



OMFOA

March, 6 2012

Financial Market Update

PRESENTED BY:

GEOFF URBINA, KEYBANC CAPITAL MARKETS INC. – MANAGING DIRECTOR

JONAS BIERY, CITY OF PORTLAND – DEBT MANAGER

TIM ILTZ, KIRKPATRICK PETTIS CAPITAL MANAGEMENT – VP, MUNICIPAL BOND ANALYST





Presentation Format & Logistics

MACRO-LEVEL MARKET OVERVIEW

GEOFF URBINA
KEYBANC CAPITAL MARKETS INC., MANAGING DIRECTOR

- Global Market Summary
- U.S. Economic Overview
- Municipal Securities Market
- Oregon Municipal Market Overview

MICRO-LEVEL MARKET OVERVIEW

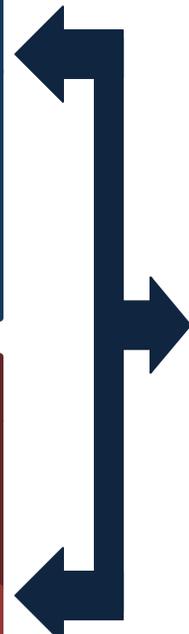
JONAS BIERY
CITY OF PORTLAND
DEBT MANAGER

- Interest Rate Impacts
- Market Contradictions
- Credit Characteristics
- Regulatory/Disclosure

BUY-SIDE MARKET OVERVIEW

TIM ILTZ
KIRKPATRICK PETTIS CAPITAL MANAGEMENT
VP, MUNICIPAL BOND ANALYST

- Buy-Side Market Environment
- Legislative Considerations
- Credit Considerations
- Continuing Disclosure





Global Market Summary





Global Market Summary – Overview

- The Sovereign Debt Crisis in Europe:
 - Recent approval of significant austerity measures
 - Bailout from other Eurozone governments and the International Monetary Fund (IMF)
- European Central Bank (ECB) enacted new policies to provide long-term funding to European banks (Over \$1 billion of 3 year 1% loans were provided over the last 3 months)
- ECB's actions have helped offset a liquidity problem faced by European banks, the underlying solvency issue has not been fully resolved
- News that Iran had tripled its production of enriched uranium and “dismissed the IAEA's concerns” about a possible nuclear weapons program caused crude prices to rise to their highest in nine months.



Sources: Bloomberg & KBCM

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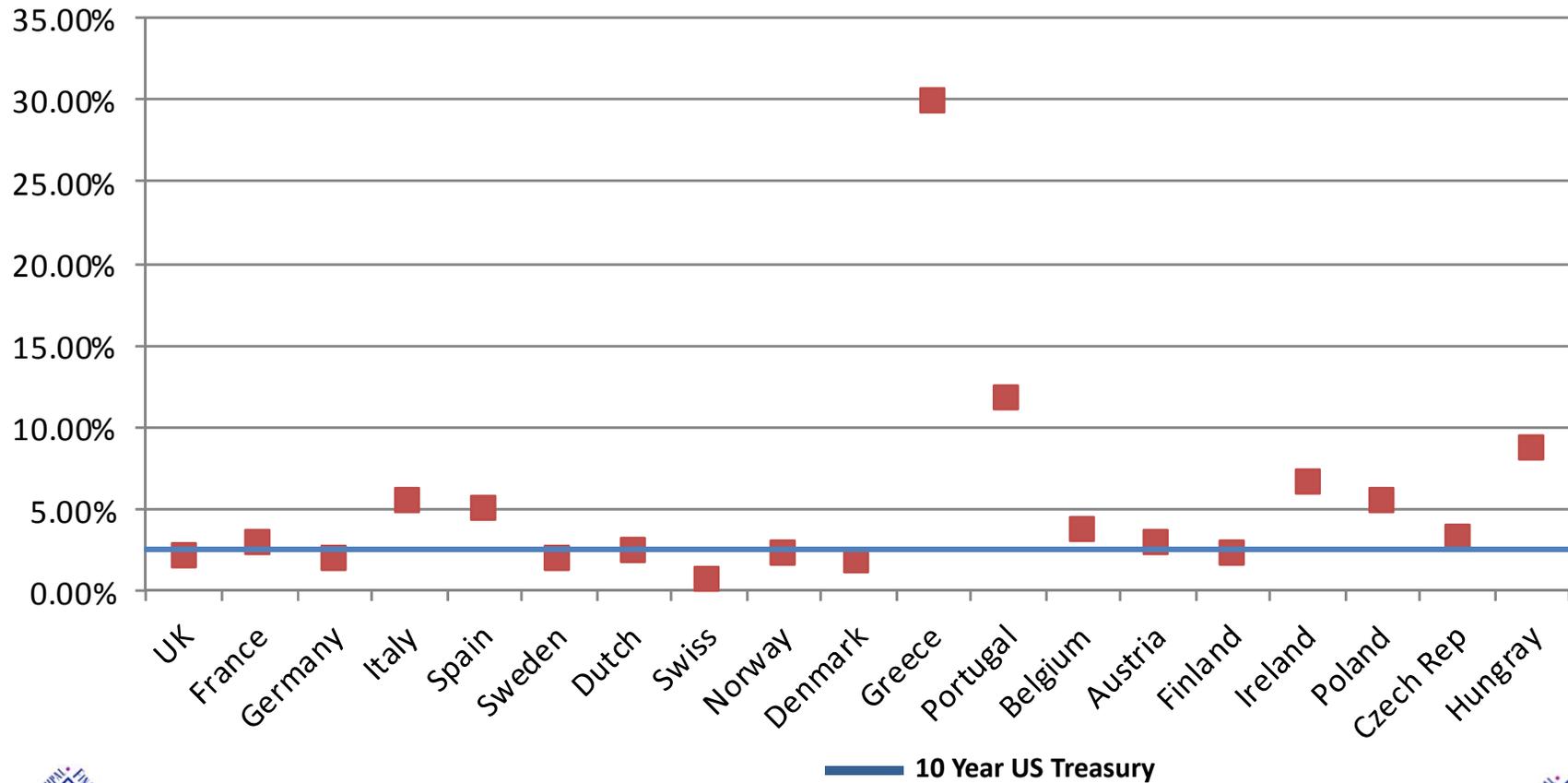
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Global Market Summary – European Bond Yields

