

MUNICIPAL BOND MARKET MONTHLY

JANNEY FIXED INCOME STRATEGY

September 21, 2010



CONTENTS	PAGE
MARKET COMMENTARY	1
BAB EXTENSION	3
MUNICIPAL SECTOR OUTLOOK	3
STATE OF THE STATES	4
AUGUST NJ SETTLEMENT WITH SEC	6
SIGN UP FOR DISCLOSURE ALERTS	7
HARRISBURG, PA UPDATE	8
SELECT CREDIT CHANGES	13
STATE ISSUER RATINGS	14
RATING DEFINITIONS	15
JANNEY MUNICIPAL PUBLICATIONS	16
DISCLOSURE	17

State Tax Revenues Were Stronger Again and Harrisburg, PA Dodged a Default

- Tax-exempt yields are following Treasuries higher after falling to record lows at summer's end.
- Authorization for the extension of several municipal related initiatives, including BABs, remains in question. We believe BAB extension remains likely.
- States' financial descent seems to be over. Downward rating actions have ceased, state tax revenues are trending higher and state credit spreads have tightened.
- An August SEC cease and desist order against NJ was the first charged to a state. We expect disclosure requirements for municipal issuers will become more rigorous.
- Harrisburg sidestepped a GO default when the Commonwealth provided \$4.3 million of grants, advances and loans.
- Bond investors should exercise caution with "guaranteed" revenue bonds. Enterprise risk and political strains trumped Harrisburg's willingness to pay. The reality is that municipalities' revenue bonds, even with a guarantee, may be only as good as the underlying project.

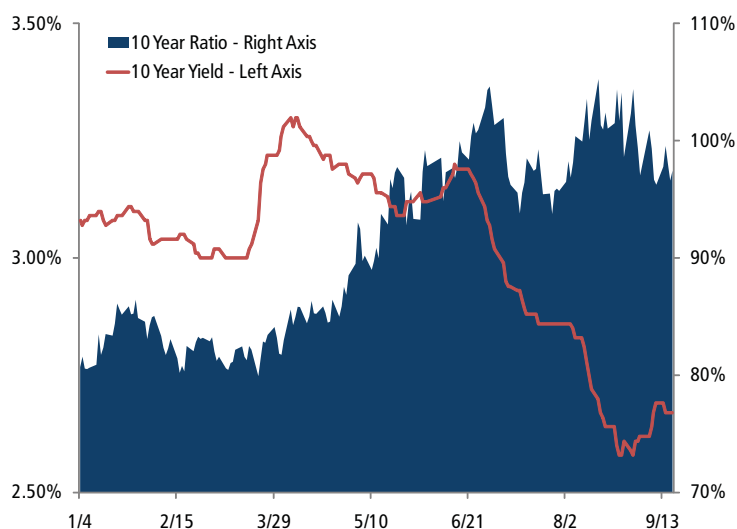
MARKET COMMENTARY

Municipal Activity has Picked Up Since Labor Day

Following a slow finish to the summer, post Labor Day municipal activity is picking up. After plumb-ing to record lows in some maturities tax free yields are following Treasuries higher. Ratios of tax free to Treasury yields are off the top of mid-summer, but are still well above 100% for thirty year maturities and just under 100% in ten years. The travails of communities such as Harrisburg, PA, Bell, CA and Buena Vista, VA not to mention Jefferson County, AL, have put pressure on ratios as well as BABs spreads, and we expect this to continue in coming months. New issue supply is building and the pace is expected to continue. The Bond Buyer thirty-day visible supply of new issues topped \$13 billion, the highest level since March. On the demand side, flows to tax fee mutual funds remain positive, although the \$756 million of inflows in the week ending September 8, was the slowest pace in ten weeks.

The municipal market will likely be impacted by the upcoming legislative ses-sion. With Congress back from the summer recess, extension of the Bush tax cuts is the hot topic. Joint filers with taxable income of \$250,000 or below are likely to see cuts extended, while the outlook for top bracket investors is less certain. The top bracket of 35%, will return to 39.6% un-less extended. The higher the tax bracket, the more valuable the tax exempt benefit of municipal bonds becomes.

10 Year M/T Ratios are Just Below 100%



Source: Bloomberg, MMA and Janney Fixed Income Strategy.

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We expect issuers to favor BABs, locking in the favorable subsidy before it declines or disappears.

BAB Spreads have recently ranged from 110 to 158 bps. for a 30 year maturity.

About \$130 billion of BABs have been issued over the last seventeen months.

If the top bracket jumps to 39.6%, demand should increase, pushing yields and ratios lower. The other important legislation for municipal bond investors is extension of the Build America Bond Program, discussed in more detail on page 3. No extension would reduce taxable supply, but increase tax free new issuance in 2011, putting upward pressure on tax free yields.

Build America Bonds

With the program likely to see lower subsidy rates from the federal government or potentially elimination at year end, we expect issuers to favor BABs, locking in the favorable subsidy before it declines or disappears. The recent new issue calendar reflects this. Demand has been strong, particularly for high grade issuers. University of Texas had yields about 100 basis points over the thirty year Treasury yield, a spread not quite as tight as the record 94.5 bps spread set by University of Virginia in July. Spreads of other issues in the thirty year maturity range ran from 110 to 158 bps. The pace will continue with at least nine issues totaling more than \$4 billion on tap for the week of September 20.

