



**MUNICIPAL BOND  
CREDIT REPORT  
4Q '09 AND FULL YEAR**

Volume V  
No. **3**

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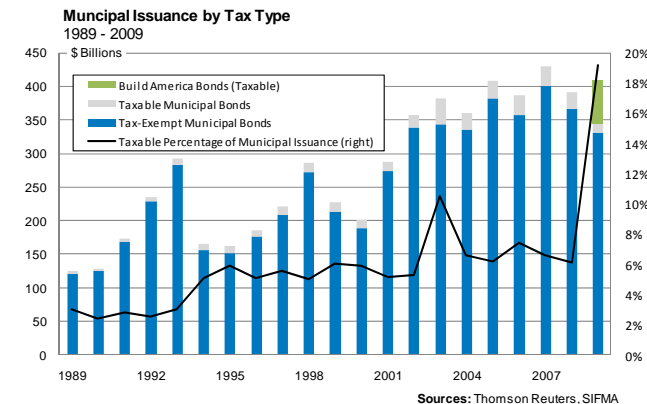
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The U.S. financial markets continued to recover in the fourth quarter of 2009; according to preliminary estimates from the Bureau of Economic Analysis, GDP rose 5.7 percent on an annualized basis in 4Q'09. The Federal Reserve maintained the Federal Funds target rate between 0 and 0.25 basis points throughout the year, and is expected to continue its low rate policy for an extended period of time.

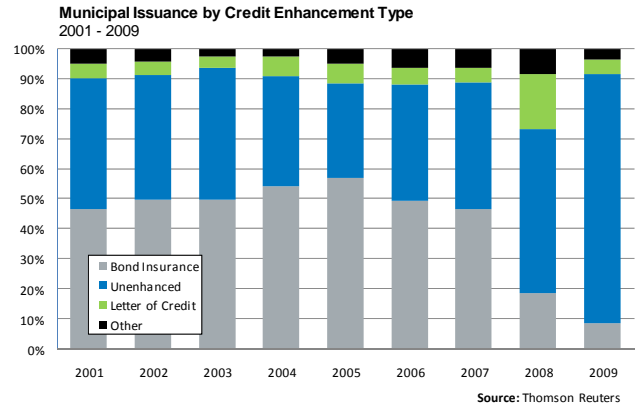
### Municipal Issuance Sees Changes in 2009

According to Thomson Reuters, long-term municipal issuance volume (including both taxable and tax-exempt issuance) totaled \$410.2 billion in 2009, a 5.2 percent increase from 2008 and the second highest issuance historically. The fourth quarter of 2009 ended strong with \$120.8 billion issued, comprising approximately 29.4 percent of full-year activity.

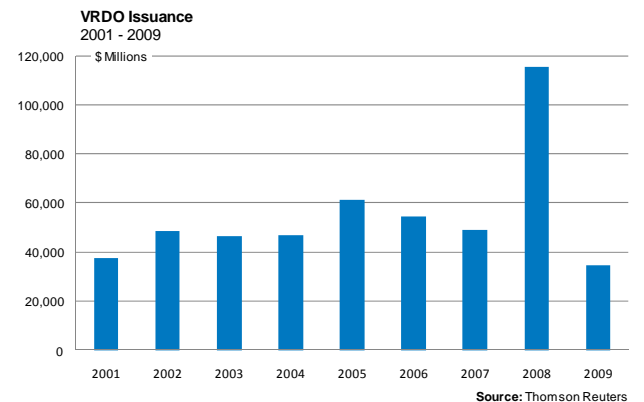
Taxable issuance, which historically has accounted for approximately five percent of total issuance in each of the last 20 years, surged to claim a 19.2 percent share of all issuance in 2009. This rise is due to the success of the Build America Bonds (BAB) program; excluding taxable issuance, tax-exempt issuance totaled \$331.1 billion, the lowest level since 2002, with BAB issuance serving as a substitute for the tax-exempt product.



The reduced reliance of credit enhancement was a continuing theme in 2009; for the full year, 80.8 percent of all municipal bonds issued were unenhanced. Of all 2009 issuance, 4.9 percent were enhanced by letters of credit, compared to the 5.2 percent share from 2001 to 2007. Bond insurance, which prior to the credit crisis enhanced approximately half of all long-term issuance (2001-2007), was used in only 8.7 percent of all long-term issuance in 2009, continuing the downward trend from the 46.7 percent and 18.5 percent share in 2007 and 2008, respectively, when the downgrade of several major bond insurers began. With only two highly-rated municipal insurers remaining in the market, it is unlikely that bond insurance will return to pre-crisis levels in the near future.



Issuance of variable rate demand obligations (VRDO), long-term municipal bonds, which have a floating interest rate that resets daily or weekly and contain a put feature, totaled \$34.8 billion in 2009, a 70.0 percent decline from 2008, and a decline of 29.4 percent from 2007. The decline, in part, stems from the steep drop in housing-related VRDO issuance (\$3.8 billion for 2009), which prior to the crisis totaled approximately \$8.9 billion per year in the period from 2001-2007, comprising 18.4 percent of all VRDO issuance. In addition, the increased costs in acquiring liquidity facilities and the absence of typical buyers of VRDO debt (e.g., money market mutual funds, who in 2009 divested \$92.8 billion, or 19 percent, of their municipal debt holdings)<sup>1</sup> have restrained VRDO issuance. According to the SIFMA Municipal Issuance Survey,<sup>2</sup> VRDO issuance is expected to remain at similar levels, with \$35.0 billion in issuance expected in 2010.



### Yields Continue to Remain Low

While Treasury yields, generally, have trended higher in 2009 from 2008 as the flight-to-safety phenomenon subsided and fears of inflation set in, tax-exempt bond yields have continued to trend lower; AAA-rated G.O. 10-year

<sup>1</sup>Investment Company Institute, Weekly Money Market Mutual Funds

<sup>2</sup>SIFMA 2010 Municipal Issuance Survey, December 7, 2009

municipal yields ended the year at 3.05 percent, down from 3.65 percent at the beginning of 2009. The yield ratio of AAA-rated G.O. 10-year municipal bonds to 10-year Treasuries ended 4Q'09 at 80.5 percent compared to 89.9 percent at the end of 3Q'09; this was well below the 174 percent high recorded in late 2008 at the height of the crisis and lower than the ten-year historical average of 85 percent.

According to Investment Company Institute, \$69.7 billion net inflow was recorded for tax-exempt bond funds in 2009, and inflows in the beginning of 2010 continue to stay positive. With taxable BAB issuance effectively limiting tax-exempt supply and higher tax assumptions (e.g., through the sunset of tax cuts), the demand for tax-exempt supply appears to have been the main driver towards lower municipal yields, a trend that may continue well into 2010.

The SIFMA Municipal Swap Index, comprised of short term tax-exempt VRDOs, remained relatively unchanged throughout the fourth quarter at 0.25 percent at end-December from 0.24 percent at the end-October, bringing the year's average to 0.4 percent.

**Credit Quality Trends**

According to a Nelson A. Rockefeller Institute of Government report in January 2010, 48 states reported declines in total tax revenue in the third quarter of 2009, with 22 states reporting double-digit losses.<sup>3</sup> Estimated payments, which are made by those in the highest-income bracket and are representative of overall trends in future tax collections, were down by 31.2 percent in the third quarter. Personal income tax collections, which make up one-third of states' tax revenues, declined by 11.8 percent in the third quarter; a single state posted a positive growth in personal income taxes (North Dakota, 0.3 percent). Despite the apparent turnaround in U.S. economic growth in 2009, the recovery of employment and wages – the two most important factors for state finances – is projected to lag well into the future.

Budget gaps, projected cash deficiencies, and political stalemates have triggered credit quality concerns. In 2009, Moody's, Fitch Ratings, and Standard and Poor's issued several hundred rating downgrades, including four state G.O. ratings in 2009: Arizona, California, Illinois, and Michigan.

