

# Municipal Market Focus

U.S. Fixed Income Strategies Group

RBC Wealth Management Portfolio Advisory Group

MAY 2012

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## INTRODUCTION

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

The municipal market continued to show its strength as economic uncertainty and continued woes in Europe had investors continuing to seek safety in their investments. On April 26, *The Bond Buyer* reported Senate Finance Committee chairman Max Baucus stated he wanted Congress to consider alternatives to tax-exempt bonds in an effort to provide uniform subsidies for bondholders, citing the Build America Bond program. On April 27, 2012, *The Bond Buyer* reported that Representative Sander Levin and House Ways and Means Committee member Richard Neal, D-Mass. reportedly were going to push to reintroduce the Build America Bond program. In response to the issues senators and congressman have raised about tax-exempt bonds, five groups representing local governments as well as 25 separate municipal groups are urging legislators to maintain the tax-exempt status of municipal bonds, claiming they are a vital low-cost tool for development of infrastructure, schools, and affordable housing needs.

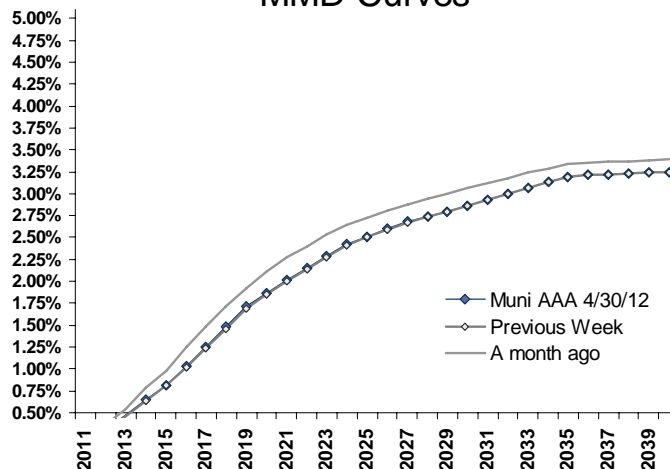
## MARKET COMMENTARY AND REVIEW

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

The winning streak ended at 18 weeks as municipal mutual funds experienced their first week of outflows, according to Lipper Fund Flows data. Investors withdrew approximately \$57 million from the funds for the week ended April 18. The withdrawals were heavily weighted in the short end of the curve, and we believe investors pulled funds to meet income tax requirements. Following a week of outflows, municipal mutual funds experienced inflows of \$459 million for

the week ended April 25, with a large portion of that money being invested on the long end of the curve. The municipal mutual fund market has seen positive inflows for 31 of the last 34 weeks, according to Lipper FMI. As a result of continued fund inflows, in the last week of April, tax-exempt yields equalled Treasuries at the short end and bettered yields on the long end of the municipal curve.

MMD Curves



Source: Municipal Market Data

## Treasuries VS Municipals

	10-yr Treasury	10-yr AAA Muni	30-yr Treasury	30-yr AAA Muni
<b>Beginning of month (4/02/12)</b>	2.183%	2.130%	3.329%	3.390%
<b>Mid-month (4/16/12)</b>	1.981%	1.950%	3.129%	3.310%
<b>End of month (4/30/12)</b>	1.922%	1.870%	3.131%	3.250%

Source: Bloomberg and Municipal Market Data

## State Ratings:

April 30, 2012

State	Fitch	Moody's	S&P	State	Fitch	Moody's	S&P
Alabama	AA+	Aa2	AA	Montana	AA+	Aa1	AA
Alaska	AA+	Aaa	AAA	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	Aa3	AA	New York	AA	Aa2	AA
Delaware	AAA	Aaa	AAA	North Carolina	AAA	Aaa	AAA
D.C.	AA-	Aa2	A+	North Dakota		Aa1	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)	Aa1	AA+	Pennsylvania	AA+	Aa1	AA
Illinois	A	A2	A+	Puerto Rico	BBB+	Baa1	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	AA+	West Virginia	AA	Aa1	AA
Mississippi	AA+	Aa2	AA	Wisconsin	AA	Aa2	AA
Missouri	AAA	Aaa	AAA	Wyoming			AAA