European 10-Year Bond Yield



Sources: Bloomberg & KBCM



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Global Market Summary – Sovereign Ratings

Country	Rating	Country	Rating	Country	Rating
Albania	B1	Burkina Faso	NA	France	Aaa
Andorra (Principality of)	NA	Cambodia	B2	Gabon	NA
Angola	Ba3	Cameroon	NA	Georgia	Ba3
Argentina	B3	Canada	Aaa	Germany	Aaa
Armenia	Ba2	Cape Verde	NA	Ghana	NA
Aruba	NA	Chile	Aa3	Greece	Ca
Australia	Aaa	China	Aa3	Grenada	NA
Austria	Aaa	Colombia	Baa3	Guatemala	Ba1
Azerbaijan	Ba1	Cook Islands	NA	Guernsey	NA
Bahamas	A3	Costa Rica	Baa3	Honduras	B2
Bahrain	Baa1	Croatia	Baa3	Hong Kong	Aa1
Bangladesh	Ba3	Cuba	Caa1	Hungary	Baa3
Barbados	Baa3	Curacao		Iceland	Baa3
Belarus	B3	Cyprus	Baa3	India	Baa3
Belgium	Aa1	Czech Republic	A1	Indonesia	Baa3
Belize	B3	Denmark	Aaa	Ireland	Ba1
Benin	NA	Dominican Republic	B1	Isle of Man	Aaa
Bermuda	Aa2	Ecuador	Caa2	Israel	A1
Bolivia	B1	Egypt	B1	Italy	A2
Bosnia and Herzegovina	B2	El Salvador	Ba2	Jamaica	B3
Botswana	A2	Estonia	A1	Japan	Aa3
Brazil	Baa2	Fiji	B1	Jordan	Ba2
Bulgaria	Baa2	Finland	Aaa	Kazakhstan	Baa2

Sources: Bloomberg



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Global Market Summary – Sovereign Ratings (Continued)

Country	Rating	Country	Rating	Country	Rating
Kenya	NA	Norway	Aaa	South Korea	A1
Kuwait	Aa2	Oman (Sultanate of)	A1	Spain	A1
Latvia (Republic of)	Baa3	Pakistan	B3	Sri Lanka	B1
Lebanon	B1	Panama	Baa3	Sudan	NA
Lesotho	NA	Papua New Guinea	B1	Suriname (The Republic of)	B1
Liechtenstein	NA	Paraguay	B1	Sweden	Aaa
Lithuania	Baa1	Peru	Baa3	Switzerland	Aaa
Luxembourg	Aaa	Philippines	Ba2	Taiwan	Aa3
Macao	NA	Poland	A2	Thailand	Baa1
Macedonia	NA	Portugal	Ba2	Trinidad & Tobago	Baa1
Madagascar	NA	Qatar	Aa2	Tunisia	Baa3
Malaysia	A3	Romania	Baa3	Turkey	Ba2
Malta	A2	Russia	Baa1	Uganda	NA
Mexico	Baa1	Rwanda	NA	Ukraine	B2
Mongolia	B1	San Marino	NA	Ukraine (Republic of)	B2
Montenegro	Ba3	Saudi Arabia	Aa3	United Arab Emirates	Aa2
Montserrat	NA	Senegal	B1	United Arab Emirates	Aa2
Morocco	Ba1	Serbia	NA	United Kingdom	Aaa
Mozambique	NA	Seychelles	NA	United States	Aaa
Namibia	Baa3	Singapore	Aaa		
Netherlands	Aaa	Slovak Republic	A1		
New Zealand	Aaa	Slovenia	Aa3		
Nigeria	NA	South Africa	A3		