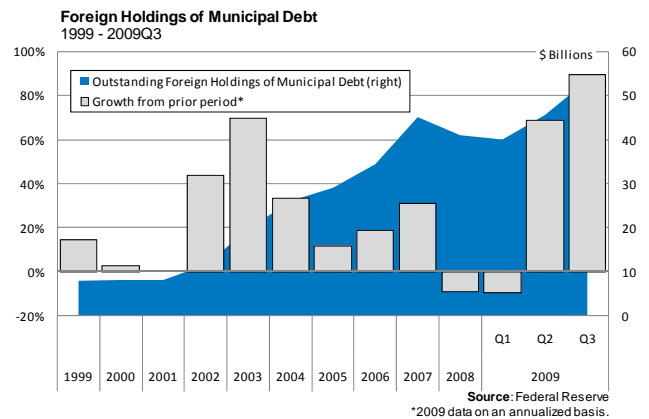
While municipal bankruptcies remain relatively low, with six Chapter 9 filings recorded as of the end of 3Q'09,<sup>4</sup> several municipalities have raised the possibility of filing for bankruptcy protection.

**Build America Bonds: The Success Story**

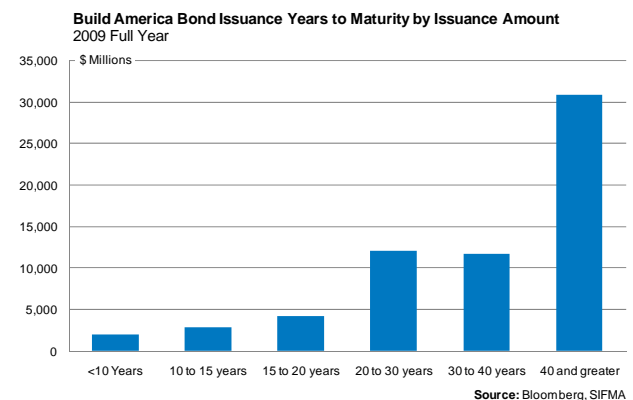
Since their creation under the American Reinvestment

and Recovery Act of 2009 (ARRA), BABs issuance has grown to \$64.1 billion from its launch in April to the end of the 2009. Virtually all BABs were direct pay bonds, in which issuers receive a 35 percent federal subsidy of the interest paid. In 4Q'09, BAB issuance amounted to \$28.6 billion, a 43 percent increase from the previous quarter's level. General purpose and public improvement sectors accounted for more than 40 percent (\$11.6 billion) of 4Q'09, followed by education at 28 percent (\$6.9 billion). For the full year, BAB issuance was led by general purpose (\$22.4 billion), education (\$14.8 billion), and transportation (\$14.5 billion).

BABs have opened the municipal market to non-traditional investors (e.g., foreign investors) that do not seek the benefits of traditional tax-exempt bonds. According to the Federal Reserve, foreign holdings of municipal debt for the second and third quarter increased by \$5.6 billion and \$7.9 billion, respectively, quarter-over-quarter to \$53.3 billion, an annualized growth rate of 78.9 percent.



On the issuer side, municipalities have welcomed the BAB structure, which offered relatively cheap financing on the long-end of the maturity range. According to Bloomberg data, approximately \$42.6 billion, or 66.9 percent, of full-year 2009 BAB issuance had a maturity of 30 years or longer; more notably, approximately half of all BAB issuance had a maturity of 40 years or longer, with the dollar-weighted average maturity of 2009 BAB issuance at 34.0 years.



According to the SIFMA Municipal Issuance Survey, the

<sup>3</sup> Individual state data, analysis by [Rockefeller Institute](#)

<sup>4</sup> Administrative Office of the U.S. Courts

BAB program was expected to be extended past its current 2010 expiry by respondents given its popularity, although recent estimates by the Congressional Budget Office increased the outlay cost from 2009-2010 by sevenfold to approximately \$30 billion from \$4 billion due to the unexpected amount of BABs issued.<sup>5</sup> As expected, on February 1<sup>st</sup>, 2010, the U.S. Administration released its Fiscal Year 2011 Budget, which proposed not only to make the BABs program permanent, but also to extend the program to other areas not currently covered. However, the administration proposed to lower the subsidy rate to 28 percent, a rate deemed more “revenue neutral.”<sup>6</sup>

### **Other Government Efforts Met With Modest Results**

The Administration announced a number of initiatives in the fourth quarter in an effort to encourage or support several government policies.

Continuing its efforts to support the mortgage housing markets, the Administration continued to provide aid to state and local housing finance agencies (HFA), distributing over \$4 billion in ARRA funds in 2009. In addition to funds, the Administration introduced two new initiatives in October through the GSEs Fannie Mae and Freddie Mac: a New Issue Bond Program (NIBP), a program under which the U.S. Treasury would buy GSE securities backed by mortgage revenue bonds issued by HFAs; and a Temporary Credit and Liquidity Program (TCLP), a credit and liquidity facility backstop through the GSEs that would support existing financing arrangements for HFAs (e.g., outstanding HFA VRDOs).

Despite several Administration initiatives promoting tax credit bonds, relatively few tax credit bonds were issued in 2009, reflecting uncertainty over certain aspects of tax credit bonds (e.g., strippability, refundability, etc). On November 24, the Internal Revenue Service released its 2009-2010 Priority Guidance Plan, listing 10 tax-exempt related items to be clarified, first among them providing guidance for tax credit bonds.

Other efforts by the Administration to support the municipal market have produced modest results. ARRA provisions included changes to bank-qualified bonds to encourage banks to hold certain municipal bonds issued in 2009 and 2010. While \$32.7 billion of bank-qualified bonds were issued for full year 2009, banks took up very little of this supply; according to the Federal Reserve, a net \$3.2 billion increase was recorded from Q1'09 to Q3'09 in municipal debt holdings by commercial banks, a modest 2.8 percent increase on an annualized basis.

Generally, government policies will continue to be a major influence on the markets through 2010.

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<sup>5</sup> CBO, The Budget and Economic Outlook: Fiscal Years 2010 to 2020, January 2010

<sup>6</sup> U.S. Treasury, Green Book, February 1, 2010; Budget of the United States Government, Fiscal Year 2011, February 1, 2010

## LONG-TERM MUNICIPAL STATE ISSUANCE BY TYPE, 4Q'09 AND FULL YEAR

## Long-Term Municipal State Issuance by Type

Fourth Quarter 2009

\$ millions

State	Total Amount	G.O.	Revenue	State	Total Amount	G.O.	Revenue	State	Total Amount	G.O.	Revenue
Alabama	1,859.5	231.6	1,627.9	Louisiana	990.3	492.2	498.1	Ohio	3,517.6	1,173.9	2,343.7
Alaska	335.7	112.9	222.8	Maine	288.9	85.2	203.7	Oklahoma	438.5	58.2	380.3
Arizona	1,123.4	668.1	455.3	Maryland	3,193.9	1,984.3	1,209.6	Oregon	702.6	232.6	470.0
Arkansas	592.6	281.2	311.4	Massachusetts	4,282.0	1,309.6	2,972.4	Pennsylvania	5,016.4	1,054.5	3,961.9
California	25,020.2	13,312.2	11,708.0	Michigan	1,746.2	505.7	1,240.5	Puerto Rico	2,113.3	582.9	1,530.4
Colorado	2,782.3	638.1	2,144.2	Minnesota	2,654.7	1,457.8	1,196.9	Rhode Island	137.9	14.8	123.1
Connecticut	2,760.1	1,770.9	989.2	Mississippi	1,223.1	756.1	467.0	South Carolina	1,185.0	171.9	1,013.1
D. of Columbia	666.9	-	666.9	Missouri	1,639.4	384.0	1,255.4	South Dakota	184.8	23.2	161.6
Delaware	771.2	493.0	278.2	Montana	40.6	24.6	16.0	Tennessee	1,229.1	835.2	393.9
Florida	3,158.2	607.8	2,550.4	Nebraska	354.4	179.9	174.5	Texas	6,285.4	2,289.4	3,996.0
Georgia	4,243.7	1,704.4	2,539.3	Nevada	1,062.6	789.0	273.6	Utah	629.5	41.3	588.2
Hawaii	608.6	567.5	41.1	New Hampshire	778.2	161.5	616.7	Virgin Islands	498.0	-	498.0
Idaho	41.1	17.4	23.7	New Jersey	2,530.5	1,068.5	1,462.0	Virginia	2,508.5	1,044.4	1,464.1
Illinois	3,787.8	1,584.2	2,203.6	New Mexico	1,159.4	121.0	1,038.4	Washington	2,072.7	1,574.7	1,301.8
Indiana	1,638.5	214.3	1,424.2	New York	15,052.8	3,783.3	11,269.5	West Virginia	1,464.1	-	373.7
Iowa	947.9	285.1	662.8	North Carolina	1,955.8	936.9	1,018.9	Wisconsin	1,666.7	364.9	733.0
Kansas	832.6	286.4	546.2	North Dakota	142.2	80.4	61.8	Wyoming	373.7	-	82.7
Kentucky	1,624.1	172.4	1,451.7								

G.O. Issuance	46,529.4
Revenue Issuance	74,237.4
*Total L-T Issuance	120,766.8

Source: Thomson Reuters

\*Note: Total Long-Term Issuance includes U.S. territories, such as Puerto Rico and Guam.

