

MUNICIPAL BOND MARKET MONTHLY

JANNEY FIXED INCOME STRATEGY

February 28, 2011



CONTENTS	PAGE
MARKET COMMENTARY	1
BAB REBIRTH PROPOSED	3
MUNICIPAL SECTOR OUTLOOK	4
STATES' STRESS EXIST, OVERBLOWN	5
ON, WISCONSIN! ON, WISCONSIN!	7
NJ, HARRISBURG, & QUEENS B-PARK	9
SELECT CREDIT CHANGES	11
STATE ISSUER RATINGS	12
MUNICIPAL RATING DEFINITIONS	13
JANNEY MUNICIPALS PUBLICATIONS	14
DISCLOSURE	15

Municipal Market is Recovering and Recent Labor Protests Have Not Spooked Investors

- Low primary market municipal supply continued in February as did outflows from municipal bond mutual funds.
- Build America Bond legislation was reintroduced but chances of rebirth are low due to Republican headwinds.
- States' tax revenue was higher for the 4th straight quarter by almost 7% helping to mute calls for States to acquire the ability to file bankruptcy, but fiscal strains remain.
- Labor protests in Midwest U.S. are not affecting the municipal market.
- Arizona's (ICR) outlook lowered by Moody's; Massachusetts' outlook raised by S&P; S&P lowered New Jersey's rating; Moody's put Queens, NY ballpark on negative outlook; and Allegheny County's, PA outlook was lowered by Moody's and S&P.

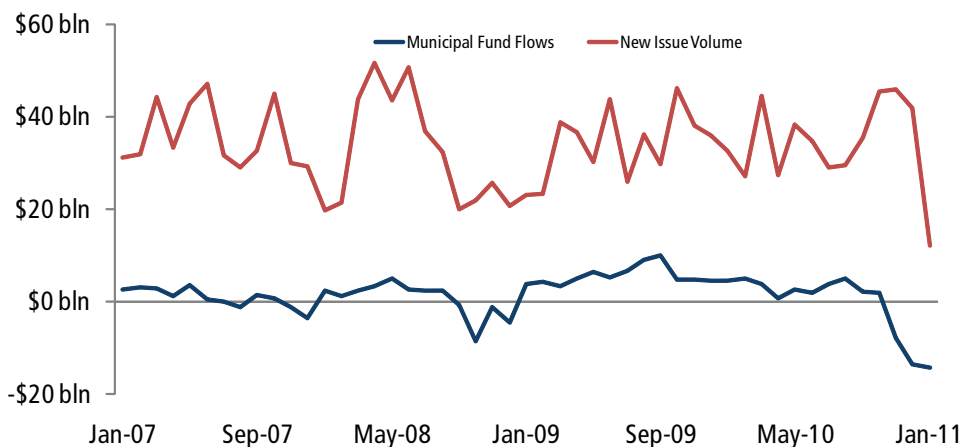
MARKET COMMENTARY

Low Primary Market Supply and More Mutual Fund Outflows

Several themes dominated the municipal market in the first eight weeks of the new year. On the supply side, new issue volume dropped to well below historical levels with January's \$12.1 billion of new issuance representing the slowest month in more than ten years, and February shaping up to be nearly as slow. Money continues to move out of tax exempt mutual funds, although the pace is slowing, with February averaging \$1.4 billion per week compared to \$3 billion on average in the eleven weeks prior. To gain perspective it's useful to consider the strong inflows of 2009 and 2010, which took place in an environment of ultra low short term interest rates and scary equity markets. Much of the money flowing into tax free funds was the result of yield chasing and equity avoidance. Short term rates remain low, for now, but equity markets have been strong, with the S&P 500 up 92% from its March 2009 lows, and equity mutual funds bringing in over \$4 billion a week in 2011. Many sellers of muni funds are moving into equities.

Yields rose sharply in early January, partially due to continued fund selling, but the meager new issue supply offset the selling pressure, and yields recovered most of their lost ground. M/T Ratios

Volume and Fund Flows Were Lower



Source: Bloomberg, ICI Data and Janney Fixed Income Strategy.

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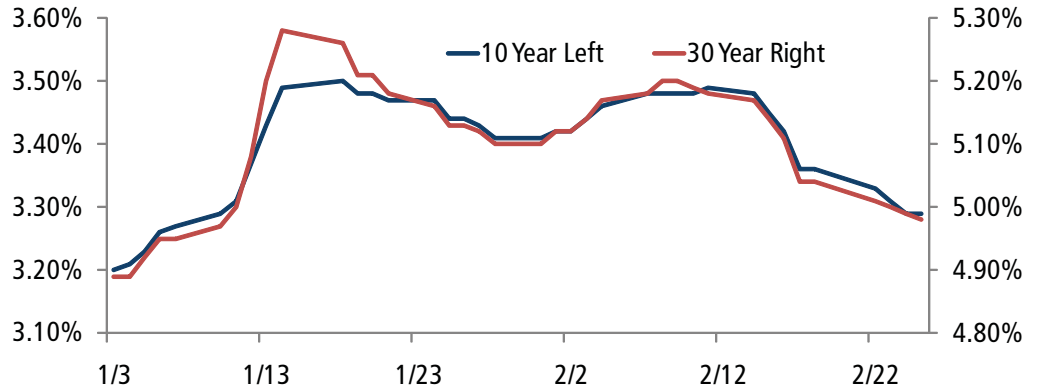
Crossover buying from non-traditional municipal investors brought M/T Ratios back into line.

Issuers have postponed borrowing until markets stabilize.

California, one of the most prolific of issuers, stated they will issue no more bonds until the new fiscal year in July.

(AAA muni yield divided by like maturity Treasury yield) initially rose, with ten year percentages crossing over the 100% threshold in mid-January, but crossover buying from non-traditional municipal investors brought ratios back into line.

10 Yr and 30 Yr Municipal Yields Fell in February

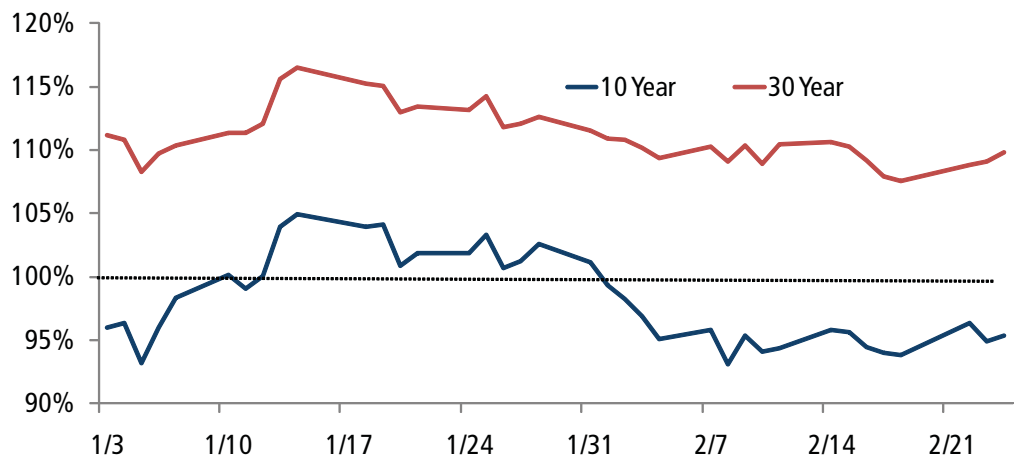


Source: Municipal Market Advisors and Janney Fixed Income Strategy.

