Municipal Market Focus

Fixed Income Strategies Group

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INTRODUCTION

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

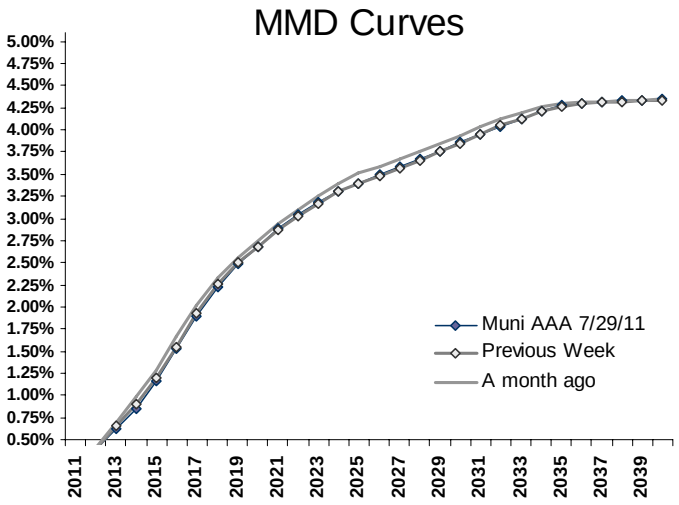
July was another challenging month with respect to issuance. *The Bond Buyer* reported that July issuance dropped by 16.8%, or $24.3 billion, when compared with the same period last year. For the first seven months of 2011, overall issuance declined 39.5% to $141.7 billion when compared with the first seven months of 2010. As we neared the end of the month with the debt ceiling debate still looming in Washington, many issuers reduced the size of deals they brought to market. States like Maryland, after being placed on watch for a potential downgrade due to the ongoing stalemate in Washington, reduced the size of its general obligation bond deal. We believe issuance may potentially pick up during the third and fourth quarter; however, we also believe issuance will remain well behind 2010.

MARKET COMMENTARY AND REVIEW

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

During the month of July, the municipal market faced pressure as the U.S. government debt crisis moved front and center. With Congress unable to come up with a solution, both rating agencies placed the AAA rating of the United States on watch for possible downgrade. Moody's went further by placing the Aaa ratings of five states on watch for possible downgrade due to their dependence on federal revenue. *The Bond Buyer* reported on July 20, 2011, that action taken by Moody's impacts approximately $24 billion of rated municipal debt issued by Maryland, New Mexico, South Carolina, Tennessee, and Virginia, all of which are rated Aaa (Moody's) and AAA (Standard and Poor's). According to Moody's analyst Nicholas Samuels, the risk factors impacting the five states carry macroeconomic sensitivity, capital markets reliance, and dependence on federal revenues, which are offset by financial resources available to counteract those risks. Moody's did not change the outlook on ten other states rated Aaa due to their belief that those states were more resilient and not as dependent on federal revenues. A drop in the United States' rating would have a significant impact on the ability of states and local governments to refund outstanding bond issues because Treasuries, which are used as collateral to secure refunded bonds, would lose some of their value as investors seek greater yields on lower rated U.S. Treasuries.

The municipal market remained relatively stable during the month of July despite an increased 30-day visible supply. For months the 30-day visible supply hovered around the $6-$7 billion mark, rising to about $12 billion in the middle of July. At the end of the month as the debt crisis remained unresolved, the thirty-day visible supply fell back to approximately $6 billion as many issuers decided to move to the sidelines until the crisis was settled. On July 22, *The Bond Buyer* reported municipal bond funds disclosed positive inflows for five of seven weeks. For the week of July 20, net inflows totaled $123 million, while the previous week experienced inflows of $367 million.



Source: Municipal Market Data

Treasuries VS Municipals

	10-yr Treasury	10-yr AAA Muni	30-yr Treasury	30-yr AAA Muni
Beginning of month (7/01/11)	3.183%	2.760%	4.392%	4.360%
Mid-month (7/15/11)	2.926%	2.660%	4.268%	4.320%
End of month (7/29/11)	2.797%	2.670%	4.120%	4.350%

Source: Bloomberg and Municipal Market Data

State Ratings:

July 31, 2011

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

Source: *Bond Buyer as of June 30, 2011 State General Obligation ratings. Lease notation represents appropriation requirement*

STATES IN THE NEWS

General

In recent court decisions affecting Colorado and Minnesota that dismissed challenges to legislative cuts to retirees' pension cost-of-living increases, Moody's Investors Service noted these dismissals were credit positives for the states. The ability of these two states to cut benefits to existing retirees rather than capping or reducing only future retirees' benefits would reportedly prompt other states to follow suit.

Arkansas

The Bond Buyer reported the state ended fiscal 2011 with a $93.9 million surplus. According to the article, net revenue totaled $4.57 billion, which was $250 million more than the state took in for fiscal 2010. The state reportedly stated that individual income tax collections totaled $2.74 billion, which was $62.2 million higher than projections and $160 million more than in fiscal 2010.

