California Debt and Investment Advisory Commission (CDIAC)

Webinar

January 11, 2012

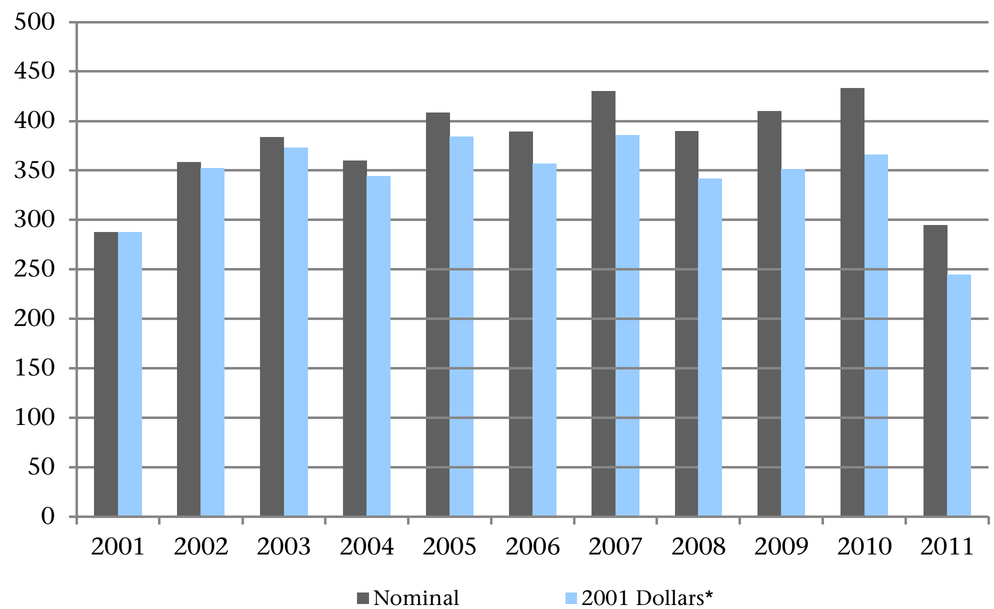
Presented By:

Chris Mier, CFA

Municipal Strategist, Loop Capital Markets

Volume Collapse in 2011 not a Long-term Trend

Municipal New Issue Volume ($ Billion)



Source: The Bond Buyer

Compound Annual Growth Rate (CAGR) from 2001 to 2010 (inflation adjusted) was 2.7%, about the trend growth rate of the economy.

- **Moderate growth in municipal new issue volume, combined with substantial infrastructure needs, suggests that the drop in volume in 2011 will be short-lived.**

* Expressed in Dec-2001 dollars using PCE Core Index

2012 Volume Forecast

New Issue Volume ($ Billion)

Variables	Unit	Dec-10	Dec-11	Jan-12
Quarterly Tax Receipts	($ Billion)	324	342	
10-Yr Treasury		3.30%	1.88%	
5-Yr Ratio		81.2%	102.0%	
2-30 Treas. Spread	(bps)	374	265	
Volume				
Suggested by Model*	($ Billion)	468	477	
Loop Forecast	($ Billion)	435	375**	350
Actual Volume	($ Billion)	433	295	

