

MUNICIPAL BOND MARKET MONTHLY

JANNEY FIXED INCOME STRATEGY

October 19, 2011



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Municipal Investors Should Expect Sequestration

- Increases in new issue supply, flat demand, and uncertainty about the future of the tax-exemption are contributing to elevated and highly attractive Municipal/Treasury Ratios.
- President Obama's 28% tax-exemption cap is on the back burner for now but we expect future discussions to resurface about broader changes to tax-exemption as stimulus and deficit negotiations continue. We do not, however, see an immediate threat to tax-exemption at this time.
- It would take a groundbreaking compromise for political actors to come to an agreement in time to satisfy the BCA Phase 2 schedule. Investors should expect the automatic sequester caps.
- Sequester could be a credit positive for state governments compared to other alternatives because Medicaid is exempt. Health-care providers with a high reliance on Medicare would be moderately affected, and we do not think military housing will be negatively affected despite Moody's opinion to the contrary.
- The State of Minnesota was downgraded to AA+ from AAA by S&P; Lackawanna County, PA was downgraded to Ba3 from Baa1 by Moody's; Northumberland County, PA was downgraded to BBB+ from A by S&P; Scranton, PA was downgraded to BB- from BBB and North Providence, RI was downgraded to Baa2 from Baa1 by Moody's.

MUNICIPAL MARKET COMMENTARY

The municipal market started to show some stability during the middle of October, after a three week downdraft which left the ten year AAA benchmark Municipal Market Data yield about 60 basis points higher, at 2.56%. Higher yields brought in investors, moving Municipal to Treasury Ratios (M/T Ratios) lower, but they still remain well above 100% across the curve and remain highly attractive in our opinion.

M/T Ratios Remain Highly Attractive

Date	2 Year	5 Year	10 Year	20 Year	30 Year
3-Jan-11	120%	86%	97%	109%	107%
1-Feb-11	116%	92%	97%	106%	104%
1-Mar-11	108%	83%	87%	101%	105%
1-Apr-11	85%	80%	93%	103%	107%
2-May-11	92%	77%	87%	100%	105%
1-Jun-11	96%	75%	88%	100%	103%
1-Jul-11	86%	71%	86%	96%	99%
1-Aug-11	108%	86%	96%	102%	105%
1-Sep-11	158%	98%	105%	112%	111%
3-Oct-11	142%	117%	126%	134%	129%
17-Oct-11	167%	126%	117%	122%	118%
Relation to 3M Avg.	Well Above	Well Above	Well Above	Above	Above
3M Avg.	137%	97%	103%	111%	110%
2011 to Date Avg	105%	84%	94%	104%	106%
Historical 90-11	75%	77%	82%	89%	90%

Source: Thomson Reuters and Janney Fixed Income Strategy.

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M/T Ratios are currently at the highest levels since January 2009.

Municipal market primary market volume was robust throughout October, with the final tally estimated at \$29 billion.

Total year-end total issuance should be about \$260 billion, within the \$250-\$275 billion range we anticipated for 2011.

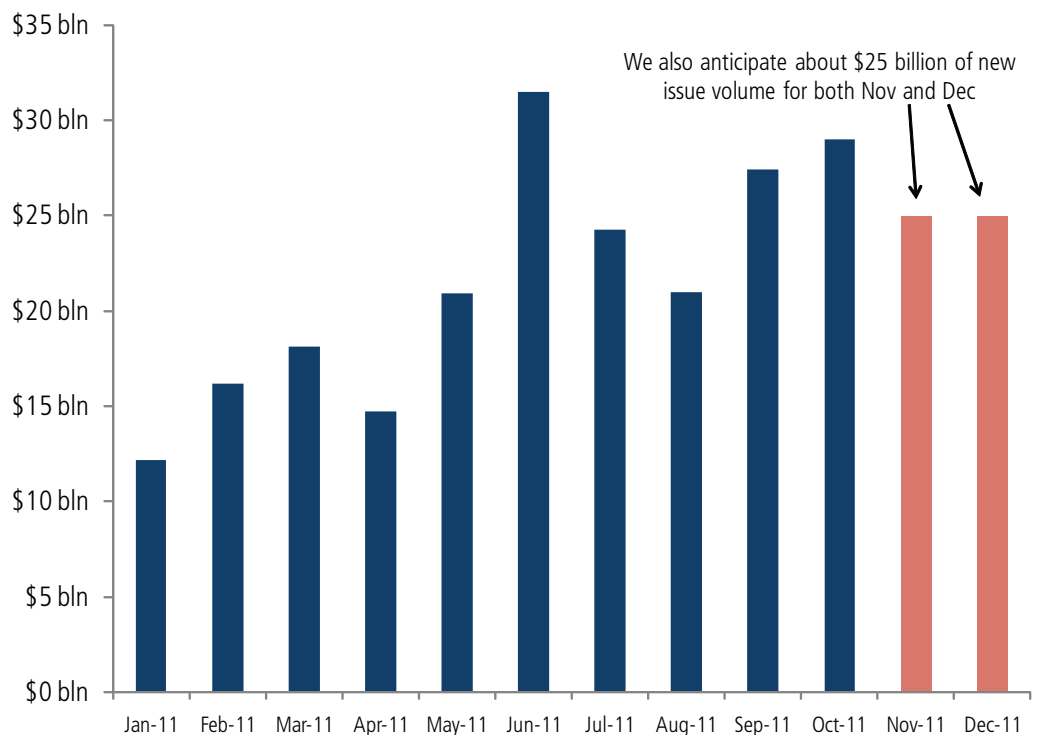
While ratios have returned closer to more historical norms since the financial crisis, in recent weeks they have been rising, and are currently at the highest levels since January 2009. We see several reasons for this elevation:

- **Increases in new issue supply** – After a slow start to the year, the new issue pace is accelerating. The number of new money loans is moderate, but low interest rates have increased the number of refunding deals, which accounted for about 50% of September’s calendar.
- **Flat demand** – Municipal mutual fund flows have been positive since the end of August, but are still modest compared to the pace experienced during the same period last year. Money available from maturing and called bonds, which averaged about \$26 billion a month during the summer, will be about \$14 billion per month on average in the September to November period before a pick-up in December.
- **Uncertainty about tax exemption**– A reduction or elimination of the tax exemption of future municipal issues has been a component of several recent proposals and a provision of the Obama Administration’s recent Jobs Bill and would have limited the tax benefit for upper bracket taxpayers on outstanding issues. Although the bill did not have much of a chance of passage and the limit was soon thereafter replaced with a surtax, potential threats surrounding municipal bonds’ tax exemption has the potential to generate uncertainty and hesitation among investors.