Sources: Bloomberg

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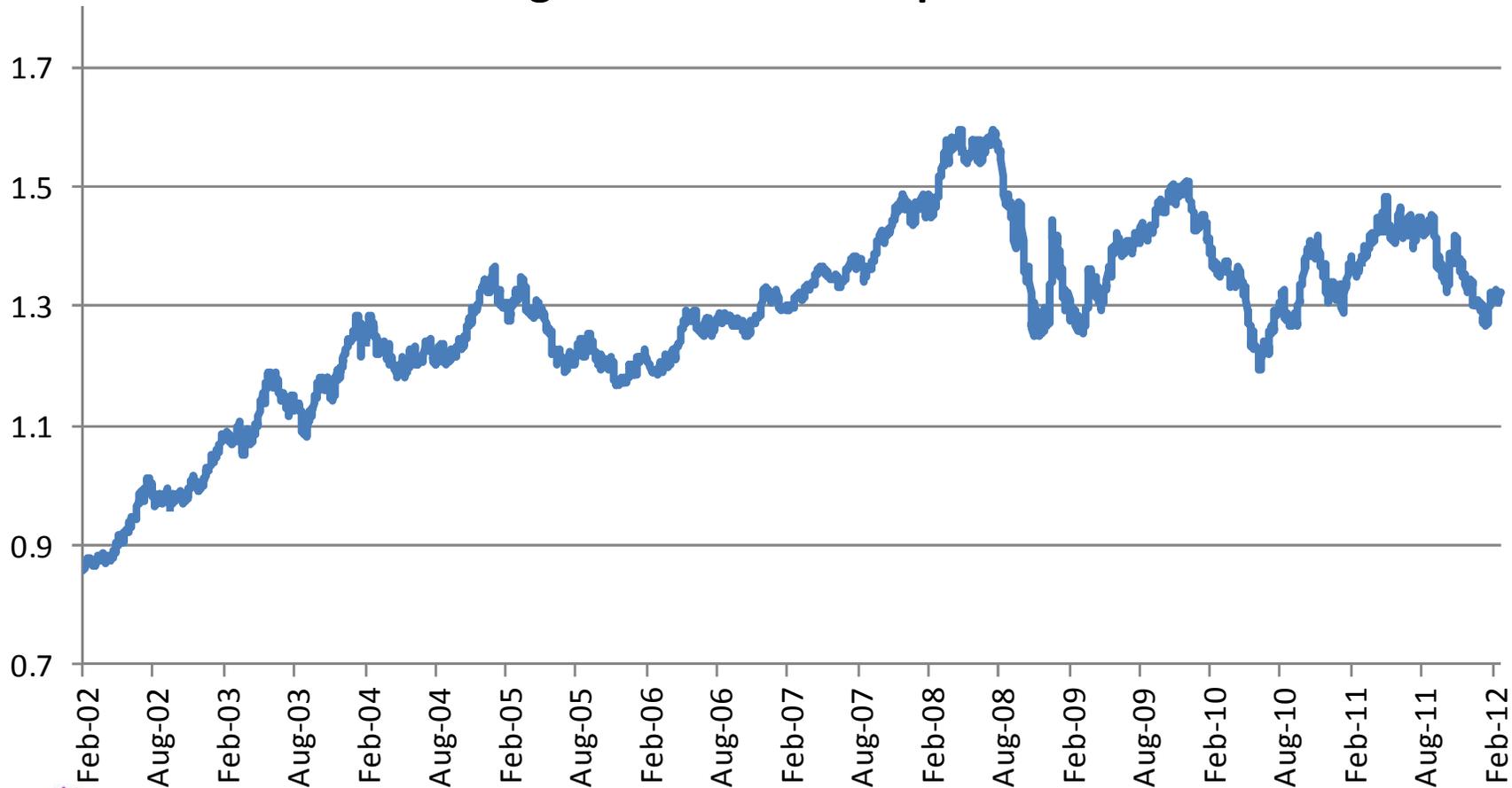
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Global Market Summary – US Dollar per one Euro