* Using EOY Actuals

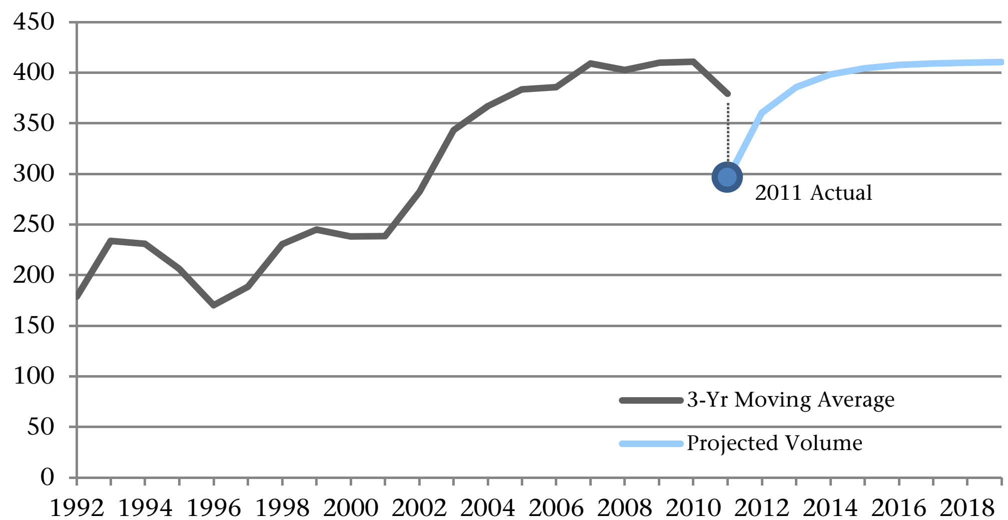
** Revised to $275 billion on May 13, 2011

Loop Capital's econometric forecasting model focuses on four variables with the most explanatory power.

- **Factors that account for the difference, with their approximate contribution to the difference:**
  - Political "fear factor" ($91 Billion)
  - Reduction in refunding volume ($9 Billion)
  - BABs volume shifted from 2011 ($15 Billion)

Political Fear Factor Decay Rate

New Issue Volume ($ Billion)



Source: The Bond Buyer

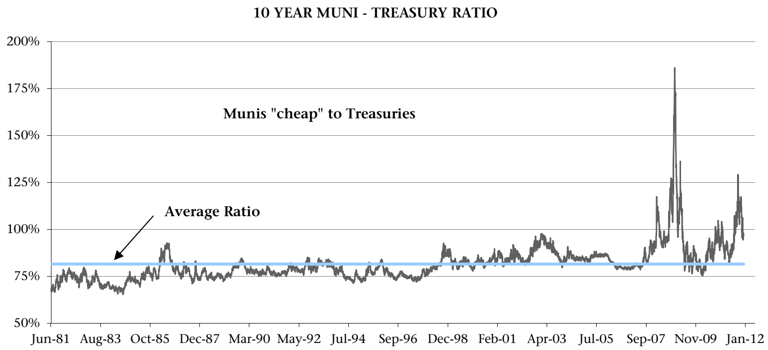
We estimate the decay rate of this political reaction to be 50% of the balance each year, suggesting that volume will be close to previous levels in 3 to 4 years.

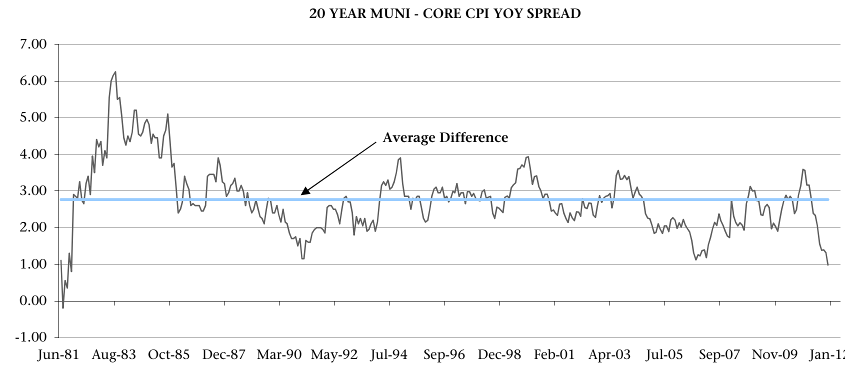
- **The American Society of Civil Engineers estimates that over the next 5 years, the US will invest less than half of what is required to address the nation's infrastructure needs.**