Source: Bond Buyer as of April 30, 2012 State General Obligation ratings. Lease notation represents appropriation requirement

## STATES IN THE NEWS

### General

Overall state tax collections increased 8.9% in 2011 from the previous year, according to a report released by the Rockefeller Institute. When adjusting for inflation however, tax revenue increases amounted to a decline of 6.2% when compared to peak revenue levels in 2008. In addition, the Rockefeller Institute reported revenue trends have softened for the first half of 2012. The Center for Budget and Policy Priorities shows that 30 states are projecting budget shortfalls of \$49 billion. Additional cuts will be required to meet continuing budgetary pressure, placing additional burdens on local governments, in our opinion.

### Arkansas

Arkansas reported its general revenue collections increased to \$508.3 million in March, representing a \$24.5 million increase from March of 2011 and \$22.3 million more than budget projections, according to an article in *The Bond Buyer*.

### California

The state's Legislative Analyst's Office reported the state was \$2 billion behind projections with respect to revenue flows for the month of April, according to an article in *The Bond Buyer*. According to the article, the governor may be forced to make major changes if revenue trends continue to come up short.

### Colorado

The Colorado House passed a \$19 billion budget that was then sent to the Senate for approval, according to *The Bond Buyer*. The new budget would cut spending on prisons and offer senior citizens \$98.5 million of property tax relief. The budget has \$7.5 billion in spending from the general fund, which represents a 6.5% increase from the prior year's budget.

### Illinois

A recent article in *The Bond Buyer*, reported the state is "treading water" despite a strong gain in tax revenue for the first three quarters of the fiscal year. The state, despite increased revenue trends

for the first three quarters of the current fiscal year, has reportedly been unable to make any headway in reducing approximately \$9 billion of unpaid bills at the end of March.

### Louisiana

*The Bond Buyer* reported the state would be forced to cut spending by \$210.5 million through June and would reduce the money available to lawmakers to appropriate in fiscal 2013 by \$304 million.

### Washington

State lawmakers passed a supplemental budget that will reportedly help the state close a \$1 billion budget hole, according to an article in *The Bond Buyer*. Lawmakers previously implemented \$10.5 billion of expenditure cuts over the last three years. According to the article, the agreement relies mainly on one-time fixes, including deferral of local sales taxes to close the budget gap.

## COMMONWEALTH OF PUERTO RICO UPDATE

### April 16, 2012

#### Puerto Rico Electric Power Authority

*The Bond Buyer* reported the authority increased its latest offering to \$650 million from \$475 million. The proceeds of the new deal reportedly will be used to finance new capital projects, repay the Government Development Bank for advances from its line of credit, and a portion of the issue will be used to refund \$12 million of the authority's power revenue bonds.

#### Puerto Rico Sales Tax Revenue Bonds

*Moody's Investors Service* placed the ratings of the senior and subordinated revenue bonds on review for possible downgrade. The bonds are reportedly under review due to the need for additional analysis prompting a revision in Moody's rating criteria for special tax bonds. The rating revision affects approximately \$6.8 billion of debt.

## INSURANCE COMMENTARY AND CURRENT RATINGS

### April 13, 2012

*Reuters* reported that Assured Guaranty insured approximately \$3.6 billion of the \$78.9 billion of debt issued in the first quarter of 2012. The increase marks a 114% jump over the first quarter of 2011 and 8.6% higher than last year's fourth quarter.

## April 26, 2012

*Moody's Investors Service* issued a negative report on the financial guarantors on April 26, 2012. Moody's noted the future financial health of Assured Guaranty and National Public Finance Guarantee is questionable. According to the report, the industry's penetration of the municipal market has plunged substantially from levels of around 50% as recently as 2007. Most bond insurers have ceased wrapping new bond issues coming to the primary market. Assured Guaranty reportedly was

## As April 30, 2012

Insurer	Moody's	Standard & Poor's	Fitch Ratings
ACA	Not Rated	Not Rated	Not Rated
AMBAC	Not Rated	**R	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)	*R	Not Rated

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

## STRATEGIES CORNER

*Remo Di Re, Municipal Credit Strategist*

### Is Further Yield Contraction Possible

During office visits, at client seminars, and on calls with our Financial Advisors, one looming question

the only company that wrapped new issues in 2012.