California

The Bond Buyer reported that Governor Jerry Brown signed two bills attached to the state's annual budget that would eliminate most redevelopment agencies. Bill ABX1 26 would reportedly eliminate all California redevelopment agencies by October 1, 2011, while bill ABX1 27 would allow an agency to continue to operate if cities and counties take certain steps, including remitting some revenues to school and special districts. According to the article, the two bills signed by the governor will likely be challenged in court by the League of California Cities and the California Redevelopment Association. On July 8, 2011, *The Bond Buyer* reported that Standard & Poor's revised the outlook on the state's outstanding debt to stable from negative. S&P affirmed the long-term and underlying A- on the state's general obligation bonds, as well as the A- and BBB+ on its Proposition 1A and appropriation-backed debt. On July 15, 2011, *The Bond Buyer* reported that state controller John Chiang noted revenues came in $351 million less in June and May than anticipated on the newly approved state budget. The state budget reportedly presumed $1.2 billion in additional May and June revenues, where around only $849 million of additional revenue had materialized by June 30.

Connecticut

The Bond Buyer reported the state planned to cut approximately 6,560 jobs in an effort to help close a $1.6 billion budget gap to bring the state's two-year, $40.5 million budget into balance. The elimination of the positions reportedly will be achieved with layoffs, retirements and unfilled vacancies. According to the article, Governor Malloy and state employee unions could not agree to concessions and other savings, which ultimately triggered the shortfalls and layoffs.

Florida

The Bond Buyer reported that after two-and-a-half years with a negative outlook, Standard and Poor's returned the state's outlook to stable from negative based on the progress the state has made in addressing its structural imbalance through significant cost-cutting measures adopted in fiscal 2012 coupled with the maintenance of strong reserves.

Illinois

The Bond Buyer reported that Governor Pat Quinn signed into law a $32.99 billion fiscal 2012 budget that reportedly carries over approximately $8 billion of unpaid bills into the new fiscal year. The state reportedly projected it was initially facing a $15 billion deficit going into fiscal 2012. However, according to the article, a tax increase passed earlier erased approximately half of the original deficit. *The Bond Buyer* reported the state collected $3.4 billion more in base revenue during fiscal 2011 than the previous year as a result of a mid-year tax increase and a recovering economy. On July 25, *The Bond Buyer* reported the state's net assets declined by $8.4 billion during fiscal 2010, further increasing the state's deficit to a negative $37.9 billion shortfall. Illinois reportedly carries

the dubious title of the state with the highest deficit. The deficit statement of net assets is reportedly reflective of the difference between Illinois's liabilities and assets on an accrual basis.

Indiana

The Bond Buyer reported that the state ended fiscal 2011 with $1.18 billion in its reserves, which was $1 billion more than originally projected. The unexpected surplus was due to unspent funds in the two-year budget, not due to rising revenue. As a result of several rounds of cuts, salary freezes, and postponing or cancelling all capital projects, agencies returned $1.06 billion to the state at the end of the fiscal year.

Kansas

*The Bond Buye*r reported the state ended fiscal 2011 with $5.88 billion of revenue, which was $689.6 million more than in fiscal 2010, as reported by the Kansas Department of Revenue. Sales tax collections increased 19%, while individual income tax collections were 13.3% greater than in fiscal 2010. On July 12, 2011 *The Bond Buyer* reported the Kansas State Finance Commission approved the budget office's request for a $600 million certificate of indebtedness. The certificate reportedly allows the state to borrow against revenue expected later in fiscal 2012.

Massachusetts

Governor Deval Patrick signed a $30.6 billion budget 11 days into the new fiscal year, according to an article in *The Bond Buyer*. The governor's budget reportedly includes limits to unions' collective bargaining powers in municipal health care and allows municipalities to unilaterally increase health plan co-payments and deductibles after a 30-day bargaining period. The new budget spends approximately $750 million less than in fiscal 2010, according to the article.

Michigan

Moody's Investors Service affirmed the Aa2 and Aa3 ratings and stable outlook on $14.4 billion of outstanding bonds enhanced by the Michigan school bond qualification and loan program. Under the school bond qualification and loan programs, the state reportedly has a constitutional obligation to cover debt service for a district unable to make timely payments. On July 29, 2011 *The Bond Buyer* reported that Fitch Ratings revised the state's outlook to positive from stable, while affirming the state's AA-minus rating. Fitch reportedly revised the state's outlook as a result of prudent budgeting coupled with a slowly growing economy.

Minnesota

The Bond Buyer reported that Governor Mark Dayton agreed to accept a Republican plan to bridge a $1.4 billion gap through additional delays in school aid and the sale of tobacco bonds. Governor Dayton had reportedly been pushing for tax increases, which were rejected by Republicans, who control the legislature.

Ohio

The Bond Buyer reported that for the first time since 2006, the state experienced revenue increases. For fiscal 2011, revenue was approximately $1.5 billion higher, according to the Ohio Office of Budget and Management. The state reportedly experienced revenue declines in 2009 and 2010 of $2 billion and $800 million, respectively. On July 27, *The Bond Buyer* reported that Standard & Poor's revised its outlook to stable from negative on Ohio in light of the state's recent economic stabilization and the structural balance achieved in its new two-year budget. At the same time, S&P affirmed the state's AA+ general obligation rating, according to the article.

