Bloomberg BRIEF

Municipal Market

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Time Running Out on Muni Default Prediction

BY MICHAEL MCDONALD

Time is running out for **Meredith Whitney**'s municipal-market default prediction to come true.

Defaults fell 60 percent in the first half of 2011 compared with the same period last year, including a $12.5 million Austin, Texas, apartment project that made a late payment in June, according to Distressed Debt Securities Newsletter.

Whitney, a bank analyst, predicted "hundreds of billions of dollars" of municipal defaults within 12 months in a Dec. 19 "60 Minutes" broadcast, fueling a wave of selling. Instead, the number has fallen as cities slashed spending to balance budgets and state lawmakers stepped in to guard against insolvency and local bankruptcies.

"The data is not helping Meredith," said **Matt Fabian**, a managing director at Municipal Market Advisors, a financial-research company based in Concord, Massachusetts. "It's always been a possibility there would be a wave of defaults. You can't say that it's zero but it's given no sign of starting."

From January through June, defaults fell to 24 totaling $746 million. That compares with 60 in the first half of last year, totaling $2.29 billion, and 144 in the first six months of 2009, at $4.89 billion.

The failure of property developments financed with tax-exempt debt led to a record $8.15 billion of municipal defaults in 2008, the middle of the 18-month recession that ended in 2009, and ac-

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Washington Sells $742 Million

BY SARAH FRIER AND MICHELLE KASKE

Washington state, which closed a $5 billion budget deficit last month, kicks off a $742 million sale as investors added the most to municipal-bond funds since November.

Ten-year top-rated tax-exempt yields are at 2.64 percent, close to a two-week low, according to data compiled by Bloomberg. Investors are favoring top-rated munis, which tend to be less volatile in reacting to U.S. and international events, said **John Hallacy**, the head of municipal research at Bank of America Merrill Lynch.

"They are investing because they feel like they have no other choice," said **Marilyn Cohen**, chief executive officer of Envision Capital Management, who oversees $250 million in fixed-income assets.

Investors added about $367 million to U.S. municipal-bond mutual funds in the week

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BLOOMBERG BAROMETER

BENCHMARK STATES 5-YEAR CDS

STATE	THIS WEEK	LAST WEEK	CHANGE(BPS)
California	120	122	-2
Florida	91	87	+4
Illinois	184	182	+2
New York	96	95	+1
Pennsylvania	93	89	+4
Texas	61	57	+4
Wisconsin	78	76	+2

IN THE PIPELINE

MUNICIPALITY	AMOUNT
Ohio	$416 million GO
University of California	$1 billion Rev
Wisconsin	$338 million GO
Washington	$390 million GO
Montgomery County MD	$579 million GO
San Francisco Pub Util CA	$634 million Rev

BLOOMBERG VALUATION AAA BENCHMARK MUNICIPAL YIELDS

DESCRIPTION	CURRENT	CURRENT DATE	PREVIOUS	PREVIOUS DATE	NET CHANGE
BVAL 1Y	0.19	07/14	0.20	07/13	0
BVAL 2Y	0.37	07/14	0.38	07/13	-0.01
BVAL 3Y	0.65	07/14	0.67	07/13	-0.02
BVAL 4Y	0.95	07/14	0.94	07/13	+0.01
BVAL 5Y	1.22	07/14	1.24	07/13	-0.02
BVAL 6Y	1.58	07/14	1.63	07/13	-0.05
BVAL 7Y	2.00	07/14	2.01	07/13	0
BVAL 8Y	2.30	07/14	2.31	07/13	-0.01
BVAL 9Y	2.50	07/14	2.52	07/13	-0.02
BVAL 10Y	2.64	07/14	2.67	07/13	-0.03
BVAL 20Y	3.84	07/14	3.85	07/13	-0.01
BVAL 30Y	4.31	07/14	4.35	07/13	-0.04

VOLUME

NEW SUPPLY:	SOLD YTD	TRADED	OFFERINGS
30-DAY $11.3 Bln 9.3%	$80.2 Bln (Neg Fixed LT) $26.4 Bln (Comp Fixed LT)	$13 Bln (MSRB) 6%	$12.6 Bln (Bloomberg Pick) 2.6%

WASHINGTON ...