## Long-Term Municipal State Issuance by Type

Full Year 2009

\$ millions

State	Total Amount	G.O.	Revenue	State	Total Amount	G.O.	Revenue	State	Total Amount	G.O.	Revenue
Alabama	4,221.6	1,136.1	3,085.5	Kentucky	5,231.7	441.8	4,789.9	Ohio	11,615.5	3,891.2	7,724.3
Alaska	1,070.3	367.4	702.9	Louisiana	3,621.4	782.2	2,839.2	Oklahoma	2,473.1	878.9	1,594.2
Arizona	6,556.4	1,985.3	4,571.1	Maine	1,226.4	329.7	896.7	Oregon	4,324.1	1,736.3	2,587.8
Arkansas	1,591.2	899.7	691.5	Maryland	6,431.4	4,387.6	2,043.8	Pennsylvania	19,488.6	8,274.3	11,214.3
California	72,331.1	34,481.6	37,849.5	Massachusetts	9,972.2	3,847.0	6,125.2	Puerto Rico	8,271.7	586.4	7,685.3
Colorado	6,751.0	1,648.8	5,102.2	Michigan	6,562.9	2,917.9	3,645.0	Rhode Island	997.9	258.2	739.7
Connecticut	6,574.2	4,452.5	2,121.7	Minnesota	6,825.6	4,487.2	2,338.4	South Carolina	3,661.3	1,420.9	2,240.4
D. of Columbia	4,513.5	15.1	4,498.4	Mississippi	2,727.0	1,104.7	1,622.3	South Dakota	597.2	153.0	444.2
Delaware	1,331.0	836.1	494.9	Missouri	5,356.0	1,241.3	4,114.7	Tennessee	4,786.4	2,895.7	1,890.7
Florida	15,157.0	2,525.4	12,631.6	Montana	172.6	96.0	76.6	Texas	32,662.1	14,494.4	18,167.7
Georgia	10,875.2	3,536.6	7,338.6	Nebraska	2,752.6	928.5	1,824.1	Utah	4,274.3	1,832.7	2,441.6
Guam	473.5	271.1	202.4	Nevada	3,304.3	1,844.5	1,459.8	Vermont	313.5	266.8	46.7
Hawaii	2,532.2	1,669.7	862.5	New Hampshire	1,445.5	250.4	1,195.1	Virgin Islands	748.0	-	748.0
Idaho	724.9	38.2	686.7	New Jersey	10,785.1	3,083.8	7,701.3	Virginia	3,314.0	2,566.0	748.0
Illinois	14,952.7	8,125.9	6,826.8	New Mexico	3,379.9	887.2	2,492.7	Washington	11,940.3	5,232.6	6,707.7
Indiana	6,573.1	437.0	6,136.1	New York	43,977.4	11,883.4	32,094.0	West Virginia	4,889.1	37.7	4,851.4
Iowa	4,028.3	1,302.2	2,726.1	North Carolina	10,116.4	4,229.2	5,887.2	Wisconsin	3,601.0	2,830.2	770.8
Kansas	3,833.9	1,822.7	2,011.2	North Dakota	531.6	183.9	347.7	Wyoming	3,774.4	18.9	3,755.5

G.O. Issuance	155,851.9
Revenue Issuance	254,391.7
*Total L-T Issuance	410,243.6

Source: Thomson Reuters

\*Note: Total Long-Term Issuance includes U.S. territories, such as Puerto Rico and Guam.

## LONG-TERM MUNICIPAL ISSUANCE BY REGION, 4Q'09 AND FULL YEAR

Long-Term Municipal Issuance by Regional Issuance  
by Moody's Rating Category  
Fourth Quarter 2009  
\$ millions

General Obligation					
	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	55.5	650.2	2,808.6	3,116.7	69.6
Aa	5,897.9	2,938.9	6,754.1	2,633.1	2,714.2
A	3,804.9	463.8	331.8	526.6	321.1
Baa	6,356.4	24.9	589.0	44.0	5.6
Below Baa	-	-	-	-	-
Total Rated	16,114.7	4,077.8	10,483.5	6,320.4	3,110.5
Not Rated	515.2	2,175.8	1,825.0	632.7	1,273.0
Totals	16,629.9	6,253.6	12,308.5	6,953.1	4,383.5
% of Total L-T Volume	35.7%	13.4%	26.5%	14.9%	9.4%

Unenhanced General Obligation					
	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	50.5	650.2	2,658.6	3,038.1	67.5
Aa	5,186.3	2,285.1	6,530.1	2,533.9	2,384.7
A	3,797.8	449.5	317.1	526.6	162.6
Baa	6,356.4	24.9	589.0	44.0	5.6
Below Baa	-	-	-	-	-
Total Rated	15,391.0	3,409.7	10,094.8	6,142.6	2,620.4
Not Rated	315.0	1,618.8	1,262.7	471.3	1,133.1
Totals	15,706.0	5,028.5	11,357.5	6,613.9	3,753.5
% of Total L-T Volume	37.0%	11.8%	26.7%	15.6%	8.8%

Revenue					
	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	216.4	686.8	3,340.5	965.5	1,273.6
Aa	4,998.2	3,655.2	8,910.9	7,788.2	3,830.1
A	3,534.8	3,847.6	4,726.0	2,121.8	1,631.8
Baa	3,593.5	438.4	1,449.3	583.8	566.7
Below Baa	25.0	-	-	150.0	-
Total Rated	12,367.9	8,628.0	18,426.7	11,609.3	7,302.2
Not Rated	1,771.7	2,830.1	6,856.8	1,789.0	2,157.8
Totals	14,139.6	11,458.1	25,283.5	13,398.3	9,460.0
% of Total L-T Volume	19.2%	15.5%	34.3%	18.2%	12.8%

Unenhanced Revenue					
	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	34.0	489.6	549.8	597.9	133.6
Aa	4,484.4	2,831.4	8,069.2	6,346.4	3,414.6
A	3,457.5	3,691.7	4,608.2	2,112.5	1,627.7
Baa	3,593.5	438.4	1,449.3	507.3	566.7
Below Baa	25.0	-	-	150.0	-
Total Rated	11,594.4	7,451.1	14,676.5	9,714.1	5,742.6
Not Rated	1,438.9	2,380.2	6,295.4	974.8	1,954.5
Totals	13,033.3	9,831.3	20,971.9	10,688.9	7,697.1
% of Total L-T Volume	20.9%	15.8%	33.7%	17.2%	12.4%

Source: Thomson Reuters

Long-Term Municipal Issuance by Regional Issuance  
by Moody's Rating Category  
Full Year 2009  
\$ millions

General Obligation					
	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	129.6	2,394.6	6,348.3	6,949.5	3,009.4
Aa	17,985.9	13,563.5	22,777.8	10,125.6	13,123.5
A	17,862.4	2,523.9	1,102.6	1,276.0	1,592.7
Baa	6,618.4	30.5	622.6	49.5	47.5
Below Baa	-	-	-	-	-
Total Rated	42,596.3	18,512.5	30,851.3	18,400.6	17,773.1
Not Rated	2,866.6	7,985.7	7,619.9	2,275.7	6,676.6
Totals	45,462.9	26,498.2	38,471.2	20,676.3	24,449.7
% of Total L-T Volume	29.2%	17.0%	24.7%	13.3%	15.7%

Unenhanced General Obligation					
	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	65.1	2,168.9	6,006.4	6,843.1	2,541.7
Aa	15,197.9	10,624.0	19,316.8	8,813.2	10,957.2
A	17,825.8	2,383.7	999.6	1,247.3	1,041.9
Baa	6,618.4	30.5	619.1	49.5	31.0
Below Baa	-	-	-	-	-
Total Rated	39,707.2	15,207.1	26,941.9	16,953.1	14,571.8
Not Rated	1,743.8	5,216.1	4,663.1	1,391.0	4,946.4
Totals	41,451.0	20,423.2	31,605.0	18,344.1	19,518.2
% of Total L-T Volume	31.6%	15.5%	24.1%	14.0%	14.9%

