International Bridge, Tunnel, and Turnpike Association

Organization Management Workshop

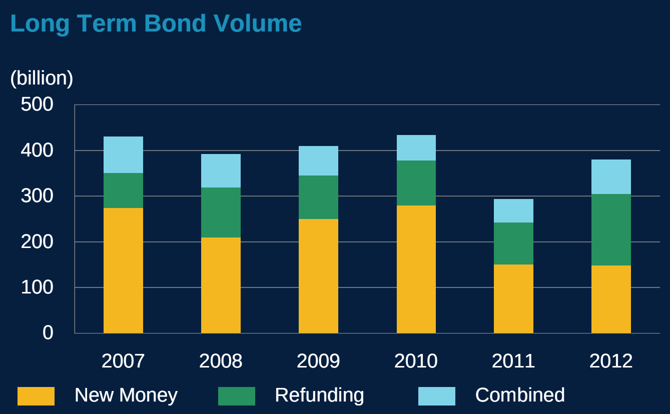
June 24, 2013

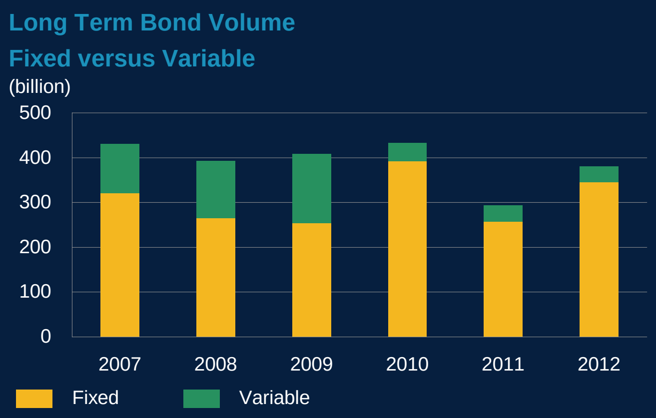
The Post Financial Crisis Market Requires a Different Approach to Capital Market Access

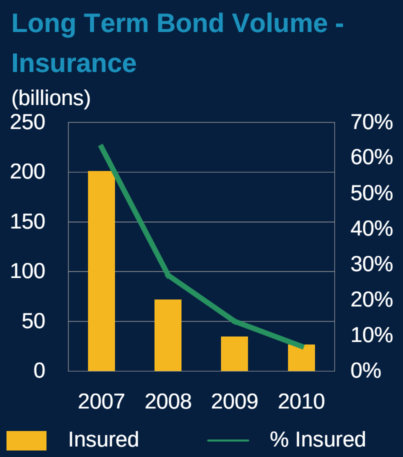
- Bank downgrades
- Downgrades and bankruptcy of bond insurers
- Low long-term rates managed by the Federal Reserve Bank
- Steep yield curve
- Increased cost of bank credit
- Lower municipal revenues
- Hesitation to raise governmental fees and taxes

These factors require governments to enhance their capital markets approach

General Market Statistics Show Financial Crisis Impact







- Lower aggregate volume
- Less new money
- Increase in refundings

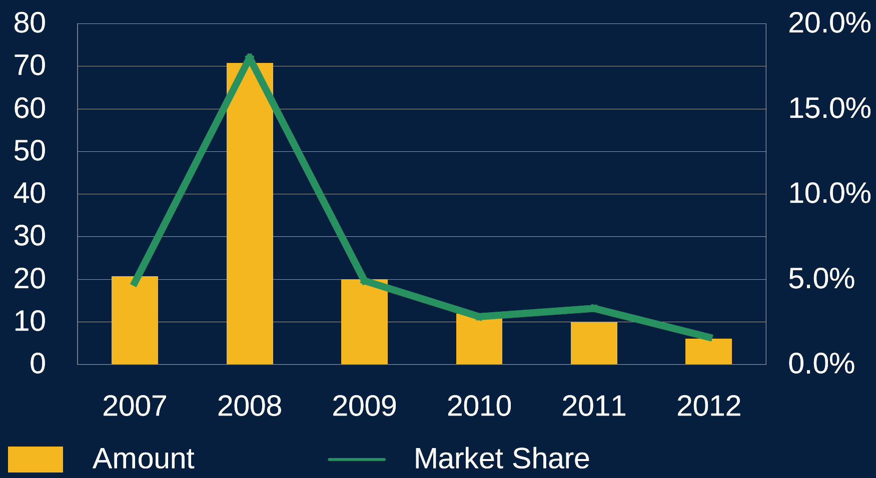
- Less variable rate
- ARS Market failure
- Expensive liquidity