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through July 13, Lipper US Fund Flows said yesterday. It was the biggest increase since November, when a 29-week streak of net withdrawals began. They are avoiding bonds that may be affected by federal budget cuts or turmoil in Europe, where three European Union nations are now rated below investment grade, Hallacy said.

Washington state, which is rated AA+, the second-highest investment grade from Standard & Poor's, will kick off its three-part offer with a sale to in-state residents, Washington Treasurer **James McIntire** said yesterday in a telephone interview.

"It will set the tone for competitive deals because it's a high-quality name, it's not too large of a deal, and it's general obligation," said **Bud Byrnes**, chief executive officer of Encino, California-based RH Investment Corp.

The retail portion of the $323 million issue today is comprised of motor vehicle tax-backed bonds to fund road improvements. The general-obligation part of the offer, which prices July 20, will pay for capital projects at universities and Columbia River Basin water-supply programs.

"The message to investors is that Washington has retained its excellent bond rating, a stable outlook," McIntire said. "We had a pretty remarkable bipartisan budgeting process where we closed a $4.9 billion budget gap with about $4.5 billion worth of serious, major revisions in the way we do business."

Following is a description of a pending sale of U.S. municipal debt:

SAN FRANCISCO CITY AND COUNTY PUBLIC UTILITIES COMMISSION, which provides water to 2.5 million people in the Bay area, will issue $775 million in revenue bonds as soon as next week to help finance projects including renovation of a dam and construction of a tunnel underneath the San Francisco Bay. The bonds are rated AA-, the fourth-highest investment grade, by S&P. The sale will be competitive.

DEFAULT...

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counts for the slowing pace, according to **Jack Colombo**, who edits Distressed Debt newsletter. There are simply fewer of the so-called dirt bonds left to falter, he said.

Jefferson County, Alabama, was the last local government to trigger a default, when it couldn't meet payments on about $3 billion of securities tied to a sewer system in 2008 after the complex financing unraveled, he said.

Communities such as Georgia's DeKalb County have sought to cope with financial stress by raising local taxes, while in municipalities such as Newark, New Jersey's biggest city, mayors have slashed jobs to cut costs. In some cases, such as New York and Pennsylvania, state governments have intervened to prevent fiscal meltdowns at the local level.

Whitney, 41, who started New York-based Meredith Whitney Advisory Group LLC in 2009 after leaving Oppenheimer & Co., predicted 50 to 100 "sizable" municipal defaults as states slashed spending, in the interview with CBS Corp.'s "60 Minutes." As for timing, she said it would be "something to worry about within the next 12 months."

"There's absolutely nothing about our thesis that has changed," she said on July 12 in an interview with **Tom Keene** on Bloomberg Radio's "Bloomberg Surveillance" show in New York. "There are not enough revenues to go around and service all of the debt obligations or debt commitments outstanding."

Whitney also sought to amend her prediction in the interview, saying that she said in December "you'd start to see defaults within 12 months." She didn't respond to telephone calls and e-mails seeking additional comment.

Municipal defaults are rare. Moody's Investors Service said in a study released in February 2010 that the 10-year average cumulative rate in the municipal market was 0.09 percent from 1970 to 2009 for the securities it ranks, compared with 11.06 percent for corporate debt. Most were concentrated among nonprofit health-care and housing projects. Just three were general-obligation bonds, out of 54 in all.

Moody's said in January that no state and only a few local governments would default this year on debt it rated, after none did in 2010.

"A locality is going to lay off a teacher before they default on their bonds," said **Iris J. Lav,** a senior adviser at the Center on Budget and Policy Priorities, a nonprofit research group in Washington. "There are other things they can do."

State and local-government spending declined at a 3.3 percent annual pace in the first three months of this year, according to a U.S. Commerce Department report in April. It was the steepest drop since a 3.8 percent tumble in the same quarter last year, and the second-most since a 7.4 percent drop in the three months ending in June 1981, the figures showed.

States and localities have cut more than 580,000 jobs since payrolls peaked in 2008, according to U.S. Labor Department data compiled by Bloomberg.

"We're not at the point where cash levels for most governments are so weak that there's a tradeoff between running the essential services and making debt-service payments," said **Richard Ciccarone**, a managing director at McDonnell Investment Management LLC in Oak Brook, Illinois. The company manages more than $7 billion of municipal debt.

Bloomberg Brief Municipal Market

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