

MUNICIPAL BOND MARKET NOTE

JANNEY FIXED INCOME STRATEGY

April 28, 2011



Most state fiscal health indicators have continued to improve but results still lag behind pre-recession levels.

Budget shortfalls for FY2012 are projected to be \$111 billion or 17% of last year's spending.

State Fiscal Health Scorecard Update

- Key strength remains states' sovereign ability to cut spending and increase revenues.
- Most state fiscal health indicators have continued to improve but results still lag behind pre-recession levels.
- State tax revenues were higher at the end of 2010 and preliminary results for January and February 2011 were also better.
- Total foreclosed/seriously delinquent mortgages and state unemployment rates descended.
- Budget shortfalls for FY2012 are projected to be \$111 billion or 17% of last year's spending.
- Strategies states will use to balance budgets include: spending reductions, revenue (tax and fee) increases and some use of rainy day funds.

Good News - Stronger State Fiscal Health Indicators

The good news is that most state fiscal health indicators have continued their positive momentum. State tax revenues were higher for four straight quarters starting in 1Q2010. Total revenue collections were 7.8% higher in 4Q2010 and preliminary results for January and February 2011 were 9.5% greater than last year. That means we are looking at the potential for five straight quarters of higher revenues. An April 2011 Pew study reported that 31 state pension plans are funded below the GAO's 80% "safe" funded threshold, up from 21 last year. However the recent Pew study used 2009 data and we believe 2010 results will be better due to higher investment returns.

Bad News - Budget Shortfalls Remain Substantial

On the other hand the bad news is that states' overall budget deficits for FY2012 are estimated to be \$111 billion or 17% of FY2011 budgets, according to the Center on Budget and Policy Priorities. Market observers will undoubtedly continue to see a good amount of political theater during the process while Democrats and Republicans try to agree on spending plans. Some states' proposed budget cuts, as expected, will likely be passed down to local governments, other issuers and taxpayers. Revenue enhancements (or tax and fee increases) are being relied upon on a more limited basis.

Top Five Projected Budget Shortfalls

State	Shortfall as a % of FY2011 Budget	Projected FY2012 Budget Deficit	Spread One Year Ago (in basis points)	Spread Apr 25, 2011 (in basis points)
Nevada	45%	\$1.5 billion	85	80
New Jersey	37%	\$10 billion	33	78
Texas	31%	\$13 billion	20	15
California	29%	\$25 billion	104	98
Oregon	25%	\$1.8 billion	19	24

Source: CBPP-March 9, 2011, 10 Year AAA MMD Spreads from Thomson Reuters and Janney FIS.

Updated State Fiscal Health Scorecard

We updated our relevant figures to help give investors a better idea of states' fiscal situations relative to one another.

AAA GO Municipal Market Data Yields

Date	1 Year	3 Year	5 Year	7 Year	10 Year	15 Year	20 Year	25 Year	30 Year
April 25, 2011	0.32%	0.91%	1.56%	2.21%	2.91%	3.66%	4.17%	4.55%	4.61%
April 26, 2010	0.39%	1.06%	1.75%	2.45%	2.97%	3.42%	3.82%	4.05%	4.11%
One Year Change	-0.07%	-0.15%	-0.19%	-0.24%	-0.06%	0.24%	0.35%	0.50%	0.50%

Source: Thomson Reuters and Janney FIS.

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Janney State Fiscal Health Scorecard