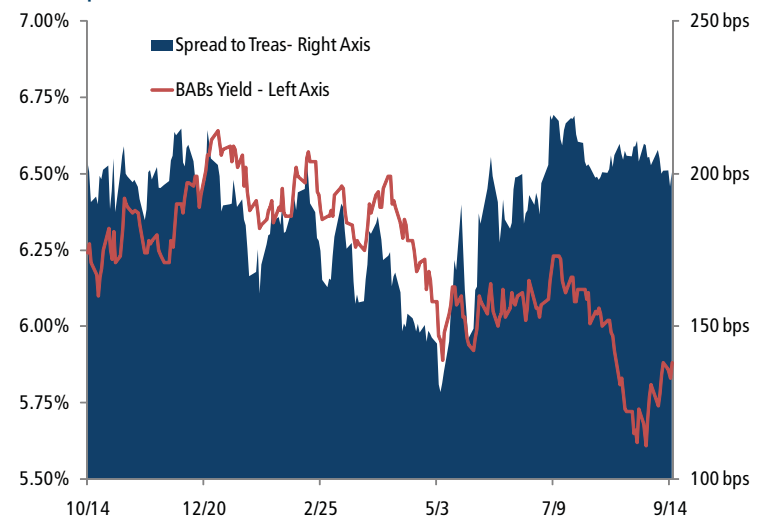
There is a Heavy BABs Calendar

Week Of	Size (\$ in mill)	Issuer	Exp. Rating	Mat.	Spread to Trsy (30 yr)
9/13	\$655	Ohio State University	A1/AA/AA	30 years	113
9/13	\$600	New York City Water	Aa2/NR/AA+	33 years	158
9/13	\$544	University of Texas	Aaa/AAA/AAA	36 years	100
9/13	\$147	Ohio Water Dev	Aaa/AAA/NR	32 years	110
9/13	\$142	Fulton County GA	Aa2/AA-/AA-	29 years	135
9/20	\$1,000	Texas Transportation	Aaa/AA+/AAA		TBD
9/20	\$725	Dallas Area Rapid Trans	Aa2/AA+/AA-		TBD
9/20	\$575	Utah GO	Aaa/AAA/AAA		TBD
9/20	\$520	University of California	Aa2/AA-/NR		TBD
9/20	\$500	Salt River AZ	A1/AA/NR		TBD
9/20	\$300	Amer. Muni Power - Prairie	A1/A/A		TBD
9/20	\$145	University of Washington	Aaa/AA+/NR		TBD
9/20	\$132	San Diego Co. Regl Airport	A2/A/A		TBD
9/20	\$128	University of Hawaii	Aa2/A+/AA		TBD

Source: Bloomberg and Janney Fixed Income Strategy.

Investors in a BAB market dominated by institutions are concerned with uncertainty over the program's extension. About \$130 billion have been issued over BAB's seventeen months of existence, but a potential halt to issuance, if the authorization is not extended, could discourage buyers. Although it has grown rapidly, a market capped at \$150 billion or so, with little prospect of additional issuance, would be of minimal interest to large investors going forward. \$150 billion pales in comparison to the \$2.8 trillion of municipal bonds outstanding or \$7 trillion of corporate bonds. As issuer and investor interest have converged around the unsure future of BABs, spreads, the yield differential between BABs and Treasuries, have moved wider, and although there has been some narrowing in the past few trading

BAB Spreads Remain Wide to Treasuries



Source: Bloomberg, MMA and Janney Fixed Income Strategy.

Individual investors should consider BABs as a tool to enhance yield and diversify beyond traditional taxable investments.

We believe BAB extension remains likely, but the chances of passage before the elections is diminishing.

State revenue data was positive for the second quarter in a row after five quarters of negative results.

sessions, we expect continued pressure on BABs spreads as issuers move to get subsidized bonds sold, and buyers demand more yield due to the cloudy future.

BABs have been slow to take hold in the individual investor space, but the trend is positive. A recently marketed BAB exchange traded fund (ETF) from Blackrock drew strong retail demand, exceeding \$1 billion in size. According to the Bond Buyer, more than 110 unit investment trusts (UITs) using BABs have been launched, with total assets of about \$3.3 billion. Recently BABs have been offering about 45 basis points more in yield than like rated corporate bonds. Individual investors should consider BABs in taxable portfolios as a tool for enhancing yield as well as expanding diversification beyond traditional taxable issues. The uncertain prospects of the program offer an opportune time for individual investors to consider BAB investments either directly through bonds, or indirectly using UITs, ETFs and traditional mutual funds. **Alan Schankel**

LATEST ON BAB EXTENSION

Authorization for the extension of the Build America Bond (BAB) program, as well as other municipal related initiatives remains in question. A House "extenders" bill, introduced in July, included provisions to continue the BABs program through 2012, while dropping the federal interest subsidy from the current 35%, to 32% in 2011 and 30% in 2012. The proposed legislation also included an extension of the small issue exemption for issuers seeking to issue bank qualified bonds, raising the threshold to \$30 million from \$10 million. Finally it extended through 2011 the exemption from AMT treatment for new issue private activity bonds. An earlier bill containing similar provisions passed the House but was tabled in the Senate.