Revenue					
	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	2,532.6	4,433.2	6,440.6	4,000.6	3,581.4
Aa	20,164.4	14,363.7	27,940.7	28,693.7	18,874.7
A	12,895.7	10,177.6	19,659.1	8,176.4	5,654.5
Baa	3,949.8	1,806.8	3,615.8	2,394.4	1,365.9
Below Baa	25.0	-	-	150.0	-
Total Rated	39,567.5	30,781.3	57,656.2	43,415.1	29,476.5
Not Rated	9,820.7	9,101.5	19,201.1	6,389.0	7,595.9
Totals	49,388.2	39,882.8	76,857.3	49,804.1	37,072.4
% of Total L-T Volume	19.5%	15.8%	30.4%	19.7%	14.7%

Unenhanced Revenue					
	Far West	Midwest	Northeast	Southeast	Southwest
Aaa	719.6	1,538.0	1,863.1	1,816.0	2,172.7
Aa	16,711.2	10,203.1	22,238.9	19,990.4	16,229.6
A	12,228.6	9,122.1	18,266.8	6,773.3	5,589.5
Baa	3,949.8	1,806.8	3,547.0	2,302.4	1,362.6
Below Baa	25.0	-	-	150.0	-
Total Rated	33,634.2	22,670.0	45,915.8	31,032.1	25,354.4
Not Rated	8,473.3	5,929.6	15,704.7	4,089.8	6,015.1
Totals	42,107.5	28,599.6	61,620.5	35,121.9	31,369.5
% of Total L-T Volume	21.2%	14.4%	31.0%	17.7%	15.8%

Source: Thomson Reuters

## LONG-TERM MUNICIPAL ISSUANCE BY GENERAL USE OF PROCEEDS, 4Q'09 AND FULL YEAR

Long-Term Municipal Issuance by General Use of Proceeds  
 By Moody's Rating Category  
 Fourth Quarter 2009  
 \$ millions

General Obligation Sector	Investment Grade	Number of Issues	Number Not Rated	Number of Issues	Total Amount	Number of Issues
Development	8.0	2	0.6	1.0	8.6	3.0
Education	11,000.6	564	317.2	131.0	11,317.8	695.0
Electric Power	131.8	5	1.0	1.0	132.8	6.0
Environmental Facilities	25.0	4	-	-	25.0	4.0
General Purpose	30,623.9	645	283.8	130.0	30,907.7	775.0
Healthcare	168.3	9	47.2	5.0	215.5	14.0
Housing	145.7	9	-	-	145.7	9.0
Public Facilities	701.2	73	33.1	33.0	734.3	106.0
Transportation	1,482.0	52	13.6	6.0	1,495.6	58.0
Utilities	1,440.6	114	105.9	37.0	1,546.5	151.0
<b>Total</b>	<b>45,727.1</b>	<b>1,477</b>	<b>802.4</b>	<b>344</b>	<b>46,529.5</b>	<b>1,821</b>

Revenue Sector	Investment Grade Rating	Number of Issues	Sub-Investment Grade Rating	Number of Issues	Number Not Rated	Number of Issues	Total Amount
Development	3,141.3	37	-	-	251.8	15.0	3,393.1
Education	11,699.6	248	-	-	297.0	49.0	11,996.6
Electric Power	3,337.6	41	-	-	45.7	12.0	3,383.3
Environmental Facilities	1,477.6	22	-	-	530.4	8.0	2,008.0
General Purpose	11,704.5	169	25.0	1	243.9	57.0	12,604.5
Healthcare	13,844.7	123	-	-	875.0	41.0	13,996.3
Housing	2,799.0	76	-	-	151.6	7.0	2,950.6
Public Facilities	2,566.9	59	-	-	87.7	16.0	2,654.6
Transportation	12,007.5	93	150.0	2	43.6	7.0	12,201.1
Utilities	8,827.5	207	-	-	226.7	40.0	9,054.2
<b>Total</b>	<b>71,406.2</b>	<b>1,075</b>	<b>175.0</b>	<b>3</b>	<b>2,753.4</b>	<b>252</b>	<b>74,242.3</b>

Source: Thomson Reuters

Long-Term Municipal Issuance by General Use of Proceeds  
 By Moody's Rating Category  
 Full Year 2009  
 \$ millions

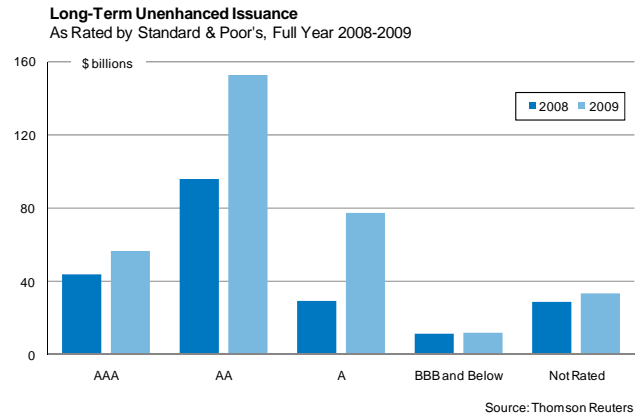
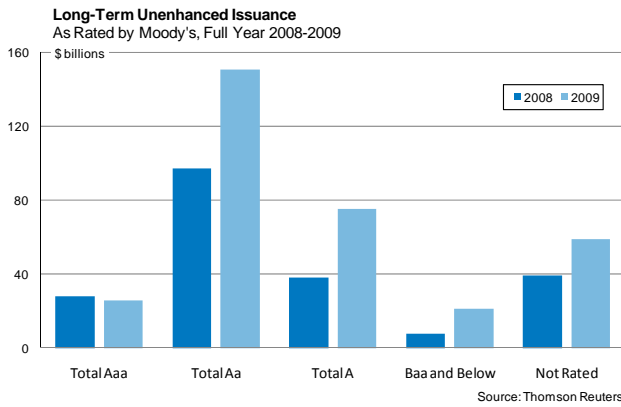
General Obligation Sector	Investment Grade	Number of Issues	Number Not Rated	Number of Issues	Total Amount	Number of Issues
Development	165.0	10	4.7	3.0	169.7	13
Education	47,447.0	2,555	1,422.9	626.0	48,869.9	3,181
Electric Power	193.2	14	103.0	4.0	296.2	18
Environmental Facilities	92.1	8	-	-	92.1	8
General Purpose	86,179.4	2,309	1,390.8	565.0	87,570.2	2,874
Healthcare	2,075.6	45	164.2	19.0	2,239.8	64
Housing	473.9	23	54.4	4.0	528.3	27
Public Facilities	2,775.4	275	219.0	119.0	2,994.4	394
Transportation	6,672.3	161	734.6	52.0	7,406.9	213
Utilities	5,257.1	386	427.2	173.0	5,684.3	559
<b>Total</b>	<b>151,331.0</b>	<b>5,786</b>	<b>4,520.8</b>	<b>1,565</b>	<b>155,851.8</b>	<b>7,351</b>

Revenue Sector	Investment Grade Rating	Number of Issues	Sub-Investment Grade Rating	Number of Issues	Number Not Rated	Number of Issues	Total Amount	Number of Issues
Development	6,452.0	128	-	-	689.0	41	7,141.0	169
Education	43,075.6	904	-	-	933.1	173	44,008.7	1,077
Electric Power	15,319.6	164	-	-	465.9	57	15,785.5	221
Environmental Facilities	6,225.9	95	-	-	1,615.5	22	7,841.4	117
General Purpose	38,927.4	601	25.0	1	1,059.9	201	40,012.3	803
Healthcare	42,201.4	443	-	-	1,565.7	98	43,767.1	541
Housing	9,203.0	232	-	-	510.1	33	9,713.1	265
Public Facilities	9,579.3	201	-	-	179.4	40	9,758.7	241
Transportation	40,383.3	298	150.0	2	1,034.0	24	41,567.3	324
Utilities	33,840.2	618	-	-	524.4	118	34,364.6	736
<b>Total</b>	<b>245,207.7</b>	<b>3,684</b>	<b>175.0</b>	<b>3</b>	<b>8,577.0</b>	<b>807</b>	<b>253,959.7</b>	<b>4,494</b>

