

# Municipal Market Update

March 25, 2010





- The tax-exempt market has recovered from the liquidity dislocation of September and October 2008
- Current tax-exempt borrowing costs (as measured by the MMD index) are near historical lows across the yield curve
- Washington should consider issuing size now to take advantage of low tax-exempt rates and Build America savings

#### Interest Rate Bounds

January 1, 2008 - Present

	Min	Max
30-Yr MMD	3.81%	5.94%
30-Yr UST	2.54%	4.80%

Morgan Stanley

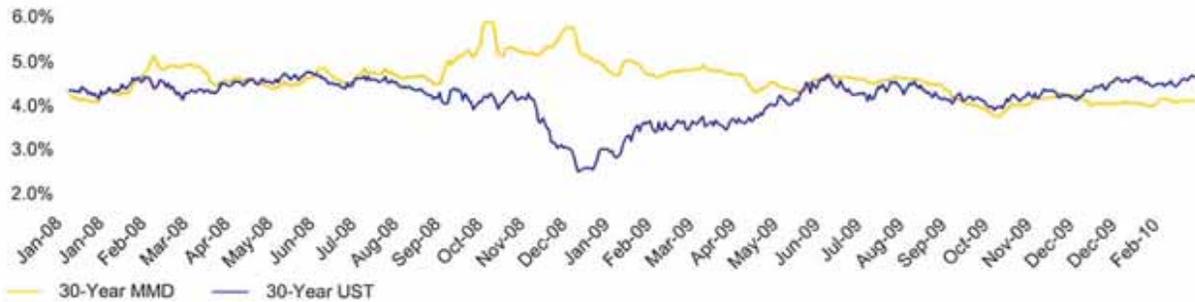
## MARKET UPDATE

# Review of Interest Rate Movements

2008 to Present

### 30-Year MMD and UST

From January 2008 to Present

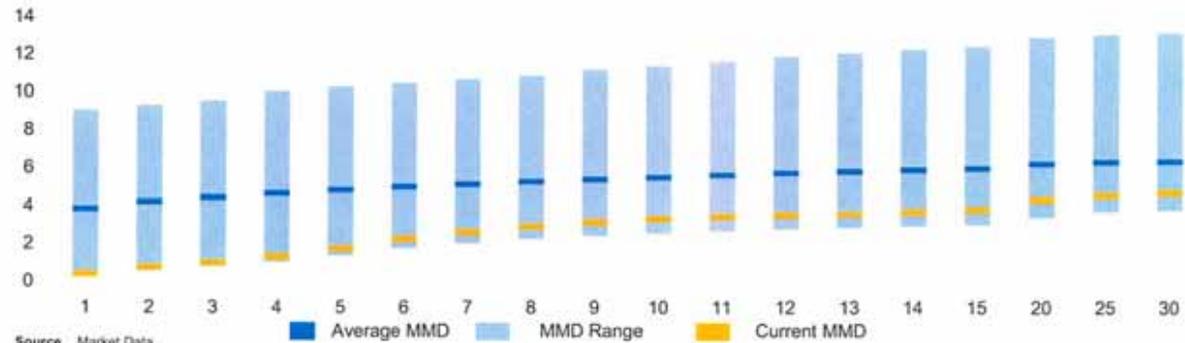


Source: Market Data

### MMD Interest Rate Analysis

Since Inception (1982-Current)