## April 20, 2012

### MBIA

A judge decided that a case seeking to reverse the bond insurer's 2009 transformation into two companies can go to trial on May 14, according to an article in *The Bond Buyer*. For almost three years the Article 78 case has advanced through the submission of depositions of witnesses, relevant documents, and other written materials. Several banks are seeking to reverse the transformation, claiming the split reduced the value of their insurance, according to the article.

is, What happened to the days of 5% par bonds? Rather than use terms such as a new era for municipals, here are my thoughts on why our municipal market has reached its present state.

Following the downgrade of the Master Settlement Agreement tobacco bonds in the latter part of 2010, subsequent comments by analysts and the expiration of the Build America Bond program, the municipal market experienced a sharp sell-off, during which almost \$50 billion exited the municipal arena. In 2011, the predicted collapse of our market did not materialize, but state and local governments became extremely cautious with respect to taking on additional debt, which significantly reduced the supply of new muni issuance, even as demand increased. The increase in demand was a result of many investors re-entering the municipal market. During 2011 and into the first four months of 2012, municipal mutual funds successfully recaptured approximately 50% or \$25 billion of the money that had been lost toward the latter part of 2010.

At the end of the first quarter of 2011, the 30-year AAA-rated bond, according to MMD, was yielding approximately 4.80%, with the 10-year yielding around 3.50%, and throughout 2011 supply and demand remained relatively in balance. Issuance has increased in 2012, up 63.5% compared to the same period last year as historically low rates resulted in many new refunding issues. Despite this increase in supply, yield compression ruled the day as demand increased dramatically. One key driver to this significant contraction of yields was municipal mutual fund inflows that have experienced 31 out of 34 weeks of positive inflows. A majority of those inflows have been placed on the longer end of the yield curve. As a result, at the end of March 2012, the 10-year AAA muni was yielding 2.11% while the 30-year AAA muni was yielding 3.39%.

We argue that as recent domestic and global economic indicators have weakened, the Federal Reserve Board has pledged to remain accommodative until late 2014, and Eurozone issues persist, investors will seek what they perceive to be safe investments. In our opinion,

the flight-to-quality into U.S. Treasuries will also underpin the U.S. municipal bond market. Additionally, we believe these other events present a compelling argument as to why the municipal market is positioned to experience some additional yield contraction during the course of 2012:

1. Expiration of the Bush tax cuts at the end of 2012.
2. Reduced primary issuance as most states continue to reduce borrowing and cut off capital projects in the future.
3. Possible state tax increases.
4. Additional buyers entering the market seeking to shield their income in anticipation of tax law changes going forward—2011 saw insurance companies and banks increase their holdings in municipal bonds.
5. Volatility in the equity markets.

With regard to the possibility of tax law changes, we believe no decision with respect to taxation on tax-exempt income will be made in this current election year. Also, it is our opinion that going forward, despite messages coming out of Washington with respect to a potential capping of the amount of tax-exempt income, the more likely outcome is limiting the kind of debt that can be issued as tax-exempt. Without some type of “grandfather” clause, we believe the taxing of just a portion of tax-exempt debt would likely cause serious market dislocation, and as such is an unlikely outcome.

## MONTHLY MUNICIPAL ISSUANCE

Once again the municipal market experienced a surge in issuance buoyed by refunding bonds. The municipal market issued \$33.64 billion on 1,158 issues, resulting in a 113.5% increase from the same period the prior year. During April of 2011, the municipal bond market issued \$15.76 billion on 743 issues. Year-to-date refunding issues are up 159%.