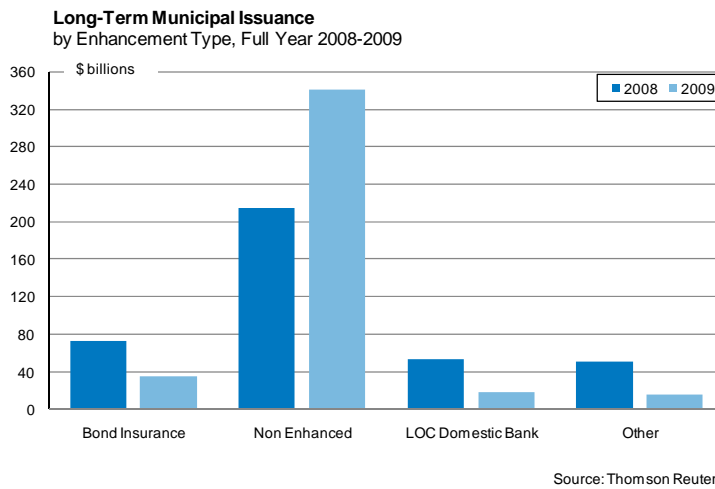
Source: Thomson Reuters



### LONG-TERM UNENHANCED ISSUANCE BY RATING, FULL YEAR 2008-2009



### LONG TERM ENHANCED ISSUANCE BY TYPE OF ENHANCEMENT, FULL YEAR 2008-2009



### UPGRADES AND DOWNGRADES OF U.S. PUBLIC FINANCE, FULL YEAR 2009

#### Fitch Ratings, Upgrades and Downgrades

Upgrades / Downgrades	Q1	Q2	Q3	Q4	Total
Healthcare	4 / 8	2 / 7	4 / 5	12 / 11	22 / 31
Higher Education/Non-Profit	3 / 3	0 / 4	0 / 3	3 / 1	6 / 11
Housing	4 / 0	0 / 0	59 / 2	2 / 1	65 / 3
Other Revenue	0 / 0	1 / 0	1 / 1	0 / 2	2 / 3
Public Power	3 / 5	0 / 2	0 / 0	1 / 4	4 / 11
Tax Supported	20 / 29	16 / 30	16 / 35	38 / 44	90 / 138
Transportation	0 / 4	0 / 7	2 / 7	1 / 2	3 / 20
Water and Sewer Revenue	6 / 7	5 / 2	3 / 2	3 / 5	17 / 16
<b>Total</b>	<b>40 / 56</b>	<b>24 / 52</b>	<b>85 / 55</b>	<b>60 / 70</b>	<b>209 / 233</b>

Source: Fitch Ratings

## Standard and Poor's, Upgrade and Downgrades

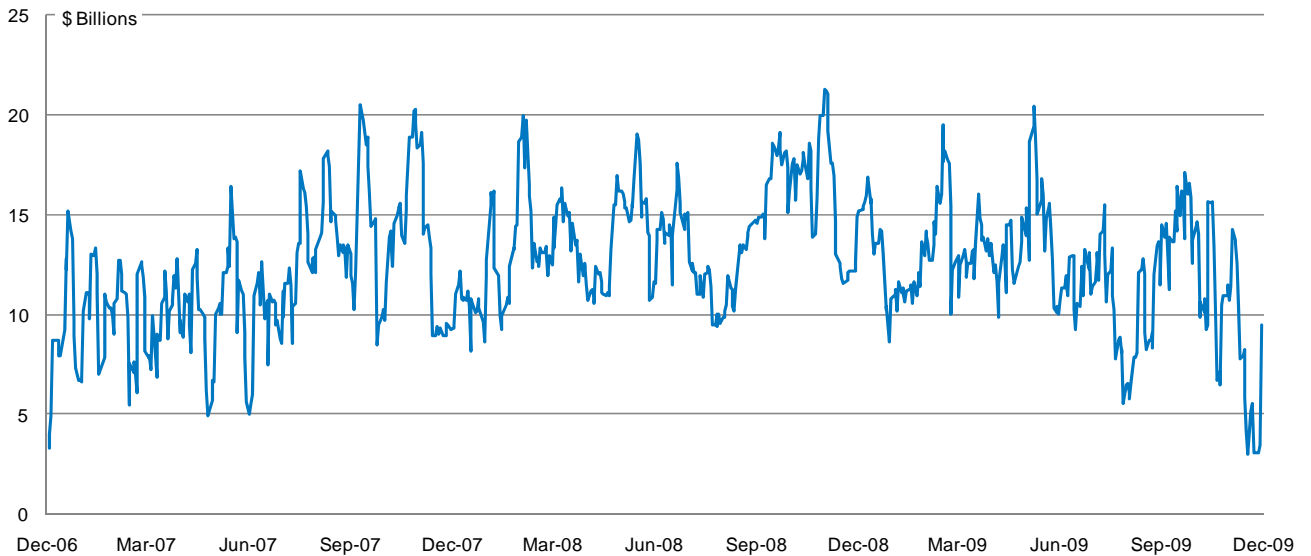
Upgrade / Downgrades	Q1	Q2	Q3	Q4	Total
Health Care	3 / 25	5 / 21	2 / 12	12 / 12	22 / 70
Higher Education	2 / 3	11 / 4	11 / 1	14 / 2	38 / 10
Housing	22 / 159	11 / 62	6 / 13	18 / 35	57 / 269
Utility Revenue	85 / 4	145 / 1	65 / 4	37 / 3	332 / 12
Tax-secured	516 / 15	327 / 16	219 / 3	316 / 13	1378 / 47
Transportation	3 / 7	6 / 0	6 / 4	1 / 4	16 / 15
Appropriation	140 / 143	132 / 40	76 / 3	74 / 28	422 / 214
<b>Total</b>	<b>771 / 356</b>	<b>637 / 144</b>	<b>385 / 40</b>	<b>472 / 97</b>	<b>2265 / 637</b>

Source: Standard and Poor's

## VISIBLE SUPPLY, YIELD CURVES, & RATIOS

### Bond Buyer 30-Day Visible Supply

December 31, 2006 - December 31, 2009



Source: Bond Buyer

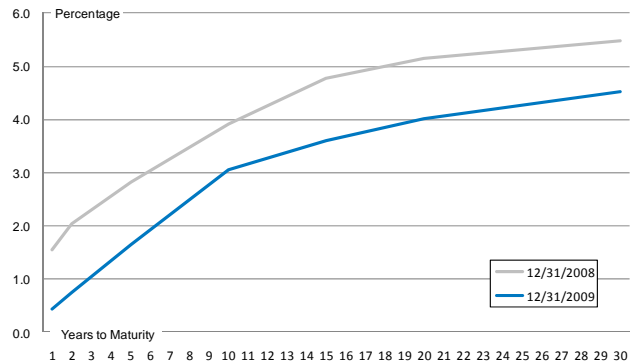
### MMA 10-Year AAA G.O. To Treasury Ratio