The distractions of election season may preclude passage of extension legislation, but there is still discussion in both Houses of Congress. Authorization could be in the form of a specific bill, or as part of a more comprehensive bill, legislation to extend Bush era tax cuts being an example. On September 16, Senate Finance Chairman Mac Baucus introduced a bill to extend BABs through 2011, lowering the subsidy to 32%. Ultimately we believe extension remains likely, but the chances of passage and agreement by both houses before the elections are dimming. **Alan Schankel**

JANNEY MUNICIPAL SECTOR OUTLOOK

We have not made any changes to the Janney Municipal Sector Outlook this month. Recent economic indicators have been mixed but most point toward a reduced chance of a double dip recession and the latest state revenue data was positive for the second quarter in a row after five quarters of negative results going back to 4Q 2008. For more detail about the State Government Sector please see the "State of States" below. **Tom Kozlik**

Janney Municipal Sector Outlook

Sector	Janney Outlook	Last Month Change	Barclay's 12 Month Return	Key Sector Trends	Recent Janney Sector Review
Municipal Bond Index	-	-	9.78%	Barclay's Muni Index, 46k issues	-
State Government	Stable	Same	8.80%	Taxing power = more security	Sept MBMM
Local Government	Cautious	Same	9.58%	Less support from states	-
School Districts	Stable	Same	-	State programs offer strong security	May 10 FIW
Airports	Cautious	Same	11.38%	Passenger and freight down YoY	Feb 8 FIW
Higher Education	Cautious	Same	10.04%	Low rated privates face pressure	Jan 25 FIW
Health Care	Cautious	Same	13.79%	Impact of reform is uncertain	Apr MBMM
Housing	Stable	Same	10.61%	Single family is stronger than multi	Jun MBMM
Public Power (Elec.)	Stable	Same	9.83%	Essential purpose, but volatile	Jun 21 FIW
Tobacco	Negative	Same	9.76%	Negative rating pressures continue	Aug MBMM
Toll Facilities	Stable	Same	11.38%	Traffic down, DS cov. strong	March MBMM
Water and Sewer	Stable	Same	9.67%	Essential purpose	Apr 19 FIW

Source: Janney Fixed Income Strategy.

The worst seems to be over where state credit profiles are concerned.

Thirty of the forty-seven reporting states saw higher revenues mostly driven by growth in sales and income taxes.

Credit spreads reflect investors' perception of risk within a particular sector or rating category.

STATE OF THE STATES

The worst seems to be over where state credit profiles are concerned. It has been some time since we have seen a month where multiple state ratings were downgraded or placed on negative outlook. Although the employment picture remains troubling and there are still a few situations worth monitoring such as the financial and political dynamics in California and Illinois, overall rating action has stabilized, state tax revenues are trending higher and state credit spreads have tightened.

State Tax Revenues Were Higher Again in 2Q 2010

Most states benefitted from a second consecutive quarter of higher tax revenues in 2Q 2010 after five straight quarters of slowing receipts, according to data from a Aug 30 Nelson Rockefeller Institute of Government report. While this outcome does not imply a full economic recovery for states and municipalities, it is undeniably a positive result. Overall state revenue was 2.2% higher compared to the same period a year ago.

A total of thirty of the forty-seven reporting states saw higher revenues mostly driven by growth in sales and income taxes, with Florida and Arizona notably realizing 14.0% and 3.9% total revenue growth. Seventeen states reported declines including those still facing great

Two Straight Quarters of Revenue Growth

% Change in State Collections vs. Same Q 1 Year Ago				
Quarter	Pers Inc Tax	Corp Inc Tax	Sales Tax	Total
1Q2007	8.5	14.8	3.1	5.2
2Q2007	9.2	1.7	3.5	5.5
3Q2007	7.0	(4.3)	(0.7)	3.1
4Q2007	3.8	(14.5)	4.0	3.6
1Q2008	4.8	(1.4)	0.7	2.6
2Q2008	8.1	(7.0)	1.0	5.4
3Q2008	1.2	(12.9)	4.7	2.7
4Q2008	(1.2)	(16.8)	(6.4)	(4.6)
1Q2009	(17.4)	(20.1)	(8.3)	(11.6)
2Q2009	(27.2)	1.6	(9.3)	(16.5)
3Q2009	(11.8)	(22.1)	(10.0)	(11.4)
4Q2009	(4.3)	(0.5)	(5.3)	(4.0)
1Q2010	2.5	0.6	0.4	2.5
Prelim 2Q2010	1.6	(18.8)	5.9	2.2

Source: Rockefeller Institute of Government and Janney FIS.

fiscal challenges, including California, Illinois, and Michigan.

Municipal Credit Spreads

Municipal credit spreads measure the difference in yield between a AAA rated municipal index such as the AAA Municipal Market Data (MMD) Benchmark Index and an individual credit, such as a state or municipality. They are key variables to consider when assessing relative value within the municipal bond universe. Credit spreads reflect investors' perception of risk within a particular sector or rating category. Spreads typically widen during contracting economic environments--as was the case from the end of 2007 until the beginning of 2010--and typically tighten during periods of improving economic activity.

The AAA Municipal Market Data (MMD) Benchmark Index

MMD yields are published daily by Thomson Reuters, and are the standard benchmark for the municipal industry. The AAA MMD scale is a listing of yields for each year from the one year maturity to the 30 year and is based on yields of new issues and significant secondary transactions for AAA municipal issuers such as the states of Delaware, North Carolina and Maryland. In the way that corporate bond issues trade on a spread to Treasuries, municipal yields are frequently referred to by their spread to AAA MMD.

State Credit Spreads Widened After the Economic Crisis

Most state credit spreads significantly widened well over their historical averages at the beginning of the economic crisis back in late 2008 and early 2009 when investors' panic fueled an extreme flight to quality. The spread of AAA MMD to the State of California, for example, increased to as high as 135 basis points (bps) up from the 5 year average spread of 35 basis points.