Municipal Bond Mutual Fund Flows and Anticipated Volume

Mutual fund investors have been participating in the market with six straight weeks of inflows through October 5, averaging \$390 million per week. Municipal market primary market volume was robust throughout October, with the final tally estimated at \$29 billion, making October the second busiest month of the year, but it is tapering off as the end of October approaches, probably due to a slower pace of refunding issues. We expect new issue supply to average about \$25 billion a month in November and December, which should leave the year-end total issuance at about \$260 billion, within the \$250-\$275 billion range we anticipated for 2011.

We Expect Municipal Volume of \$29 Billion for October



Source: Thomson Reuters and Janney Fixed Income Strategy.

A surtax and the expiration of the Bush tax cuts would increase the overall value of tax-exempt municipal bonds because the high-end tax bracket will rise to almost 50%.

The likelihood of significant change to tax-exemption is minimal at this time.

To battle the spending crisis U.S. lawmakers are considering every possible expenditure reduction possible as part of deficit reduction measures.

PRESIDENT OBAMA TARGETS TAX-EXEMPTION

The 28% Tax-Exempt Interest Cap is on the Back-Burner, For Now

The latest threat related to the status of municipal bonds' tax-exemption surfaced as part of President Barack Obama's Jobs Bill (America Jobs Act of 2011) proposal. To help pay for the Jobs Bill's stimulus spending, the President included a provision that would cap the tax exempt benefit of municipal bond interest for individual taxpayers at 28% for those earning more than \$200,000 per year and joint filers making above \$250,000. The President later said he could support Senate Democrats' proposal to impose a 5.6% surtax on those with taxable incomes of \$1 million or more to pay for his Jobs Bill. The proposed surtax would be an alternative to the cap on the value of tax-exempt interest at 28%. We, and most market observers, did not give the Jobs Bill with a 28% cap much of a chance of passage. There currently does not seem to be overwhelming bi-partisan support for the surtax either, but we will continue to monitor events in Washington. If such a surtax was successfully passed we believe that on top of the expiration of the Bush era tax cuts, which are set to expire at the end of 2012, would increase the overall value of tax-exempt municipal bonds because the high-end tax bracket will rise to almost 50%.

While we expect discussions of a 28% tax-exempt interest cap and/or the complete or partial elimination of the municipal bond tax-exempt "tax-expenditure" to continually resurface, we are not seeing anything that leads us to believe there is a credible threat to tax-exemption in the short term. However, it is likely future rhetoric and political maneuvering will continue to cloud the real possibility of adjustments to the tax code. We want to remind investors that many original White House and congressional proposals from 1983-1985 went so far as to completely eliminate the tax-exemption for private activity bonds and contemplated the removal of issuers' ability to structure advance refundings. However, more tapered adjustments were made as part of larger tax reform under the final 1986 Tax Act. This leads us to believe that it is possible that despite the possibility that changes to tax-exemption will continue to be discussed and threatened but the likelihood of significant change is minimal at this time.

Why is There a Perceived Threat to Tax-Exemption?

Let us back up and review the broader U.S. fiscal situation in order to fully understand why many believe the perceived threat to tax-exemption is the greatest since the proposals made before the 1986 Tax Act. It is recent historically significant rating agency action by Standard and Poor's that set the stage for some potentially momentous changes in how Washington taxes, borrows and spends. If we look at the U.S. budget from a big picture perspective we see that \$1.3 trillion of the U.S.'s total spending of \$3.5 trillion in 2010 was financed by borrowing. This borrowing is scheduled to rise substantially in the near future, assuming expenditures increase as expected. It is these forecast high borrowing levels that fueled S&P's analysis of the U.S. rating. And it was the heated political environment that was the key spark to the S&P negative rating action, causing S&P to lower the U.S. rating to AA+. The U.S. is now facing a spending crisis, one that is much different than European fiscal pressures. To battle the spending crisis, U.S. lawmakers are expected to consider every possible expenditure reduction possible as part of deficit reduction measures (for more info about U.S. deficit reduction measures see pages 5-7).

Some observers believe the municipal bond tax exemption "tax-expenditure" is under threat as lawmakers buckle down and navigate possible deficit reductions alternatives. Tax expenditures are a category of federal spending in the form of incentives or exemptions created by tax-code regulations. While direct federal spending uses tax payer dollars or debt to pay for programs, tax expenditures indirectly pay for government initiatives. Tax-expenditures support government policies by providing

Federal Expenditure Estimates for Municipal Bonds (\$ in billions)

Function	2010	2011	2012	2013	2014	Total
Private activity bonds	\$8.0	\$9.1	\$9.6	\$10.7	\$11.1	\$48.5
State and local govt	26.8	30.4	32.1	35.2	37.1	161.6
Total	\$34.8	\$39.5	\$41.7	\$45.9	\$48.2	\$210.1

Source: Joint Comm. on Taxation- Estimates of Federal Tax Expenditures for FY 2010-2014 and Janney FIS.

Tax expenditures support government policies by providing a taxpayer benefit and hopefully achieve specific strategic goals.

The Simpson-Bowles Commission proposed eliminating many tax-expenditures, including tax-exemption.