2007 - 2009



Sources: Bloomberg, MMA

### MMA Municipal Yield Curves



Sources: Bloomberg, MMA

## OUTSTANDING MUNICIPAL DEBT BY INSURANCE

Outstanding, Ratings and Insured Volume by State

As of January 28, 2010

\$ billions

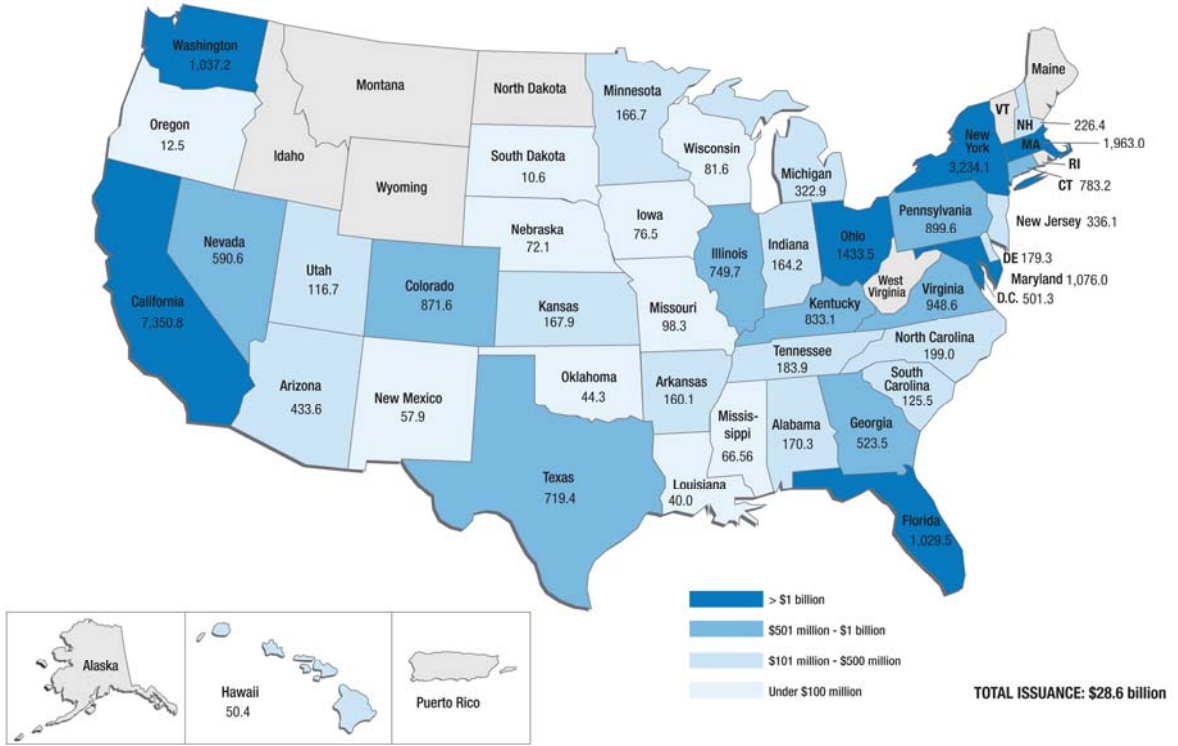
State	Outstanding	Insured	AMBAC	NATL	FGIC	FSA	RADIAN	ASSURED	XLCA	BHAC	Other
ALABAMA	32.9	17.1	4.5	3.4	2.1	2.9	0.1	2.0	2.0	0.1	0.1
ALASKA	11.9	7.2	0.7	4.1	1.1	0.9	-	0.3	0.1	-	0.1
AMER SAMOA	-	-	-	-	-	-	-	-	-	-	-
ARIZONA	57.2	25.1	4.2	9.5	5.1	4.8	0.1	0.9	0.4	-	0.2
ARKANSAS	13.4	4.8	1.3	1.1	0.5	1.1	0.0	0.2	0.1	-	0.5
CALIFORNIA	536.2	250.4	45.4	96.7	37.6	52.0	1.3	10.1	5.6	0.2	1.5
CANAL ZONE	-	-	-	-	-	-	-	-	-	-	-
COLORADO	58.6	29.8	4.0	11.8	3.2	7.1	0.9	1.1	1.5	-	0.3
CONNECTICUT	44.7	16.5	3.0	7.2	2.2	2.7	0.5	0.5	0.4	-	0.1
D. OF COLUMBIA	27.7	15.0	2.1	5.1	2.8	2.8	-	1.3	0.1	0.6	0.2
DELAWARE	8.0	2.2	0.5	1.2	0.4	0.2	0.0	-	0.0	-	0.0
FLORIDA	170.1	97.4	19.6	37.6	13.7	17.3	0.6	5.5	2.1	0.4	0.8
GEORGIA	73.6	26.3	3.1	9.7	3.7	7.0	0.1	1.4	0.9	-	0.3
GUAM	1.6	0.4	0.1	0.2	-	0.0	-	-	-	-	0.0
HAWAII	13.5	10.6	1.8	4.8	2.0	1.9	0.1	-	0.1	-	0.1
IDAHO	11.7	2.5	0.2	1.0	0.3	0.6	0.0	0.2	0.1	-	0.0
ILLINOIS	155.3	94.4	14.0	33.7	14.8	19.4	0.4	8.9	2.1	0.2	0.8
INDIANA	58.2	27.4	4.3	9.7	3.9	7.8	0.1	0.8	0.7	-	0.2
IOWA	20.5	7.0	2.8	1.2	0.3	1.1	0.2	0.8	0.4	-	0.3
KANSAS	22.1	10.1	1.4	3.6	1.2	2.4	0.1	0.9	0.5	0.1	-
KENTUCKY	35.6	13.9	2.5	5.3	1.3	2.9	0.0	1.3	0.5	-	0.2
LOUISIANA	33.5	19.9	4.7	6.2	2.8	2.9	0.2	1.9	0.4	0.1	0.8
MAINE	9.8	3.5	0.9	0.9	0.3	1.1	-	0.3	0.1	-	-
MARYLAND	46.5	7.9	1.6	2.2	0.9	2.1	0.2	0.3	0.4	-	0.2
MASSACHUSETT	94.5	38.9	8.9	12.7	4.0	10.4	0.4	1.1	1.0	-	0.5
MICHIGAN	83.6	48.3	6.3	16.0	8.3	14.0	0.1	1.5	1.2	0.8	0.2
MINNESOTA	51.0	14.2	1.9	4.6	0.8	4.6	0.1	1.1	0.9	-	0.2
MISSISSIPPI	18.8	5.6	1.4	1.4	0.8	1.3	0.1	0.4	0.2	-	0.1
MISSOURI	68.3	17.5	4.3	5.7	1.7	3.8	0.3	0.6	0.8	0.1	0.2
MONTANA	5.8	1.5	0.6	0.5	0.0	0.1	-	0.2	0.1	-	0.0
N. CAROLINA	57.9	13.6	3.4	4.1	1.0	3.0	0.2	1.7	0.3	-	0.0
N. DAKOTA	4.1	1.9	0.6	0.7	0.1	0.2	0.0	0.2	0.1	-	0.0
NEBRASKA	17.4	6.0	1.5	1.9	1.1	1.1	0.1	0.2	0.0	0.1	-
NEVADA	32.1	19.9	4.2	6.7	3.5	4.7	0.1	0.2	0.4	-	0.0
NEW HAMPSHIRE	14.3	3.4	0.5	1.3	0.3	0.9	0.0	-	0.0	-	0.2
NEW JERSEY	119.0	69.5	12.3	26.1	8.2	18.2	0.3	2.6	1.4	-	0.5
NEW MEXICO	16.7	5.2	1.6	2.0	0.4	1.0	0.0	0.1	0.1	-	0.1
NEW YORK	335.3	115.1	19.8	41.4	17.7	26.3	0.8	3.8	3.1	0.4	1.7
OHIO	100.7	34.0	6.2	11.3	5.1	8.1	0.4	1.9	0.7	-	0.4
OKLAHOMA	19.2	8.2	1.9	2.5	1.1	0.9	0.2	0.5	0.4	0.6	0.2
OREGON	54.4	19.9	2.2	7.5	4.0	5.3	0.1	0.3	0.3	-	0.1
OTHER TERR	4.6	0.3	0.1	0.2	-	0.1	-	-	-	-	-
PENNSYLVANIA	138.2	71.3	10.4	18.4	10.3	22.5	1.2	4.8	2.3	0.3	1.2
PUERTO RICO	82.1	26.6	5.8	9.3	4.5	4.6	-	1.1	0.5	-	0.8
RHODE ISLAND	14.2	6.6	1.7	1.8	0.4	1.7	0.3	0.6	0.2	-	0.1
S. CAROLINA	38.1	17.4	4.0	4.1	1.0	5.3	0.4	1.4	0.7	0.1	0.4
S. DAKOTA	8.0	1.4	0.2	0.3	0.1	0.6	-	0.2	0.0	-	0.0
TENNESSEE	46.0	13.5	2.1	5.0	1.0	3.0	0.1	1.7	0.5	-	0.0
TEXAS	291.5	97.5	18.8	31.4	11.8	20.9	2.4	8.5	2.2	0.5	1.0
TRUST TERR	0.3	-	-	-	-	-	-	-	-	-	-
UTAH	21.8	5.6	2.3	1.3	0.1	1.4	0.0	0.3	0.1	0.1	0.1
VERMONT	5.8	3.7	2.2	0.5	0.1	0.9	0.1	0.0	-	-	0.0
VIRGIN ISLANDS	2.1	0.8	0.1	0.2	0.2	0.1	0.1	-	-	-	0.1
VIRGINIA	61.7	10.7	1.6	4.7	0.8	3.0	0.1	0.4	0.1	-	0.1
WASHINGTON	74.8	45.2	6.4	17.6	6.3	12.5	0.4	0.8	0.8	-	0.4
WEST VIRGINIA	11.3	5.1	0.8	2.2	1.4	0.6	0.0	0.1	-	-	-
WISCONSIN	44.5	20.3	2.2	7.4	2.3	6.8	0.1	0.4	0.8	-	0.3
WYOMING	4.0	0.2	0.1	0.1	-	0.1	-	0.0	-	-	0.0
TOTALS	3,384.4	1,438.2	259.0	506.7	198.5	328.6	13.1	75.1	37.3	4.4	15.6