What Happens When Volume Picks Up?

The question remains – what happens when volume picks up? Predictions of municipal new issuance for 2011 have ranged around \$350 billion, well below 2010's record \$432 billion, but since about 25% of last year's deals were taxable BABs, tax free new issuance in 2011 could actually exceed 2010 levels if projections are correct. Many issuers and underwriters have postponed borrowing until markets stabilize.

Pressured M/T Ratios Could Present Buying Opportunities



Source: Municipal Market Advisors and Janney Fixed Income Strategy.

Officials of California, one of the most prolific of issuers, have stated they will issue no more bonds until the new fiscal year in July. On the other hand the Illinois governor is seeking legislative approval for \$8 billion in tax free borrowing to pay off the long line of unpaid vendors knocking on the Treasurer's door. It is inevitable that volume will pick up in coming months, and when it does, we expect some pressure on ratios, and opportunity for both crossover buyers and long term investors.

Alan Schankel

Republican headwinds will minimize any real chances of the rebirth of BABs.

The reality is that many BABs are held by IRA accounts, pension funds and even non US investors.

The Presidential Commission on Fiscal Responsibility and Reform suggested eliminating the tax exemption feature of future municipal bond issues.

BUILD AMERICA BOND REBIRTH PROPOSED

Obama's Proposed Budget Would Make BABs Permanent With a 28% Subsidy

The twenty-one month run of Build America Bonds (BABs) died on December 31, but efforts continue to revive the popular program. A bill was introduced in the House to extend the program for two years, with the original 35% federal subsidy replaced by 32% in 2011 and 31% in 2012. President Obama's fiscal 2012 budget would bring the program back permanently, with a 28% subsidy level. Republican headwinds will minimize any real chances of rebirth.

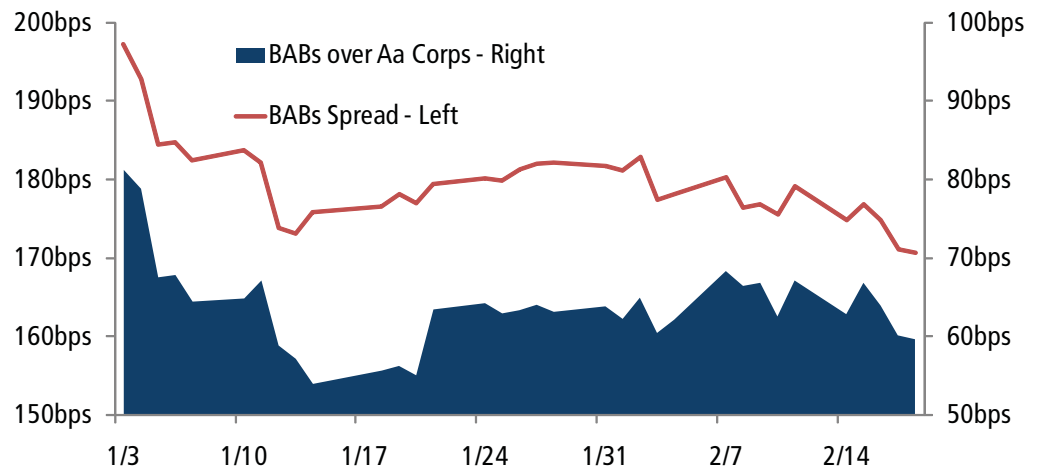
From April 2009 through December 2010, \$185 billion taxable BABs sold, comprising about 25% of new issue volume in 2010. Critics of the program argue that by lowering after subsidy borrowing costs, BABs encourage state and municipal issuers to borrow beyond their needs. The other primary criticism is the expense of the program. If most purchasers of the bonds were high bracket investors, in non-tax advantaged accounts, the federal income tax collected on the higher taxable returns of BABs would go far to offset the cost of the checks Uncle Sam sends to state and local governments, subsidizing 35% of the interest payment. The reality is that many BABs are held by IRA accounts, pension funds and even non US investors, none of which generate offsetting federal income tax payments.

Municipal Market Advisors estimates that the net cost to the federal government on the \$185 billion issued to date ranges between \$2 billion and \$3 billion each year. This annual expense will extend far into the future since most BABs have maturities in the thirty year range. Future issuance would add to the annual cost and extend the payment horizon further, so in an atmosphere of budget cutting and anti-bailout rhetoric it will be an uphill battle to bring back the subsidy program underlying BABs. The Obama administration's proposed 28% subsidy rate has been characterized as revenue neutral, but it's difficult to determine a valid revenue neutral rate. If the portion of BABs buyers who pay no taxes continues to grow, the breakeven rate will decline, making even lower subsidies an expense. The irony is that if the market grows with new issuance, and gains more following, the newer buyers are increasing likely to be low or no tax bracket investors, pushing subsidy costs higher.

Will All Municipals Go Taxable? Maybe at Some Point

Taxable municipal bonds, in another guise, may still emerge. The Presidential Commission on Fiscal Responsibility and Reform issued a report with a variety of suggestions to address structural financial

BAB Spreads to Treasuries and Corps Narrowed



Source: Barclays Capital and Janney Fixed Income Strategy.

Although the Commission's report did not garner enough votes to be passed on to Congress, it is still being discussed.

Municipal market observers main credit focus keyed on continued rhetoric about state governments' credit conditions.

We have not made any sector outlook adjustments since we raised the outlook on the Tobacco sector to "Cautious" from "Negative" in December 2010.

issues in the United States. Tax reform was a critical component, including a proposal to eliminate the tax exemption feature of future municipal bond issues. Although the report did not garner enough votes from commission members to pass it on to Congress, it is still being discussed. A bipartisan group of senators (3-D and 3-R) is working on legislation which according to the Wall Street Journal, builds on work of the Commission. It would not be a surprise if in coming years, tax free munis disappear and are replaced by taxable municipal bonds, perhaps with phase in subsidies to help issuers. BABs have demonstrated that there is a vibrant market for taxable municipal bonds.

BAB Spreads to Treasuries Narrow

In the meantime, with no new issues coming, BABs spreads, the yield differential between BABs and like maturity Treasury bonds, have narrowed. From nearly 200 bps in early January, BABs spreads dropped about 25 basis points, but they still compare favorably to corporate spreads, with BABs trading nearly 60 bps above AA rated corporate bond issues. Given the growing scarcity value of BABs, we believe the differential between corporate bonds and BABs will continue to narrow, as investors seek diversification in taxable accounts. **Alan Schankel**

JANNEY MUNICIPAL SECTOR OUTLOOK

Many municipal market observers' main credit focus, especially over the last month, keyed on continued rhetoric about states' general credit conditions, calls for states to be awarded the ability to declare bankruptcy, and how other sectors would be affected by lower state aid or reduced revenues. Even though we highlighted the state sector in the January MBMM we again focused on the states because of investors' continued inquiries.