- 60% to 7%
- 6 players to 2.5

Morgan Stanley

Variable Rate Market is Also Very Different

Letters of Credit



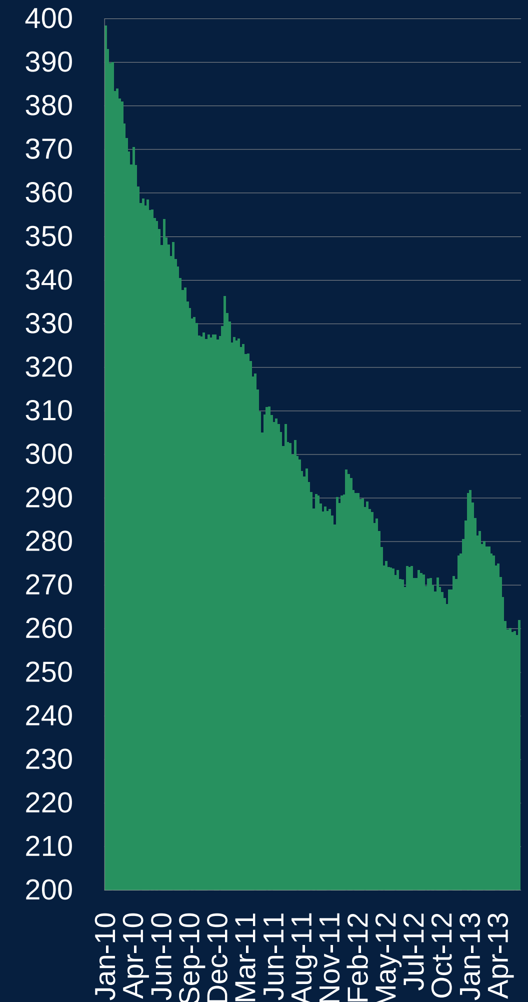
Top Letter of Credit Providers

2007 Bank	2007 Ratings (Moody's / S&P / Fitch)	2013 Bank	2013 Ratings (Moody's / S&P / Fitch)
Bank of America	A3 / AA+ / AA	US Bank	Aa3 / AA- / AA-
JP Morgan	Aa2 / AA / AA-	Wells Fargo	A2 / A+ / AA-
Wachovia	Aa2 / AA- / AA-	PNC	A2 / A / A+
Dexia	Aa3 / AA / AA+	Citi	A3 / A / A
US Bank	Aa1 / AA+ / AA	RBC	Aa3 / AA- / AA

Tax-Exempt Money Market Assets Have Fallen

Assets Under Management

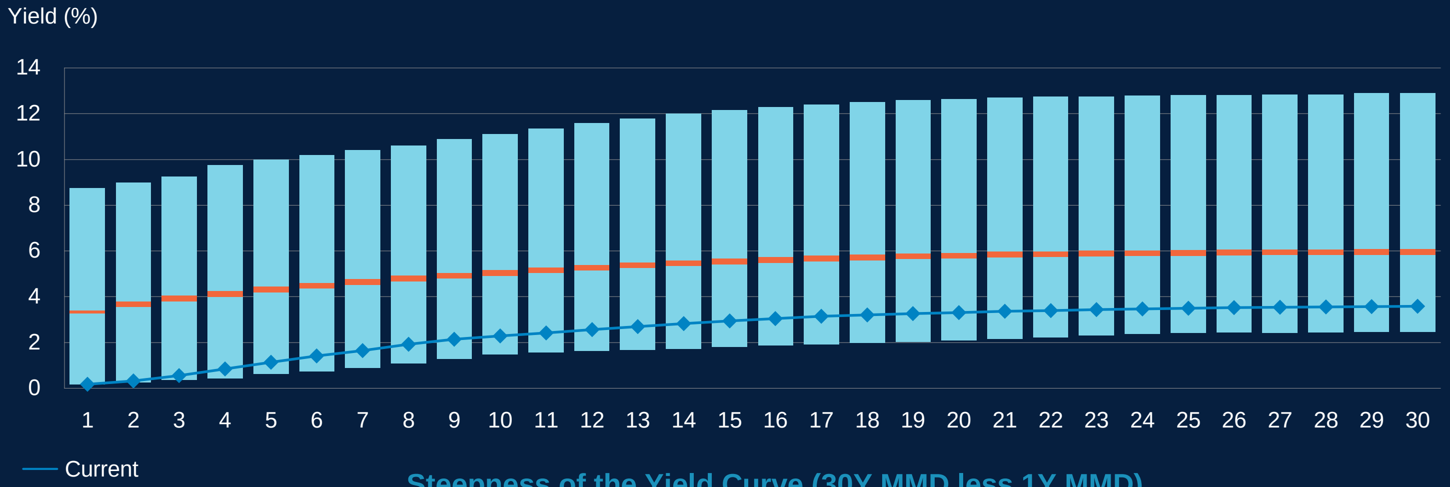
(billions)



Rate Market-Low Rates, Steep Curve

Historical and Current MMD in Context

Since Inception (1982 to Present)



Steepness of the Yield Curve (30Y MMD less 1Y MMD)