Source: Bloomberg

BUILD AMERICA BOND ISSUANCE BY STATE, 4Q'09 AND FULL YEAR

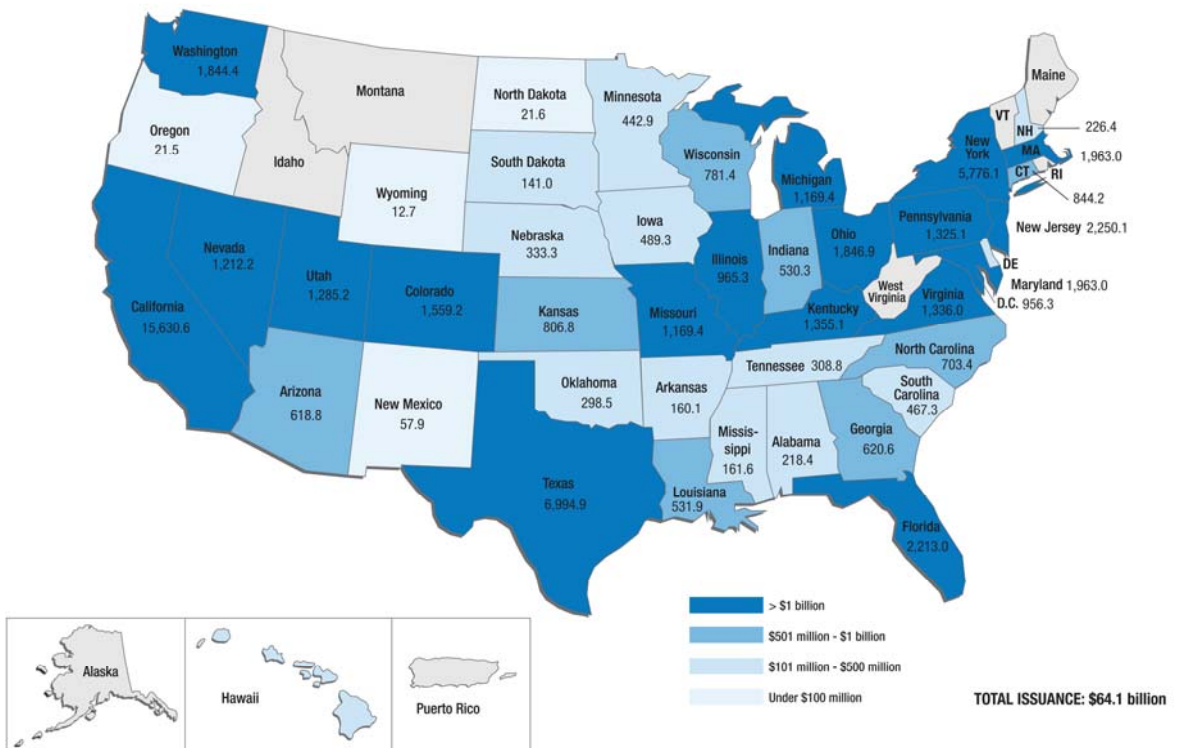
# Build America Bond Issuance By State 4Q '09

Numbers are in \$ Millions



# Build America Bond Issuance By State 2009

Numbers are in \$ Millions



Build America Bond Issuance by State

As of December 31, 2009

\$ millions

State	2009Q2	2009Q3	2009Q4	State	2009Q2	2009Q3	2009Q4	State	2009Q2	2009Q3	2009Q4
AK	-	-	160.1	KY	309.6	212.4	833.1	NY	750.0	1,792.0	3,234.1
AL	-	48.2	170.3	LA	335.0	156.9	40.0	OH	36.3	377.2	1,433.5
AZ	155.3	29.8	433.6	MA	-	-	1,963.0	OK	-	254.3	44.3
CA	6,030.7	2,249.1	7,350.8	MD	44.3	187.6	1,076.0	OR	-	9.0	12.5
CO	44.0	643.6	871.6	MI	705.7	140.8	322.9	PA	286.9	138.6	899.6
CT	-	61.0	783.2	MN	96.7	179.5	166.7	SC	65.0	276.8	125.5
DC	55.0	400.0	501.3	MO	1.5	788.8	572.6	SD	130.3	-	10.6
DE	-	-	179.3	MS	-	63.3	98.3	TN	-	124.9	183.9
FL	318.9	864.6	1,029.5	NC	-	504.3	199.0	TX	1,617.7	4,657.8	719.4
GA	48.4	48.7	523.5	ND	4.8	16.9	-	UT	328.1	840.3	116.7
HI	-	40.8	50.4	NE	50.4	210.9	72.1	VA	294.5	92.9	948.6
IA	120.8	292.0	76.5	NH	-	-	226.4	WA	88.7	718.5	1,037.2
IL	965.3	1,972.4	749.7	NJ	1,648.5	265.4	336.1	WI	190.0	509.9	81.6
IN	219.3	146.8	164.2	NM	-	-	57.9	WY	-	12.7	-
KS	440.0	199.0	167.9	NV	210.0	411.5	590.6				
<b>Totals</b>	<b>15,591.5</b>	<b>19,939.0</b>	<b>28,614.1</b>								

Source: Thomson Reuters

**BUILD AMERICA BOND ISSUANCE BY PURPOSE, FULL YEAR**

Use of Proceeds	2009Q2	2009Q3	2009Q4
Airports		300.0	417.5
Combined Utilities	59.9	173.2	
Economic Development	0.6	14.9	
Education	2,568.6	5,322.4	6,867.3
Electric & Public Power	777.0	884.2	1,427.8
General Purpose/Public Improvement	6,328.9	4,500.6	11,615.0
Health Care		1,242.0	457.6
Industrial Development		31.4	
Nursing Homes/Healthcare		4.6	4.9
Seaports/Marine Terminals			129.7
Single Family Housing		12.9	12.7
Solid Waste/Resource Rec		153.9	38.9
Transportation	5,372.8	4,725.0	4,390.2
Water, Sewer & Gas Facilities	483.8	2,573.9	3,252.5
<b>Total</b>	<b>15,591.5</b>	<b>19,939.0</b>	<b>28,614.1</b>

Source: Thomson Reuters

USD Millions

## A Description of the Terminology in the Municipal Bond Credit Report

**Long-Term Municipal Issue:** municipal securities with a maturity of 13 months or longer at the time the municipal security is issued.<sup>7</sup>

**General Obligation (G.O.) Bonds:** bonds issued by state or local units of government. The bonds are secured by the full faith, credit and taxing power of the municipal bond issuer. Such bonds constitute debts by the issuer and often require approval by election prior to issuance. In the event of default, bondholders of G.O. bonds have the right to compel a tax levy or legislative appropriation to cover debt service.

**Revenue Bonds:** bonds payable from a specific source of revenue and to which the full faith and credit of an issuer and its taxing power are not pledged. Revenue bonds are payable from identified sources of revenue and do not permit the bondholders to compel taxation or legislative appropriation of funds not pledged for payment of debt service. Pledged revenues may be derived from sources such as the operation of the financed project, grants or a dedicated specialized tax. Generally, no voter approval is required prior to issuance of such obligations.