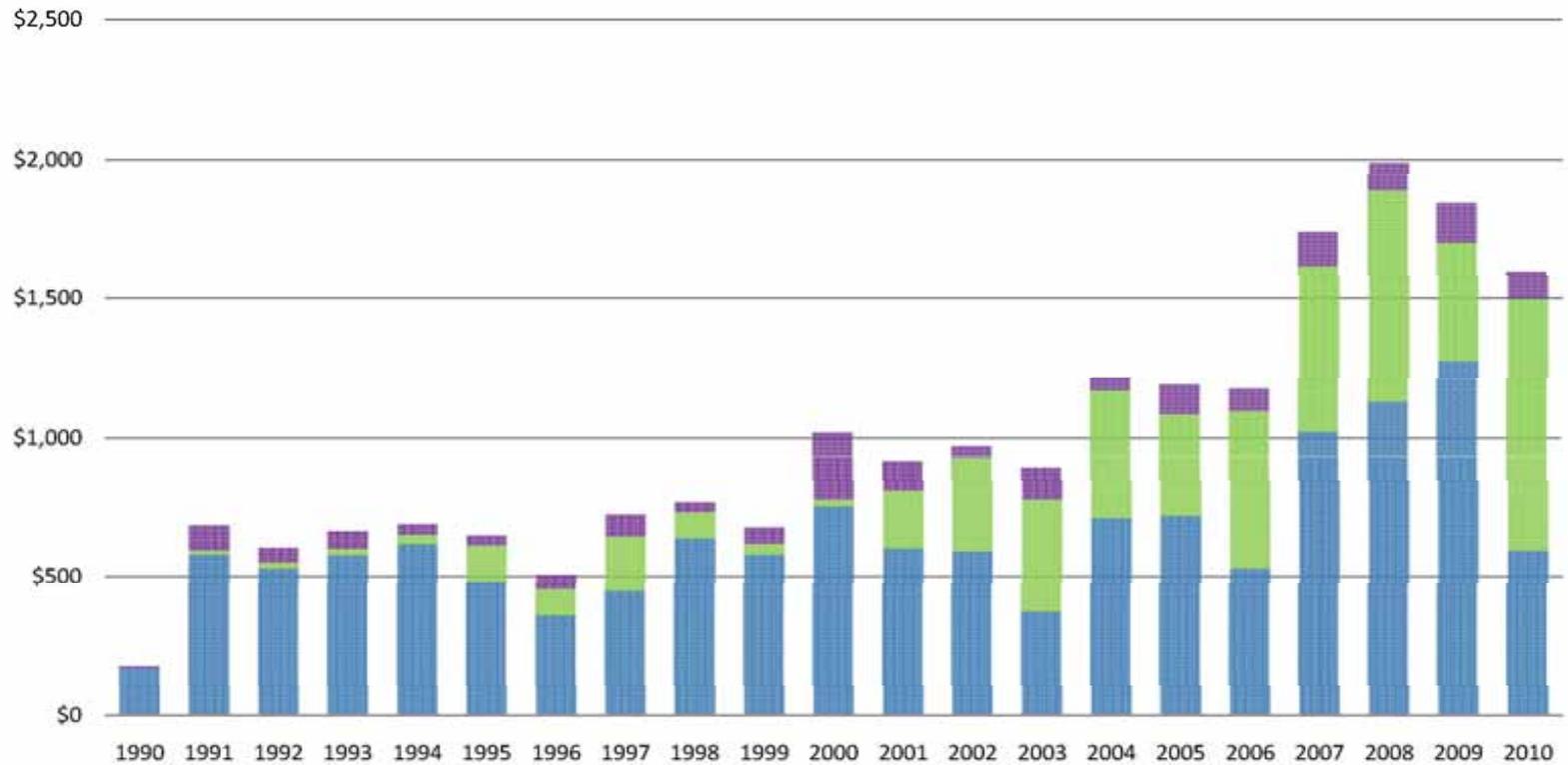
(%)



Source: Market Data

**State of Washington**  
**General Obligation Bond and COP Issuance: FY1990-2010**  
 (does not include refundings)

\$ in Millions



■ VP GO Bonds ■ MVFT GO Bonds ■ COPs

Source: Office of the State Treasurer

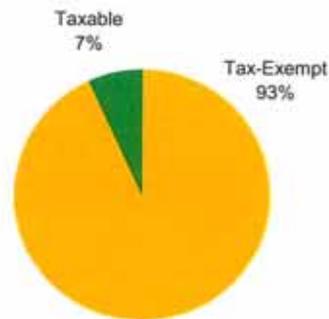


- The municipal market is undergoing a historic change as taxable bond issuance has risen from 7% of total issuance in 2008, to 20% of total municipal bond issuance in 2009
  - In 2009, Build America Bonds accounted for 75% of taxable municipal bond issuance
- We expect this trend to continue and estimate that as much as 30% or more of municipal bond issuance in 2010 will be taxable bonds

## MARKET UPDATE

# Actual 2008-09 & Projected 2010 Municipal Bond Issuance

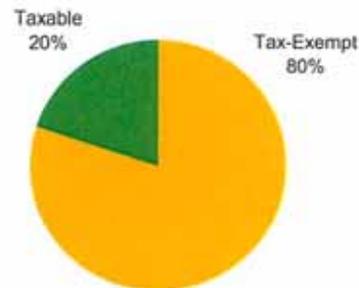
**Actual 2008 Municipal Bond Issuance**



**Total = \$390 billion**

Source: Bond Buyer Online

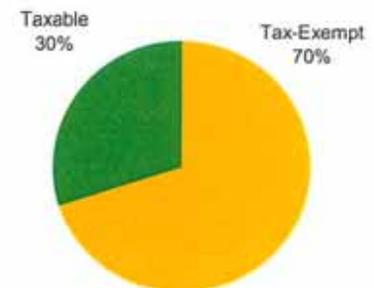
**Actual 2009 Municipal Bond Issuance**



**Total = \$410 billion**

Source: Bond Buyer Online

**Projected 2010 Municipal Bond Issuance**



**Estimated Market Size = \$425 billion**

Source: Morgan Stanley estimate



J.P.Morgan

## Summary of Investor Distribution

**Investor Breakdown**  
*Existing WA Bondholders vs New WA Bondholders*



Investor Type	Allotment	Percent
New WA Investors	390,005,000	77.5
Existing WA Investors	113,360,000	22.5
<b>Total</b>	<b>\$503,365,000</b>	<b>100.0%</b>

