CapitalMarketsAdvisors,LLC

Capital Markets News

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Upgrades Outpace Downgrades for the Third Consecutive Year

Moody's Investors Service released a report in mid-March noting that in 2017, the ***number*** of credit rating upgrades for public jurisdictions outpaced downgrades for the third consecutive year. Notwithstanding the greater number of upgrades, the total ***par amount*** of downgraded debt at $201.8 billion was more than twice the amount of upgraded debt, which stood at $100.3 billion. Downgrades in New Jersey, Illinois, Connecticut and the US Territory of Puerto Rico adversely affected over $100 billion of outstanding debt and accounted for approximately half of all the downgraded par amount. Over a third of 2017's credit upgrades by Moody's followed a revision of that firm's general obligation limited tax debt rating methodology.

There is no greater impact on an issuer's cost of capital than its credit rating as evidenced by Municipal Market Data's (MMD) general obligations interest rate scales for April 2, 2018 (see, *page 2*).

An issuer of a 10-year bond rated 'Aaa' would see its interest rate increase by 20 basis points (bps) if it were to be downgraded into the 'Aa' category. The interest rate would go up an additional 30 bps if it were to slip further into the A category and it would increase a full 85 bps if it were to slide into the 'Baa' category. Credit rating downgrades of outstanding debt reduce the value of the affected bonds in the secondary market as the likelihood for timely and complete repayment is diminished in the eyes of the rating analysts causing investors to seek higher yields. Downgraded new money bonds attract fewer bids as many financial institutions have internal credit policies that preclude them from bidding on debt rated below a specific threshold rating, typically A3/A-/A-.

Municipal Fleets – When Best to Buy, Lease, Sell and Replace?

Municipal fleets are a large capital investment, which require significant amounts of strategic planning and strong oversight to ensure the continual and timely availability of safe and reliable vehicles. As a quickly depreciating asset, which requires increased levels of maintenance as assets age, municipalities are reviewing fleet size, composition, acquisition, and disposal more carefully than ever.

With budget considerations almost always at the forefront of capital decisions, it is not uncommon for municipalities to hold on to vehicles well beyond the time of optimal replacement. (*Continued on page 2*)

RECENT CMA CLIENT SALE RESULTS

Issuer	Issue Type	Par Amount	Sale Date	Term	Rate	Purchaser
Suffolk County	RAN	$45,000,000	29-Mar	11 mos.	1.79%	UBS Financial, Citigroup
Evans-Brant CSD	BAN	$1,145,000	28-Mar	12 mos.	2.03%	Oppenheimer & Co.
Glen Cove City	Bonds	$9,048,894	27-Mar	19 yrs.	3.65%	Roosevelt & Cross, Inc.
Valley Stream Village	Bonds	$8,750,000	27-Mar	20 yrs.	3.75%	Roosevelt & Cross, Inc.
New Paltz Village	BAN	$3,850,000	27-Mar	12 mos.	1.91%	Jefferies LLC
North Hempstead Town	Bonds	$20,895,000	22-Mar	14 yrs.	2.61%	FTN Financial Capital Markets
Orchard Park CSD	Bonds	$21,840,000	20-Mar	14 yrs.	2.64%	Mesirow Financial Inc.
Copiague UFSD	BAN	$42,883,526	20-Mar	11 mos.	1.74%	TD Securities (USA) LLC
Hastings-on-Hudson Vil.	Bonds	$3,473,300	15-Mar	14 yrs.	2.80%	Roosevelt & Cross, Inc.
Blind Brook-Rye UFSD	Bonds	$4,752,354	13-Mar	12 mos.	3.11%	Roosevelt & Cross, Inc.

(*From page 1*) Analyzing the lifecycle of specific vehicles affords management the ability to make informed replacement decisions. As vehicles progress through their expected lifecycle, maintenance and operating costs will escalate, while the residual value will decline.