## Bond Sales Year to Date

	2012		2011	
	Volume (\$000)	No. of Issues	Volume (\$000)	No. of Issues
January	\$17,182,900	710	\$12,444,800	499
February	\$26,598,400	1,021	\$16,535,100	589
March	\$34,504,700	1,196	\$18,910,700	849
April	\$33,639,400	1,158	\$15,756,200	743
May				
June				
July				
August				
September				
October				
November				
December				
<b>Totals</b>	<b>\$111,925,400</b>	<b>4,085</b>	<b>\$63,646,800</b>	<b>2,680</b>

Source: The Bond Buyer

Top Ten Issues April 2012	(\$M)
California (GO)	\$1,343.8
New Jersey Economic Dev. Authority (Ref)	\$1,041.7
Pennsylvania (GO)	\$950.0
NYC Transitional Finance Authority (Various Purposes)	\$900.0
California Statewide Communities (Hospital Revenue)	\$869.7
New York City (GO)	\$760.0
Metropolitan Transportation Authority (NY) (new/ref)	\$727.4
Virginia Small Business Finance Authority (Highways)	\$663.8
Puerto Rico Electric Authority (new/ref)	\$650.0
Central Plains Energy Project, Nebraska (Gas)	\$608.7

Source: The Bond Buyer

## CURRENT NEWS IN MUNICIPALS

### April 2, 2012

#### Albuquerque Bernalillo County Water Utility Authority, New Mexico

*Standard & Poor's* lowered the utility's ratings to AA+ from AAA and assigned a stable outlook. The rating downgrade affected \$443 million of senior-lien revenue bonds. The utility has been experiencing several years of declining debt service coverage and steady decreases in working capital.

#### Jefferson County, Alabama

The county filed for an emergency motion to lift an automatic stay in its bankruptcy case so a trustee can use reserves to pay debt service on the county's 2006 lease-revenue warrants, according to an article in *The Bond Buyer*.

### Detroit, Michigan

*The Bond Buyer* reported the city successfully closed an \$80 million private placement that enables the city push out debt service payments that were coming due in the middle of the month. The article reported the city would in all likelihood not have been able to place the issue in the public market. On April 13, 2012, *The Bond Buyer* reported that Mayor Dave Bing's office submitted a \$2.5 billion budget, which calls for \$96 million in additional cuts. If implemented, this would help the city achieve a \$240 million cash balance by 2015. The budget submission is the first step in a new budget process following the signing of a consent agreement between the state and the city in an effort to help the city avoid a potential bankruptcy filing.

### Harrisburg, Pennsylvania

Mayor Linda Thompson announced that Ricardo Mendez-Saldivia was appointed as the new Harrisburg receiver, according to *The Bond Buyer*. The new appointment comes following the resignation of David Unkovic, the former Harrisburg receiver.

### Suffolk County, New York

County Executive Steve Bellone announced he reached an agreement with legislators in an effort to help close the county budget deficit, according to an article in *The Bond Buyer*. The initial measures include spreading out escalating pension benefit costs over 10 years, which would save the county \$66 million. In addition, the county will increase fees, institute spending cuts, and potentially borrow additional money. On April 30, 2012, *Moody's Investors Service* said the larger-than-expected deficit reported by the county is a credit negative for the county. *Moody's* noted that "In addition to further reducing the county's reserve levels, it indicates the county's 2012 budget, which already faced a significant structural gap, is even further out of balance." Suffolk County Executive Steve Bellone announced a proposed

2013–2015 capital budget of \$129.9 million, which marks a 21% decrease from the 2012 adopted capital budget of \$163.8 million, according to an article in *The Bond Buyer*.

**April 3, 2012**

## **Little Rock, Arkansas**

*The Bond Buyer* reported that revenue from the 1% increase in Little Rock's sales tax rate totalled \$3.4 million for the first month of collections. The higher rate went into effect January 1, according to the article, and generated revenue that was below original projections.

**April 4, 2012**

## **Metropolitan Pier and Exposition Authority, Illinois**

*The Bond Buyer* reported the authority hired a finance team as it prepares to come to market with a large refunding deal over the summer. MetPier's chief financial officer, Richard Oldshue said "We have some bonds that are callable in June, and with rates where they are at, there's a significant amount of savings available."