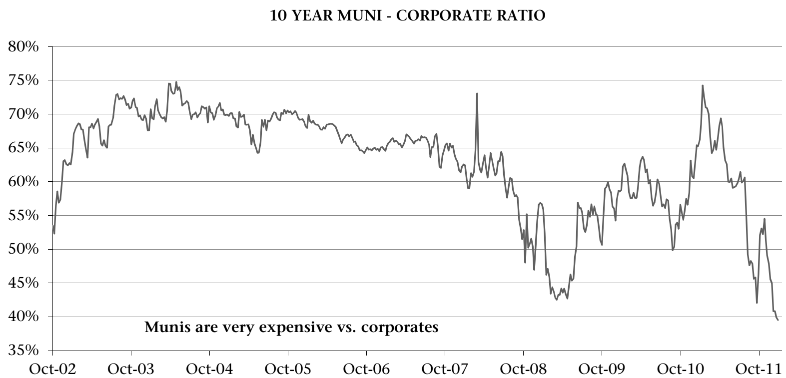
Munis Face Legislative/Regulatory Threat from Washington

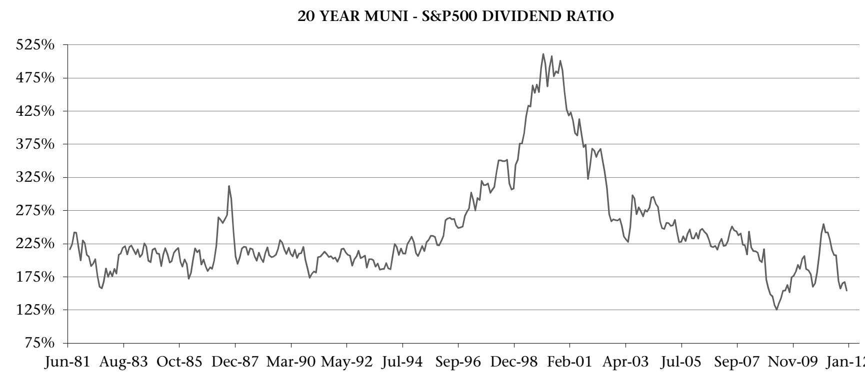
- The primary threat is potential curtailment or elimination of the tax exemption for municipal bonds. Such provisions were included in several legislative proposals by the administration last year. The federal tax exemption, viewed as a benefit for wealthy investors, remains an attractive target for legislators.
- Congress is expected to weigh a potentially expanded role for the SEC, including direct authority over the timing and content of issuers' primary and secondary market disclosure.
- SEC is expected to finalize its long-awaited permanent muni advisor definition and registration scheme next year.
- GAO is expected to issue recommendations for improving transparency, efficiency, fairness and liquidity of the muni market and for the potential repeal of the Tower Amendment, which prohibits the SEC and MSRB from requiring issuers to file pre-sale disclosure documents.

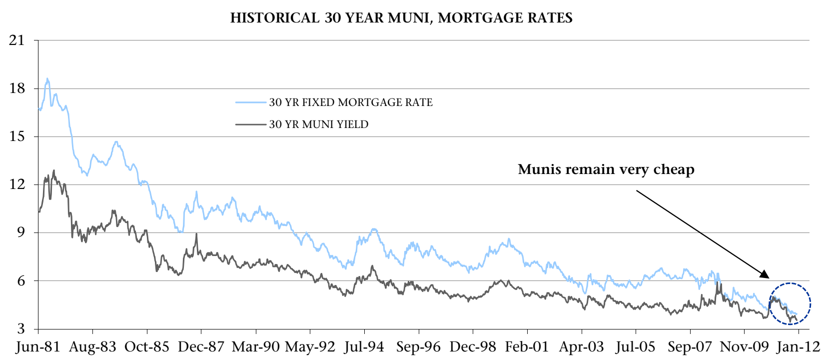
Valuation: Mixed Signals, but Yields are Low!