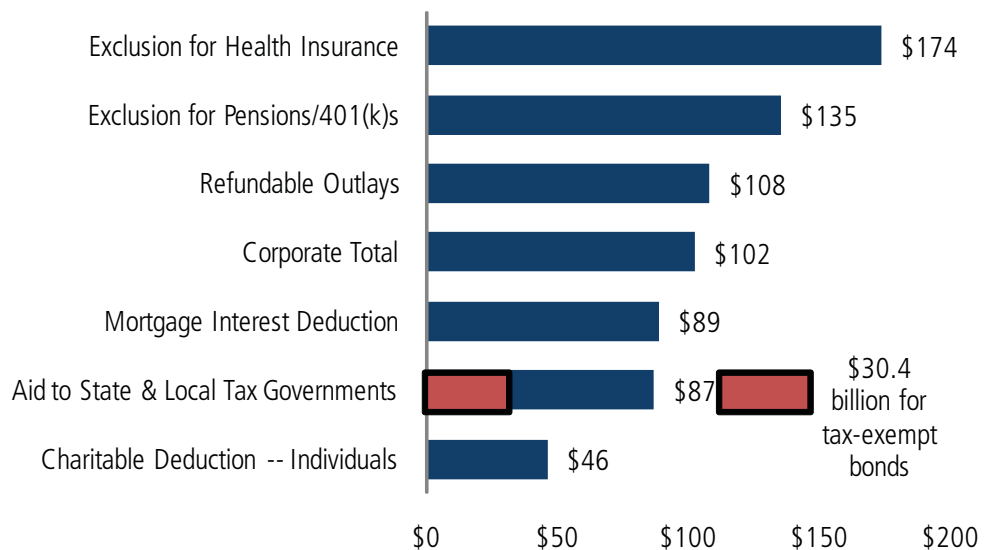
The burden of lowering or eliminating the amount of the tax-exemption will ultimately be swallowed by taxpayers.

a taxpayer benefit and hopefully achieve specific strategic goals. The indirect spending incentivizes taxpayers to buy a home, save for retirement, fund a college education, or even buy a tax-exempt investment security, for example.

Municipal Bond Tax-Exemption "Tax-Expenditure" is Small in Comparison

When we compare the U.S. tax code's major tax-expenditures, we can see that the tax-exemption for state and local governments is relatively small. Data from Scott Hodge, President of the Tax Foundation, shows that the amount of money that the tax-exemption accounts for is smaller than some of the largest tax expenditures in the federal budget. Hodge shows that the largest major category of tax expenditures was \$174 billion for health insurance. Another category, commonly discussed as a potential item to be cut is the \$89 billion mortgage interest deduction. Total aid to state and local governments is listed as \$87 billion. But only \$30.4 billion of the \$87 billion was due to revenue give-up from the tax-exemption on state and local government debt.

Major Categories of U.S. Tax Expenditures



Source: Scott Hodge Statement to U.S. Budget Cmt March 9, 2011 and Janney FIS.

Taxpayers Would Bear the Burden of Its Elimination

There seems to be groups which are in favor of changing, reducing or even eliminating the tax exemption. The Simpson-Bowles Commission proposed eliminating many tax-expenditures, including tax-exemption. Even the Congressional Budget Office often seems to be arguing for its elimination. And, of course, the President who recently proposed a 28% cap that would have limited the value of the tax-exemption. Usually more conservative groups, state governments and local governments on the other hand are generally in favor of the tax-exemption tax expenditure. Critics have stressed that the municipal bond tax exemption is a costly and an inefficient means of subsidizing state and local governments. Those who argue the inefficiency angle and contend that taxpayers in lower debt states are supporting taxpayers in higher debt states make important and key points. However, efficiency and political arguments aside, the burden of lowering or eliminating the amount of the tax-exemption will ultimately be swallowed by taxpayers (or users in the case of revenue bonds), in our view.

We Currently Do Not Believe Severe Tax Law Changes Will Occur

We do not expect Congress to pass President Obama's Jobs Bill as proposed, and we do not recommend investors formulate municipal bond investment decisions based on the President's proposal. Thus far the municipal market's general reaction has been subdued, as most market observers also do not expect the bill to pass.

Americans will decide "Whether societies of men are really capable or not of establishing good government from reflection and choice, or whether they are forever destined to depend for their political constitutions on accident and force," wrote Alexander Hamilton in Federalist No. 1.

The "Dinner Table Compromise" was a symbolic and enduring agreement representing Hamilton's view of what the new U.S. political process was capable, and that it would endure such political squabbles.

We do not expect the JCA will successfully pass a Phase 2 deal and the sequester caps will be triggered.

Overall, modifications to the tax code could occur, but we believe the most severe changes being proposed are politically driven and will likely not find enough bi-partisan support to become law. That being said, sometimes politics does trump policy as we saw at the end of 2010 when Build America Bonds (BABs) were left to expire. Most believed BABs could have been a helpful financial tool, especially for government and infrastructure related issuers in an environment where so many factions are arguing that state and local governments need increased help from Washington and U.S. infrastructure needs upgrading. However, BABs were left to expire because they were part of the American Recovery and Reinvestment Act of 2009 (ARRA) and almost everything connected with the ARRA was political dynamite.

When the dust finally settles on this issue, which may not occur for some time, we continue to believe that a more likely scenario may be that political negotiations will result in some type of compromise that is part of a larger tax-reform effort. An example of such a compromise could possibly include a reinstatement of a revenue-neutral BAB-like subsidy, the preservation of the tax-exemption for state and local government bonds, and the possible elimination of the tax-exemption for certain types of private activity bonds currently not considered a priority.

MUNICIPAL INVESTORS SHOULD EXPECT SEQUESTRATION

The Dinner-Time Compromise, Can It Happen Again?

In April 1790, the U.S. House rejected a plan championed by then Treasury Secretary Alexander Hamilton for the U.S. government to assume and honor the states' financial debts. Hamilton possessed a vision and suggested such a move would send a message to creditors that U.S. debts were of excellent quality, but various U.S. political factions disagreed. This was one of the first political tests of the new constitutional republic's financial direction and it did not look positive until mid-summer. Finally, Thomas Jefferson invited Hamilton and James Madison to a dinner and the three finalized an arrangement where the federal government would assume state's debts in exchange for the relocation of the U.S. Capital to a southern U.S. location. The capital as we all know moved to a location near the banks of the Potomac River, between Virginia and Maryland and close to the plantation of the hero of the Revolutionary War and first President, George Washington. This compromise, sometimes referred to as the "Compromise of 1790" or the "Dinner Table Compromise" was a symbolic and enduring agreement representing Hamilton's view of what the new U.S. political process was capable, and that it would endure such political squabbles.