## **MJH Education Assistance IV, LLC Fullerton Village**

*Moody's Investors Service* revised the outlook on the issuer's \$57 million of debt outstanding and \$15 million of subordinate debt. The bonds remain in junk territory at Ca (Senior) C (Subordinate). However, due to improved operations, the Trustee has been able to make catch-up payments to cover missed interest payments from December 1, 2008, through June 1, 2011.

## **Romulus, Michigan**

*Fitch Ratings* affirmed the BBB+ rating of the Detroit suburb and at the same time revised the outlook to stable from negative due to improving financial operations. The city has \$5.75 million of outstanding limited-tax general obligation capital improvement bonds and \$15.2 million of limited-tax GO recreation center bonds issued by the Romulus Tax Increment Finance Authority.

## **Muskegon Heights Schools, Michigan**

An eight-member state-appointed team reported that a financial emergency exists following a

review of the district's finances, according to an article in *The Bond Buyer*. Governor Snyder has 10 days to determine whether he agrees with the reported finding. If he accepts the findings, the governor can appoint an emergency manager.

**April 9, 2012**

## **Cornell University, New York**

*Moody's Investors Service* affirmed the Aa1 rating on the University's outstanding bonds, while at the same time revising the outlook on the university's credit to stable from negative. The stable outlook was a result of a rebound in philanthropy, the university's focus on controlling expenses, and focus on improving financial performance.

## **Philadelphia, Pennsylvania**

*Standard & Poor's* raised the city's rating to BBB+ from BBB while maintaining a positive outlook on the credit. According to *S&P*, the upgrade was reflective of the city's progress in reducing its large general fund deficit and what is a potential budget surplus for fiscal 2012.

## **Detroit Water & Sewer Revenue Authority, Michigan**

*Moody's Investors Service* lowered the authority's senior lien debt three notches to Baa1 from A1 and to Baa2 from A2 the authority's second-lien debt. Moody's left the debt on watch for possible further downgrade due to continued pressure of the city's finances as it struggles to avoid a potential bankruptcy filing. The city recently signed a consent agreement with the city, which in the near-term should allow the city to avoid a bankruptcy filing.

**April 10, 2012**

## **Willacy County Public Facility Corp., Texas**

*Standard & Poor's* raised the jail operator's rating to BBB+ from BBB and assigned a stable outlook to the credit. The county issued \$24 million of revenue bonds in 2002 to buy land and build a prison. The prison was able to renew its contract with the US Marshal's Service through 2013 and it continues to be renewable for up to 18 years.

## **Williamson, Texas**

*The Bond Buyer* reported that over 50% of the residential property values dropped in the county by an average decline of 2.5%. Approximately 36% of the residential properties increased in value, according to the article.

**April 11, 2012**

## **Las Vegas, Nevada**

*Fitch Ratings* revised the city's outlook to negative from stable, affecting \$500 million of outstanding bonds and \$19.9 million of limited-tax general obligation bonds. The outlook change, according to *Fitch*, was due to plans by city leaders to draw down on reserves over the next several years to cover police costs.

## **Northwest Community Hospital, Illinois**

*Moody's Investors Service* downgraded the suburban Chicago hospital to A2 from A1, affecting \$320 million of rated debt. The downgrade was a result of a weak financial performance in 2011, which was below budget and an unfavorable change in strong operating margins and strong cash resources.

## **Trinity Health and Mercy Health System**

Mercy Health joined Trinity Health, which is one of the nation's largest Catholic health care systems, according to an article in *The Bond Buyer*. Trinity operates 48 hospitals in 10 states, has \$3.1 billion of outstanding debt, and reported \$7.4 billion in unrestricted revenue in fiscal 2011.

## **Chicago, Illinois**

*Moody's Investors Service* recently incorporated a new rating methodology for bonds backed by special tax revenues that prompted the rating agency to place the city's Aa2 rating on review for possible downgrade. The potential rating change affects \$350 million of outstanding debt.