We have not made any sector outlook adjustments since we raised the outlook on the Tobacco sector to "Cautious" from "Negative" in December 2010. We are not altering any Janney outlooks this month. And at this point we do not foresee additional movement unless significant economic influences materialize. **Tom Kozlik**

Janney Municipal Sector Outlook

Sector	Janney Outlook	Last Month Change	Barclay's 12 Month Return	Key Sector Trends	Recent Janney Sector Review
Muni Bond Index	-	-	1.10%	Barclay's Muni Index, 46k issues	-
State Government	Stable	Same	2.18%	Levers to raise taxes and cut spend.	This MBMM
Local Government	Cautious	Same	1.05%	Less revenue, look for over-leverage	Nov MBMM
School Districts	Stable	Same	-	Less rev but State prog offer security	2011 Outlook
Airports	Cautious	Same	0.78%	Enplanements flying again in 2010	2011 Outlook
Higher Education	Cautious	Same	0.87%	Publics less \$, privates face pressure	2011 Outlook
Health Care	Cautious	Same	0.70%	Sector mixed, ratios are improving	2011 Outlook
Housing	Stable	Same	2.93%	Single family is stronger than multi	Jan Muni Note
Public Power (Elec.)	Stable	Same	1.25%	Essential purpose, but volatile	2011 Outlook
Tobacco	Cautious	Higher	-1.89%	Stronger than ratings show	Dec 6 Note
Toll Facilities	Stable	Same	0.78%	Traffic rising, DS cov. strong	2011 Outlook
Water and Sewer	Stable	Same	1.23%	Essen purpose, scarcity to be an issue	2011 Outlook

Source: Barclays Capital and Janney Fixed Income Strategy.

We certainly do not think any state will default on bond payments in 2011.

This time last year is when investors should have been most concerned about states' fiscal situations because states experienced five quarters of negative tax revenues.

State and local governments are going to continue to need to investigate spending reductions and revenue enhancements (tax increases).

STATE FISCAL STRESS EXISTS, CONTINUES TO BE OVERBLOWN

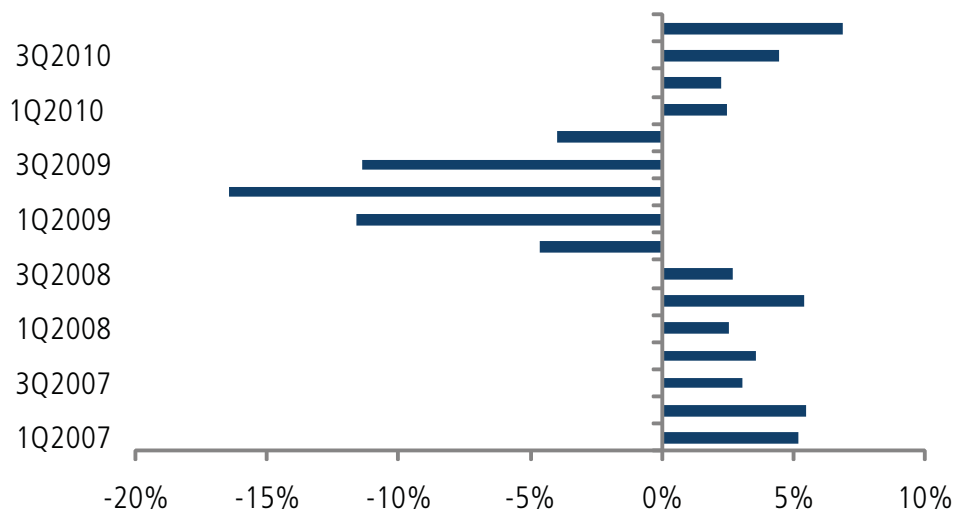
States Posses Sovereign Capacity to Cut Spending and Raise Revenues

While U.S. State governments are in the midst of a very challenging financial phase we believe the stress is being overstated by those calling for states to acquire the ability to file for some type of bankruptcy protection. States are facing an estimated collective \$125 to \$140 billion budget deficit due to lingering effects from the Great Recession and the expiration of the ARRA funds. But, we expect states to pare spending and raise tax rates in some cases, as lawmakers did in Illinois. We certainly do not think any state will default on any bond interest payments in 2011. Anyone saying or writing otherwise is spreading a false sense of reality.

State Revenues Have Been Higher for Four Straight Quareters

This time last year is when investors should have been most concerned about states' fiscal situations. States experienced five quarters of negative tax revenues. In 2010, state tax revenues turned the corner and have been higher for four straight quarters. State tax receipts were up by almost 7% in 4Q2010 versus the same period a year earlier.

State Tax Revenue Yoy Quarterly Change (%)



Source: Rockefeller Institute of Government and Janney Fixed Income Strategy.

But the Tax Revenue Jump Will Not be Enough in Many States

Although state tax revenues are growing, levels are still not close to pre-2007 levels. State and local governments are going to continue to need to investigate spending reductions and revenue enhancements (tax increases). That being the case, there is currently not a crisis in confidence among most municipal investors with regard to the states. And we believe the municipal bond capital market will continue to be an important part of the economic recovery of state and local governments.

And Headline Risk Remains a Significant Factor

Questions about the need for states to file for bankruptcy protection became more main-stream after calls for it started coming from unlikely sources. Currently, only "municipalities" are able to voluntarily file for Chapter 9 municipal bankruptcy protection. A municipality is defined as a "political subdivision or public agency or instrumentality of a state." Chapter 9 filings are not permitted in every state. Only 26 states have statues enabling Chapter 9 filings for municipalities, including local governments.

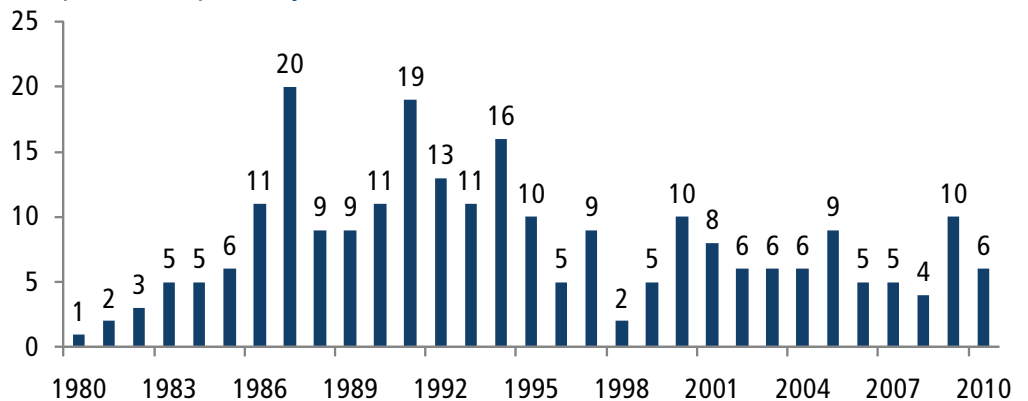
States decisions cannot be changed by the Federal government.

The politicalization of the idea of state bankruptcy was heightened by a LA Times op-ed authored by Newt Gingrich and Jeb Bush.

Meredith Whitney was invited but did not attend the hearing.

States do not possess the legal ability to file for bankruptcy. A municipal bankruptcy provision for states is considered to interfere with states' sovereignty. In other words, states, have many levers available to them in order to cut spending and raise revenue and those decisions cannot be changed by the Federal government without the state's consent. This remains a Constitutional challenge for a State bankruptcy provision.

Municipal Bankruptcies by Year Since 1980



Source: Chapman and Cutler and Janney Fixed Income Strategy.