It's Politics, Stupid

We are now about three months removed from the passage of the Budget Control Act of 2011 (BCA) and the S&P downgrade of the U.S. long term rating. As of now, U.S. political actors in general and the 12-member Joint Select Committee on Deficit Reduction (JSC) specifically, are nowhere near any type of agreement or compromise concerning Phase 2 of the BCA agreement or about any other deficit reduction measures. In fact, Republicans seems to be sticking to the strategy put forth by Senator Mitch McConnell (R-KY) last October in a National Journal piece where he was quoted as stating, "The single most important thing we want to achieve is for President Obama to be a one-term president." The political tone has been fierce on both sides, and we believe the parties will continue to highlight their differences and sharpen their rhetoric through the end of 2011 and on to the 2012 elections.

We Expect the JSC to Fail

Political actors' ability or lack thereof to compromise has and will have some type of direct consequences on the municipal market, but only time will tell how much exactly. Optimally, it would be nice if an elder statesperson could mediate a grand agreement as occurred in 1790. We, however, like most political observers believe that such an announcement would be miraculous as there are currently no indications of such an arrangement. More likely is the continued non-movement of either side, resulting in a further political log-jam.

We think investors should prepare for the real possibility that the JCA will fail to propose a second phase of BCA deficit reduction measures.

“Discretionary spending” refers to outlays (spending) provided and controlled by appropriation acts. Discretionary spending is not mandated by law and is made available to Congress to be appropriated through the appropriation process.

“Mandatory, direct or entitlement spending” refers to outlays from budget authority that is provided by laws other than appropriation acts. Spending that is determined through eligibility requirements and benefit payments mandated in laws.

There are currently no indicators that lead us to believe either side is even listening to one another, or their constituents for that matter. Nothing in the press indicates a willingness to compromise, and our conversations with those closer to the workings of Washington are not at all optimistic. In fact, most are more prepared for the JSC to fail, rather than succeed. We currently do not believe there is any room for compromise as a result of the regular day to day negotiation process. Furthermore, we think investors should prepare for the real possibility that the JCA will fail to propose a second phase of BCA deficit reduction measures, and they should begin to understand the ramifications the automatic sequestration could or will have on municipalities, based on what we know to date.

The August 2, 2011 Budget Control Act - A Review

We are certain most investors recall the thoroughly critiqued exercise in U.S. government procedures witnessed during the last week of July. It finally resulted in the Budget Control Act of 2011 (BCA), which raised the U.S. debt ceiling by up to \$2.4 trillion but is also estimated to reduce federal budget deficits by a total of at least \$2.1 trillion from the period between 2012 and 2021, according to the Congressional Budget Office. The BCA is expected to accomplish this through two phases.

Key Dates for the Budget Control Act of 2011

Date	Action/Requirement
October 14, 2011	Deadline for Committees to send comments to JCA
November 23, 2011	JCA to vote on recommendations. Majority needed.
December 2, 2011	JCA must submit approved leg to Ex and Leg branches
December 23, 2011	Both Houses of Congress must vote for approval
January 15, 2012	If recommendations not enacted Sequestration occurs

Source: Janney FIS.

Budget Control Act - Phase 1

The first phase, which has already been approved, made several changes to federal programs (student loan programs for example), and created caps on future discretionary budget appropriations. The caps on discretionary appropriations are expected to decrease spending by an estimated \$917 billion from 2012 and 2021. These caps gradually increase their bite from year to year but the caps are only on overall spending amounts. The details about the precise areas they will affect are to be determined. The particulars will be specified in future years during the U.S. budget and appropriation process. In the near term we do not think these budget alterations will be significant enough to negatively affect state credit profiles. However, we still need more information about where adjustments will be made to have a clearer picture about what effect they might have on municipalities in general and to specific sectors. That being said, we do not anticipate a scenario that would be highly consequential to the downside for municipalities, in general, as a result of the Phase 1 caps.

Total Possible U.S. Long Term Deficit Reduction Under the BCA

BCA Deficit Plan	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
(Phase 1)	-\$21	-\$42	-\$59	-\$75	-\$87	-\$99	-\$112	-\$126	-\$141	-\$156	-\$917
(Phase 2)	\$0	-\$109	-\$115	-\$121	-\$127	-\$133	-\$139	-\$145	-\$151	-\$157	-\$1,200
Total	-\$21	-\$151	-\$174	-\$196	-\$214	-\$232	-\$251	-\$271	-\$292	-\$313	-\$2,117

Source: Congressional Budget Office; www.whitehouse.gov and Janney FIS. Negative (-) reflects a reduction in the deficit.

Budget Control Act - Phase 2

At least another \$1.2 trillion in deficit reduction is anticipated from either 1) a proposal from the Congressional Joint Select Committee on Deficit Reduction (JSC), which needs to be approved by December 23 or 2) will occur as a result of a “Sequestration” spending control mechanism.

The JSC, created under the BCA, has the task of writing legislation to trim budget deficits.

Sequester: A spending control mechanism created by the BBEDC Act of 1985 where the Federal Office of Management and Budget issues an order, using a formula set out in a statute, to cap spending of Federal programs, including discretionary and some entitlements.

We believe adjustments due to sequester will remain manageable for most municipal issuers, in general.

Joint Select Committee Membership

	Democrats	Republicans
Senate Members	<ul style="list-style-type: none"> • Patty Murray, WA, Co-Chair • Max Baucus, MT • John Kerry, MA 	<ul style="list-style-type: none"> • Jon Kyl, CA • Rob Portman, OH • Pat Toomey, PA
House Members	<ul style="list-style-type: none"> • Xavier Becerra, CA • Jim Clyburn, SC • Chris Van Hollen, MD 	<ul style="list-style-type: none"> • Jeb Hensarling, TX, Co-Chair • Fred Upton, MI • Dave Camp, MI

Source: Janney FIS.

The JSC, created under the BCA, has the task of writing legislation to trim budget deficits by at least \$1.2 trillion between 2012 and 2021. And this legislation must be completed and approved by both Houses of Congress by December 23, the Friday before Christmas. If the JSC fails to produce at least \$1.2 trillion in deficit reduction measures or the Congress fails to enact them by January 15, 2012, automatic procedures for cutting both discretionary and mandatory spending will be triggered. These procedures are a spending control mechanism commonly referred to as sequestration.

What is Sequestration?

The modern origin of the term "sequestration" goes back to The Balanced Budget and Emergency Deficit Control Act of 1985, which established a "sequester" as a method to cap or cut spending. If sequestration is triggered it would cut equally from defense and nondefense spending starting in FY2013. Those adjustments would be achieved by lowering the caps on discretionary budget authority specified in the Budget Control Act and by automatically cancelling budgetary resources (this is the actual "sequestration") for some programs and activities.

