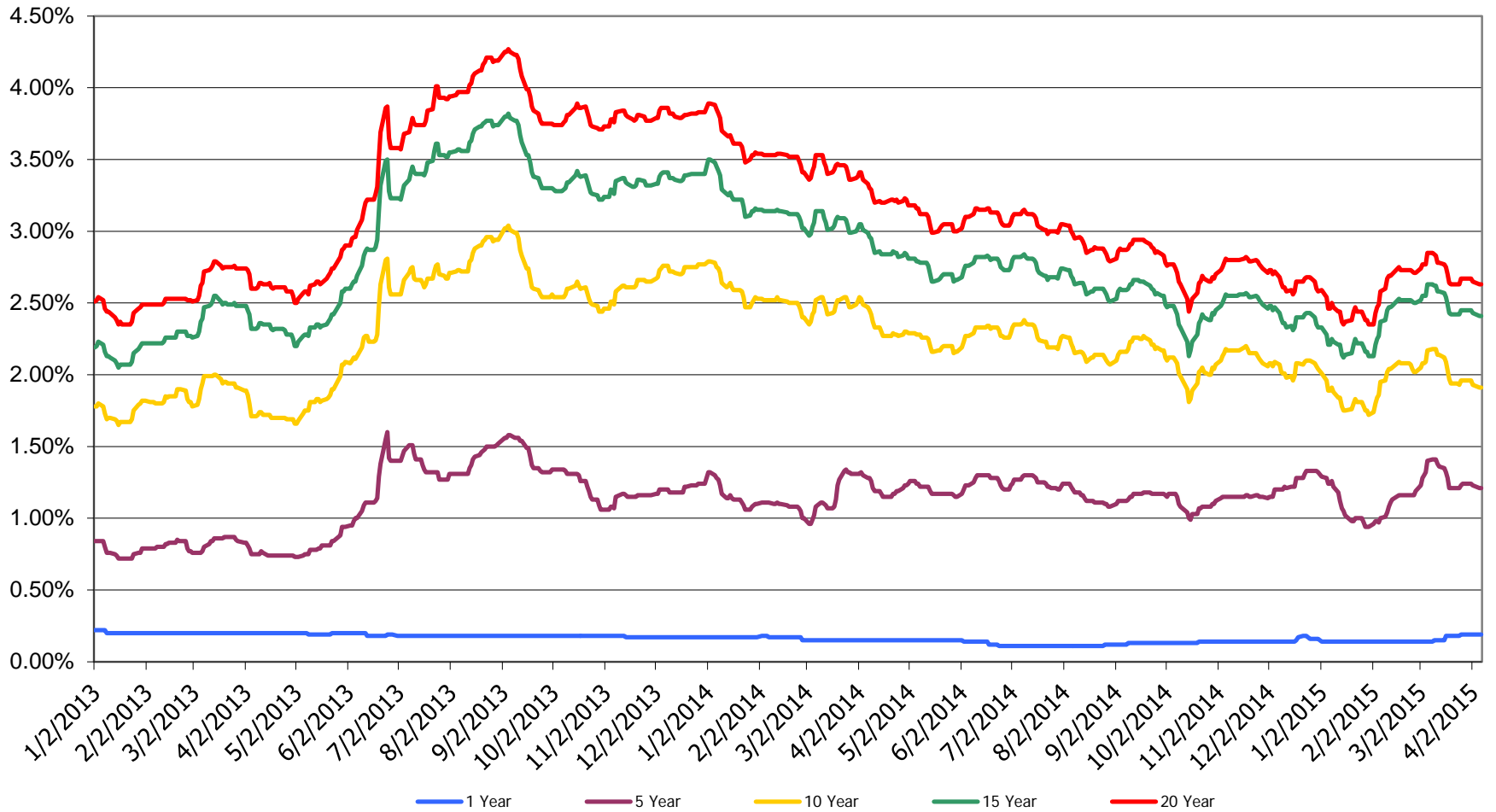
TAMMIE BECKWITH SCHALLMO
SENIOR VICE PRESIDENT/MANAGING DIRECTOR
PMA SECURITIES, INC.