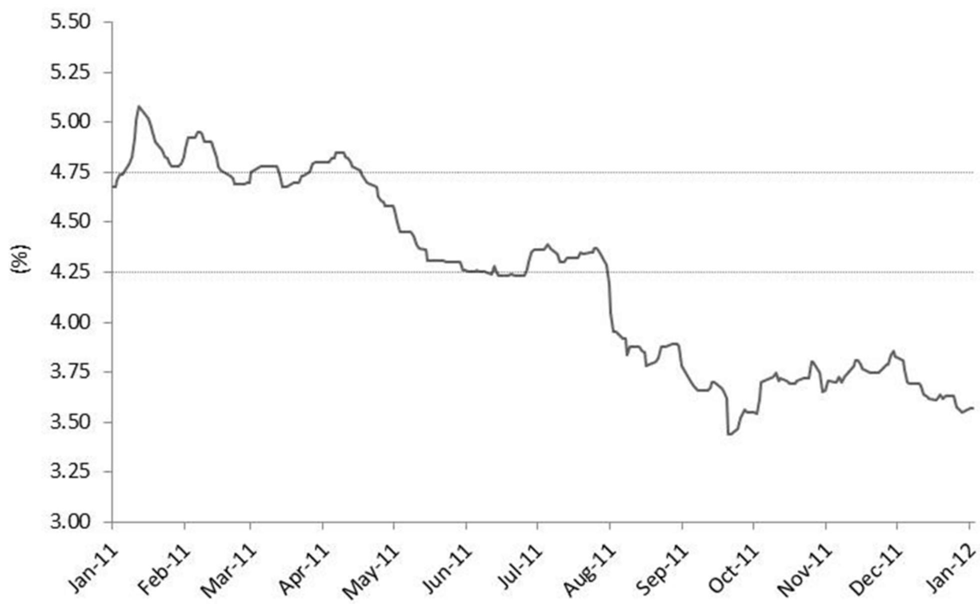




Sources: Bloomberg, MMD, Yale's Shiller

Issuers Have Temporary Window to Finance at Very Low Interest Costs

30-YR AAA MMD YIELD



Source: MMD

- Municipal yields are sharing in the same flight-to-quality phenomenon that is gripping the Treasury market.
- If the European crisis subsides, muni yields could rise by 75 to 125 basis points very rapidly.

The Credit Cycle and Current Conditions

- **State fiscal crisis substantially abated—major challenges remain**

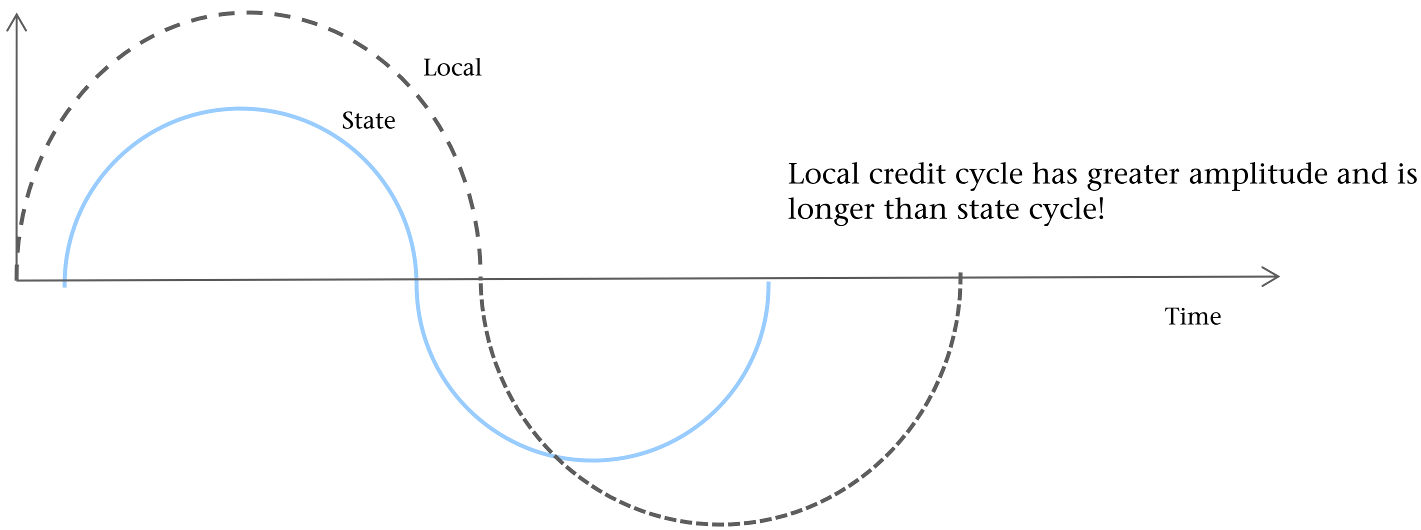
- **Credit "excitement" now at local level—less resources, increased demands, abandoned by the states and the federal government**