State credit spreads are about seven basis points tighter today, on average, versus the end of 2009.

Most State Credit Spreads Have Tightened

Today, state credit spreads are generally tighter compared to spreads from the end of 2009 despite ongoing fiscal stress and headline risk. We attribute this movement to not only the stabilizing of investor fears but also the mostly favorable reactions of states to their budget realities. The bottoming out and recovery of state revenues is also contributing. On average, state credit spreads are about seven basis points tighter today, versus Dec 30, 2009. States with credit profiles just below the AAA benchmarks make up the majority of state issuers. This second-tier of states include the likes of Connecticut, Massachusetts and Pennsylvania among several others which are rated in the high AA category and are facing a minimal amount of credit risk. This tier is now trading at an average of 19 basis points to MMD versus 28 bps on Dec 30, 2009.

States with credit profiles just below the second tier maintain lower ratings and/or suffer from other stresses. These states include Florida, New Jersey and New York, among others, and have also followed a tightening trend since Dec 2009. Spreads fell by an average of seven basis points. Credit spreads for the states with the lowest ratings and which own the greatest financial risk, such as California, Illinois, Michigan, and Puerto Rico, have tightened by an average of 22 basis points since Dec 2009. After California's credit spread jumped to 135 basis points in the beginning of 2009 after the late 2008 and early 2009 flight to quality it closed 2009 at 147 bps. Today California's spread is closer to 96 bps. **Tom Kozlik**

States such as Connecticut, Massachusetts and Pennsylvania possess a minimal amount of credit risk and are trading at an average of 19 basis points to MMD.

State Credit Spread to AAA MMD YTD Performance

State	Moody's	S&P	Fitch	Spreads to AAA MMD 10 Yr (bps)	
				Dec 30 2009	Sept 15 2010
Alabama	Aa1	AA	NR	40	27
Alaska	Aa1	AA+	AA+	28	20
Arizona	Aa3	AA-	NR	45	38
Arkansas	Aa1	AA	NR	30	22
California	A1	A-	A-	147	96
Colorado	NR	AA	NR	28	17
Connecticut	Aa2	AA	AA	28	16
Delaware	Aaa	AAA	AAA	0	0
Florida	Aa1	AAA	AAA	36	31
Georgia	Aaa	AAA	AAA	2	0
Hawaii	Aa1	AA	AA+	28	20
Idaho	Aa1	AA	AA-	32	28
Illinois	A1	A+	A	94	150
Indiana	Aaa	AAA	AA+	30	23
Iowa	Aaa	AAA	AAA	27	15
Kansas	Aa1	AA+	-	70	35
Kentucky	Aa1	AA-	AA	40	20
Louisiana	Aa2	AA-	AA	40	32
Maine	Aa2	AA	AA+	23	20
Maryland	Aaa	AAA	AAA	0	0
Massachusetts	Aa1	AA	AA+	23	20
Michigan	Aa2	AA-	AA-	110	85
Minnesota	Aa1	AAA	AAA	3	4
Mississippi	Aa2	AA	AA+	37	32
Missouri	Aaa	AAA	AAA	3	0
Montana	Aa1	AA	AA+	30	20

Today, California's spread is closer to 96 bps falling 51 bps since the beginning of 2010...

...while, New Jersey's spread rose two bps...

...and Pennsylvania's spread fell two bps since the beginning of the 2010.

We expect the SEC will strengthen its disclosure requirements for municipal issuers.

State Credit Spread to AAA MMD YTD Performance (cont)

State	Moody's	S&P	Fitch	Spreads to AAA MMD 10 Yr (bps)	
				Dec 30 2009	Sept 15 2010
Nebraska	Aa2	AA+	NR	30	32
Nevada	Aa1	AA+	AA+	78	50
New Hampshire	Aa1	AA	AA+	20	10
New Jersey	Aa2	AA	AA	28	30
New Mexico	Aaa	AA+	NR	30	18
New York	Aa2	AA	AA	29	27
North Carolina	Aaa	AAA	AAA	0	2
North Dakota	Aa1	AA+	NR	30	25
Ohio	Aa1	AA+	AA-	35	28
Oklahoma	Aa2	AA+	AA+	35	22
Oregon	Aa1	AA	AA+	30	20
Pennsylvania	Aa1	AA	AA+	18	16
Puerto Rico	A3	BBB-	NR	245	185
Rhode Island	Aa2	AA	AA	40	35
South Carolina	Aaa	AA+	AAA	5	2
South Dakota	A1	AA	AA	30	32
Tennessee	Aaa	AA+	AAA	6	3
Texas	Aaa	AA+	AAA	21	15
Utah	Aaa	AAA	AAA	4	0
Vermont	Aaa	AA+	AAA	0	2
Virginia	Aaa	AAA	AAA	20	0
Washington	Aa1	AA+	AA+	34	22

Source: Thomson Reuters and Janney Fixed Income Strategy.

AUGUST NJ SETTLEMENT WITH THE SEC

An August SEC cease and desist order charged the State of New Jersey with material misrepresentations about the funding level of its pension obligations in bond and disclosure documents. New Jersey reportedly accepted the order without admitting or denying the finding and the SEC did not necessitate a financial penalty. The following week the State of New Jersey priced tax and revenue anticipation notes with no adverse effects from the event.