APRIL 8, 2015

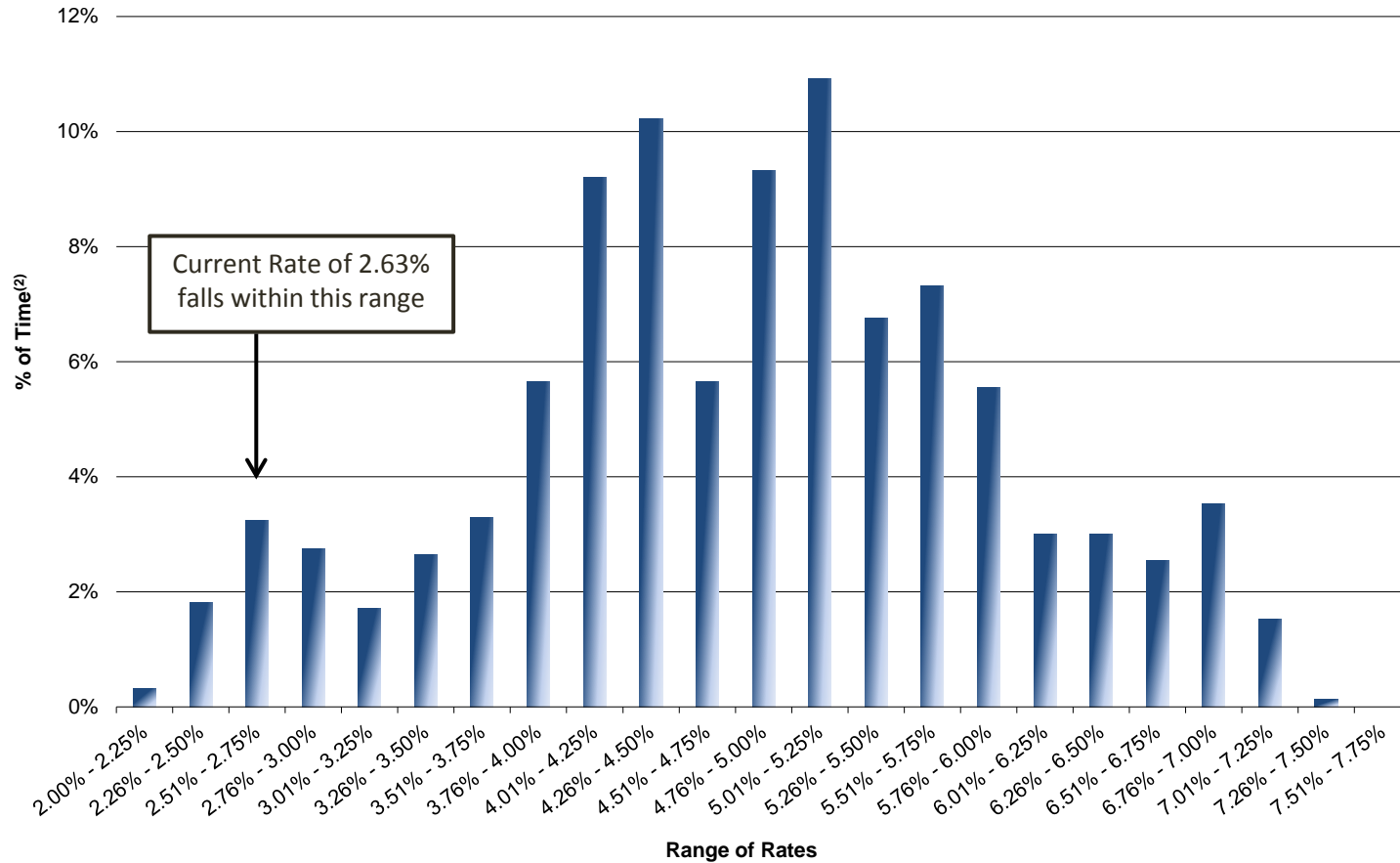
- Bond Market Conditions
- Rating Agencies' Focus
- Municipal Advisor Rule