- **Pension problem no longer systemic, but state specific, and still severe in several states**

- **Bankruptcies already filed create fertile ground for precedents—both good and bad**

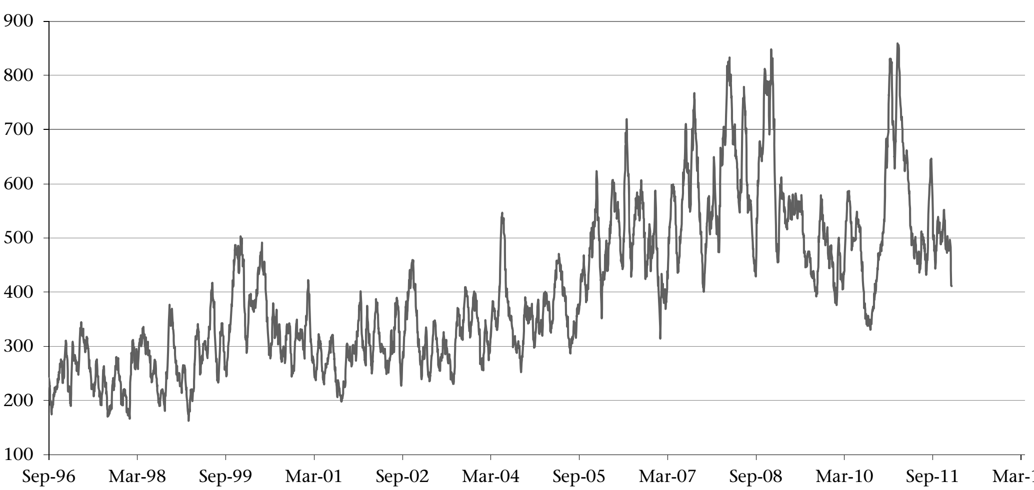
Examples:

- Divided City Council battles themselves, and state over Harrisburg's destiny
- State battles Court over Jefferson County receiver, "full faith and credit" at risk
- Central Falls: State control, bankruptcy, havoc



Market Conditions

Muni Bids Wanted Items Listed on Bloomberg* ($ Million)



Source: Bloomberg

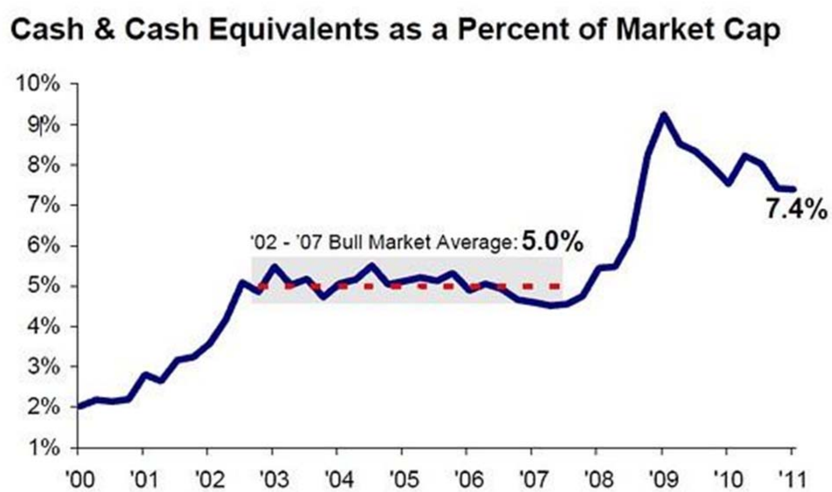
Volatility of Bids Wanted has increased as investors hunt for liquidity and respond to cash needs.