This was the first time the SEC charged a state for violations of federal securities law. While we do not expect this to have an immediate impact on the municipal market, it's unlikely that the NJ order will be the last SEC investigation into material disclosure within the \$2.8 trillion municipal market. The Dodd-Frank reform created additional oversight capacity within the SEC, including a new Office of Municipal Securities.

We expect the SEC will strengthen its disclosure requirements for municipal issuers. Current requirements are lax compared to the quarterly requirements in the corporate securities universe. Municipal entities are usually only required to file annual financial statements and these are often not released for six to nine months after the ending of a fiscal year. That type of delay results in less valuable financial information. However, there are many types of issuers which acknowledge that investors require more regular information in order to make investment choices and they file disclosure updates more frequently, sometimes even monthly.

Municipal issuers are required to provide regular disclosure.

Information on the MSRB's EMMA web-site is available free of charge.

SIGN-UP FOR EMMA DISCLOSURE ALERTS

Issuers are Required to File Continuing Disclosure

Municipal issuers are required to provide annual financial statements and updates in response to material events, such as payment delinquencies, defaults, rating changes, bond calls, etc. to the Municipal Securities Rulemaking Board (MSRB) under Rule 15c2-12 of the Securities and Exchange Act of 1934. This disclosure is available free of charge and investors can receive issuer's recent disclosure information by signing up with the MSRB's Electronic Municipal Market Access (EMMA) system via <http://emma.msrb.org/>.

Investors Should Sign-up for Disclosure Alerts

- Create an EMMA account (free of charge).
- Go to the following web-site to sign up for alerts: <http://dataport.emma.msrb.org/MarketActivity/ManageAlerts.aspx>.
- Enter the nine-digit CUSIP number into the "Muni Search" function of EMMA.
- Click the arrow in the "Muni Search" box to navigate to the "Security Details" page for the bond.
- Once you are on the "Security Details" page, you will see an "Alert Me!" box on the right-hand side of the page.
- Click on the "Sign Up for Alerts" button, enter and confirm the e-mail address to which you would like the alert sent.
- Completing this process for any nine-digit CUSIP will deliver e-mail alerts whenever new documents are posted to EMMA. **Tom Kozlik**

Investors can sign up for disclosure email alerts for specific bond issues using a bond's CUSIP.

Sign-up for Disclosure Alerts on the MSRB's EMMA Web-site

Trade Date/Time	Settlement Date	Price (/100)	Yield (%)	Trade Amt (\$)	Trade Instrument
09/21/2010 12:28 PM	09/21/2010	99.8200	3.8	10,000	Customer Buy
09/21/2010 12:11 PM	09/21/2010	99.8200	4.250	10,000	Customer Buy
09/21/2010 11:52 AM	09/21/2010	99.8200	3.400	25,000	Customer Buy
09/21/2010 11:54 AM	09/21/2010	99.8200	3.8250	25,000	Inter-Dealer Trade
09/21/2010 11:54 AM	09/21/2010	99.8200	3.8250	25,000	Inter-Dealer Trade
09/21/2010 09:22 AM	09/21/2010	99.8200	4.220	25,000	Customer Buy
09/21/2010 09:26 AM	09/21/2010	99.8200	3.8175	1,000	Customer Buy
09/21/2010 09:26 AM	09/21/2010	99.8200	3.8175	10,000	Inter-Dealer Trade
09/21/2010 09:19 AM	09/21/2010	99.8200	3.8250	10,000	Inter-Dealer Trade

Source: <http://emma.msrb.org> and Janney Fixed Income Strategy.

Pennsylvania Governor Ed Rendell announced a plan to provide Harrisburg \$4.3 million of grants, advances and loans.

Bond investors should exercise more caution with a guaranteed bond than with a GO bond from the same issuer, perhaps requiring additional yield to offset the perceived additional risk.

Harrisburg guarantees \$287 million of debt issued by the Harrisburg Authority.

HARRISBURG, PA DUCKS A GO DEFAULT

Harrisburg received good news on September 12, when Pennsylvania Governor Ed Rendell announced a plan to provide the city about \$4.3 million through grants, advances and loans. The stop gap measure was designed to give the city breathing room by enabling payment of \$3.3 million of general obligation debt when due on September 15 as well as fund engagement of a consultant to help the city develop a plan for dealing with the immense financial challenge it faces. After notifying its general obligation bond paying agent that it would be not make the payment, Harrisburg was able to step back from the default precipice and the payment was made.

The sigh of relief from municipal market participants upon announcement of short term help from Pennsylvania, belies the fact that the city has already missed million of dollars worth of payments on city guaranteed debt for a troubled solid waste incinerator project. Both the GO debt and the guaranteed debt were secured by the same pledge of the city's full faith credit and taxing power, but the potential for a GO default drew more concentrated scrutiny, not to mention state support.

It can be argued that, at least in Pennsylvania, bond investors should exercise more caution with a guaranteed bond than with a GO bond from the same issuer, perhaps requiring additional yield to offset the perceived additional risk. The reality is that a guarantee, like bond insurance, may be only as good as the underlying project. It's easier to be comfortable with the guarantee of an established township which backs its sewer bonds than bonds for a municipal golf course which has yet to be built.

The Incinerator from Heck

Harrisburg guarantees \$287 million of bonds and debt issued by the Harrisburg Authority to improve and modernize its solid waste incinerator. Expectations were that the incinerator bond debt service would be covered by plant revenues, primarily tipping fees – the per ton expense (paid by private companies as well as communities) for a trash truck to dump waste. Secondary revenue sources are sale of electricity generated by the facility as well as ferrous extracted during the process.