- The Municipal Market Data (MMD) Index is a daily index of AAA-rated municipal bond rates
- Issuers’ bonds are priced relative to the MMD
 - At a “spread” to the MMD





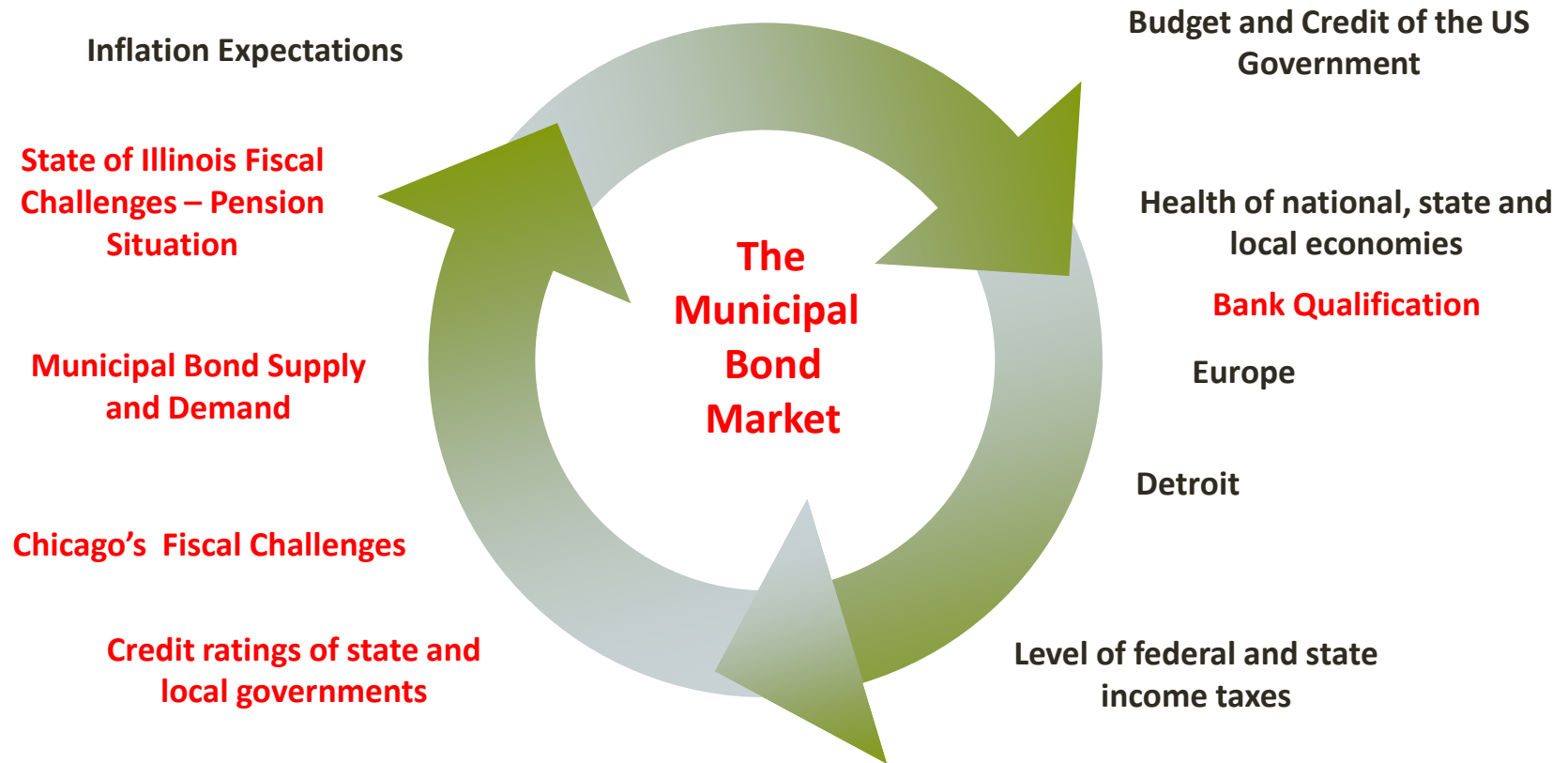
Time Distribution of Rates⁽¹⁾



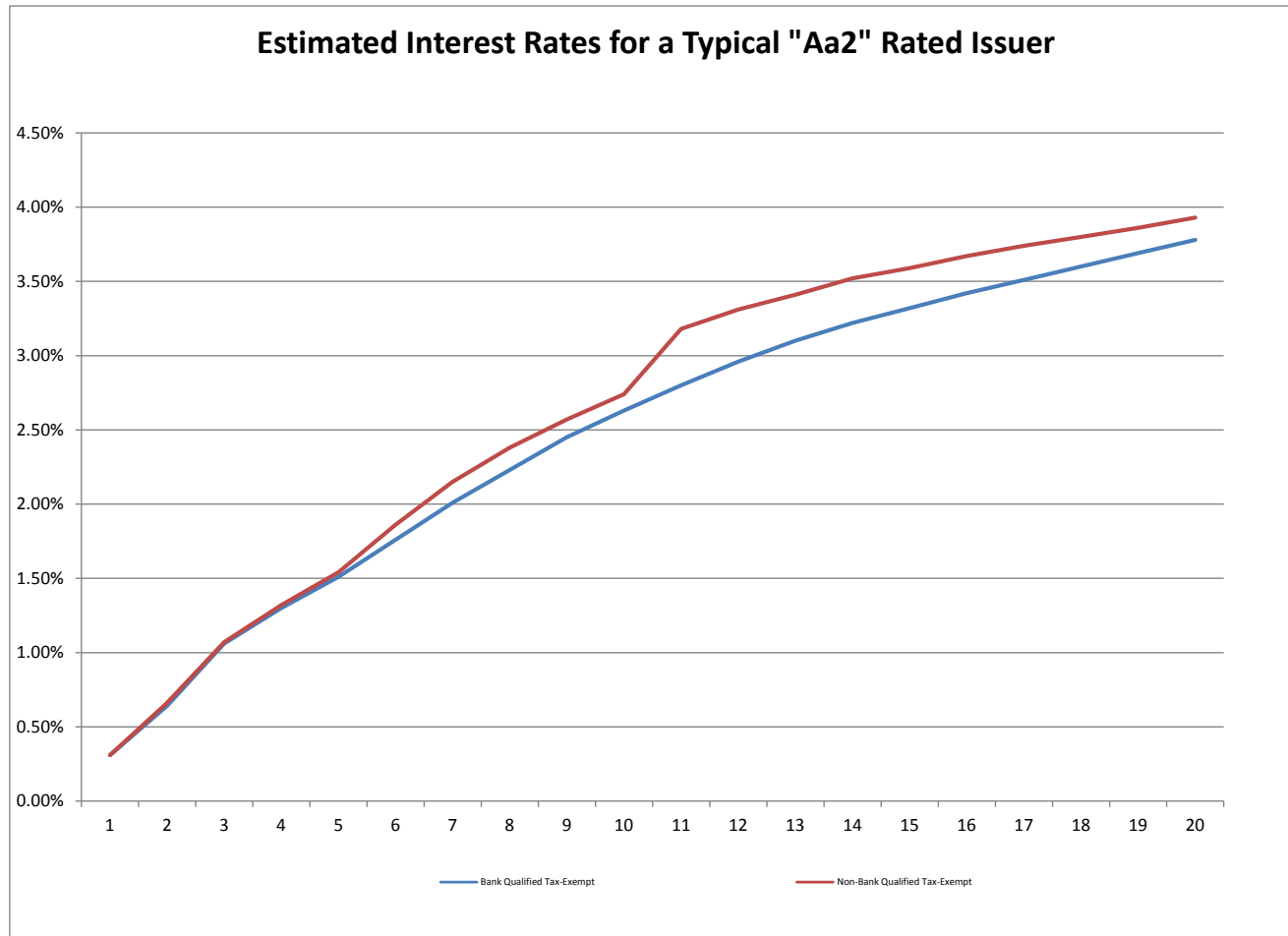
⁽¹⁾Current Rate is the MMD 20-year rate as of 04/07/15.