The magnitude of the sequestered amounts would depend upon the total shortfall, if any, in the JSC proposals compared to the \$1.2 trillion requirement. So that, for instance, if the JSC proposed and the Congress passed \$1 trillion in savings, then the sequester would only be for \$200 billion. It is possible the JSC agrees and passes an amount of deficit reductions measures that are lower than the required \$1.2 trillion. In that case the agreed upon amount will be reduced from the sequester amounts. The BCA exempts a significant portion of mandatory spending from sequestration. For example, programs exempt from sequestration include: Social Security, Medicaid, federal retirement, and disability programs among others.

Defense versus Non-Defense Deficit Reductions (Phase 1 & 2, Assumes Sequester)

BCA Deficit Plan	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Defense*	-\$12	-\$76	-\$82	-\$86	-\$89	-\$92	-\$96	-\$99	-\$103	-\$107	-\$842
Non-Defense	-\$10	-\$74	-\$83	-\$92	-\$97	-\$100	-\$104	-\$110	-\$114	-\$118	-\$903
Debt Ser Svgs	\$0	-\$1	-\$9	-\$18	-\$28	-\$39	-\$50	-\$62	-\$75	-\$88	-\$372
Total Sp. Caps	-\$22	-\$151	-\$174	-\$196	-\$214	-\$231	-\$250	-\$271	-\$292	-\$313	-\$2,117

Source: CBO; www.whitehouse.gov and Janney FIS. Negative (-) reflects a reduction in the deficit.

Consequences of Sequestration on Municipal Sectors

It is difficult to judge the sectors that will be most affected as a result of the Sequestration Phase 2 of the BCA because much of the deciding factors are going to be determined during the annual appropriation process. We can, however, make a few general comments about the potential consequences to municipal sector credit quality, but in general we believe adjustments will remain manageable for most municipal issuers.

At the U.S. state level we believe potential effects from the Budget Control Act (BCA) of 2011 are alleviated by states' financial flexibility and sovereign power.

State adjustments are resulting in lower state funding and subsidies flowing down to the local level.

Instances such as Brevard County, FL are not currently common and we do not expect them to become widespread.

State Governments

At the U.S. state level, we believe potential effects from the Budget Control Act (BCA) of 2011 are alleviated by states' financial flexibility and sovereign power to cut spending and increase revenues. Medicaid, an expenditure averaging about 21% of states' total expenditures (see Janney's August 12, 2011 State Fiscal Health Scorecard Update for each states' Medicaid as a % of total expenditures) is shared by the federal and state governments and is exempt from sequester under the BCA. But, the JCA could choose to adjust the entitlement. However, we are assuming some level of sequester will occur and under such a scenario we do not expect the BCA to negatively affect state credit quality in the near term based on what is known to date. In fact, the sequester, because it exempts Medicaid, is an outcome that could be more beneficial for state and local governments and other organizations which mainly rely on state funding. Investors should also keep in mind that if the last three years have illustrated anything it is that state governments are very resilient credits and possess a high degree of financial flexibility and autonomy. While some states are statistically more exposed to federal government related expenditures, we believe ultimately states possess levers, in the form of controls over their budgets, and state credits will not significantly deteriorate.

Summary of Municipal Sector Consequences from Phase 2 Auto Deficit Caps

Sector	Comments
State Government	State's fiscal autonomy will allow budgets to adjust over time
Local Government	Local govts will be more pressured but will also adjust accordingly
School Districts	More pressured, like locals, but will adjust
Transportation	Uncertain, expect lower federal spending, magnitude unknown
Higher Education	Future reductions from lower state funding expected but controllable
Health Care	Likely more stress to providers exposed to Medicare, but uncertain
Housing	Cap funds will see lower approp, military housing not affected
Utilities (Elc & Wtr)	Uncertain, expect lower federal spending, magnitude unknown

Source: Janney FIS.

Local Governments

Local governments and school districts are bearing and will continue to bear the brunt of some of those levers that states have at their disposal. State adjustments are resulting in lower state funding and subsidies flowing down to the local level. We believe local governments will ultimately be able to pull through the fiscal stresses even though potential consequences from lower federal spending could be more "painful" than at the state level. That being said, we believe this is a sector that deserves closer scrutiny mostly based on general financial stresses the issuers currently face and potentially could be facing due to falling property tax receipts and rising pension and other post-employment benefit costs. While local governments have been able to adjust to decreased state subsidies so far to date, we question their ability to take steps to create future fiscal stability, especially in situations where it did not exist before the economic downturn. We will be watching trends closely at the local government level.

There are isolated cases where the decreasing or outright elimination of federal programs or spending are having a deep, prolonged effect on local governments. A case in point is Brevard County, Florida. Brevard is home to the Kennedy Space Center and while employment has been steadily decreasing for the last few years, the area is expected to fall further in the near term due to the elimination of NASA's space shuttle program. Please see Moody's "NASA Related Job Losses Expected to Have Detrimental Impact On Space Coast Area; Negative Credit Effects Possible," August 25, 2011 for more details. However, instances such as this are not common, and we do not expect them to become widespread.

Higher Education (Not-for-Profit)

Adjustments as a result of the BCA will add funding for Federal Pell Grants but reduce the amount subsidized Stafford loan subsidies for graduate students. Federal Pell Grants are the largest grant assistance to students for higher education purposes. In FY2010 over 9 million students received \$34

Greater pressure to higher education will be reductions in subsidies from states but, we see this factor as manageable.

Medicaid is exempt from sequestration and cannot be adjusted.

Medicare adjustments due to sequestration will be a credit negative especially to issuers near or above the 43% threshold.