Outstanding Harrisburg Related Incinerator Debt

Issue Date	Amount	Series	Co. Gty.	Insurance	Notes
7/29/1998	\$11,165,000	A 1998	No	AGM (FSA)	Refinanced outstanding debt
8/15/2002	14,870,000	A 2002	No	AGM (FSA)	Fund equipment, studies and working capital
5/27/2003	22,555,000	A 2003	No	AGM (FSA)	Refinance outstanding debt and provide working capital
	29,085,000	B 2003	No	AGM (FSA)	
	24,285,000	C 2003	No	AGM (FSA)	
12/19/2003	96,480,000	D 2003	Yes	AGM (FSA)	Retrofit construction, capitalized interest, payment of current debt service and guarantee fees
	14,500,000	E 2003	Yes	AGM (FSA)	
	14,020,000	F 2003	No	AGM (FSA)	
12/27/2007	23,920,000	C 2007	Yes	No	Private Placement for working capital - matures 12-15-10
	10,765,000	D 2007	Yes	No	
2008	25,500,000	2008	No	No	Loan from Covanta for retrofit completion
	\$287,145,000				

Source: Audited financials, official statements and Janney Fixed Income.

Background of the Incinerator Project

The incinerator was first placed into operation in 1972. After a series of issues with Pennsylvania's Department of Environmental Resources and the U.S. Environmental Protection Agency related to residual waste (ash) disposals and emissions, plant operations were curtailed in January 2001, and the plant was closed in June 2003 to undergo a retrofit, bringing the plant into compliance with federal emissions standards.

Originally expected to cost about \$50 million, the incinerator project now has more than \$280 million in outstanding debt.

2010 incinerator debt service is overwhelming.

Other major Harrisburg related bond issuers include the Harrisburg Authority's Water Revenue Bonds and the Harrisburg Parking Authority.

The city chose Barlow Projects, to manage the retrofit and provide most equipment, but the project was plagued with cost overruns, plan changes and delays. Barlow was a struggling company, filing for bankruptcy in August 2007. In January 2007, Covanta Energy, an experienced waste-to-energy operator was hired to complete the project and manage the facility. Covanta, with 40 facilities under management across the country, manages the incinerator today.

Cost Over-Runs and Non Construction Related Expenses

Originally expected to cost about \$50 million, the project has more than \$280 million in outstanding debt. The official statement for the December 2003 issue, with par value of \$125 million, shows that about 47% of the proceeds were used for non construction purposes including payments for guarantees, insurance, and debt service for previous issues.

With the exception of two small townships, all waste collected in Dauphin County must be delivered for disposal to the incinerator. In late 2008 the Authority proposed rate increases for the city and county. The city's increase took effect, but the county rejected the increase, took the issue to arbitration and prevailed. According the Harrisburg Authority financial statements this led to a loss of \$13 million of revenue in 2009.

The most recent audited financials from the Harrisburg Authority are for the year ending 12-31-08. To give a sense of the project's current financial framework, we extracted the table on the following page from the Resource Recovery Facility 2010 Budget. On a basic operating level the facility is expected to generate about \$5 million of revenue in 2010. After operating numbers the situation becomes stressed. The budget lists another \$4 million in expenses for fines, legal fees, bond trustee fees and other professional fees, which brings the bottom line to about breakeven – before debt service. Debt service for 2010 is overwhelming. The reserve replenishment of nearly \$17 million is to refill the coffers which were tapped to pay principal and interest in past years. The reimbursement to Dauphin County is similar, repaying the county for payments the county guaranteed on interest rate swaps. These replenishment amounts have likely grown thus far in 2010, with further draws on reserves, not to mention payments made by bond insurer AGM. A \$35 million working capital loan is due in December. Dauphin County, which guarantees the loan, will likely be called on the make the \$35 million payment when due.

Harrisburg, with 2010 budget revenues of about \$65 million, will be hard pressed to come up with 2010 incinerator debt service which, including arrears, exceeds \$74 million. When first conceived in the late 1990's, the project may have seemed promising, likely to generate revenues for the city. The scope of the retrofit grew, and project problems abounded. Offering documents contained no feasibility or engineering studies. Although it was believed that the underlying debt service support would come from project revenues, the city guarantee, for some bonds a guarantee from Dauphin County, and finally the insurance from FSA (now AGM) offered a multi layer plan of bondholder protection. The suspenders broke, but the belt still holds the pants up. Both Dauphin County and AGM met their commitment, so bondholders saw no interruption of principal and interest payments.

Other Harrisburg Issuers- Water and Parking Revenue Bonds

The other two major Harrisburg bond issuers are Harrisburg Authority - Water Revenue Bonds, with about \$156 million outstanding, and Harrisburg Parking Authority with about \$108 million in bonds. Both issuers have strong revenue streams, comfortably covering debt service.

Estimated Uses of Funds- Series D,E and F of 2003

Use	Amount
Construction	\$69,606,621
Contingency	12,534,442
Transition Costs	7,965,456
Capitalized Interest	11,580,597
Payment of Existing Debt Service	10,907,728
Debt Service Reserve Fund	10,000,000
Bond Insurance Premium (FSA)	1,327,138
City Guaranty Fee	2,834,544
County Guaranty Fee	1,900,000
Costs of Issuance	2,450,000
Swap Agreement Fee	2,000,000
Total Uses	\$133,106,526

Source: Official statements and Janney Fixed Income Strategy.

