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## What are Knowledgeable Sources Saying About the Municipal Bond Market?

December 22, 2010, Bloomberg, Joe Mysak

In response to Meredith Whitney on “60 Minutes” saying “There will be between 50 and 100 “significant” municipal bond defaults in 2011, totaling “hundreds of billions” of dollars: “...perhaps the boldest, most overreaching call of her career. Hundreds of billions of dollars? The one-year record, set in 2008, is \$8.2 billion.” “The number is in the realm of the fabulous. If pressed, I would say that we might see between 100 and 200 municipal defaults next year, maybe totaling in the \$5 billion or \$10 billion range.”

“...she (Meredith Whitney) envisions between 50 and 100 -- or more -- counties, cities and towns making the choice to renege on their bonded debt. My question is: Why? Why would a governmental entity go out of its way to provoke or alienate its best source of finance?” “Why would a governmental entity choose to default on its bonds, especially if they make up a relatively small proportion of its costs?”

“What irks me about this Whitney call is that it generalizes about a market that resists generalization, a market that is particular and specific to a remarkable degree. And it doesn’t answer the question “Why?” It is instead an assertion aimed at getting attention.”

“Debt levels for U.S. local and state governments are relatively low, with annual debt service representing a relatively small part of budgets,” Fitch Ratings said in a special report in November. Entitled “U.S. State and Local Government Bond Credit Quality: More Sparks Than Fire,” the report said, “Debt service is generally less than 10 percent of a state or local government’s budget, and in many cases much less.” The lead analyst on the report was Richard Raphael, who has been covering municipal finance for 31 years. In his report, Raphael said, “debt service is a relatively small part of most budgets, so not paying it does not do much to solve fiscal problems (particularly as compared to the costs of such an action).”

December 23, 2010, CNBC.com, Ben Thompson, Samson Capital

“I disagree with the conclusion that the market is facing imminent defaults of the magnitude she (Meredith Whitney) described” “...the largest state debt burdens are around 7 percent and the majority are below 5 percent of Gross State Product. Even including pension liabilities, the most challenged large state, Illinois, is only about 16 percent of (gross) state product.” “...the federal government transfers money to the states, but the majority of these payments are for ‘human resources’ like Medicaid and the result of mandated programs where the state matches federal payments. The federal government cuts payments, the states cut funding and the programs get smaller unless the state elects to make up the difference. This is certainly an example of painful belt tightening but not a causal event for bond defaults.” Ben Thompson manages \$7 billion in tax-exempt debt for Samson Capital

January 5, 2011, Standard & Poor’s, Global Credit Portal, RatingsDirect,

Sector Review: 20 More Counties Achieve “AAA” Rating Despite the Recession

“Since our last report on ‘AAA’ rated debt of counties published in January 2008, 20 more counties have attained Standard & Poor’s Ratings Services’ general obligation (GO) or issuer credit rating of ‘AAA’, bringing the number to 67. The large increase in the number of ‘AAA’ rated counties since 2008 reflects not only criteria changes but also, in our view, the inherent economic, financial, and managerial strength of these counties, which have performed extremely well through the current recession.”

“The ‘AAA’ rated counties are geographically dispersed, with the southeast region of the U.S. having the largest number of counties rated ‘AAA’ (22) compared with other regions. Since our last report, each region has experienced an increase in the number of ‘AAA’ ratings. “Our examination of ‘AAA’ rated counties’ ratios shows

that population size and geographic location are not significant factors. The 'AAA' rated counties come from 25 states (up from 21 states since 2008) across the country."

January, 6, 2011, Joe Mysak, Bloomberg, Busting Unions with Bankruptcy Isn't Chapter 9 Way

"There's nothing easy, or convenient, or cheap, or quick, or even predictable about Chapter 9. Those who talk about municipal bankruptcy as if it is any of those things, and the blogosphere is alive with such opinions right now, don't know what they are talking about." "To review: states can't file for Chapter 9. Creditors can't petition for a municipality to be declared bankrupt; the entity does so voluntarily. Then the municipality has to prove it is insolvent and can't pay its bills. It also has to show that it has tried to avoid bankruptcy through negotiations." "And municipalities have to be authorized to file. More than half the states don't allow it. Most of those that do allow municipalities to file for bankruptcy discourage it. Long before public officials take the march up the courthouse steps, states find it in their best interest to intervene." "The reason bankruptcy is so rare in the municipal market is because it could blow up the borrowing costs of every government in a state, as well as the state itself."

January 7, 2011, Randall W. Forsyth, Barron's, The Sky Isn't Falling on the Muni Market

"...some big states face huge fiscal gaps." "That, however, doesn't mean a wave of huge defaults by state and local governments..." "Neither does it mean that the bonds of American state and municipal governments represent a risk to the financial system." "But four states -- California, Illinois, New Jersey and Texas -- account for 50% of the total shortfall. Add in New York, these five states comprise 58% of the 2012 deficit." "As bad as the budget situation is, it's getting better. Morgan Stanley Smith Barney points out that revenues actually have been increasing for three consecutive quarters owing to tax increases and an improving economy, with many key states seeing revenues exceed budget projections. "

January 12, 2011, Bloomberg Television's InBusiness, Bill Gross, Pimco

"Ultimately, municipal bankruptcies will be at a lower level." "I don't subscribe to the theory that there will be lots of them."

January 13, 2011, Bloomberg.com video, Richard Larkin

Regarding Meredith Whitney's statements: "I not only disagree, I think her comments are irresponsible" "I know there will be more defaults. It won't possibly come near hundreds of billions of dollars. I've estimated \$20B at most, which is less than 1% of the 60,000 issuers in the country whereas Whitney is talking about an estimate that represents 20% of the entire market." Richard Larkin is Director of Credit Analysis at Herbert J. Sims & Co., has been covering the industry for 35 years.

and,

January 12, 2011, Meredith Whitney, CNBC Squawk Box

"...indiscriminant selling will create a buying opportunity for some" "There are many municipal bonds that are safe and that are great investments." "You gotta do your homework."