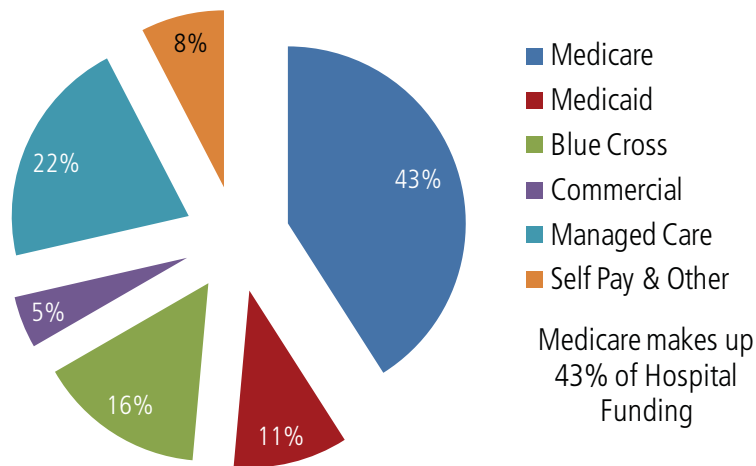
billion of Pell Grants, according to the U.S. Department of Education. Specifically, Federal Pell Grant funds will be \$10 billion and \$7 billion higher in FY2012 and FY2013 respectively. On the other hand, the BCA eliminates the availability of Subsidized Stafford Loans for graduate and professional students starting in July 2012. According to the Department of Education, 1.4 million graduate and professional students borrowed \$10 billion of Subsidized Stafford Loans in 2010-11. However, after 2012 they will be able to use Unsubsidized Stafford Loans to substitute the loans they previously would have been able to borrow using Subsidized Loans. Overall, we do not see either of these changes significantly changing credit quality in the not for profit higher education sector. If anything, we expect the additional Pell Grants will aid enrollment figures in the near term and do not expect changes in the availability of Subsidized Stafford loans to significantly lower graduate student demand. The greater pressure to higher education will be reductions in subsidies from states. However, we see this as a factor which has and will continue to be successfully managed.

Health-Care (Not-for-Profit)

The Medicare and Medicaid entitlement programs make up over 20% of total federal spending and have grown at increasing rates in recent years. They, however, remain political kryptonite for U.S. political actors at every level of government. They are considered "mandatory" spending and therefore and are not subject to the BCA Phase 1 spending caps.

While it is possible that the JSC could reduce Medicare and Medicaid spending, because we believe the JSC will fail it is more likely the Medicare will face up to 2% annual reductions annually. Medicaid is exempt from sequestration and could not be adjusted. Medicare represents the largest payor for hospitals (at 43%) according to Moody's data. So we believe the data shows sequestration will be more consequential to health-care providers with a high % of revenues from Medicare.

Breakdown of Revenues for Moody's Rated Hospitals



Source: Moody's based on FY2010 and Janney FIS.

or above this 43% threshold. However as most health-care providers have been facing continual funding challenges, they have likely already adjusted or have flexible business plans in place to deal with potential funding uncertainty. For select PA providers it is the lower rated credits which are already more highly exposed to Medicare funding. They are near or just over the 43% level. Overall, we believe these changes will present fiscal challenges and continue gradually but remain manageable. We still believe it is the larger multi-location providers that will continue to be better suited for the current and upcoming financial and operating environment.

Not-for-Profit Hospitals With Highest % of Medicare (Moody's Rated Universe)

Hospital	State	Moody's Ratings	Medicare %
Kuakini Health System	HI	Ba1 (Stable)	75%
Leesburg Regional Med Center	FL	Baa1 (Stable)	69%
Citrus Memorial Hospital	FL	Ba2 (Negative)	68%
Eisenhower Medical Center	CA	Baa1 (Stable)	66%
Deborah Heart & Lung Center	NJ	B1 (Stable)	62%

Source: Moody's August 8, 2011 report and Janney FIS.

S&P upgraded the underlying rating on Holy Spirit to BBB+ from BBB in Nov 2010 partly based on its improved financial profile.

PHA issues rely solely on Federal appropriations as their primary source of debt service repayment.

We do not think potential spending reductions will have an impact in the short to medium term, on military housing.

Medicare Funding for Select PA Health Care Providers

PA Hospital	City	Moody's	S&P	Fitch	Medicare %
Holy Spirit Health System	Camp Hill	-	BBB+	BBB+	48.4
Hanover Hospital Inc	Hanover	-	BBB-	-	47.0
Pinnacle Health System	Harrisburg	A2	A	-	44.7
Un. of Pittsburgh Medical Center	Pittsburgh	Aa3	A+	AA-	42.0
Pocono Health System	East Stroudsburg	-	A-	A	37.6
Geisinger Health System	Danville	Aa2	AA	CE	36.1
York Hospital	York	Aa3	CE	AA-	35.0

Source: Creditscope and Janney FIS.

Housing

Capital Fund Securitizations will continue to reflect negative credit stress as they did in 2011 mostly as a result of lower than historical federal budget appropriations. Cap Funds bond issues are pooled financings where a housing finance authority issues bonds on behalf of one or multiple PHAs to securitize future Congressional appropriations. These bond issues rely solely on these Federal appropriations as their primary source of debt service repayment. Aggregate Federal appropriations have fallen by \$1.5 billion since 2001, and there is no assurance Congress will maintain funding at sufficient levels, especially considering the fiscal and political climate in Washington and throughout the country. The most recent appropriation was budgeted at \$1.4 billion, a 42.9% decrease from 2010 funding. Cap Funds bonds have experienced a general erosion of debt service coverage levels recently and this decrease is substantially greater than past cuts. While we do not expect appropriations in the near term to directly cause debt service payment stress, debt service coverage levels, which before 2011 were quite strong, may be worse off under future lower federal appropriations.

Military Housing- At the end of August, Moody's published a report titled, "Department of Defense Budgetary Cuts Could have Negative Effect on Military Housing Bonds." We do not agree. We do not think potential spending reductions will have an impact in the short to medium term, on military housing even though the BCA calls for \$350 billion of defense spending caps (or cuts) due to Phase 1 and another \$492 billion as called for by the sequester triggered caps, for a total reduction of defense expenditures of \$842 billion until 2021. We understand that seems counterintuitive, but please follow our reasoning because we believe it offers considerable value to the military housing universe of investors and differs from the opinions of Moody's.