- **Liquidity concerns—will buyers be there when issuers need to sell?**
- **Downsizing among large municipal broker/dealers—large firms have announced cutbacks. A smaller muni market (if volume remains low) is not as attractive to large dealers.**

* 1-month Moving Average

Ominous Threats

- Low yield levels imply only one direction to go—issuers should act with urgency
- Munis will get competition from dividend paying stocks, which are tax advantaged (15% rate) and are likely to do well given the cash available on corporate balance sheets for buybacks and dividend payments.



Source: AllStarCharts.com

- After a relatively lower media profile year, local problems and bankruptcies will amp up the muni media hype once again.

Loop Capital Markets' Disclaimer

Loop Capital Markets LLC, an investment bank, prepared this document for informational purposes only. Loop Capital Markets LLC does not provide research services, therefore this product is not a research report and it should not be construed as such. All materials, including proposed terms and conditions, are indicative and for discussion purposes only. Finalized terms and conditions are subject to further discussion and negotiation and will be evidenced by a formal agreement. Opinions expressed are our present opinions only and are subject to change without further notice. The information contained herein is confidential. By accepting this information, the recipient agrees that it will, and it will cause its directors, partners, officers, employees and representatives to use the information only to evaluate its potential interest in the strategies described herein and for no other purpose and will not divulge any such information to any other party. Any reproduction of this information, in whole or in part, is prohibited. Except in so far as required to do so to comply with applicable law or regulation, express or implied, no warranty whatsoever, including but not limited to, warranties as to quality, accuracy, performance, timelines, continued availability or completeness of any information contained herein is made. Opinions expressed herein are current opinions only as of the date indicated. Any historical price(s) or value(s) are also only as of the date indicated and as applicable from any source that may be noted. We are under no obligation to update opinions or other information. The information contained herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy. Loop Capital Markets LLC does not provide accounting, tax or legal advice; however, you should be aware that any proposed indicative transaction could have accounting, tax, legal or other implications that should be discussed with your advisors and or counsel. The materials should not be relied upon for the maintenance of your books and records or for any tax, accounting, legal or other purposes. In addition, we mutually agree that, subject to applicable law, you may disclose any and all aspects of any potential transaction or structure described herein that are necessary to support any U.S. federal income tax benefits, without Loop Capital Markets LLC imposing any limitation of any kind and its affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in and buy or sell, the securities, derivatives (including options) or other financial products thereof, of entities mentioned herein. In addition, Loop Capital Markets LLC and/or affiliates may have served as manager or co-manager of a public offering of securities by any such entity. Further information may be available regarding this material and may be obtained upon request.

Loop Capital Markets LLC shall have no liability, contingent or otherwise, to the user or to third parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance or completeness of the data or formulae provided herein or for any other aspect of the performance of there materials. In no event will Loop Capital Markets LLC be liable for any special, indirect, incidental or consequential damages which may be incurred or experienced on account of the user using the data provided herein or these materials, even if Loop Capital Markets LLC has been advised or the possibility of such damages. Loop Capital Markets LLC will have no responsibility to inform the user of any difficulties experienced by third parties with respect to the use of the materials or to take any action in connection therewith.

The fact that Loop Capital Markets LLC has made the materials or any other materials available to you constitutes neither a recommendation that you enter into or maintain a particular transaction or position nor a representation that any transaction is suitable or appropriate for you Transactions involving derivative or other products may involve significant risk and you should not enter into any transaction unless you fully understand all such risks and have independently determined that such transaction is appropriate for you. Loop Capital Markets LLC is acting in the capacity of an arm's-length contractual counterparty to the user in connection with any transaction Loop Capital Markets LLC may enter into with the user and not as a financial advisor or a fiduciary.

This document is confidential, and no part of it may be reproduced, distributed or transmitted without the prior written permission of Loop Capital Markets LLC.