Despite states inability to file for bankruptcy there have recently been, mostly politically charged, calls for states to be awarded the capability. A Nov. 2010 article was printed in the Weekly Standard and then a January 2011 Wall Street Journal op-ed, both written by David Skeel, a law professor at the University of Pennsylvania who concentrates on corporate bankruptcy. These requests raised the issue's profile.

The politicalization of the subject was heightened by a LA Times op-ed authored by Newt Gingrich and Jeb Bush. In it the need for the states' ability to reorganize was stressed. Keep in mind that despite these calls for its necessity, U.S. states' governors and legislators denied the need for the ability for states to restructure. In fact, a Feb. 4, 2011 letter written to Senate and House leaders from the National Governors Association indicated, "The nation's governors and legislators do not support proposals to provide states with bankruptcy protection."

The U.S. House decided to investigate and did so recently when the U.S. House Oversight panel on TARP and Financial Services, chaired by Rep. Patrick McHenry (R) from North Carolina held a hearing on Wednesday Feb 9. The meeting was dubbed, "State and Municipal Debt: the Coming Crisis?" and the hearing focused on states' budget deficits, whether states need a bankruptcy provision, and pension liabilities.

And Calls for a State Bankruptcy Provision Have Quietened

Congress's hearing did not turn into political theater or create a barrage of state and local government headline risk as anticipated. In fact, despite its title, the hearing was an information gathering session with four qualified professionals testifying before the subcommittee. Absent, although invited, was Meredith Whitney, the former banking analyst who irresponsibly forecast a "spate" of local government defaults for 2011. The subcommittee was also very engaged and asked important and relevant questions.

The two key questions at issue were:

- Do U.S. states need to be able to file for bankruptcy?
- Is the funding level of pensions an immediate threat?

The thoughtful prepared testimony and answers to subcommittee members' questions pointed out that it was correct and necessary for Congress to inquire about potential stresses to state and local governments.

No doomsday was predicted at the "State and Municipal Debt: the Coming Crisis?" hearing.

On, Wisconsin! On, Wisconsin! Plunge right through that line!

The first two lines from the U of W's fight song refers to Badger football, not to crossing the protest or picket line.

We have not yet seen any type of significant movement in state credit spreads to the AAA Municipal Market Data (MMD) scale.

Most participants offered thoughtful recommendations about how policymakers could adjust future practices, mainly by streamlining or tightening public sector spending, for example.

No doomsday was predicted. Since the hearing, talk of the need for a state bankruptcy provision has all but vanished.

Summary of Opinions from Testimony

Name	Organization	OPINIONS	
		States Need Bankruptcy?	Are pensions a short-term threat?
Nicole Gelinias	Manhattan Institute	No	No
David Skeel Jr.	U of Penn	Yes	N/A
Eileen Norcross	George Mason U	No	No
Iris Lav	Center on Budget & PP	No	No

Source: Janney Fixed Income Strategy. Hearing can be found at <http://oversight.house.gov>.

We do Not Believe States Need a Bankruptcy Provision

The key strength of state governments, especially where their budgets are concerned, is that they and only they are the masters of their own destinies. This is despite what some lawmakers want observers to believe. In most cases states will be able to balance budgets by making spending cuts. Agreeing on where that pain will take place will be the difficult part. A few states will likely also need to hike taxes and or fees in order to balance their budgets. The budget situations are dire as a % of FY2011 spending plans in Illinois and New Jersey, and Nevada. **Tom Kozlik**

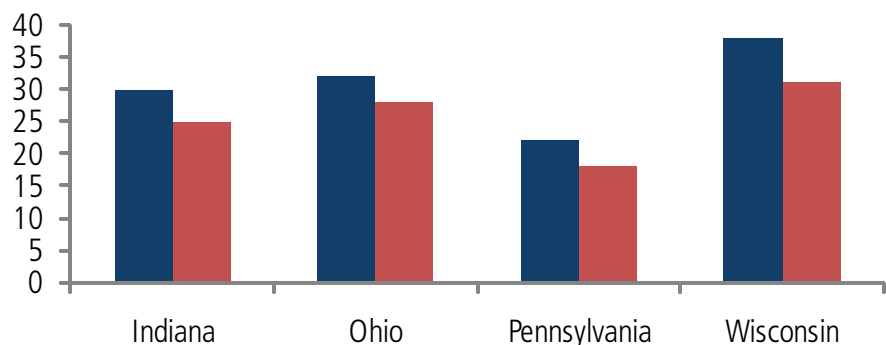
ON, WISCONSIN! ON, WISCONSIN!

Wisconsin, commonly celebrated for its World Champion Green Bay Packers, State University marching band, Barry Alvarez (current U of W Athletic Director and former football coach), and cheese, is now most well-known for its active labor movement. Tens of thousands of pro-union supporters including teachers, police and fire personnel have protested for about two weeks inside and outside of the Madison, WI state capitol building. They are in opposition to the new Republican Governor Scott Walker's proposed bill to restrict collective bargaining. Protesters reportedly already agreed to wage and benefits reductions.

The Municipal Market has Not Been Affected by Labor Protests

While this makes for interesting political theater, news of the protests has not affected the municipal bond market. The WI labor protests and to a lesser extent labor opposition in Indiana and Ohio will likely only affect the municipal credit market minimally because of the headline risk and uncertainty it brings. But we have not yet seen any type of significant movement in state credit spreads to the AAA Municipal Market Data (MMD) scale.

Spreads to AAA MMD have Fallen Since Before the Protests Began



Source: Thomson Reuters and Janney Fixed Income Strategy.

Bratwurst is a German sausage made of finely chopped veal pork or beef. Brats are common fare during Milwaukee Brewers, Green Bay Packers and U of W sporting events.

Benefits for state and local government employees took off at a higher rate from 2005-2010.

There is a rising anti-spending sentiment when it comes to workers in the public sector.

The municipal market continued to recover from its Dec 2010 and Jan 2011 fall over the last three weeks of February. Spreads to MMD have actually fallen, indicating that investors are not considering the labor protests in Wisconsin to be a credit risk.

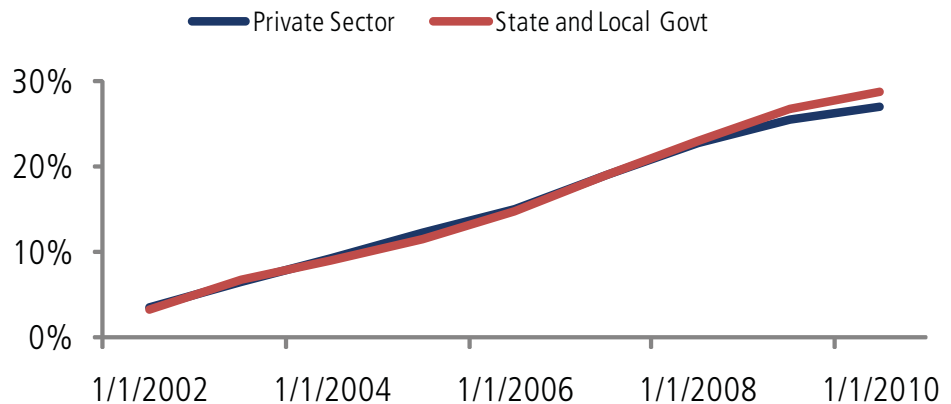
This is How the Sausage (or Bratwurst) is Made

Americans have a long history of expressing their grievances against government. What we are witnessing on CNN, Fox News, and MSNBC, in Madison, is public sector unions exercising their rights to free speech and to peacefully organize. Two basic rights afforded to the citizens under the Constitution of the United States. This is in response to the decision Wisconsin voters made in November 2010, when they elected a conservative Republican Governor who ran on a government reform platform. Gov. Scott Walker clearly stated that he would reduce government spending during his campaign. Of course, the public sector workers employed by the state do not agree with Walker's viewpoint, creating the conflict. This is how the sausage (or bratwurst, more appropriate when writing about Wisconsin) is made. It is a key characteristic of the US political process. It is not often a pretty sight, but it will eventually be completed, hopefully without too much collateral damage.