The military's Basic Allowance for Housing (BAH) has been and is the primary revenue source for military housing projects. We do not think that the political will exists for Democrats or Republicans to decrease the BAH. The possibility for changes in base utilization exists, but we believe that would likely be a result of a larger military strategic adjustment, not simply deficit reduction measures. Chetan Marfatia, Founder of Fixed Income Investors Credit Services, a credit advisory and consulting firm specializing in military and affordable housing, agrees with our assessment. He told us, "Any potential cuts to service members pay or associated benefits will be off the political table. I don't believe that either side of the aisle has the political will to go down this route." Mr. Marfatia also expanded further about the types of military related spending we are more likely see reduced before the BAH would even be considered. He believes most defense adjustment will be targeted toward:

- Cutbacks in current operations, such as those occurring in Afghanistan and Iraq;
- Elimination of inefficient military hardware programs;
- Immediate or eventual closing of international bases, especially those in Europe;
- Remote possibility that the number of carrier groups might be adjusted;
- Increase in drone operations allowing for retiring of older aircraft.

PA Governor Corbett's impact fee proposal falls short of a plan that would help balance costs for local governments and school districts.

The proposed fee is only estimated to produce a total of \$120 million a year in the first year and grow to about \$160 million in the sixth year according to Corbett administration's estimates.

Harrisburg, PA filed for bankruptcy under Chapter 9 of the federal bankruptcy code during the week of Oct 10th.

We still maintain the view that military housing bonds possess a higher level of risk compared to typical general obligation and high quality revenue bonds and are more suitable for more advanced and risk tolerant municipal bond investors.

PULSE ON PA - "MARCELLUS" IS GOVERNOR CORBETT'S #1 PRIORITY

News or indications of policy priorities were few and far between for the first three months of Pennsylvania Governor Tom Corbett's (R) administration. That atmosphere has changed recently, as illustrated by Governor Corbett himself who recently gave constituents and investors an indication of his priorities by stating "They are all priorities that we need to take a look at. But not everything can go first. Right now we have Marcellus first, and you'll see something on school reform second," according to a Patriot News article.

Governor Corbett announced, at the beginning of October, his office's plans to recommend an impact fee on natural gas drillers due to the increase of activity, especially in Pennsylvania's Marcellus Shale region. This is a shift from Governor Corbett's stance from last year at this time when he believed the industry should not be prohibited with taxes and fees. Corbett's proposal would allow the majority of the collected impact fee to remain at the local government level. However, the fee is only estimated to produce a total of \$120 million a year in the first year and grow to about \$160 million in the sixth year, according to his administration's estimates. This is hardly a sufficient amount of funds to positively affect local governments and school districts across the state.

Drilling Activity Could Still Be a Credit Negative for Local PA Governments

We believe attention from the executive and legislative branches in Harrisburg is important in order to allow the burgeoning natural gas industry to continue in PA. However, we are watching very closely in order to assess the consequences to the credit strengths and weaknesses to local governments and school districts especially. To date we have heard and read mostly anecdotal evidence of the stresses and strains of population and road-way activity that are starting to affect small communities. At some point, however, this activity could cost local governments more than the short term benefits it is producing. Therefore, we remain skeptical and believe drilling activity could be a credit negative to some local governments in Pennsylvania unless communities have a way to recoup expenditures that they are likely to spend related to drilling activity.

HARRISBURG FILED FOR BANKRUPTCY

Harrisburg, PA filed for bankruptcy under Chapter 9 of the federal bankruptcy code during the week of Oct 10th, in a hotly disputed action. City council voted 4-3 for the filing, but opposition is strong with the mayor opposed to the filing and Governor Corbett asserting that the filing was illegal. Representatives of both the mayor and the state were in the Harrisburg courtroom of federal bankruptcy judge Mary France seeking to have the filing dismissed. Assured Guaranty, insurer for about \$250 million of incinerator debt and Dauphin County, guarantor of a significant amount of Harrisburg debt also have a strong interest in dismissal. A hearing is expected to take place on November 23rd. Please see the Janney Market note, "Harrisburg Update" dated Oct. 13, 2011 for more details.

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Select Recent Rating Outlook and Rating Changes (Oct 19, 2011)

Issuer	State	Recent Rating Action	Date	Underlying Rating(s)	Notes
Harrisburg (City of)	PA	City filed for Chp 9 bankruptcy	11-Oct-2011	None	In court, Nov 23 hearing
Northumberland (County)	PA	S&P downgraded to BBB+ from A	10-Oct-2011	NR/BBB+/NR	Lowered tax rates
West New York	NJ	S&P withdrew the rating due to lack of info	5-Oct-2011	NR/NR/NR	S&P assigned BB in Sept
Harrisburg Water Authority	PA	Moody's placed on watch for downgrade	4-Oct-2011	NR/Ba1/NR	No financials since 2008
Scranton (City of)	PA	S&P downgraded to BB- from BBB	30-Sep-2011	Ba3/BB-/NR	Structural deficits
Yonkers (City of)	NY	Moody's downgraded to Baa1 from A2	30-Sep-2011	Baa1/NR/NR	Debt levels, tax settlements, etc.
North Providence (City of)	RI	Moody's downgraded to Baa2 from Baa1	29-Sep-2011	Baa2/BBB+/NR	Negative general fund balances
Lackawanna County	PA	Moody's downgraded to Ba3 from Baa1	27-Sep-2011	Ba3/NR/NR	Multi-year deficits & neg fund bal
Minnesota (State of)	MN	S&P downgraded to AA+ from AAA	23-Sep-2011	Aa1/AA+/AA+	Structural imbalance
District of Columbia	DC	Moody's lowered outlook to negative	22-Sep-2011	Aa2/A+/AA-	"Unique exposure" to federal cuts

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

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State and Other Select Issuer Ratings (Oct 18, 2011)