Oklahoma

The Bond Buyer reported that revenue for the month of June topped $1 billion, an improvement of $134.5 million over June of 2010. The state is entering its third year of cyclical expansion. On July 19, 2011, *The Bond Buyer* reported the state planned to transfer $219 million into its rainy-day fund—the largest deposit since the end of fiscal 2005—boosting the balance to $221.03 million. The rainy-day fund had reportedly been depleted to $2.03 million.

Pennsylvania

The Bond Buyer reported that Governor Tom Corbett signed a one-time $27.15 billion spending plan. At the same time, the governor reportedly held out for one more concession when he requested legislators pass a bill calling for a referendum on any school district property tax increase that exceeds the inflation rate. The budget reportedly cuts overall government spending by 4.1%, or $1.2 billion. On July 5, *The Bond Buyer* reported that Governor Tom Corbett signed a bill that would prevent Harrisburg and other distressed small-to-medium-sized cities in Pennsylvania from filing for bankruptcy protection, at least for the next year, or the cities risk losing all state aid.

Rhode Island

The Bond Buyer reported Governor Lincoln Chafee signed a $7.7 billion budget. The newly signed budget reportedly closed a $300 million deficit through cuts to some programs that had previously been paid for with federal stimulus funds and state department consolidations, as well as a small surplus and higher-than-expected revenues from the previous year.

Vermont

The Bond Buyer reported the state posted revenue of $1.15 billion for fiscal 2011, which was approximately $34 million ahead of budgetary targets. For the month of June, monthly revenue was nearly $113 million, or 14% ahead of forecasts.

COMMONWEALTH OF PUERTO RICO UPDATE

Puerto Rico Public Finance Corporation

The corporation came to market with $242,430,000 of lease appropriation bonds to refinance certain maturities of 2004 Series A Bonds, which have a mandatory tender date of February 1, 2012. Moody's Investors Service rated the issue Baa1 on review for a possible downgrade, "reflecting the weak funding of its pension and the significant strain the future pension funding requirements will likely exert on the commonwealth's financial position." The refunding deal is rated one notch below the commonwealth's general obligation debt.

INSURANCE COMMENTARY AND CURRENT RATINGS

Update:

CIFG & Assured Guaranty Novation Process

Assured Guaranty has begun the process of novating the re-insurance policies issued when Assured Guaranty signed an agreement to re-insure a majority of the CIFG's municipal finance book. Trustees have begun sending consent notices to holders of CIFG/Assured Guaranty municipal bonds asking for consent to allow Assured Guaranty to novate the CIFG policies. The process of novation is positive for bondholders because the novation will make the policy a direct obligation of Assured Guaranty. Once novated, the insured bonds reportedly will then carry the Assured Guaranty AA ratings.

In the current form of the agreement between CIFG/Assured Guaranty, a payment default is an obligation of CIFG, who makes the payment and then files a re-insurance claim with Assured Guaranty, who then pays CIFG the required interest/principal shortfall to meet the Trustee's payment obligations.

July 14, 2011

Assured Guaranty Corp.

The Bond Buyer reported the insurer would not appeal the New York State court's ruling that Assured had to honor coverage of the defaulted debt issued by the Xenia Rural Water District in Iowa.

July 21, 2011

ACA Financial Guaranty Corp.

An investor holding Connector 2000 Association bonds, of which a portion were enhanced with ACA municipal bond insurance, filed a lawsuit against the insurer, according to an article in *The Bond Buyer*. ACA reportedly claimed it was no longer required to pay insurance claims as a result of the Chapter 9 restructuring agreement, in which all

prior bonds were replaced with newly issued bonds. According to an ACA memo to holders, as a result of the restructuring, "the bonds are no longer enforceable obligations, and as such, neither is the guaranty obligation originally issued by ACA under the policy. Prior to the restructuring, ACA reportedly had exposure to $51.7 million across six series of zero-coupon bonds and one fixed-rate bond.

As of July 31, 2011

Insurer	Moody's	Standard & Poor's	Fitch Ratings
ACA	Not Rated	Not Rated	Not Rated
AMBAC	Not Rated	Not Rated	Not Rated
Assured Guaranty	Aa3 (negative outlook)	AA+ (stable 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)	AA+ (stable outlook)	Not Rated
National Public Finance (MBIA)	Baa1 (outlook developing)	BBB (outlook developing)	Not Rated
Radian	Ba1 (stable outlook)	BB- (negative outlook)	Not Rated
Syncora (formerly XLCA)	Ca (outlook developing)	Not Rated	Not Rated