### Summary of Distribution

- Coordination between Goldman Sachs, JP Morgan, investment grade and municipal syndicate desks led to widespread participation
- Parallel process was run by municipal and corporate sales forces
  - Provided highest level of coverage to institutional investors
  - Fluency across corporate and municipal buyers
- Summary of Distribution
  - Interest from over 60 investors
  - Transaction placed with every account that put in orders
    - Over \$1.3 bn in orders confirmed
    - Total transaction was over 2.5x oversubscribed; 2039 tranche over 3x oversubscribed
- Diversified the State's investor base
  - Over 77% of investors were new buyers of State of Washington GO paper



- The State can also examine the largest buyers of taxable municipal bonds that participated in sales for similar credits
- We chose issues from the following credits for inclusion in this comparative data set:
  - State GOs (MS, CT, GA, PA)
  - New York City Water
  - Metropolitan Water District
  - BATA
  - LAUSD
  - New York City TFA
  - Utah Transit Authority

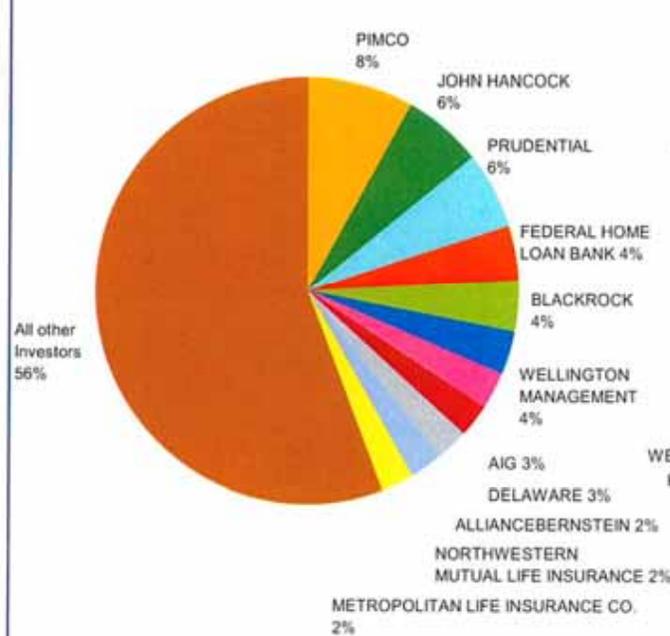
**MARKET UPDATE**

# Largest Buyers of High Grade Bonds

Comparing Largest High Grade BABs Buyers and Largest Investors in the State's BABs

## Overview of Largest BAB Buyers

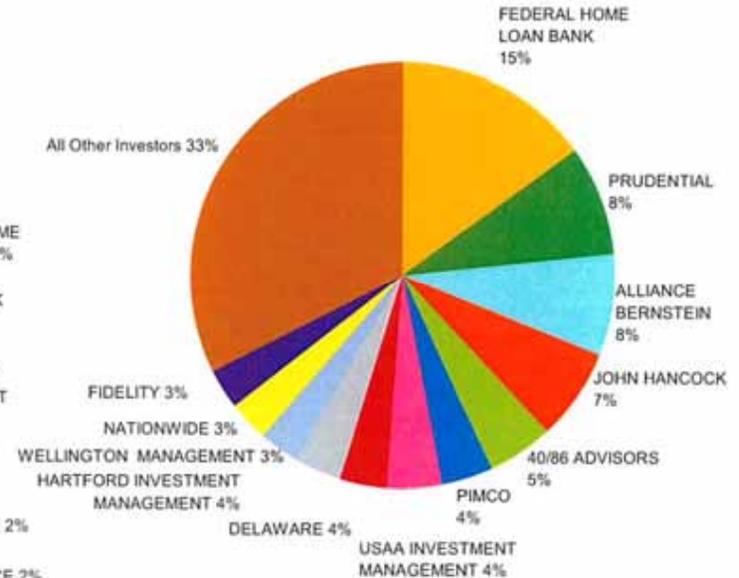
\$10.6 Billion of Par Analyzed



Source Reuters EMAXX

## Top Investors in the State's Series 2010D BABs

\$503.4 Million of Par Analyzed



Source Reuters EMAXX