State	Moody's Rating	Moody's Outlook	Moody's Last	S&P Rating	S&P Outlook	S&P Last	Fitch Rating	Fitch Outlook	Fitch 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-	Stable	7/7/2011	A-	Stable	4/5/2010
Colorado (*)	NR	-	-	AA	Stable	7/10/2007	NR	-	-
Connecticut	Aa2	Negative	6/28/2011	AA	Stable	9/26/2003	AA	Stable	6/3/2010
Delaware	Aaa	Stable	-	AAA	Stable	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	Stable	7/12/2011	AAA	Negative	4/5/2010
Georgia	Aaa	Stable	-	AAA	Stable	7/29/1997	AAA	Stable	4/13/2006
Hawaii	Aa2	Stable	5/17/2011	AA	Stable	1/29/2007	AA	Stable	6/15/2011
Idaho (*)	Aa1	Stable	4/16/2010	AA+	Stable	3/30/2011	AA	Stable	6/15/2000
Illinois	A1	Negative	9/23/2010	A+	Negative	12/10/2009	A	Stable	1/21/2011
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	Negative	4/6/2011	AA+	Stable	5/20/2005	AA	Stable	2/13/2007
Kentucky (*)	Aa2	Negative	3/30/2011	AA-	Stable	6/23/2009	AA	Negative	4/5/2010
Louisiana	Aa2	Stable	4/16/2010	AA	Stable	5/4/2011	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+	Stable	9/16/2011	AA+	Stable	4/5/2010
Michigan	Aa2	Stable	4/16/2010	AA-	Stable	5/22/2007	AA-	Positive	7/27/2011
Minnesota	Aa1	Stable	4/16/2010	AA+	Stable	9/29/2011	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	Aa2	Stable	3/24/2011	AA	Stable	3/10/2011	AA+	Stable	4/5/2010
New Hampshire	Aa1	Stable	4/16/2010	AA	Stable	12/4/2003	AA+	Stable	4/5/2010
New Jersey	Aa3	Stable	4/27/2011	AA-	Stable	2/9/2011	AA-	Stable	8/17/2011
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	Positive	5/31/2011
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+	Stable	7/19/2011	AA+	Stable	4/11/2011
Oklahoma	Aa2	Stable	4/16/2010	AA+	Stable	9/5/2008	AA+	Stable	4/5/2010
Oregon	Aa1	Stable	4/16/2010	AA+	Stable	3/10/2011	AA+	Stable	4/5/2010
Pennsylvania	Aa1	Negative	4/16/2010	AA	Stable	11/6/1998	AA+	Negative	5/14/2010
Puerto Rico	A3	Wtch Dwn	5/3/2011	BBB	Stable	3/7/2011	BBB+	Stable	1/19/2011
Rhode Island	Aa2	Negative	5/31/2011	AA	Stable	4/22/2011	AA	Negative	4/5/2010
South Carolina	Aaa	Stable	3/23/2007	AA+	Stable	7/11/2005	AAA	Stable	4/13/2006
South Dakota (*)	Aa2	Stable	5/27/2010	AA+	Stable	3/25/2011	AA	Stable	4/5/2010
Tennessee	Aaa	Stable	4/16/2010	AA+	Positive	5/5/2011	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+	Stable	7/8/2011
Wisconsin	Aa2	Stable	4/16/2010	AA	Stable	8/15/2008	AA	Stable	4/5/2010
Wyoming (*)	NR	-	-	AAA	Stable	5/3/2011	NR	-	-

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

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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.

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Janney Municipal Bond Market Publications

Title	Date	Pub	Notes
Harrisburg Update	October 13, 2011	Note	PA state capital filed for bankruptcy
Bond Insurance Part 1 and 2	October 11, 2011	Note	Municipal bond insurer update
Elevated M/T Ratios are Opportunity	October 5, 2011	Note	M/T Ratios are very attractive across the curve
Opportunities in Municipals Despite Gridlock	September 22, 2011	Monthly	M/T Ratios and spreads to benchmarks are attractive
Bank Qualified and 2% DiMinimis	September 14, 2011	Note	Temporary incentives offer opportunities
Washington's Questionable Influence	August 31, 2011	Monthly	Political rhetoric will be overstated in the coming months
PA School Intercept Program	August 31, 2011	Note	Creates a level of security that enhances underlyings
State Fiscal Health Scorecard Update	August 12, 2011	Note	State are financially flexible and autonomous
New Jersey Debt Overview	August 3, 2011	Note	Review of New Jersey debt programs
Five States on Downgrade Watch	July 20, 2011	Note	Moody's placed 5 states on Review for Downgrade
SF Housing Spreads Highly Attractive	July 18, 2011	Note	Municipal bond buying opportunity as spreads widen
Municipals 6 Months after Whitney	July 6, 2011	MBMM	Default statistics show Whitney overstated
Tobacco Sector Update	June 22, 2011	Note	MSA Payments dropped in 2011 but better days ahead
Washington Will Not Target Tax-Exempts	May 25, 2011	Monthly	We do not expect lawmakers to eliminate tax-exemption
Non-Profit Healthcare Sector	May 23, 2011	Note	Risk reward favors large/higher rated issuers
New Jersey Bonds Oversold	May 10, 2011	Note	NJ yields offer investor value
State Fiscal Health Scorecard Update	April 28, 2011	Note	Stronger state health indicators
State Tax Revenues Continue to Grow	April 20, 2011	Note	Preliminary results show higher state revenues
Negative Rating Agency Moves...	April 20, 2011	Monthly	DeKalb County multi-notch downgrade
Pennsylvania Debt Overview	April 6, 2011	Note	Review of GO and Revenue programs
Diversify Across States	March 29, 2011	Note	Benefits outweigh the costs
Philadelphia Please Touch Museum	March 3, 2011	Credit	This credit should not be considered investment grade
Protests Have Not Spooked Investors	February 28, 2010	Monthly	Showed signs of recovery & state stress overblown
Connecticut- Overview of Debt	February 23, 2010	Note	Four CT Bond Issuance Programs
Muni Market Turmoil Equals Opp.	January 24, 2011	Note	Includes investor strategies for the market
Au Revior to BABs, Concerns Overblown	January 14, 2011	Monthly	BABs were not renewed, we expect headline 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

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.

Definition of Outlooks

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.

Cautious: Janney FIS believes there are factors which introduce the potential for declines in issuer or sector credit quality that may result in potential credit ratings downgrades.

Negative: Janney FIS believes there are factors which point towards weakening in issuer credit quality that will likely result in credit ratings downgrades.

Definition of Ratings

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

Marketweight: Janney FIS expects the target asset class or sector to perform in line with the comparable benchmark (below) in its asset class in terms of total return

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

Benchmarks

Asset Classes: Janney FIS ratings for domestic fixed income asset classes including Treasuries, Agencies, Mortgages, Investment Grade Credit, High Yield Credit, and Municipals employ the "Barclay's U.S. Aggregate Bond Market Index" as a benchmark.

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

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.

High Yield Credit: Janney FIS ratings for employ "Barclay's U.S. Corporate High Yield Index" as a benchmark.

Municipals: Janney FIS ratings employ the "Barclay's Municipal Bond Index" as a benchmark.

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