2005 - Present

Morgan Stanley

Municipal Buyers: A Credit Market Not a Rate Market

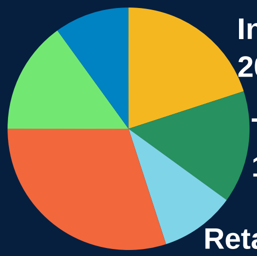
- Increased staff of credit analysts and more time needed to analyze credits
- Enhanced analyses of underlying municipal credit on a continuing basis
- Seeking extra yield through product and structure
  - Premium coupon callable bonds (5% coupons) provide some yield upside
  - Non-callable bonds have less value
  - Low rated bonds have more liquidity
- Enhanced analysis of secondary market liquidity

Municipal Issuers Need to Directly Target Investors

- ***In-person multi-city investor road show***
- ***Internet roadshow for investors***
- ***One-on-one investor calls***
- ***Institutional sales force meetings***
- ***Syndicate conference call***
- ***Retail liaison conference call***
- ***Continuing program of investor relations***

A large bond issue requires several full days for marketing

Typical Tax-Exempt Bond Investor Distribution



Targeting All Buying Sectors is Important

Institutional

Bond Funds/ Insurance Companies

Key Accounts
- Fidelity
- Vanguard
- Blackrock
- PIMCO
- TRowe
- Hartford
- AIG
- Delaware
- Franklin Templeton
- Northern Trust
- Wellington
- Mass Financial
- Travelers

Motivation/Strategy
- Tend to move in tandem
- Often focus on lower rated/higher yielding names, but buy high grades when they have to put money to work
- Target under-represented investors

Retail

Separately Managed Accounts (SMAs)

Key Accounts
- GSAM
- JPIM
- Bernstein
- Northern Trust
- Blackrock
- Franklin
- UBS
- Wells Fargo
- Nuveen
- Breckenridge
- Gannett
- Columbia

Motivation/Strategy
- Fastest growing investor class
- High quality – low volatility
- Geographic diversification
- Smaller premiums
- Essential purpose
- 12 years and shorter
- Can put in for $5-50MM+

Traditional "Mom and Pop" Retail

- Morgan Stanley Office Locations (Accounts,'000s):
  - 14,929 financial advisors nationwide
  - 5.85MM accounts
  - $1.46 trillion under management, including $184.5 billion of municipal assets

Motivation Strategy
- Like high quality assets
- Tend to be less rate/market sensitive
- Use lower coupons & retail priority/retail order period
- Conference call for syndicate's retail brokers to explain credit and structure

Alternative Institutional

Cross-Over / Relative Value Investors

Key Accounts
- Susquehanna
- White Box
- Citi Arb
- Definitive Capital
- Anchorage
- Aviva

Motivation/Strategy
- Focused on relative value vs. other assets
- Tend to participate when munis are dislocated or "cheap"
- Very rate/market sensitive
- Can place very large orders
- Opportunities for reverse inquiry

In-Person Meetings can Enhance Bond Value

Day One — New York

Prudential, MetLife, Delaware Investments (A member of Lincoln Financial Group), OppenheimerFunds (The Right Way to Invest), 40|86 Advisors, AIG, J.P.Morgan, GE Asset Management, Loews Corporation, Vanguard Investments, BlackRock, AllianceBernstein, Goldman Sachs, Neuberger Berman, Lord Abbett, MacKay Shields, Western Asset

Day Two — Boston

Boston Research & Management, Gen Re (A Berkshire Hathaway Company), Breckinridge Capital Advisors, GW&K Investment Management, MFS, Fidelity Investments, Scudder Investments, IR+M Income Research + Management, Standish, Wellington Management, The Hartford, Columbia Management

Day Three — Chicago

Northern Trust, Allstate (You're in good hands.), Thrivent Financial for Lutherans, Nuveen Investments, Invesco

Day Four — California

Capital Group Companies, Franklin Templeton Investments, American Century Investments, Guggenheim, Wells Capital Management, PIMCO

Bond Fund Flows will Impact Marketing Plan

Municipal Bond Fund Flows

January 2011 – Present

Source Investment Company Institute

- Municipal volatility is exaggerated by bond fund flows that generally move in the same direction at the same time
  - Drop in Net Asset Value can cause a mass exodus out of bond funds, putting upward pressure on rates
- Following Fall 2010 tobacco downgrades and dire Meredith Whitney default predictions, investors pulled $44 billion from municipal bond funds through August 2011, and tax-exempt rates skyrocketed 94 bps in the first six weeks
- Retail investors are the investor class that counterbalances and stabilizes rates when bond fund flows turn negative

Bottom Line

- The market is now a credit market
- Investor dialog is more important post financial crisis
- The work to implement a well thought out investor marketing program will result in a lower funding cost
  - Target best markets for your bonds
  - Get to know investors
  - Be flexible to react to changing market conditions
  - Provide timely continuing disclosure