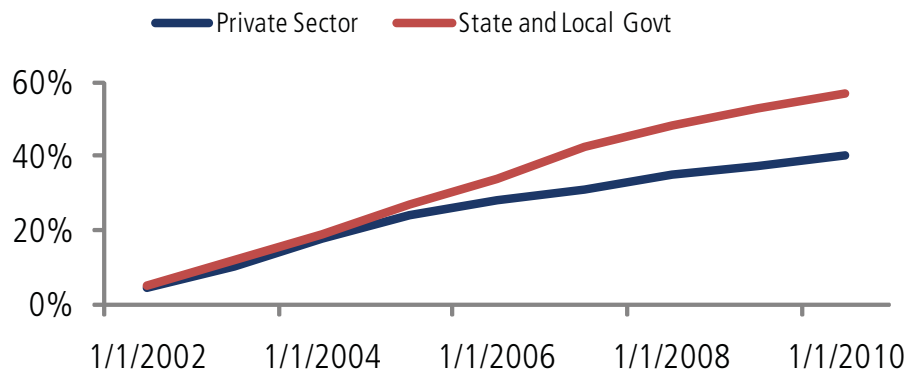
Welcome to the Reality of the Post-Recession Era

In our opinion one of the reasons Gov. Scott Walker was elected by a 52% to 46% margin and why public sector unions in Wisconsin and other locations may possibly find it hard to garner support is because the general public's perception of public sector workers has changed. From 2001 to 2010 wages and salaries for private sector and state and local government employees rose closely in tandem, according to Bureau of Labor data. Through 2005 benefits rose at an equal pace too. But benefits for state and local government employees took off at a higher rate from 2005-2010. This is not necessarily to say that wages, salaries and benefits are currently bankrupting states. But, I think there is a rising anti-spending sentiment when it comes to workers in the public sector.

Wages and Salaries Remained Close Since 2001 (% Annual Increase since 2001)



While State and Local Govt Benefits Grew Faster (% Annual Increase since 2001)



Voters are asking public sector workers and public sector unions to share in the economic reality.

Some believe voters were not paying attention over the recent past when benefits for public employees trended higher. I do not agree with that. I believe voters were doing well in real estate, 401k investments or just in general and thought it fair to share. However, now many voters, especially baby boomers who are now further away from retirement due to investment drop-offs from the 90s tech boom and the 2008 World Financial Crisis, are asking public sector workers and public sector unions to share in the economic reality.

Voters now want there to be some balance among private sector and public sector wages, salaries and benefits. And it is not unimaginable to think that widespread changes, state by state, to benefits will not occur. Many public sector employees receive a defined benefit pension plan where the taxpayers are taking the market risk. I think that voters through their political actors are going to ask public sector employees to share that market risk going forward when it comes to retirement benefits. **Tom Kozlik**

NEW JERSEY, HARRISBURG, PA AND QUEENS BALLPARK

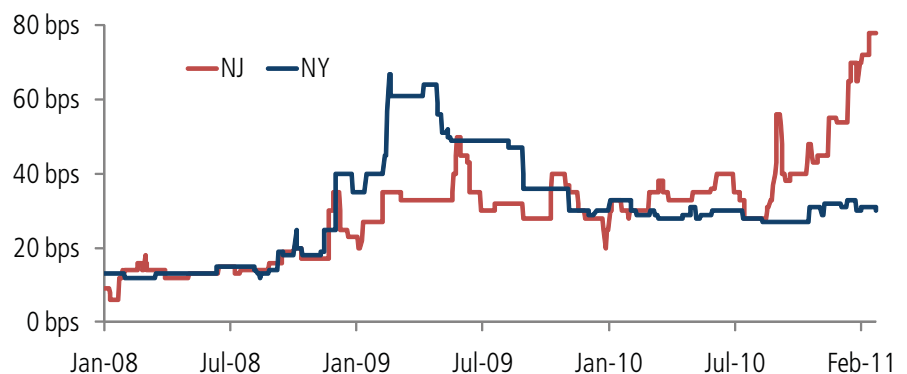
The State of New Jersey Downgraded to AA- by S&P

Standard and Poor's lowered the rating on New Jersey from AA to AA- on February 9. Moody's placed a negative outlook on its Aa2 rating in September and Fitch's AA rating has a stable outlook. It's no surprise that S&P cited underfunded pension liabilities combined with high debt levels as the major factors behind the upgrade. According to a recent Moody's report, the Garden State ranks sixth among the fifty states in levels of combined debt and unfunded pensions relative to GDP.

Relative yields for New Jersey bonds have been rising since early last year, with the pace accelerating after September. The graph compares New York State (Aa2/AA/AA) 10 year maturity yield spreads to New Jersey's. Whereas both states' bonds were selling at yields about 30 basis points above the MMD benchmark AAA levels in the beginning of 2010, New Jersey yields are now 70 plus bps above the benchmarks while New York is relatively unchanged.

New Jersey ranks sixth among the fifty states in levels of combined debt and unfunded pensions relative to GDP, according to Moody's.

Credit Worries Widened NJ Credit Spreads to AAA MMD



Source: Thomson Reuters and Janney Fixed Income Strategy.

Although New Jersey has a relatively small amount of general obligation debt, \$2.6 billion, its appropriation backed debt approaches \$30 billion.

Although New Jersey has a relatively small amount of general obligation debt, \$2.6 billion, its appropriation backed debt approaches \$30 billion. This debt, typically rated a notch below GO debt, was downgraded from AA- to A+. Also affected are local Board of Education bonds issued under the state's school bond enhancement program. About 130 local school districts in New Jersey had their "enhanced rating" dropped from AA to AA-.

The 72 bps spread of ten year New Jersey bonds is high relative to New York, but it is still lower than California and Illinois at 120 bps and 205 bps respectively. Going forward we believe this spread is more likely to contract than expand. By most measures of wealth, per capita income for example, New Jersey ranks at or near the top of all states. The new administration is in early stages of addressing some of the long term financial issues facing the state, by for example cancelling the state's participation and significant contribution to a multi-billion dollar project to build commuter train

Closing budget gaps, in NJ, by cutting payments to local school boards, cities and towns is really downstreaming rather than eliminating fiscal problems.

On March 15, Harrisburg faces a principal payment of \$5.3 million of GO bonds. It seems likely that a way will be found to make this payment.

Both Moody's and S&P lowered Queens B-Park ratings to junk territory (Ba1/BB+) in February 2010.

tunnels to New York City under the Hudson River. Closing budget gaps by cutting payments to local school boards, cities and towns has been part of the governor's approach, but it is really downstreaming rather than eliminating problems. On the other hand it may encourage fiscal discipline across the board.