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

STRATEGIST'S CORNER

Remo Di Re, Senior Municipal Credit Strategist, Fixed Income Strategies Group

Effects of a Potential Downgrade to the United States Rating

With an agreement reached on the debt ceiling in time to avert a default, the municipal market's focus will turn to the ratings agencies. S&P, Moody's and Fitch have all voiced their concerns over the U.S. deficit and the inability of politicians to address it. The municipal market may experience various risks in the event the United States is downgraded. *The Bond Buyer* recently reported that bond attorneys have begun checking bond covenants associated with advance refunding escrow accounts. In many cases debt service on escrowed bonds is paid from moneys earned on U.S. Treasury securities. In addition to escrowed bonds, housing bonds backed by GNMA securities would likely be downgraded in conjunction with a downgrade of the United State's credit rating. While some bond covenants for advance refunding bonds state the escrow must be backed with direct obligations of the U.S. government, in the event indenture language calls for AAA-rated U.S. government securities, it is more than likely language would need to be amended. In addition to GNMA-backed bonds being downgraded, there is the potential that bonds backed by mortgages with Federal Housing Administration guarantees are also at risk for downgrade. According to the article, Moody's Investors Service stated housing bond credits that rely on "federally appropriated

debt programs would be in danger, and downgrades of these programs would be inevitable."

We will continue to monitor and report on the continuing uncertainty our market faces in the event the United States is downgraded.

MONTHLY MUNICIPAL ISSUANCE

Issuance:

The Bond Buyer reported that despite a predicted pick-up in issuance during the rest of the year, overall issuance in 2011will be about 50% below 2010 levels.

July 5, 2011

Dallas Water and Sewer Revenue Bonds, Texas

The Bond Buyer reported the city came to market with $236 million of AAA-rated water and sewer bonds. The proceeds of the advance refunding deal reportedly will retire Series 2003A bonds maturing from 2013 though 2023.

July 6, 2011

State of Colorado

The Bond Buyer reported the state issued $600 million of tax and revenue anticipation notes to meet is cash flow needs for the fiscal year that began on July 1. The notes reportedly carry a MIG1 rating from Moody's Investors Service and SP1-plus from Standard & Poor's.

July 7, 2011

Shreveport, Louisiana

The Bond Buyer reported the city came to market with its largest bond issue totaling $81.5 million, making it the first part of a $175 million bond authorization. The city's general obligation debt is rated A+ by Standard & Poor's and A1 by Moody's Investors Service.

July 12, 2011

Dormitory Authority of the State of New York

The authority came to market with approximately $762.7 million of general-purpose personal income tax revenue bonds through a negotiated bid, according to an article in *The Bond Buyer*. The new-money, fixed-rate deal will reportedly provide funds to finance the State University of New York capital projects and grants under the Expanding Our Children's Education and Learning program.

July 14, 2011

Hartsfield-Jackson Atlanta International Airport, Georgia

The city came to market with $372 million of senior general revenue refunding bonds to advance refund the airport's outstanding 2000A, B, and C bonds for an estimated net present-value savings of $34.8 million, according to an article in *The Bond Buyer*. The deal was reportedly structured to provide level annual debt service savings.

Indiana University, Indiana

The Bond Buyer reported the AAA-rated university came to market with $96 million of student-fee revenue bonds to finance construction of a neuroscience building.

July 18, 2011

State of Ohio

The Bond Buyer reported the state came to market with $416.7 million of general obligation refunding bonds. The transaction reportedly pushes debt service due in 2012 into future years. The postponement of 2012 debt service payments would reportedly generate $440 million in savings, which would reportedly be used for general fund purposes.

July 25, 2011

New York City

According to an article in *The Bond Buyer,* The City of New York completed its sale of $800 million fixed-rate general obligation bonds. The new offering was reportedly comprised of $715 million of new-money financing and $85 million of new-money taxable bonds.

July 26, 2011

Hurst-Euless-Bedford Independent School District & Austin Independent School District, Texas

The Bond Buyer reported that both school districts plan issue a combined $235 million of bonds to meet growing populations in both districts. The Hurst-Euless ISD reportedly planned to issue $135

million of debt and the Austin ISD planned to issue $100 million of debt sometime in early August. Both ISDs are rated in the AA category, and both participate in the Texas Permanent School Fund enhancement program, thus elevating their rating to AAA.

July 27, 2011

Columbus, Ohio

The Bond Buyer reported that the AAA-rated city came to market with $289.4 million of new money bonds to finance capital projects throughout the city. The city reportedly came to market prior to their ratings facing a possible review for a downgrade based on the potential downgrade of the ratings of the United States. In the interim, Moody's reportedly affirmed the city's AAA rating during the week of July 20.

CURRENT NEWS IN MUNICIPALS

July 1, 2011

Jackson Health, Educational and Housing Facility Board-Lambuth University

The Bond Buyer reported the university closed down academic operations without notifying bondholders. The university, which is reportedly affiliated with the Methodist Church, has approximately $5.3 million of outstanding taxable and tax-exempt debt. The bonds are insured by Radian Asset Insurance, which, has reportedly been in negotiations with attorneys for the Trustee to work out a payoff to bondholders.