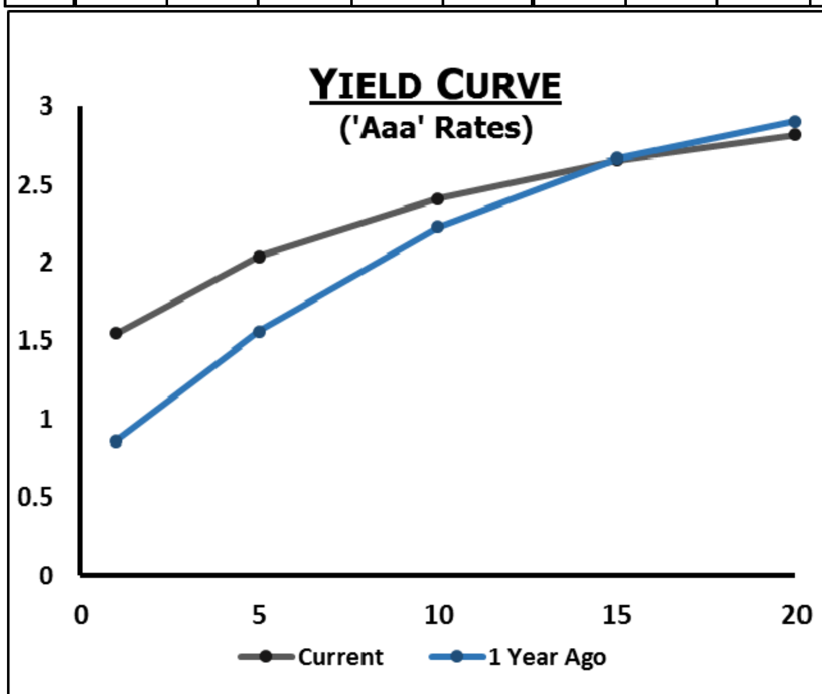
Departmental needs, procurement costs, and maintenance costs as well as depreciation and resale value all play a role in determining the composition of a municipal fleet. Municipal budgets, credit and cash flow all serve to influence acquisition cost and timing.

Although many municipalities will pay for new vehicles through budget appropriations or bond financing, some municipalities with limited cash and/or a need to replace a large number of vehicles simultaneously are considering leasing as an option. Vehicle leasing is common for individuals and in the for-profit realm, but less prevalent in the municipal arena where business tax deductions for leasing do not factor into a cost benefit analysis. Municipal procurement requirements, government incentives for vehicle purchase, and restrictions under General Municipal Law with respect to leasing terms generally make vehicle leasing more costly overall than outright purchasing or financing with debt. However, leasing can, in fact, eliminate a large capital outlay for acquisition and may result in smaller, short-term payments that may serve a municipality's needs when budgets are constrained.

CMA's Strategic Consulting Group is available to discuss best practices for fleet administration, as well as the review of municipal fleet composition, lifecycle and acquisition strategy to assist municipal issuers with the development of timely and cost effective fleet capital planning. For more information call CMA's Janet Morley at 516-570-0340.

MMD General Obligation Interest Rates

	April 2, 2018					March 2, 2018					April 3, 2017				
Term	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa
1 yr	1.55%	1.58%	1.66%	1.76%	2.03%	1.39%	1.42%	1.50%	1.60%	1.87%	0.86%	0.88%	0.96%	1.05%	1.32%
5	2.04	2.15	2.35	2.47	2.78	1.96	2.06	2.26	2.38	2.69	1.56	1.65	1.86	1.95	2.26
10	2.41	2.61	2.78	2.91	3.26	2.45	2.65	2.82	2.95	3.30	2.23	2.43	2.69	2.78	3.13
15	2.66	2.88	3.04	3.17	3.53	2.73	2.95	3.11	3.24	3.60	2.67	2.91	3.15	3.24	3.60
20	2.82	3.04	3.18	3.33	3.67	2.9	3.12	3.26	3.41	3.75	2.91	3.15	3.36	3.47	3.80



As we've noticed with each issue, short-term interest rates have continued to rise at a significant pace over the past 12 months, as noted above. Concurrently, long-term rates have actually been declining. Since April 2017, the cost of capital over the short-term has risen 69 basis points for 'Aaa' rated credits while interest rates for borrowings over 20 years are 9 basis points less. It will be interesting to see if the Federal Reserve Board continues to steadily increase short-term rates this year, as they have stated, and we start seeing a dramatically flattened yield curve. Historically, this has meant a negative market outlook on the future of the nation's economy.

Questions? Comments?

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