Harrisburg, PA Faces a March 15th Principal Payment

In mid December Harrisburg was accepted into Pennsylvania's Act 47 program for distressed municipalities, but the political turmoil between city council and the mayor apparently continues unabated, which included, as reported by local media, refusal of several council members to meet with members of the state's Department of Community and Economic Development team in late January, and demonstrations last week calling for the mayor's resignation. Several members of the administration have resigned in recent weeks, citing disagreements with the mayor. Away from these more public activities, most of the work towards addressing Harrisburg's problems is moving ahead in the background.

The Wall Street Journal reports that a financial turnaround firm, Alvarez and Marsal, is joining Cravath, Swaine and Moore, the law firm hired by city council in December to advise on issues surrounding bankruptcy. The Act 47 team from the state includes Novak Consulting Group, the law firm of Stevens and Lee and former state House Speaker Bob O'Donnell. So it seems there is no shortage of advisors to help Harrisburg navigate its financial shoals, but concrete plans have yet to surface from the group. It's reported that Novak advised the city to freeze hiring and all discretionary spending, restrict overtime and limit other spending.

On March 15, Harrisburg faces a principal payment of \$5.3 million on Ambac insured general obligation bonds. It seems likely that given the heavy involvement of the state, a way will be found to make this payment. Thus far Harrisburg has not missed payments on general obligation debt, although it is in arrears by as much as \$60 million on obligations under its guarantee for the city's troubled resource recovery project. In January Moody's downgraded Harrisburg Water bonds from A1 to Ba1 and Parking Bonds to Ba3 from Baa2. In past years, the parking and water enterprises have generated enough excess revenues to transfer as much as \$4 million per year each to the city. Moody's concern is that their exposure to the city's distress will impact the financial health of the two systems.

Moody's Outlook on Queens Ballpark is Negative

Municipal bonds issued for the Queens Ballpark project, to build Citi Field, home of the NY Mets, were in the news earlier last month as Moody's placed its Ba1 rating on negative outlook based on concerns that the litigation facing the owners of Mets (Sterling Mets LP) could "impact quality and performance of the team" and subsequently negatively affect attendance levels. In contrast, Standard and Poor's said its BB+ rating was unaffected, retaining a stable outlook, noting that Queens Ballpark "does not rely on revenues from the Mets, and an independent trustee collects and administers all project cash flow."

The majority of bonds issued to build Queens Ballpark are secured by PILOT (payment in lieu of taxes) revenues. Ballpark LLC, owns and manages the stadium. Ballpark LLC income includes revenue from club seats, luxury suites, concessions, parking and some signage/advertising. It does not include any revenue or payments from Sterling Mets, the owner of the ball team. Ballpark LLC is required to make PILOT payments to the trustee, for the benefit of bond holders. According to S&P, revenues through September 2010 resulted in coverage of required PILOT payments by 1.96 times, despite an 18% decline in attendance 2010 vs. 2009.

Both Moody's and S&P lowered ratings to junk territory (Ba1/BB+) in February 2010, based on the debt service reserve fund (DSRF), which is securitized by an Ambac Assurance surety bond equal to 150% of maximum annual debt service. A DSRF is an important security feature of most revenue bond issues, supplying a cushion, usually one year's worth of principal and interest payments, if there is a revenue shortfall. This is particularly important to the stadium transaction, since a Major League Baseball strike of long duration could eliminate significant revenue, otherwise available to make PILOT payments. A strong DSRF could help bridge a revenue gap resulting from a strike or other unforeseen circumstance, but Ambac's downgrade to Caa2 called into question the viability of a DSRF secured only by an Ambac surety bond. **Alan Schankel**

MUNICIPAL BOND MARKET MONTHLY

February 28, 2011



Select Recent Rating Outlook and Rating Changes (Feb. 24, 2011)

Issuer	State	Recent Rating Action	Date	Underlying Rating(s)	Notes
Clark County School District	NV	S&P lowers outlook to negative from stable	23-Feb-2011	Aa2/AA/AA-	Financial deterioration
Clark County School District	NV	Moody's downgraded to Aa2 from Aa1	22-Feb-2011	Aa2/AA/AA-	Near term budget stress
Clark County School District	NV	Fitch downgraded to AA- from AA	22-Feb-2011	Aa2/AA/AA-	57% drop in home prices
Massachusetts Bay Transp	MA	Moody's downgraded to Aa1 from Aaa	10-Feb-2011	Aa1/AAA	Revised criteria
Massachusetts (Comm of)	MA	S&P raised outlook to positive	10-Feb-2011	Aa1/AA/AA+	Improving finances and mang
Bethlehem Auth. (City of)	PA	S&P downgrded to BBB from A-	10-Feb-2011	NR/BBB/NR	Deficit financing for operating
Arizona (State ICR)	AZ	Moody's lowered outlook to neg. from stable	9-Feb-2011	Aa3/AA-/NR	Fiscal uncertainty
New Jersey (State of)	NJ	S&P downgraded to AA- from AA	9-Feb-2011	Aa2/AA-/AA	Pension underfunding
Buffalo (City of)	NY	S&P upgraded to A from A-	9-Feb-2011	A2/A/A+	Improved finances
Lowell Area SD	MI	S&P upgraded to A+ from A	8-Feb-2011	NR/A+/NR	Strong fund balance
Queens (Mets Stad) Ballpark	NY	Moody's lowered outlook to negative	7-Feb-2011	Ba1/BB+/NR	Lawsuit and attendance worry
West Greenwich	RI	S&P upgraded to AA- from A+	4-Feb-2011	NR/AA-/NR	Strong perform. and wealth
Allegheny County	PA	Moody's lowered outlook to negative	4-Feb-2011	A1/A+/NR	Challenged financial position
Allegheny County	PA	S&P lowered outlook to negative	3-Feb-2011	A1/A+/NR	Underfunded pension
Bradley Airport	CT	S&P downgraded to A- from A	25-Jan-2011	A3/A-/A	Deterioration metrics
DeKalb County	GA	S&P downgraded to AA- from AAA	19-Jan-2011	Aa3/AA-/NR	Financial deterioration
Harrisburg Auth Water Rev	PA	Moody's downgraded to Ba1 from A1	19-Jan-2011	Ba1/NR	City's financial distress

Source: Moody's; S&P; Fitch and Janney FIS.