⁽²⁾Data encompasses MMD 20-year rates between 01/02/90 and 04/07/15. Past performance does not guarantee future results.
Source: The Municipal Market Data "MMD" is a AAA municipal bond market index produced by TM3.

The FED and Quantitative Easing



The greatest benefit for BQ deals is usually seen in the 10-year to 20-year range of the curve.

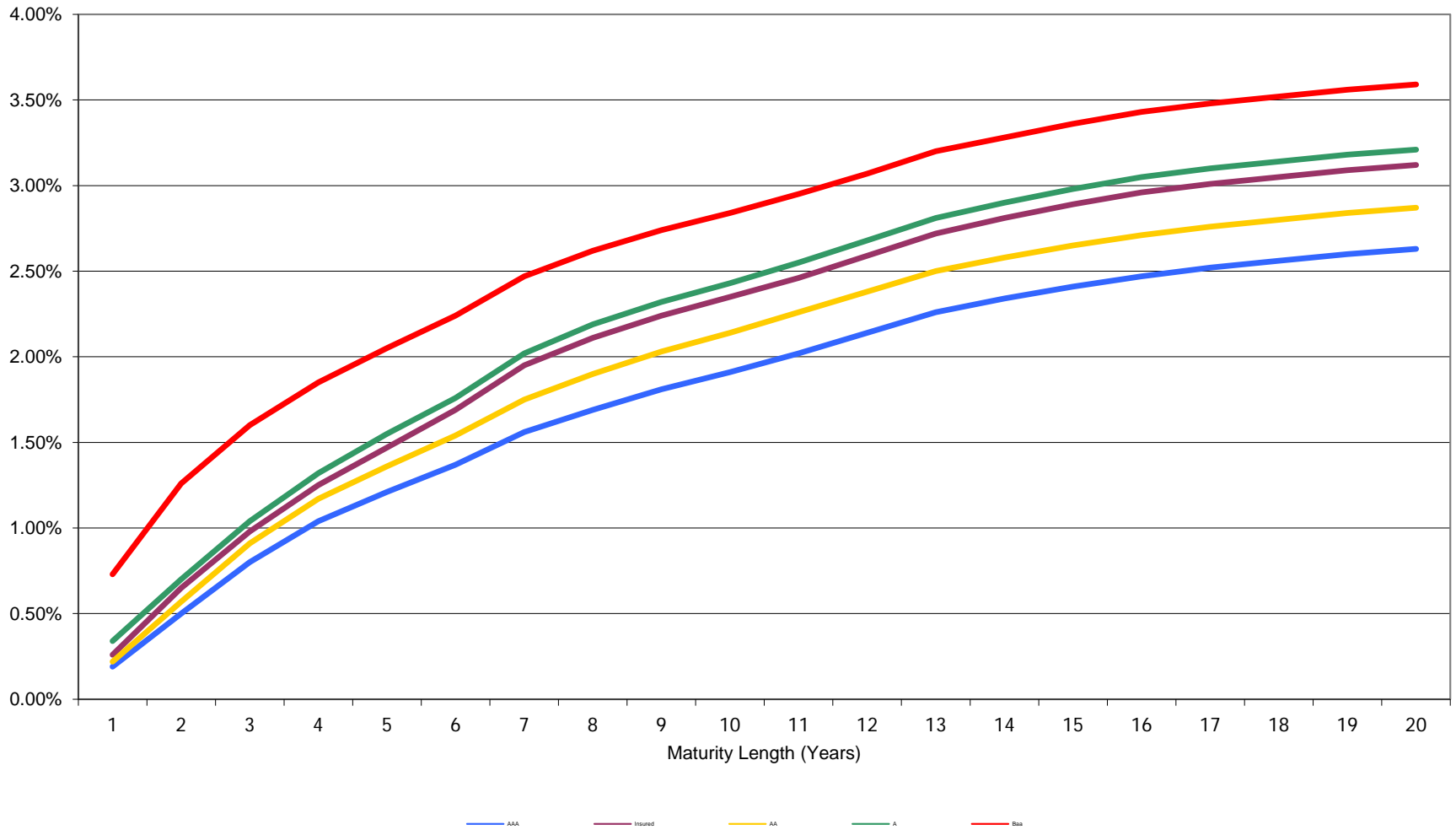


- The FED's term for buying bonds and other assets in order to push more money into the economy
- The FED wanted to drive up the available supply of money for loans, driving down long term interest rates so more people would buy and build homes and invest in businesses
- With short term interest rates already near zero, the FED's traditional tool couldn't be pushed any farther
- The FED began phasing out QE 3 in December 2013
 - Ended in the fall of 2014

- The 4th quarter GDP report was consistent with market expectations (2.2% increase)
- The March Manufacturing ISM report was also generally positive
 - 27th consecutive month of growth in the manufacturing sector
- Unemployment rate is now 5.5%
 - Seven-year low
 - Although the participation rate is at 62.70%
- March employment report showed a gain of 126,000 jobs (non-farm payroll)
- How has the FED responded recently?
 - It will no longer be “patient”

- The municipal bond market is approximately \$3.7 trillion
 - Nearly half of it is owned by individual investors, though at the lowest levels since 2007
- Demand for new municipal bonds was low in 2013
 - Municipal bond funds reported record outflows of nearly \$63 billion
 - Investors wanted to limit their exposure to volatility in municipal bonds
- In mid January of 2014, municipal bond funds had net inflows for the first time since May 2013
 - Saw net outflows last week
- In an average week, between \$5 billion and \$6 billion of municipal bonds are sold
 - Weekly average was between \$3 billion and \$4 billion throughout 2014
- Average weekly supply since the beginning of February 2015 has been approximately \$9 billion