Miami, Florida

According to an article in *The Bond Buyer,* the city, which has been under a Securities and Exchange Commission investigation concerning its finances, is facing a $55 million budget gap for 2012. The city's general obligation debt rating reportedly was recently lowered to A- from A by Fitch Ratings, by Moody's to A2 from A1, and by Standard & Poor's to BBB from A-. The city's revenue bonds were also lowered, Fitch Ratings lowered its rating to BBB+ from A-, Moody's Investors Service lowered its ratings to A3 from A2, and Standard & Poor's lowered its ratings to BBB- from BBB+, according to the article.

Detroit and Detroit Public Schools (DPS), Michigan

The Bond Buyer reported the Detroit City Council and Mayor Dave Bing reached an agreement on a $3 billion fiscal 2012 budget, which restored half of the $50 million that had been originally trimmed by the Council. The reduction in cuts would reportedly allow the mayor to avoid large layoffs. According to the article, the city has a $155 million structural deficit that could increase to $1.2 billion by fiscal 2015. On July 27, 2011, *The Bond Buyer* reported that Moody's Investors Service assigned a B1 junk-level issuer rating with a negative outlook to DPS. Also according to Moody's, the B1 rating and negative outlook reflects the serious challenges facing DPS. Among those challenges Moody's reportedly cited chronic operating deficits, limited ability to raise operating revenue, falling enrolment, and a balance sheet heavily weighed down by the need to pay off deficit elimination bonds.

Chowchilla Public Financing Authority, California

The Bond Buyer reported that the California city made its full June interest payment on its lease revenue bonds after having defaulted on its lease revenue bond and depleting its debt service reserve account. Since then, the city, according to the article, has replenished its debt service reserve account. The authority currently has reportedly $5.9 million of outstanding bonds.

North Las Vegas, Nevada

Affecting approximately, $444 million of debt, Moody's Investors Service reportedly downgraded the city's general obligation rating two notches to A1 from Aa2 as a result of major declines in the city's tax base. Moody's noted the city was reportedly forced to use reserve funds to balance operations, while relying on sewer revenues to support general government operations.

Santa Rosa Bay Bridge Authority, Florida

The Bond Buyer reported Bank of New Mellon the Trustee notified bondholders that the July 1, 2011,

interest payment was not made. According to the article, the Trustee reported it had a debt service reserve fund balance of $2.09 million and an interest fund account balance of $2.11 million, which was short of the $5.009 million due to bondholders.

July 5, 2011

Norman, Oklahoma

The Norman City Council approved the creation of a rainy day fund that sets a target of 4.5% of general fund expenditures, according to an article in *The Bond Buyer*. The city's general obligation debt is currently rated Aa2 by Moody's.

Cleveland Clinic, Ohio

The City of Cleveland reportedly sued the Cleveland Clinic over its decision to close Huron Hospital, the facility that serves the city's east side, according to an article in *The Bond Buyer*. The city is reportedly arguing the clinic's acceptance of tax-exempt funding from the state requires it to provide equitable services to the city.

July 6, 2011

Trinity Health System, Michigan

The Bond Buyer reported that Trinity Health System closed its acquisition of Chicago's Loyola University Health System. Loyola University Health is reportedly a two-hospital health care system rated Baa3 by Moody's, while Trinity is rated in the mid-double A range by all three rating agencies.

Missouri Health and Educational Facilities Authority, Webster University

Fitch Ratings and Moody's Investors Service reportedly raised the rating of the university to A from A- and A2 from A3, respectively. Moody's reportedly noted the university's growing market position and sound governance and marketing and continued growth in their financial resources.

Northwest Community Hospital, Illinois

Moody's Investors Service downgraded the hospital to A1 from Aa3 as a result of the hospital's weakened financial performance. The rating action is reported to affect approximately $289 million of rated debt, and Moody's noted the hospital has had three consecutive years of operating declines in fiscal 2010.

Altru Health System, North Dakota

Moody's Investors Service reportedly raised the health system's rating to Baa1 from Baa2, affecting $137 million of outstanding debt. *The Bond Buyer* reported that Altru is the primary referral hospital for a 17-county region and remains Grand Forks' only acute-care facility. The health system reportedly improved its maximum debt service coverage to 3.5 times in 2010 from 1.6 times in 2008.

July 7, 2011

Jefferson County, Alabama

According to an article in *The Bond Buyer*, Governor Robert Bentley softened his stance on supporting bankruptcy for Jefferson County. Bentley was quoted as saying "in the past…I did not understand it as fully as I do now, as far as ramifications of it, bankruptcy is still a strong possibility, but… we really feel like that would certainly not be in the best interest of Jefferson County or Alabama or for other cities and counties in the state." On July 11, *The Bond Buyer* reported an Alabama circuit judge turned over all of the county's sewer utility finances to the court-appointed receiver. The system is reportedly currently in default on more than $3 billion of revenue debt.