MUNICIPAL BOND MARKET MONTHLY

February 28, 2011



State and Other Select Issuer Ratings (Feb. 24, 2011)

State	Moody's			S&P			Fitch		
	Rating	Outlook	Last	Rating	Outlook	Last	Rating	Outlook	Last
Alabama	Aa1	Stable	4/16/2010	AA	Stable	8/3/2007	AA+	Stable	5/3/2010
Alaska	Aaa	Stable	11/22/2010	AA+	Stable	3/27/2008	AA+	Stable	4/5/2010
Arizona (*)	Aa3	Negative	2/9/2011	AA-	Negative	5/25/2010	NR	-	-
Arkansas	Aa1	Stable	4/16/2010	AA	Stable	1/10/2003	NR	-	-
California	A1	Stable	4/16/2010	A-	Negative	1/14/2010	A-	Stable	4/5/2010
Colorado (*)	NR	-	-	AA	Stable	7/10/2007	NR	-	-
Connecticut	Aa2	Stable	4/16/2010	AA	Stable	9/26/2003	AA	Stable	6/3/2010
Delaware	Aaa	Stable	-	AAA	-	2/22/2000	AAA	Stable	4/13/2006
Dist. of Columbia	Aa2	Stable	4/16/2010	A+	Stable	6/6/2007	AA-	Stable	4/5/2010
Florida	Aa1	Stable	4/16/2010	AAA	Negative	1/14/2009	AAA	Negative	4/5/2010
Georgia	Aaa	Stable	-	AAA	Stable	7/29/1997	AAA	Stable	4/13/2006
Hawaii	Aa1	Negative	4/16/2010	AA	Stable	1/29/2007	AA+	Negative	4/5/2010
Idaho (*)	Aa1	Stable	4/16/2010	AA	Stable	7/20/2009	AA-	Stable	2/13/2007
Illinois	A1	Negative	9/23/2010	A+	Negative	12/10/2009	A	Negative	6/11/2010
Indiana (*)	Aaa	Stable	4/16/2010	AAA	Stable	7/18/2008	AA+	Stable	4/5/2010
Iowa (*)	Aaa	Stable	4/16/2010	AAA	Stable	9/11/2008	AAA	Stable	4/5/2010
Kansas (*)	Aa1	Stable	4/16/2010	AA+	Stable	5/20/2005	-	-	-
Kentucky (*)	Aa1	Negative	4/16/2010	AA-	Stable	6/23/2009	AA	Negative	4/5/2010
Louisiana	Aa2	Stable	4/16/2010	AA-	Stable	10/9/2009	AA	Stable	4/5/2010
Maine	Aa2	Stable	4/16/2010	AA	Negative	3/10/2010	AA+	Stable	4/5/2010
Maryland	Aaa	Stable	-	AAA	Stable	5/7/1992	AAA	Stable	4/13/2006
Massachusetts	Aa1	Stable	4/16/2010	AA	Positive	2/10/2011	AA+	Stable	4/5/2010
Michigan	Aa2	Stable	4/16/2010	AA-	Stable	5/22/2007	AA-	Stable	4/5/2010
Minnesota	Aa1	Stable	4/16/2010	AAA	Stable	7/24/1997	AAA	Stable	4/5/2010
Mississippi	Aa2	Stable	4/16/2010	AA	Stable	11/30/2005	AA+	Stable	4/5/2010
Missouri	Aaa	Stable	-	AAA	Stable	2/16/1994	AAA	Stable	4/13/2006
Montana	Aa1	Stable	4/16/2010	AA	Stable	5/5/2008	AA+	Stable	4/5/2010
Nebraska (*)	Aa2	Stable	4/16/2010	AA+	Stable	10/11/2006	NR	-	-
Nevada	Aa1	Negative	11/30/2010	AA+	Stable	6/23/2006	AA+	Stable	4/5/2010
New Hampshire	Aa1	Stable	4/16/2010	AA	Stable	12/4/2003	AA+	Stable	4/5/2010
New Jersey	Aa2	Negative	9/23/2010	AA-	Stable	2/9/2011	AA	Stable	4/5/2010
New Mexico	Aaa	Stable	4/16/2010	AA+	Stable	2/5/1999	NR	-	-
New York	Aa2	Stable	4/16/2010	AA	Stable	9/14/2004	AA	Stable	4/5/2010
North Carolina	Aaa	Stable	1/12/2007	AAA	Stable	6/25/1992	AAA	Stable	4/13/2006
North Dakota (*)	Aa1	Stable	4/16/2010	AA+	Stable	3/17/2009	NR	-	-
Ohio	Aa1	Negative	4/16/2010	AA+	Negative	9/23/2009	AA-	Stable	4/5/2010
Oklahoma	Aa2	Stable	4/16/2010	AA+	Stable	9/5/2008	AA+	Stable	4/5/2010
Oregon	Aa1	Stable	4/16/2010	AA	Stable	8/23/2007	AA+	Stable	4/5/2010
Pennsylvania	Aa1	Negative	4/16/2010	AA	Stable	11/6/1998	AA+	Negative	5/14/2010
Puerto Rico	A3	Negative	8/10/2010	BBB-	Positive	11/29/2010	BBB+	Stable	1/19/2011
Rhode Island	Aa2	Stable	4/16/2010	AA	Negative	3/9/2009	AA	Negative	4/5/2010
South Carolina	Aaa	Stable	3/23/2007	AA+	Stable	7/11/2005	AAA	Stable	4/13/2006
South Dakota (*)	A1	Stable	-	AA	Stable	12/21/2006	AA	Stable	4/5/2010
Tennessee	Aaa	Stable	4/16/2010	AA+	Stable	10/12/2006	AAA	Stable	4/5/2010
Texas	Aaa	Stable	4/16/2010	AA+	Stable	8/10/2009	AAA	Stable	4/5/2010
Utah	Aaa	Stable	-	AAA	Stable	6/7/1991	AAA	Stable	4/13/2006
Vermont	Aaa	Stable	2/2/2007	AA+	Stable	9/11/2000	AAA	Stable	4/5/2010
Virginia	Aaa	Stable	5/27/2004	AAA	Stable	11/11/1992	AAA	Stable	4/13/2006
Washington	Aa1	Stable	4/16/2010	AA+	Stable	11/12/2007	AA+	Stable	4/5/2010
West Virginia	Aa1	Stable	7/9/2010	AA	Stable	8/21/2009	AA	Positive	4/5/2010
Wisconsin	Aa2	Stable	4/16/2010	AA	Stable	8/15/2008	AA	Stable	4/5/2010
Wyoming (*)	NR	-	-	AA+	Stable	6/30/2008	NR	-	-

Source: Moody's; S&P; Fitch and Janney FIS. (*) Denotes a Lease or Issuer Credit Rating.

MUNICIPAL BOND MARKET MONTHLY

February 28, 2011



Municipal Credit Rating Scale and Definitions

	Rating Agency			Definition
	Moody's	S&P	Fitch	
Investment Grade	Aaa	AAA	AAA	Exceptionally strong credit quality and minimal default risk.
	Aa1	AA+	AA+	Upper medium grade and subject to low credit risk.
	Aa2	AA	AA	Upper medium grade and subject to low credit risk.
	Aa3	AA-	AA-	Upper medium grade and subject to low credit risk.
	A1	A+	A+	Strong credit quality and subject to low default risk.
	A2	A	A	Strong credit quality and subject to low default risk.
	A3	A-	A-	Strong credit quality and subject to low default risk.
	Baa1	BBB+	BBB+	Subject to moderate risk and possess some speculative characteristics.
	Baa2	BBB	BBB	Subject to moderate risk and possess some speculative characteristics.
Baa3	BBB-	BBB-	Subject to moderate risk and possess some speculative characteristics.	
Sub-Investment Grade	Ba1	BB+	BB+	Weak credit quality with speculative elements and substantial credit risk.
	Ba2	BB	BB	Weak credit quality with speculative elements and substantial credit risk.
	Ba3	BB-	BB-	Weak credit quality with speculative elements and substantial credit risk.
	B1	B+	B+	Very weak credit quality, very speculative with high credit risk.
	B2	B	B	Very weak credit quality, very speculative with high credit risk.
	B3	B-	B-	Very weak credit quality, very speculative with high credit risk.
	Caa1	CCC+	CCC+	Extremely weak credit quality and subject to very high credit risk.
	Caa2	CCC	CCC	Extremely weak credit quality and subject to very high credit risk.
	Caa3	CCC-	CCC-	Extremely weak credit quality and subject to very high credit risk.
	Ca	CC	CC+	Highly speculative and are in or near default with some prospect for recovery.
		C	CC	Lowest class of rated bonds and may be in default with little prospect for recovery.
			CC-	Lowest class of rated bonds and may be in default with little prospect for recovery.
	D	D	DDD	Issuer is in default and/or has failed to make a payment.