**April 12, 2012**

**Eastern Illinois University, Southern Illinois University, Governors State University, Northeastern Illinois University, Northern Illinois University, University of Illinois, Illinois State**

## **University, Southern Illinois University and Western Illinois University**

*Moody's Investors Service* affirmed the ratings on \$2.4 billion of debt issued by the eight public universities and removed them from the watch list for possible downgrade after a three-month review following the downgrade of the state. The first four schools on the list above were given a negative outlook. The watch list action, according to *Moody's*, was due to the universities' dependence on the state for operating funds under a challenging state budget environment.

## **Milwaukee, Wisconsin**

*Moody's Investors Service* downgraded the city's general obligation rating to Aa2 from Aa1 and revised the city's outlook to stable from negative. The rating downgrade was a result of a tax base that has experienced three years of consecutive declines in equalized valuations, weak resident income profiles, and a weakened General Fund position following significant draws in 2008.

**April 13, 2012**

## **Stockton, California**

*Bloomberg Brief* reported that Wells Fargo & Co. was awarded possession of three parking garages following a lawsuit it filed against the city as bond trustee on the some of the city's outstanding bond issues. The trustee filed the suit after the city missed a \$779,935 payment on its lease revenue bonds that were issued in 2004. On April 20, 2012, *The Bond Buyer* reported that a California state court judge appointed a receiver to manage the transfer of three parking garages in Stockton from city control to Wells Fargo NA, the trustee on \$30 million of defaulted bonds.

## **San Jose, California**

*Standard & Poor's* lowered the city's rating to AA+ from AAA with a negative outlook. The rating action was due to continuing budgetary pressure despite modest revenue growth, significant compensation reductions, as well as public employee layoffs.

## Three Valleys Municipal Water District, California

*Moody's Investors Service* downgraded to A2 from A1 the district's revenue certificates of participation. The downgrade affects \$11.38 billion of debt. The district has posted declining debt service coverage and narrower operating margins, despite an increase in rates that have been insufficient to meet rising costs and expenditures.

## Harrisburg, Pennsylvania

*The Bond Buyer* reported the temporary receiver believes that city still has time to sell the incinerator project and other assets it owns in an effort to raise cash to help the city navigate through its troubled financial times.

**April 16, 2012**

## Long Beach, New York

*The Bond Buyer* reported the city's administration proposed an \$87.9 million budget for fiscal 2012-13, in which the city will use \$4 million to repay a portion of the 2011-2012 projected budget deficit. The city is also seeking to implement a temporary inherited deficit reduction surcharge, which according to the article, would equate to an 11.9% tax increase. The city has already slashed departmental spending and cut management position and salaries, saving the city approximately \$920,000 and \$635,000 respectively.

**April 19, 2012**

## Connector 2000 Association, South Carolina

U.S. Bank NA sent out notification to holders of Connector 2000 Association Inc.'s 2011 toll revenue term bonds that an exchange of bonds would occur at the end of May, according to an article in *The Bond Buyer*. The exchange of the term bonds was primarily due to the inability of traders to trade bonds because the term bonds did not adhere to many trading platforms.

## Charlotte Douglas International Airport, North Carolina

The airport announced it was beginning a \$511 million multi-year capital improvement program as

a result of very strong operational results. *Moody's Investors Service* raised the airport's rating to Aa3 from A1. *The Bond Buyer* reported the capital program includes an additional road, terminal and baggage system improvements, new gates and additional valet parking, a new international terminal to support future growth, a new control tower, and a fifth runway.

**April 20, 2012**

## Banning Redevelopment Agency, California

*Standard & Poor's* lowered the rating of the redevelopment agency's tax allocation to BBB from A- and revised the outlook to stable from negative. The rating action was primarily driven by a continued decline in assessed valuation.

## Northern Mariana Islands Retirement Fund

*The Bond Buyer* reported the fund filed for Chapter 11 bankruptcy protection. According to the article, the fund is not being liquidated or closed; it is reportedly going to be restructured to align the fund's obligations with the fund's current assets and revenues. According to the article, unless steps are taken, there is significant risk the fund would be unable to continue its operations beyond the middle of 2014.