**Ratings:** are evaluations of the credit quality of bonds and other debt financial instruments made by rating agencies. Ratings are intended to measure the probability of the timely repayment of principal and interest on municipal securities. Ratings are typically assigned upon initial bond issuance. Ratings are periodically reviewed and may be amended to reflect changes in the issue or issuer's credit position. The ratings may be affected by the credit worthiness of the issuer itself or from a credit enhancement feature of the security such as guarantor, letter of credit provider, and bond insurer. Some rating agencies provide both long-term and short-term ratings on variable rate demand obligations. The ratings described herein are "long-term" ratings – that is, ratings applied to municipal bond issues with original maturity of 13 months or longer.

**State Rating:** indicates the G.O. credit rating a rating agency may apply to a state. The rating on a specific municipal bond issue or issuer located with the state may differ from the state rating.

**Rating Agency:** is a company that provides ratings that indicate the relative credit quality or liquidity characteristics of municipal securities as well as other debt securities. Moody's Investors Service ("Moody's") and Standard and Poor's are the largest agencies in terms of municipal securities rated, followed by Fitch Ratings.

<sup>7</sup>Authors' own definition.

### Moody's Ratings<sup>8</sup>

Moody's describes its municipal credit ratings as "opinions of the investment quality of issuers and issues in the U.S. municipal and tax-exempt markets. These ratings incorporate a rating agency's assessment of the probability of default and loss severity of issuers and issues."

Moody's ratings are based upon the analysis of four primary factors relating to municipal finance: economy, debt, finances and administrative/management strategies. The rating classifications are defined as:

**Aaa:** the strongest creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

**Aa:** very strong creditworthiness relative to other U.S. municipal or tax-exempt issues.

**A:** above-average creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

**Baa:** average creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

**Ba:** below-average creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

**B:** weak creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

**Caa:** very weak creditworthiness relative to other U.S. municipal or tax-exempt issues of issuers.

**Ca:** extremely weak credit worthiness relative to other U.S. municipal or tax-exempt issues of issuers.

**C:** issuers or issues demonstrate the weakest credit worthiness relative to other U.S. municipal or tax-exempt issues of issuers.<sup>9</sup>

### Standard and Poor's Ratings<sup>10</sup>

Standard and Poor's describes a municipal issue credit rating as "a current opinion of the credit worthiness with respect to a specific financial obligation(s) or a specific program. It takes into consideration the credit worthiness of credit enhancement on the obligation."

Long-term issue credit ratings are based on:

- Likelihood of payment—capacity and willingness to meet the financial commitment in accordance with the terms of the obligation;

<sup>8</sup>Moody's.com, "Ratings Definitions."

<sup>9</sup>The lowest rating is a "D" at both Moody's and Standard and Poor's.

<sup>10</sup>Standardandpoors.com "Long-Term Issue Credit Ratings," May 17, 2002.

- Nature of and provisions of the obligation; and
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

**AAA:** extremely strong capacity to meet its financial commitments – the highest rating category.

**AA:** very strong capacity to meet financial commitments.

**A:** strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the higher rated categories.

**BBB:** adequate capacity to meet its financial commitments though adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to meet financial commitments.

Rating “BB”, “B”, “CCC”, and “CC” are regarded as having significant speculative characteristics. ‘BB’ indicates the least degree of speculation and ‘CC’ the highest.

**BB:** less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet its financial commitments.

**B:** an obligation rated ‘B’ is more vulnerable to nonpayment than obligations rated ‘BB’, but the capacity to meet its financial commitment. Adverse business, financial, or economic conditions will likely impair the capacity or willingness to meet financial obligations.

**CCC:** currently vulnerable, and is dependent upon favorable business, financial, and economic conditions to meet financial commitments.

**CC:** highly vulnerable and is dependent upon favorable business, financial and economic conditions.

### **Fitch Ratings**

Fitch Ratings provides an opinion on the ability of an entity or a securities issue to meet financial commitments such as interest, preferred dividends, or repayment of principal, on a timely basis.

Credit ratings are used by investors as indications of the likelihood of repayment in accordance with the terms on which they invested. Thus, the use of credit ratings defines their function: "investment grade" ratings (long-term 'AAA' - 'BBB' categories) indicate a relatively low probability of default, while those in the "speculative" or "non-investment grade" categories (international long-term 'BB' - 'D') may signal a higher probability of default or that a default has already occurred. Entities or issues

carrying the same rating are of similar but not necessarily identical credit quality since the rating categories do not fully reflect small differences in the degrees of credit risk.

The ratings are based on information obtained directly from issuers, other obligors, underwriters, their experts, and other sources Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of such information. Ratings may be changed or withdrawn as a result of changes in, or the unavailability of, information or for any other reasons.

Credit ratings do not directly address any risk other than credit risk. In particular, these ratings do not deal with the risk of loss due to changes in interest rates and other market considerations.

**Note:** “Not rated” refers to municipal bonds that were not rated by one of the major rating agencies listed above.

**General Use of Proceeds:** Refers to the type of project the proceeds or funds received from bond issuance are used. In the Municipal Bond Credit Report, the use of proceed classifications are general government use, education, water, sewer and gas, health care and a miscellaneous category, “other.”<sup>11</sup>

### **Bond Buyer Sectors**

The following divisions comprise the sectors in this report

*Development:* Office Building (non-governmental), Industrial Development, Economic Development

*Education:* Primary and Secondary Education, Higher Education, Student Loans, Other Education

*Environmental Facilities:* Pollution Control, Solid Waste, Recycling

*Electric Power:* Public Power Facilities

*General Purpose:* Veterans, General Purpose/Public Improvement, Agriculture

*Healthcare:* Nursing Homes, Single Specialty Hospitals, Hospital Equipment Loans, Assisted Living, Continuing Care Retirement, General Acute Care Hospitals, Children’s Hospitals

*Housing:* Single Family Housing, Multi Family Housing

*Public Facilities:* Libraries and Museums, Correctional Facilities, Convention and Civic Centers, Stadiums and Sports Complexes, Theatres, Other Recreation, Parks and Zoos, Police Stations and Equipment, Fire Stations and Equipment, Government Buildings

*Transportation:* Toll Roads and Street Improvements, Highways, Airports, Seaports/Marines, Other Transporta-

<sup>11</sup>Authors’ own definition.

tion, Mass Transit, Public Parking, Tunnels, Bridges

*Utilities:* Combined Utilities, Water and Sewer, Gas, Telecommunications, Sanitation, Flood Control

### **Geographic Regions**<sup>12</sup>

The following states comprise the regions in this report

*Far West:* Alaska, California, Hawaii, Idaho, Montana, Nevada, Oregon, Washington, Wyoming

*Midwest:* Iowa, Illinois, Indiana, Michigan, Minnesota, Missouri, North Dakota, Nebraska, Ohio, South Dakota, and Wisconsin

*Northeast:* Connecticut, District of Columbia, Delaware, Massachusetts, Maryland, Maine, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont

*Southeast:* Virginia, Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, West Virginia

*Southwest:* New Mexico, Texas, Utah, Arkansas, Arizona, Colorado, Kansas, Oklahoma

**Municipal G.O. to Treasury Ratio:** is a common measure of credit risk of municipal bonds relative to risk-free securities, Treasuries. It is a measure comparable to the “spread to Treasury” measure in the taxable markets. Note that the municipal yield is typically less than 100 percent of the Treasury yield due to the tax-free nature of municipal securities.

**Credit Enhancement:** is the use of the credit of an entity other than the issuer to provide additional security in a bond. The term is usually used in the context of bond insurance, bank letters of credit state school guarantees and credit programs of federal and state governments and federal agencies but also may apply more broadly to the use of any form of guaranty secondary source of payment or similar additional credit-improving instruments.

**Bond Insurance:** is a guaranty by a bond insurer of the payment of principal and interest on municipal bonds as they become due should the issuer fail to make required payments. Bond insurance typically is acquired in conjunction with a new issue of municipal securities, although insurance also is available for outstanding bonds traded in the secondary market.

**Letter of Credit:** a commitment, usually made by a commercial bank, to honor demands for payment of a debt upon compliance with conditions and/or the occurrence of certain events specified under the terms of the commitment. In municipal financings, bank letters of

credit are sometimes used as additional sources of security with the bank issuing the letter of credit committing to in the event the issuer is unable to do so.

<sup>12</sup>The geographic region definitions are taken from the definitions provided by Thomson Financial SDC database (the source of the data for the geographic region section of the report) which in turn sources the *Bond Buyer* newspaper.



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