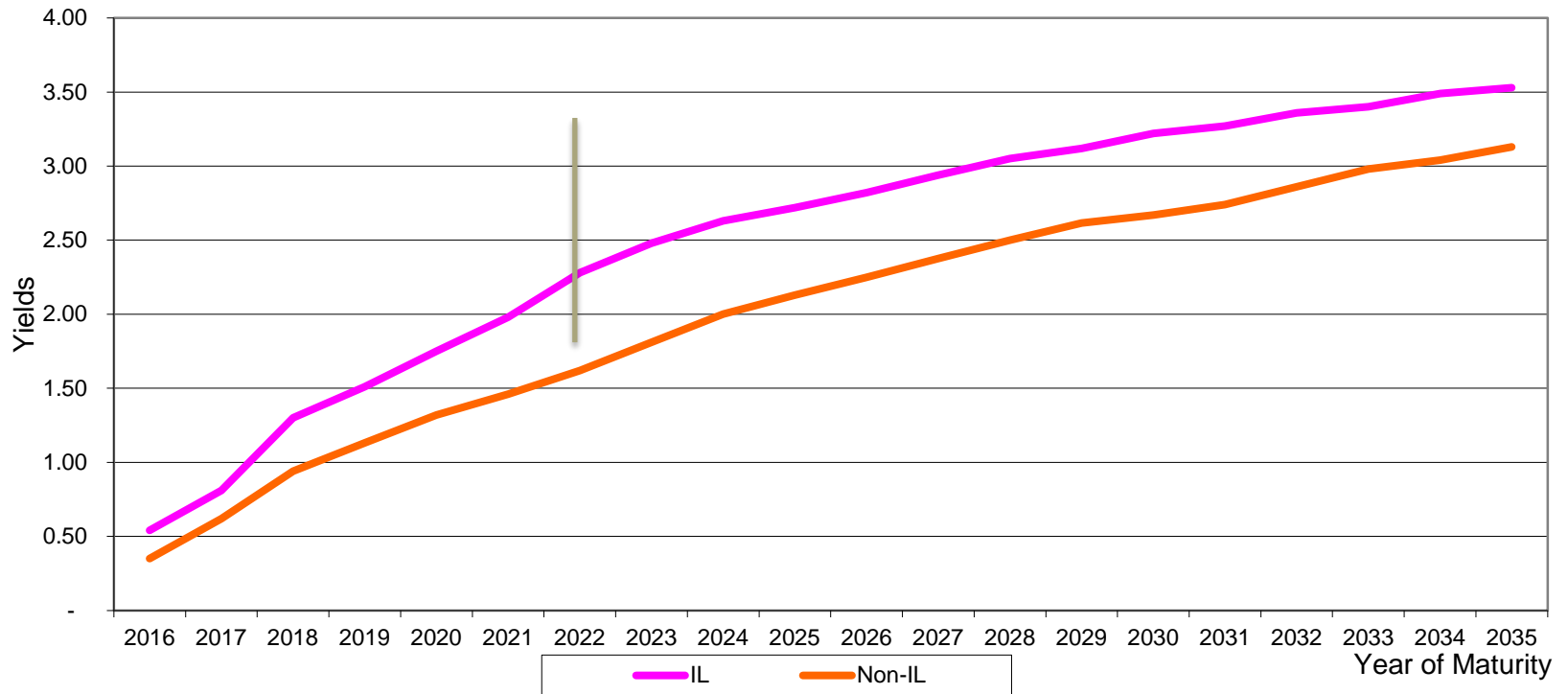
- **Key variables in a municipal credit analysis**
 - Management
 - Local economy
 - Financial position
 - Debt position
- **Higher credit rating = lower cost of borrowing**



*The Municipal Market Data “MMD” is a municipal bond market index produced by TM3. As of April 7, 2015.

- Illinois has the lowest credit rating of any state in the country
- The pension crisis has directly impacted local issuers in Illinois
- Some investors will no longer buy bonds from any issuer in Illinois
- The City of Chicago's unfunded pension liability and deficit budgets also caused a "triple notch" Moody's downgrade on its general obligation bonds to A3 last year
 - The City's bonds are rated "Baa2"
 - Chicago Public Schools' credit rating is now "Baa3"

Illinois vs. Non-Illinois Spread
(Bank Qualified "Aa2" Credit)



The Illinois penalty in 2022 is currently 0.65%

*The Municipal Market Data "MMD" is a municipal bond market index produced by TM3. As of April 7, 2015. Information is subject to change due to market conditions.

- Know the development that is taking place within your boundaries
- Understand the status of existing TIFs and the possibility for additional TIFs
- Talk to the county assessor(s) about expected EAV trends
- Know the status of significant property tax appeals (PTAB)
- Understand your OPEB liability
- Be ready to explain the College's revenue raising flexibility
 - How close are you to the tuition cap?

- Be well-versed in your fund balance policy
- If you don't have them in place, develop a debt management policy and a capital improvement plan
- Understand how close the College's individual tax rates are close to the statutory maximum rates
- Be prepared to provide year-to-date budget-to- actual numbers
- Be ready to disclose direct-purchase debt
- Have you built a potential pension cost shift into your financial projections?