**April 23, 2012**

## Manchester, New Hampshire

*Fitch Ratings* revised its outlook to negative from stable on the city's airport revenue bonds. At the same time, the rating agency affirmed the A- rating on the city's \$188.4 million of airport revenue bonds. According to *Fitch*, "The revised outlook reflects continued declines in traffic, in part as a result of competition from Boston Logan International Airport."

**April 24, 2012**

## Nogales Municipal Development Authority, Arizona

*Moody's Investors Service* upgraded the city's municipal facilities revenue bond ratings to A1 from A2, and at the same time raised the rating of the city's street and highway user revenue bonds to Baa1 from Baa2.

**April 25, 2012**

**Coralville, Iowa**

*Moody's Investors Service* downgraded the urban renewal tax-increment finance bonds two notches to Baa2 from A3 and kept the rating on review for possible further downgrade. "The downgrade reflects the heavily leveraged nature of the Mall/Highway 6 Urban Renewal Area, which supports general obligation bond obligations and other contractually obligated rebate agreements."

**The Clare at Water Tower's, Illinois**

*The Bond Buyer* reported that a bankruptcy court judge approved the sale of the defaulted bond-financed project for \$53.5 million, which would return investors approximately \$0.24 on the dollar for secured creditors.

**Pontiac City School District, Michigan**

The Michigan Department of Education withheld a \$1.25 million payment as result of not providing the state with a detailed budget that meets goals that are part of its recently revised deficit-elimination plan targets. *Moody's Investors Service* reported the withholding is a credit negative for the school district.

**April 27, 2012**

**State of Washington**

The state is expected to come to market next month with its first-ever Garvee bonds offering, according to an article in *The Bond Buyer*. The state is planning to sell \$432 million of grant anticipation revenue vehicles bonds. Garvee bonds are bonds that are secured by a pledge of the issuer of federal highway grants as security for the bonds.

**Chicago, Illinois**

*Moody's Investors Service* advised the city that its general obligation Aa3 rating could come under pressure due to the city's \$15 billion un-funded pension liability. *Moody's* affirmed the rating but changed the outlook to negative from stable.

**Wenatchee, Washington**

*Moody's Investors Service* reported a voter-approved sales tax to support the Greater Wenatchee Regional Events Center was a credit positive. The arena has continued to struggle defaulted on its notes. Voters approved a 0.1% sales tax increase that will be used to secure the outstanding notes.

**April 30, 2012**

**Lopatcong, New Jersey**

*Moody's Investors Service* cut the town's general obligation rating to A1 from Aa3. The downgrade was a result of the township's narrowing financial position and practice of current fund draw downs since fiscal 2007, according to *Moody's*.

## 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](http://www.rbc.com/economics) and clicking on the following link: <http://www.rbc.com/economics/quicklink/pdf/rates.pdf>

%-end of quarter as of April 30, 2012

	11Q1	11Q2	11Q3	11Q4	12Q1	12Q2	12Q3	12Q4	13Q1
<b>Fed Funds Rate</b>	0 to 0.25	0 to 0.25	0 to 0.25	0 to 0.25	0.13	0.13	0.13	0.13	0.13
<b>3-month T-bills</b>	0.15	0.03	0.02	0.00	0.10	0.10	0.10	0.10	0.10
<b>2-Year Bonds</b>	0.70	0.41	0.25	0.24	0.30	0.35	0.40	0.50	0.60
<b>5-Year bonds</b>	2.10	1.45	0.96	0.85	1.05	1.15	1.25	1.45	1.70
<b>10-Year bonds</b>	3.45	2.92	1.92	1.91	2.25	2.40	2.50	2.70	3.00
<b>30-Year bonds</b>	4.50	4.27	2.92	2.91	3.45	3.50	3.55	3.75	3.95

Source: RBC Economic Research Forecast

### RBC Wealth Management U.S. Fixed Income Strategies Group

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