Source: Moody's; S&P; Fitch and Janney FIS.

MUNICIPAL BOND MARKET MONTHLY

February 28, 2011



Janney Municipal Bond Market Publications

Title	Date	Pub	Notes
Connecticut- Overview of Debt	February 23, 2010	Credit	Four CT Bond Issuance Programs
Muni Market Turmoil Equals Opp.	January 24, 2011	Note	Includes investor strategies for the market
Au Reviro to BABs, Concerns Overblown	January 14, 2011	Monthly	BABs were not Renewed, we expect headling risk in 2011
States' Ability/Will to Pay is Strong	January 10, 2011	Note	Includes State Fiscal Health Scorecard
SF Housing Bonds are Attractive	January 3, 2011	Note	Wider spreads, housing indicators and strong credit
Tobacco Sector Upgrade	December 21, 2010	Note	We raised our outlook on MSA payment-backed bonds
No Looming Municipal Crisis	December 21, 2010	Note	Suggestions of stress have been overblown
Munis Attractive, Credit Pressures	December 20, 2010	Outlook	Mixed performance, mixed messages and metaphors
North Shore Long Island Health	December 9, 2010	Credit	Dominant provider in its area is rated Baa1/A-/A-
Tobacco Bonds	December 6, 2010	Note	Downgrades and lower consumption, IL Railsplitter
Inexpert Advice Continues	December 6, 2010	FI Weekly	Doomsday forecasts persist
For-Profit Entities TE Debt	November 19, 2010	Note	Private companies sometimes sell tax-exempt debt
Heavy New Issue Supply	November 18, 2010	Note	Municipal yields moved sharply higher
BABS Last Year? Marcellus Shale	November 12, 2010	Monthly	Odds of BABs at 50% and local govt sector review
Muni Bond Insurance Update	November 3, 2010	Note	The end of the AAA era- Assured downgraded
PA Turnpike	October 5, 2010	Credit	New Special Sub debt maintains Aa3/NR/AA ratings
State Taxes Were Stronger	September 21, 2010	Monthly	Harrisburg side-stepped a default and NJ charged
Brethren Village, PA	August 30, 2010	Credit	A PA CCRC with lower than expected occupancy
Tobacco Sector and PA Act 47	August 13, 2010	Monthly	We lowered our tobacco outlook and explain PA Act 47
NYC TFA	July 22, 2010	Credit	Bondholders have first priority, 10x dsc
Harrisburg Update	July 15, 2010	Note	Officials are addressing the city's weak finances
The Truth Shall Set You Free	July 14, 2010	Monthly	Municipal Myths and Truths
The Front of the Line	July 7, 2010	Note	New types of bonds with enhanced security
Detroit- Dist. State Aid	July 7, 2010	Credit	Details the strong security mechanism
COFINA	June 29, 2010	Credit	Strongest of the Puerto Rico credits
Factors Stressing the MBM	June 15, 2010	Note	There is not going to be a "Municipal Meltdown"
Battle Uncertainty with Diver.	June 7, 2020	Monthly	Battle uncertainty, CA will not be the next Greece
Harrisburg Update	April 30, 2010	Note	Harrisburg May 1, 2010 payment will not be made
CIFG Insurance	April 30, 2010	Note	Details of CIFG insured bonds remain uncertain
DC Ballpark	April 22, 2010	Credit	DC Ballpark possesses strong ds coverage
In Like a Lamb Out Like	April 9, 2010	Monthly	Health-care reform impact mixed; Rtgs recalibration
Moody's Rating Changes	March 17, 2010	Note	Moody's ratings may be "recalibrated" higher
Historical Defaults are Low	March 5, 2010	Monthly	Low Ratios; Exaggerated risk of defaults and Chp 9
Montgomery County, PA	March 3, 2010	Credit	One of the handful of Aaa rated PA issuers
Pitt. & Allgh. Hotel Tax	March 3, 2010	Credit	Review of the Hotel Room Excise Tax Rev Bonds
Recession Weakens States	February 12, 2010	Monthly	IL, NJ, NY, RI, CA & PR experiencing fiscal stress
Harrisburg Update	February 4, 2010	Note	City Council reviewing options including bankruptcy
Miami-Dade County	January 20, 2010	Note	S&P lower its outlook to negative from stable
2010 Municipal Outlook	January 1, 2010	Outlook	Expectations for 2010 in the municipal market
2009 Municipal Review	December 1, 2009	Review	Review of municipal market in 2009
New Jersey Tobacco	December 9, 2009	Credit	Tobacco Settlement Asset-Backed Bonds
Long Island Power Auth	October 19, 2009	Credit	Credit will remain strong in the near term
Miami-Dade County	October 15, 2009	Credit	Stress in short intermediate term
Hackensack U Med Center	October 8, 2009	Credit	Some near term questions
Review of 1H 2009	September 29, 2009	Note	A "New Normal" municipal market
Insured Bond Review	September 18, 2009	Note	Your insured bonds may now be unrated
E. Stroudsburg, PA Stu Hsg	August 31, 2009	Credit	Low cost, high qual ed should secure enrollment
Municipal Insurer Update	August 19, 2009	Note	Only four insurers are rated above invest grade
Municipal Sect Scorecard	August 17, 2009	Note	Janney's municipal sector outlooks
PA School District Intercept	July 27, 2009	Credit	Intercept is based on PA's rating
Slippery Rock, PA Stu Hsg	July 23, 2009	Credit	If enrollment is high, occupancy should remain high
Build America Bonds	July 21, 2009	Note	Build America Bond Update
Florida Hurricane Fund	July 15, 2009	Credit	Strong credit despite uncertainties

Source: Janney Fixed Income Strategy.

Analyst Certification

We, Tom Kozlik and Alan Schankel, the Primarily Responsible Analysts for this report, hereby certify that all of the views expressed in this report accurately reflect our personal views about any and all of the subject sectors, industries, securities, and issuers. No part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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Positive: Janney FIS believes there are apparent factors which point towards improving issuer or sector credit quality which may result in potential credit ratings upgrades

Stable: Janney FIS believes there are factors which point towards stable issuer or sector credit quality which are unlikely to result in either potential credit ratings upgrades or downgrades.

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Overweight: Janney FIS expects the target asset class or sector to outperform the comparable benchmark (below) in its asset class in terms of total return

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Agencies: Janney FIS ratings employ the "Barclay's U.S. Agency Index" as a benchmark.

Mortgages: Janney FIS ratings employ the "Barclay's U.S. MBS Index" as a benchmark.

Investment Grade Credit: Janney FIS ratings employ the "Barclay's U.S. Credit Index" as a benchmark.

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