On July 21, *The Bond Buyer* reported the county is asking creditors holding approximately $3.14 billion of defaulted-variable and auction-rate sewer warrants to accept a $1.3 billion reduction in debt service. The county, in addition to the request for a reduction in debt service reportedly was also asking creditors to agree to single-digit annual rate increases for sewer system customers over several years. The county upon approval would agree to the creation of a Government Utility Services Corporation (GUSC) to refinance the sewer debt and operate the sewer system, according to the article. On July 25, *The Bond Buyer* reported that Jefferson County Commissioners hired the law

firm of Klee, Tuchin, Bogdanoff & Stern LLP, a California law firm, as consultants to help prepare strategies to resolve the county's financial crisis. The firm reportedly specializes in reorganization, insolvency, and bankruptcy law.

Sarasota County, Florida

Standard & Poor's lowered the rating on the county's limited *ad valorem* tax bonds four notches to BBB from A+, which affects approximately $109.6 million. S&P maintained a negative outlook on the debt. According to S&P, the downgrade was due to continuing declines in property values resulting in reduced pledged revenue for maximum annual debt-service coverage.

Atlanta, Georgia

The Atlanta City Council unanimously approved reforms to the city's retirement plan, which would allow the city to avoid layoffs and cuts in services, and bolster its fiscal stability, according to an article in *The Bond Buyer*. The new reforms will reportedly save the city more than $270 million over the next 10 years and more than, $500 million over 30 years.

Washington, D.C.

According to an article in *The Bond Buyer*, Rep. Charles Rangel, D-N.Y., introduced a bill to extend and expand stimulus law provisions for qualified zone academy bonds (QZABs) and qualified school construction bonds (QSCBs). HR 2394 (or Rebuilding America's Schools Act) would reportedly extend both QSCBs and QZABs through 2015 and allow them to be issued with direct-pay federal subsidy rates equal to 100% of issuers' interest rate costs.

July 8, 2011

San Diego Redevelopment Agencies, California

San Diego's redevelopment agencies are facing a loss of around $70 million this year and $16.5 million annually because of the budget passed at the beginning of the month, according to an article in *The Bond Buyer*. The budgetary cuts reportedly represent 40% of property tax increment financing collected by the city's redevelopment agencies this year that pay for 17 projects.

July 11, 2011

New Jersey Educational Facilities Authority, New Jersey, University of Medicine and Dentistry

Fitch Ratings affirmed its A- rating with a stable outlook for the university that affects $258.1 million of outstanding revenue bonds for the university.

Quincy Medical Center, Massachusetts

The Bond Buyer reported that Quincy Medical Center sought bankruptcy protection as part of the plan for Steward Health Care System, Inc. to take it over. According to the article, Quincy Medical Center is proposing to restructure $56 million of Series-A revenue bonds issued in 2008.

Allegheny County Hospital Development Authority-West Penn Allegheny Health System

The Bond Buyer reported that Fitch Ratings placed the BB- rating on watch for approximately $747.7 million of Series 2007A revenue bonds. Fitch reportedly has a negative outlook on the outstanding debt. According to the article, health insurer Highmark Inc. announced it was interested in buying West Penn for approximately $475 million.

July 12, 2011

Los Angeles County Metropolitan Transportation Authority, California

Moody's Investors Service reportedly lowered the rating on the authority's $1.2 billion of Proposition C sales tax revenue bonds and $166 million of general revenue bonds to A1 from Aa3 marking a one-notch downgrade. The downgrade, according to Moody's, is reflective of a weaker leverage constraint of 1.30 times on the Proposition C lien compared to an additional bonds test of 2.46 times for Proposition A bonds and 2.50 times for Measure R bonds.

July 13, 2011

Loyola University Chicago, Illinois

Moody's Investors Service reportedly upgraded Loyola to A3 from Baa1 following a successful sale

of the school's Trinity Health at the end of June. According to Moody's, the sale removes a strain on the university's balance sheet.

Pontiac, Michigan

Oakland County reportedly will require the City of Pontiac to prepay the county on a monthly basis for police services, which the county will begin providing in August, according to an article in *The Bond Buyer*. The city, which is under emergency management, plans to save $2.2 million by hiring sheriffs from Oakland County. City and County officials reportedly signed a $10 million contract for Oakland County to provide the public safety services.

Los Angeles, California

Moody's Investors Service downgraded the city's general obligation debt to Aa3 from Aa2, affecting approximately $3.3 billion of outstanding debt. The downgrade reportedly was a result of the city's continued limited financial flexibility and projected continued cost pressure. The city has reportedly experienced five consecutive years of deficits that have placed continued constraints on the city's general fund.

July 14, 2011

Lombard Public Facilities Corp., Illinois

The Bond Buyer reported the corporation drew down $1.5 million from reserves to make the July 1, 2011, interest payment. The corporation borrowed $187 million to finance a hotel and conference center that has continued to struggle to remain solvent, according to the article. The article also reported that reserves were tapped to cover the Series A and B bonds; however the Series C bondholders, who were owed $2 million, were not paid.