Harrisburg's water operation generated \$4.4 to \$5.2 million annually for the city.

The parking system is being considered for sale or lease.

Harrisburg city council's decision to exclude a water rate increase led to a revenue shortfall of \$3.8 million.

The water bonds are secured by a pledge of operating revenues before anything is paid to the city. Moody's rates the 2008 water issue A1 (upgraded from A3 in April due to recalibration). Debt service must be paid before the city receives any residual revenues. In 2006 through 2009, the water operation generated enough income to provide the city's general fund with amounts ranging from \$4.4 to \$5.2 million annually. Harrisburg's city council did not approve a requested water rate increase (to offset higher debt service and capital expenditures) in the city's 2010 budget, which according to the city's mid-year fiscal report (6-30-10) decreased payments to the general fund by \$3.8 million. It seems likely that the city will increase rates to generate general fund revenue, thereby providing an additional margin of debt service coverage. A failure to raise rates in the longer term could reduce debt service coverage and lead to a rating downgrade.

The parking bonds have a more complicated structure with issues having different priority access to revenues spread across five different liens. Interestingly, with the exception of one series, they are guaranteed by the city, but the guarantee has not been needed. The parking system is profitable enough to be among the assets being considered for sale or lease, and like the water fund is a key contributor to the City's General Fund, providing between \$3.5 million and \$4.7 million in the years 2006 through 2009. Harrisburg University failed to make a required lease payment on parking facilities due in November, which reduced the payment to the General Fund by \$700,000 according to the mid-year report.

The good news for bondholders of both parking bonds and water bonds is that the city relies on revenues from these systems – revenues that can be transferred to the city only after debt service is satisfied. Recently proposed deficit closing measures include an increase in parking meter rates, which if approved, would increase revenues available for debt service on parking bonds.

Willingness to Pay?

When it comes to debt, the likelihood of repayment is based on both the borrower's ability to pay and the willingness to pay. When a homeowner walks away from a mortgage obligation, because his or her home has negative equity, it is sometimes less an issue of having enough cash flow to make mortgage payments than it is a desire to escape a bad investment. This type of action reflects negatively on the homeowner's willingness to pay. Of course someone who is long term unemployed may not have the ability let alone a willingness to pay the mortgage. The Harrisburg city council's decision to exclude a water rate increase, as noted above, led to a revenue shortfall of \$3.8 million. Had the increase been included in the budget, the city would have had funds to make the September 15 payment without help from the state. In Harrisburg's case political squabbling trumped willingness to pay.

Incinerator's 2010 Budget

Type	Amount
Revenues	
Tipping fees	\$20,901,200
Electricity sales	4,009,600
Ferrous sales	533,500
Total operating revenues	\$25,444,300
Expenses	
Transfer and ash disposal	\$3,546,700
Covanta	12,038,500
Utility	1,960,510
Other	2,977,925
Operating expense	\$20,523,635
Net ordinary income	\$4,920,665
Fees, fines etc paid.	4,071,000
Income before debt service	\$849,665
Debt service - current and owed	
Reserve replenishment	\$16,699,000
Reimburse Dauphin Cnty for swap gty	3,068,971
Working capital loan (due 12-15-10)	34,685,000
Covanta loan	2,550,000
Outstanding bonds	17,146,180
Total debt service 2010	\$74,149,151
Total Loss	(\$73,299,486)

Source: www.hbgauthority.com and Janney Fixed Income.

Political squabbling trumped willingness to pay.

The city has another GO debt service payment due March 15, 2011.

The incinerator debt poses a larger long term challenge.

The Future of Harrisburg

It will take time for resolution of Harrisburg's problems. Although the governor has emphasized that the state will not bail out Harrisburg, the recent announcement of help followed months of behind the scenes efforts by state officials, particularly Brian Hudson, the Executive Director of Pennsylvania HFA. In any case it seems unlikely that the state will stand by and allow its capital city to sink, and the governor's announcement reinforces that opinion. The city has another GO debt service obligation due March 15, 2011. The interim help from the state buys the city some breathing room so the consultant can work with the city to indentify options in coming months.

The incinerator debt poses a larger long term challenge. Both Dauphin County and Assured Guaranty are going to court, seeking a receiver to take over the incinerator and asking a judge to force the city to take steps, whether it be tax increases or asset sales, to meet its obligations under the guarantee. Expect Assured Guaranty and Dauphin County to be actively involved in considering all options – perhaps restructuring, extension of debt maturities, a forbearance agreement or some other adjustment will be forthcoming. One city official proposed a takeover of the facility by Dauphin County (NR/AA). The county has a stronger credit rating, wider revenue base and the ability to increase waste disposal fees, which it has resisted in the past. On the other hand, county taxpayers may not be thrilled with an increase in the county's debt obligation – as it stands, Dauphin County guarantees about \$144 million of the incinerator debt, backing up the city guarantee, including \$35 million maturing in December 2010.