State	Bond Ratings	Spreads to 10Y MMD Year Ago	Spreads to 10Y MMD- Apr 25, 2011	Projected FY 2012 Budget Shortfalls- (%)	Total % Change in Tax Collections	Net Tax-Supported Debt as % of GSDP	State Pension Funding %	Mort Forec. & 90+ Due (All Loans)	Unemploy. Rate
Total/Average		27	31	17.6%	7.8%	2.8%	78%	8.6%	8.8%
Alabama	Aa1AA/AA+	25	28	13.9%	1.8%	2.2%	74%	6.0%	9.2%
Alaska	Aaa/AA+/AA+	18	25	0.0%	-14.3%	2.0%	61%	2.3%	7.4%
Arizona	Aa3/AA-/NR	43	38	11.5%	17.7%	2.2%	78%	10.6%	9.5%
Arkansas	Aa1/AA/NR	28	25	0.0%	0.9%	0.9%	78%	5.3%	7.8%
California	A1/A-/A-	104	98	29.3%	16.8%	4.7%	81%	9.8%	12.0%
Colorado	NR/AA/NR	28	30	13.8%	8.8%	0.8%	69%	5.0%	9.2%
Connecticut	Aa2/AA/AA	20	23	18.0%	3.9%	7.9%	62%	7.5%	9.1%
Delaware	Aaa/AAA/AAA	0	0	6.3%	7.4%	3.6%	94%	7.2%	8.4%
Florida	Aa1/AAA/AAA	36	34	14.9%	3.8%	2.8%	84%	19.4%	11.1%
Georgia	Aaa/AAA/AAA	0	2	7.9%	8.6%	2.8%	87%	8.5%	10.0%
Hawaii	Aa1/AA/AA+	25	32	8.2%	10.8%	8.1%	69%	7.7%	6.3%
Idaho	Aa1/AA+/AA	28	30	3.9%	7.1%	1.6%	74%	6.2%	9.7%
Illinois	A1/A+/A	110	191	14.6%	10.5%	3.8%	51%	10.7%	8.8%
Indiana	Aaa/AAA/AA+	27	30	2.0%	6.2%	1.2%	67%	8.6%	8.5%
Iowa	Aaa/AAA/AAA	16	23	3.5%	4.2%	0.2%	81%	4.9%	6.1%
Kansas	Aa1/AA+/NR	40	35	8.8%	2.6%	2.6%	64%	5.0%	6.8%
Kentucky	Aa2/AA-/AA-	30	28	9.1%	6.6%	4.7%	58%	6.8%	10.2%
Louisiana	Aa2/AA-/AA	30	31	20.7%	-12.0%	2.6%	60%	7.4%	8.1%
Maine	Aa2/AA/AA+	26	20	16.1%	5.1%	2.0%	73%	8.3%	7.6%
Maryland	Aaa/AAA/AAA	0	0	10.7%	-0.2%	3.4%	65%	8.4%	6.9%
Massachusetts	Aa1/AA/AA+	27	26	5.7%	9.5%	8.3%	68%	7.1%	8.0%
Michigan	Aa2/AA-/AA-	80	80	5.9%	-1.5%	2.0%	79%	8.9%	10.3%
Minnesota	Aa1/AAA/AAA	3	2	23.6%	8.8%	2.1%	77%	5.4%	6.6%
Mississippi	Aa2/AA/AA+	26	42	14.1%	6.7%	4.8%	67%	8.4%	10.2%
Missouri	Aaa/AAA/AAA	3	0	9.1%	0.0%	2.0%	79%	5.3%	9.1%
Montana	Aa1/AA/AA+	25	25	0.0%	7.4%	1.0%	74%	3.6%	7.4%
Nebraska	Aa2/AA+/NR	30	40	9.2%	1.1%	0.0%	88%	3.5%	4.2%
Nevada	Aa2/AA/AA+	85	80	45.2%	-2.3%	1.9%	72%	17.4%	13.2%
New Hampshire	Aa1/AA/AA+	13	7	Yes- unknown	1.3%	1.5%	58%	5.5%	5.2%
New Jersey	Aa3/AA-/AA	33	78	37.4%	8.1%	6.7%	66%	10.9%	9.3%
New Mexico	Aaa/AA+/NR	12	22	8.3%	17.7%	3.5%	76%	6.0%	8.1%
New York	Aa2/AA/AA	28	30	18.7%	19.0%	5.4%	101%	9.1%	8.0%
North Carolina	Aaa/AAA/AAA	1	1	12.7%	-3.1%	1.8%	97%	5.9%	9.7%
North Dakota	Aa1/AA+/NR	30	30	0.0%	41.7%	0.7%	81%	2.1%	3.6%
Ohio	Aa1/AA+/AA+	30	38	11.0%	-1.5%	2.3%	66%	9.0%	8.9%
Oklahoma	Aa2/AA+/AA+	30	28	9.4%	6.3%	1.4%	57%	5.8%	6.1%
Oregon	Aa1/AA+/AA+	19	24	25.0%	14.0%	4.4%	86%	6.2%	10.0%
Pennsylvania	Aa1/AA/AA+	18	19	16.4%	6.9%	2.1%	81%	6.4%	7.8%
Rhode Island	Aa2/AA/AA	45	50	11.3%	3.6%	4.7%	59%	8.5%	11.0%
South Carolina	Aaa/AA+/AAA	4	3	17.4%	9.0%	2.7%	69%	7.2%	9.9%
South Dakota	A1/AA+/AA	30	40	10.9%	0.9%	0.3%	92%	2.9%	4.9%
Tennessee	Aaa/AA+/AAA	2	1	Yes- unknown	6.3%	0.8%	90%	6.8%	9.5%
Texas	Aaa/AA+/AAA	20	15	31.5%	6.5%	1.1%	84%	5.1%	8.1%
Utah	Aaa/AAA/AAA	3	0	8.2%	-1.3%	2.4%	86%	6.7%	7.6%
Vermont	Aaa/AA+/AAA	15	18	16.3%	7.2%	1.7%	73%	4.8%	5.4%
Virginia	Aaa/AAA/AAA	1	2	13.1%	4.3%	1.8%	80%	4.7%	6.3%
Washington	Aa1/AA+/AA+	26	29	16.2%	7.8%	4.6%	99%	6.6%	9.2%
West Virginia	Aa1/AA/AA	32	33	12.8%	4.1%	3.2%	56%	5.0%	9.1%
Wisconsin	Aa2/AA/AA	28	33	12.8%	2.8%	4.1%	100%	6.2%	7.4%
Wyoming	NR/AA+/NR	33	30	0.0%	34.4%	0.1%	89%	3.1%	6.2%

Sources: Janney FIS; spreads are from MMD Interactive per Thomson Reuters; projected FY2012 budget shortfalls from Center on Budget and Policy Priorities Mar 9, 2011; % change in tax revenue is 4Q2009 to 4Q2010 per the Rockefeller Institute; NTSD to state GDP is per Moody's May 2010 State Debt Medians Report; State pension data from Pew April 2011 report (data is from 2009). A plan 80% funded is considered healthy by the GAO; Mortgage foreclosure data from the Mortgage Bankers Association 4Q2010; and unemployment rates per the Bureau of Labor Statistics as of Mar 2011.

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