July 18, 2011

Nassau County, New York

The Bond Buyer reported that the state-appointed overseer rejected the multi-year budget proposal submitted by the county. The overseer reportedly requested another plan for 2011-2014 to be completed by July 28 that would provide for $225 million in budget cuts. A report written by the Nassau County Interim Finance Authority reportedly indicated the county was moving in the wrong direction, since many proposed gap-closing actions had been postponed, scaled back, or are expected to produce outsized savings in the second half of the year.

New Haven, Connecticut

Moody's Investor Service reportedly revised the outlook of New Haven's general obligation rating to negative from stable. The outlook change affects approximately $474 million of outstanding debt. At the same time, Moody's reportedly noted the new outlook "reflects the possibility of downward rating movement should the city's already slim general fund balance position narrow further." According to Moody's, the city's high debt burden and internal service fund deficit were both factors in determining the city's rating.

Trenton (A3), Camden (Ba2), Paterson (Baa1), East Orange (A2), Passaic (A1), and Union (A3), New Jersey

Moody's Investors Service reportedly placed the ratings of the six listed municipalities on review for possible downgrade due to state aid cuts, which could potentially force those cities to attempt to increase revenues, cut expenditures, create one-time non-recurring revenue raises, such as asset sales, and/or borrow for operations that would place additional financial strain. As a result of reduced flexibility with respect to property tax revenue limits imposed by the state, weak tax bases, low wealth indicators, and the continued sluggish economy, Moody's reportedly noted the six cities faced significant challenges to balance their budgets. On July 25, *The Bond Buyer* reported that Governor Chris Christie planned to restore $139 million of aid to the financially distressed cities of Newark, Camden, and other cities. The governor's new bill sent to the legislature would reportedly restore the funds but also would require financial controls that are put in place to assure the funds would be used properly.

July 19, 2011

Kansas City and Wyandotte County, Kansas

The commissioners of the Unified Government of Wyandotte County/Kansas City are reportedly considering a proposal to increase the property tax rate by 8.9% to generate an additional $117.5 million for the city and $4.9 million for county operations, according to an article in *The Bond Buyer*. Also according to the article, County Administrator Dennis Hays said the higher rate is needed to compensate for losses in state revenue and declines in assessed valuations.

July 20, 2011

Decatur Memorial Hospital, Illinois

The Bond Buyer reported that Moody's Investors Service changed its outlook on Decatur Memorial Hospital's A2 rating to negative from stable as a result of a downturn in its operating performance. The outlook revision reportedly affects approximately $40 million of debt. The losses at Decatur Memorial are driven by losses at the hospital's cardiology service unit, which has been losing patients to its main competitor, according the article.

Saint Luke's Health System, Missouri

Moody's Investors Service revised the outlook on the hospital to stable from negative due to improved operating performance, affecting $532 million of debt. The system operates 11-acute care and specialty hospitals throughout the Kansas City region that reportedly generated $1.05 billion of operating revenue in fiscal year 2010.

Fairfield Medical Center, Ohio

Moody's Investors Service affirmed the Baa2 rating of the medical center and revised the outlook to stable from negative as a result of the medical center's sustained operating improvements. The Moody's revision reportedly Impacts approximately $34.2 million of outstanding debt.

Central Falls, Rhode Island

The Bond Buyer reported that the state-appointed receiver currently supervising the operations of the city asked retired police officers and firefighters for $2.5 million in permanent pension and health-benefit concessions in an effort to help the city avoid bankruptcy.

July 21, 2011

Texas Permanent School Fund, Texas (PSF)

The Bond Buyer reported that Governor Rick Perry signed into law a measure that would allow charter schools in Texas the ability to access the state's AAA-rated Permanent School Fund. The bill would reportedly allow charter schools in the state with an investment-grade rating to participate in the enhancement program. Reportedly only 2% of the $24.4 billion can be used to enhance charter schools.

July 21, 2011

Central Texas Turnpike System (CTTS), Texas

The Bond Buyer reported that CTTS, which operates three tollways in the Austin area, is counting on higher state subsidies after toll revenue fell $100 million short of covering debt service and operating costs. At the same time, the Texas Department of Transportation reported that subsidies from fuel taxes and other sources would reportedly run 70% higher than anticipated four years ago.

Dallas Independent School District (ISD), Texas

The Dallas ISD has stopped plans to issue bonds to finance renovations and upgrades at eight schools due to lower-than-expected enrolment, according to an article in *The Bond Buyer*.

Jefferson County, Alabama

The Bond Buyer reported the county issued a material event notice, notifying bondholders that the county defaulted on its debt obligations with respect to the Jefferson County Alabama Sewer Authority Warrants.

Harrisburg, Pennsylvania

The Bond Buyer reported that the Harrisburg City Council rejected the financial recovery plan submitted by the state-sponsored panel. The City Council voted 4 to 3 against the plan. Mayor Linda Thompson will reportedly be required to come up with her plan by August 2 in an attempt to get one

council member to change his/her vote. According to the article, bankruptcy options are limited due to a newly enacted state law's prohibiting cities of Harrisburg's size from filing for Chapter 9 protection.