- Due to the Dodd-Frank Act of 2010, a financial advisor has a fiduciary duty to act in the best interest of its clients
 - Disclose all material conflicts of interest
 - Review and provide inquiry into reasonable financial alternatives to the financing
 - Act in the issuer’s best interest without regard to financial and other interests of the municipal advisor (“MA”)

- Underwriters are not subject to a fiduciary duty

- The roles of an underwriter and financial advisor are definitive, separate roles

- July 21, 2010 – Dodd-Frank Act Signed
 - Amended Section 15B of the Securities Exchange Act of 1934
 - Includes Section 975 – Regulation of Municipal Securities
- October 1, 2010 – Temporary Rules
 - Required “Municipal Advisors” to register with SEC & MSRB
 - About 1,150 municipal advisors registered
- December 20, 2010 – SEC Proposed Rules with Concerns
 - Treatment of appointed board members of municipal entities
 - Investments of all municipal funds (versus bond proceeds)
 - Impact on traditional banking activities
 - Lack of guidance on what is “advice”
- September 18, 2013 – Final Rules Adopted
 - Rules effective January 13, 2014
- **July 1, 2014 – Effective Date**

- Underwriters may provide advice on the structure, timing, terms, and similar matters concerning a transaction under the “underwriter exemption”
 - Only during the period of time beginning when they are engaged for a particular transaction and ending at the end of the underwriting period

- Outside of a specific engagement, underwriters may also provide further advice
 - When the government has hired an independent MA for the specific transaction
 - “RFP” exemption applies
 - Underwriters may also provide many other types of information to municipal entities (including general market information and information about their qualifications) that does not rise to the level of advice without acting as a municipal advisor



DISCLAIMER

The information contained herein is solely intended to suggest/discuss potentially applicable financing applications and is not intended to be a specific buy/sell recommendation, nor is it an official confirmation of terms. Any terms discussed herein are preliminary until confirmed in a definitive written agreement.

The analysis or information presented herein is based upon hypothetical projections and/or past performance that have certain limitations. No representation is made that it is accurate or complete or that any results indicated will be achieved. In no way is past performance indicative of future results. Changes to any prices, levels, or assumptions contained herein may have a material impact on results. Any estimates or assumptions contained herein represent our best judgment as of the date indicated and are subject to change without notice. Examples are merely representative and are not meant to be all-inclusive.

The information set forth herein was gathered from sources which we believe, but do not guarantee, to be accurate. Neither the information, nor any options expressed, constitute a solicitation by us for purposes of sale or purchase of any securities or commodities. Investment/financing decisions by market participants should not be based on this information.

You should consider certain economic risks (and other legal, tax, and accounting consequences) prior to entering into any type of transaction with PMA Securities, Inc. or PMA Financial Network, Inc. It is imperative that any prospective client perform its own research and due diligence, independent of us or our affiliates, to determine suitability of the proposed transaction with respect to the aforementioned potential economic risks and legal, tax, and accounting consequences. Our analyses are not and do not purport to be appraisals of the assets, or business of a District or any other entity. PMA makes no representations as to the actual value which may be received in connection with a transaction nor the legal, tax, or accounting effects of consummating a transaction. PMA cannot be relied upon to provide legal, tax, or accounting advice. You should seek out independent and qualified legal, tax, and accounting advice from outside sources. This information has been prepared for informational and educational purposes and does not constitute a solicitation to purchase or sell securities, which may be done only after client suitability is reviewed and determined.

Securities, public finance and institutional brokerage services are offered through PMA Securities, Inc. PMA Securities, Inc. is a broker-dealer and municipal advisor registered with the SEC and MSRB, and is a member of FINRA and SIPC. Prudent Man Advisors, Inc., an SEC registered investment adviser, provides investment advisory services to local government investment pools and separately managed accounts. All other products and services are provided by PMA Financial Network, Inc. PMA Financial Network, Inc., PMA Securities, Inc. and Prudent Man Advisors (collectively "PMA") are under common ownership. Securities and public finance services offered through PMA Securities, Inc. are available in CA, CO, FL, GA, IL, IN, IA, KS, MI, MN, MO, NE, OH, OK, PA, SD, TX and WI. This document is not an offer of services available in any state other than those listed above, has been prepared for informational and educational purposes only and does not constitute a solicitation to purchase or sell securities, which may be done only after client suitability is reviewed and determined. All investments mentioned herein may have varying levels of risk, and may not be suitable for every investor. For more information, please visit us at www.pmanetwork.com.

© 2015 PMA Securities, Inc. For institutional use only.