Harrisburg is considered by many to be a bellwether for the creditworthiness of the \$2.8 trillion municipal bond market. It will take time for events to play out. The state assistance, although modest, is a positive development, although not unexpected. Although there are no projects of the size of Harrisburg's incinerator pulling down other medium sized cities in Pennsylvania, the Great Recession has taken a toll on many communities. The state's recent and future support or lack thereof will color the bond market's view of Pennsylvania's other towns and cities, and will reflect on the prospects of municipalities around the country. Stay tuned. **Alan Schankel**

MUNICIPAL BOND MARKET MONTHLY

September 21, 2010



Janney Harrisburg, PA Related Publications

Janney Pub	Date	Notes
Daily FIX	September 21, 2010	Moody's calls PA intervention "credit positive"
Daily FIX	September 14, 2010	Assured and Dauphin County seek receiver
FI Weekly	September 13, 2010	An update about Harrisburg after State help
Daily FIX	September 13, 2010	State announces a band-aid for the city
Fox News	September 10, 2010	Alan Schankel was interviewed on Fox Business News
Daily FIX	September 8, 2010	Noted in today's Bond Buyer and Wall St Journal
Daily FIX	September 2, 2010	Ambac will likely cover the Sept 15 payment
Daily FIX	September 1, 2010	Harrisburg will miss the Sept 15 payment
Municipal Note	July 16, 2010	Harrisburg Update
Daily FIX	July 15, 2010	Controller's plan to pay off incinerator debt
Monthly	July 14, 2010	Explores asset sales & misses Coventa payment
Municipal Note	June 15, 2010	Likely to file for PA's Act 47
Monthly	May 5, 2010	Uncertainty about Harrisburg is a concern
FI Weekly	May 3, 2010	Failed to pay- Assured covered
Municipal Note	April 30, 2010	Will not make May 1, 2010 payment
Daily FIX	April 27, 2010	"City should consider bankruptcy," said Controller
Daily FIX	April 22, 2010	City Council discusses bankruptcy
Daily FIX	April 13, 2010	Will not pay May 1, 2010 payment
Daily FIX	February 24, 2010	Moody's says Chp 9 bankruptcies are unlikely
Daily FIX	February 17, 2010	Assured assures bondholders
Monthly	February 12, 2010	Downgraded to B2 from Baa2 by Moody's
Daily FIX	February 11, 2010	Downgraded to B2 from Baa2 by Moody's
Municipal Note	February 4, 2010	City Council reviews options
Daily FIX	February 4, 2010	Weighing options
Daily FIX	November 27, 2009	Proposed budget to City Council
Daily FIX	October 21, 2009	Moody's places Harrisburg on watch for downgrade
Daily FIX	September 16, 2009	S&P lowers outlook on Dauphin County, PA

Source: Janney Fixed Income Strategy.

MUNICIPAL BOND MARKET MONTHLY

September 21, 2010



Select Recent Rating Outlook and Rating Changes (Sept 20, 2010)

Issuer	State	Recent Rating Action	Date	Underlying Rating(s)	Notes
Salem (City of)	NJ	Moody's downgraded to Ba2 from Baa3	13-Sep-2010	Ba2/NR/NR	City guaranteed payments on a office building
SE PA Tr Auth (SEPTA)	PA	S&P upgraded to AA- from A	9-Sep-2010	A1/AA-/AA	Rev stream, ds coverage and debt limits
SE PA Tr Auth (SEPTA)	PA	Moody's upgraded to A1 from A2	7-Sep-2010	A1/AA-/AA	State-wide rev stream and good coverage
SE PA Tr Auth (SEPTA)	PA	Fitch upgraded to AA from A+	2-Sep-2010	A1/AA-/AA	Sustained solid ds coverage- 3.35 in FY10
Norwich Free Academy	CT	Moody's upgraded to A1 from A2	2-Sep-2010	A1/A/NR	Solid market position & performance
Duquesne University	PA	S&P lowered outlook to stable from positive	1-Sep-2010	NR/A-/NR	Decline in resources and more debt
Lowell General Hosp	MA	Moody's downgraded to Baa1 from A3	30-Aug-2010	Baa1/BBB+/BBB+	Increase in debt and weakened bal sheet
Reno (City of)	NV	S&P placed on Negative Watch	25-Aug-2010	Baa3/A/NR	Not receiving payments from casino
Norwich Free Academy	CT	S&P upgraded to A from A-	17-Aug-2010	A1/A/NR	Strong finances and balanced operations
NJ Cig Tax Rev Bonds	NJ	Moody's downgraded to Baa3 from Baa2	16-Aug-2010	Baa3/NR/BBB+	Declining consumption
Buena Vista	VA	Moody's downgraded to Ba1 then withdrew	16-Aug-2010	NR/NR/NR	Failure to appropriate ds for golf course

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

MUNICIPAL BOND MARKET MONTHLY

September 21, 2010



State and Other Select Issuer Ratings (Sept 20, 2010)

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	NR	-	-
Alaska	Aa1	Stable	4/16/2010	AA+	Stable	3/27/2008	AA+	Stable	4/5/2010
Arizona (*)	Aa3	Stable	7/15/2010	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	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	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	Stable	6/4/2010	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	Stable	3/15/2005	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	Stable	4/16/2010	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	Stable	4/16/2010	AA	Stable	7/19/2005	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-	Stable	5/22/2007	NR	-	-
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

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

MUNICIPAL BOND MARKET MONTHLY

September 21, 2010



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

September 21, 2010



Janney Municipal Bond Market Publications

Title	Date	Pub	Notes
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, 2010	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; Rtg 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 handfull 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
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
Maryland CDA Hsg	July 9, 2009	Credit	Facing pressure but management is committed
Penn College of Tech, PA	April 3, 2009	Credit	Expect continued favorable results
Local Government Outlook	April 1, 2009	Note	Moody's assigned neg outlook to local govt

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.

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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

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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