July 22, 2011

International Falls Economic Development Authority-National Parks Service, Minnesota

The Bond Buyer reported that Moody's Investors Service raised the rating to Aa3 from A1 on taxable lease revenue bonds that financed a new headquarters for the National Parks Service. The payments are reportedly an absolute and unconditional obligation of the United States, not subject to annual appropriation.

Branson Airport, Missouri

The Bond Buyer reported that UMB Bank, the Trustee, tapped supplemental reserves to make the July 1 interest payment. The trustee tapped $3.1 million of the $3.4 million payment due to bondholders. The airport, which is located in the Ozark Mountains, has been operating under a forbearance agreement.

Lambuth University, Tennessee

The Bond Buyer reported that the university's trustee notified bondholders the university filed for Chapter 11 bankruptcy three weeks ago. The bankruptcy filing by the university, which has about $5 million of outstanding tax-exempt and taxable debt and ceased academic operations on June 30, constituted an event of default, according to the article.

San Diego, California

The Bond Buyer reported the City Council agreed to pay $70 million in redevelopment fees to the state as part of new budget legislation. According to the article, the city's payment represents about 40% of each of its redevelopment agency's income for the year.

San Francisco Public Utilities Commission (SFPUC), California

Moody's Investors Service reportedly downgraded SFPUCs revenue bonds to Aa3 from Aa2 due to narrowing debt service coverage ratios, a high debt load, and the need for significant rate increases.

July 25, 2011

Connecticut Health and Educational Facilities Authority (CHEFA)

Moody's Investors Service assigned an A1 rating to the authority's $28.64 million of Series 2011 state-supported child care revenue bonds. The bonds are reportedly limited obligations of CHEFA, payable from loan revenue pledged by participating non-profit institutions that operate child-care centers.

New Hampshire Turnpike

Moody's Investors Service reportedly assigned a provisional A1 rating to the authority's delayed delivery bonds that are schedule to settle in 2012. At the same time, Moody's reportedly affirmed the A1 rating on $347 million of outstanding parity debt.

Kansas Development Finance Authority-Stormont-Vail Healthcare

Moody's Investors Service reportedly assigned an A2 long-term rating to the hospital's $60 million of Series 2011F fixed-rate refunding and improvement revenue bonds.

Glendale Unified School District, California

Moody's Investors Service reportedly assigned an Aa2 rating to the unified school district's general obligation bonds Series 2011. At the same time Moody's reportedly affirmed the Aa2 rating on the district's outstanding GOs as well as the A1 rating on the district's certificates of participation, Series 2003B.

July 27, 2011

Wheaton Franciscan Healthcare, Wisconsin

The Bond Buyer reported that the Wisconsin Supreme Court overturned an appeals court ruling and upheld the tax-exempt status of an outpatient facility operated by the non-profit entity. The system, which had applied for an exemption from property taxes on several floors, was denied by the city of Wauwatosa, and the Supreme Court ruling

reverses the city's decision, according to the article.

July 28, 2011

Greenville, South Carolina

Standard & Poor's raised the city's general obligation rating to AAA from AA+ and the city's limited obligations bond rating to AA from AA-; both were assigned a stable outlook. According to Standard & Poor's, the upgrade reportedly reflects the city's continued economic development, solid financial operations, and strong reserves levels.

July 29, 2011

Cook County, Illinois

The Bond Buyer reported the county is facing a potential 16% shortfall in its general fund in the coming fiscal year as revenues reportedly continued to decline. The county unveiled its 2012 preliminary budget, which reportedly shows a potential $315 million shortfall could be looming. The article noted that approximately $96 million of the shortfall is reportedly a result of the county's massive health system. The county was reportedly downgraded by Moody's to Aa3 from Aa2 in mid-June.

Vallejo, California

U.S. Bankruptcy Judge Michael McManus gave approval to the debt-restructuring plan submitted by the city, according to an article in *The Bond Buyer*. The approval will reportedly allow the city of Vallejo to exit from bankruptcy after three years. The approved plan allows the city to restructure its debts and reduce benefits to retirees.

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

**Please note as of the release of the August MMF, Royal Bank had not yet released its updated Financial Markets Forecast, the chart below represents last months forecast data.

%-end of quarter as of August 2, 2011

	10Q2	10Q3	10Q4	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2
Fed Funds Rate	0.0-0.25	0.0-0.25	0.0-0.25	0.0-0.25	0.0-0.25	0.0-0.25	0.0-0.25	0.0-0.25	0.50
3-month T-bills	0.18	0.16	0.12	0.15	0.03	0.10	0.15	0.35	0.60
2-Year Bonds	0.61	0.44	0.61	0.70	0.41	0.60	0.75	0.90	1.10
5-Year bonds	1.79	1.27	2.01	2.10	1.45	1.95	2.15	2.55	2.90
10-Year bonds	2.97	2.48	3.30	3.45	2.92	3.60	3.75	3.85	3.95
30-Year bonds	3.91	3.67	4.34	4.50	4.27	4.50	4.55	4.65	4.70

Source: RBC Economic Research Forecast