Exchange Rate: US Dollars per one Euro



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U.S. Economic Overview





U.S. Economic Overview – Overview

- The trade deficit in the U.S. widened in December to a six-month high as imports climbed faster than exports
- Confidence among U.S. consumers rose in February to the highest level in a year, showing households may sustain spending and drive the economy
- President Barack Obama has made a proposal to make millionaires pay a significant share of their income in taxes. A survey has shown that Obama's proposal has won broad support, but it has done little to shift people's basic views on how best to tame budget deficits that lately have exceeded \$1 trillion annually
- Consumer Sentiment Index rose 0.30 from the previous month to a reading of 75.3 in February. It seems that higher gasoline prices are more tolerable considering improved job prospects



Sources: Bloomberg & KBCM

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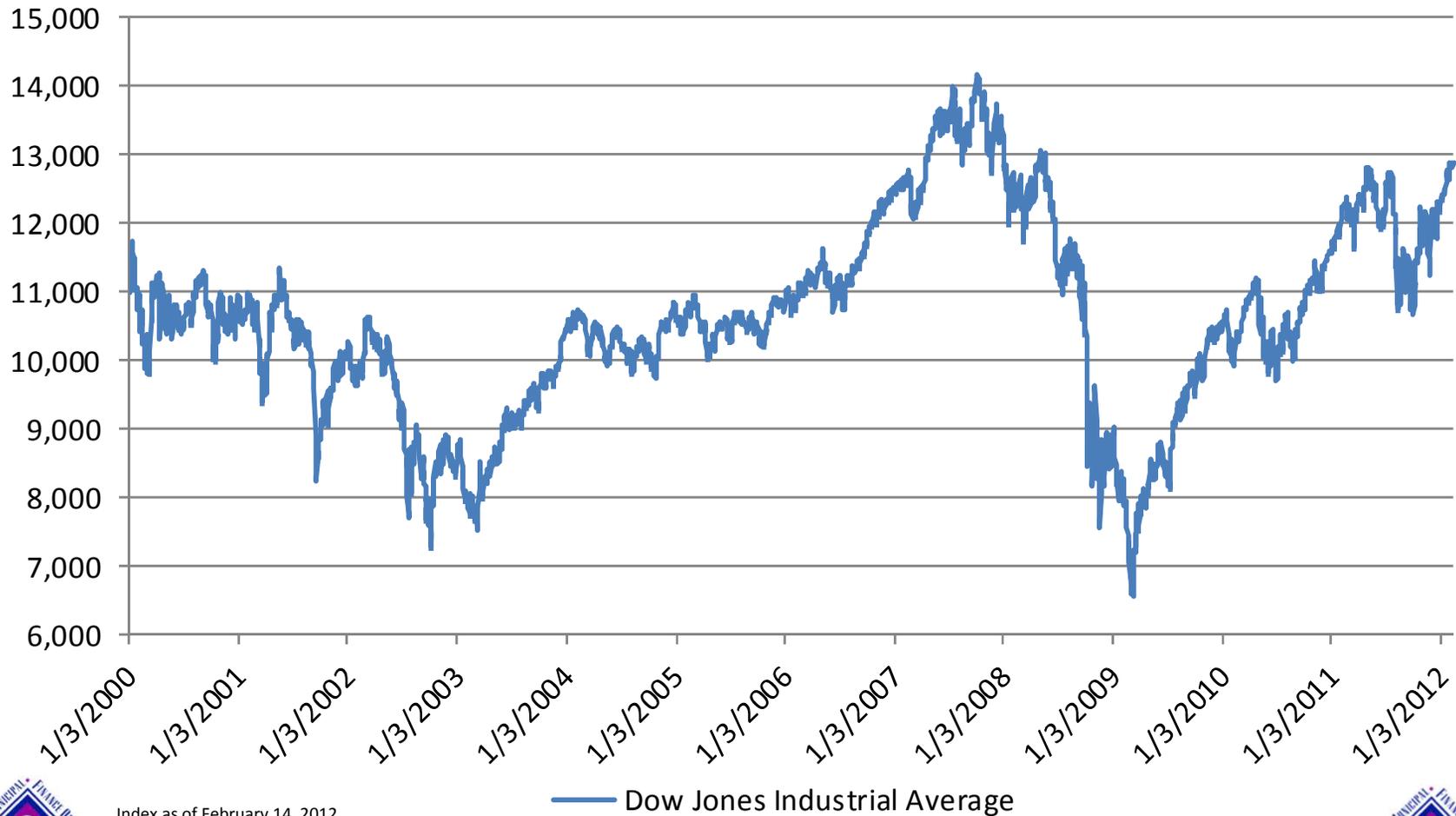
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U.S. Economic Overview – Dow Jones Industrial Average

- The Dow is up approximately 3.8% YTD and 4.9% since February of 2011



Index as of February 14, 2012
Sources: Bloomberg



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Municipal Securities Market

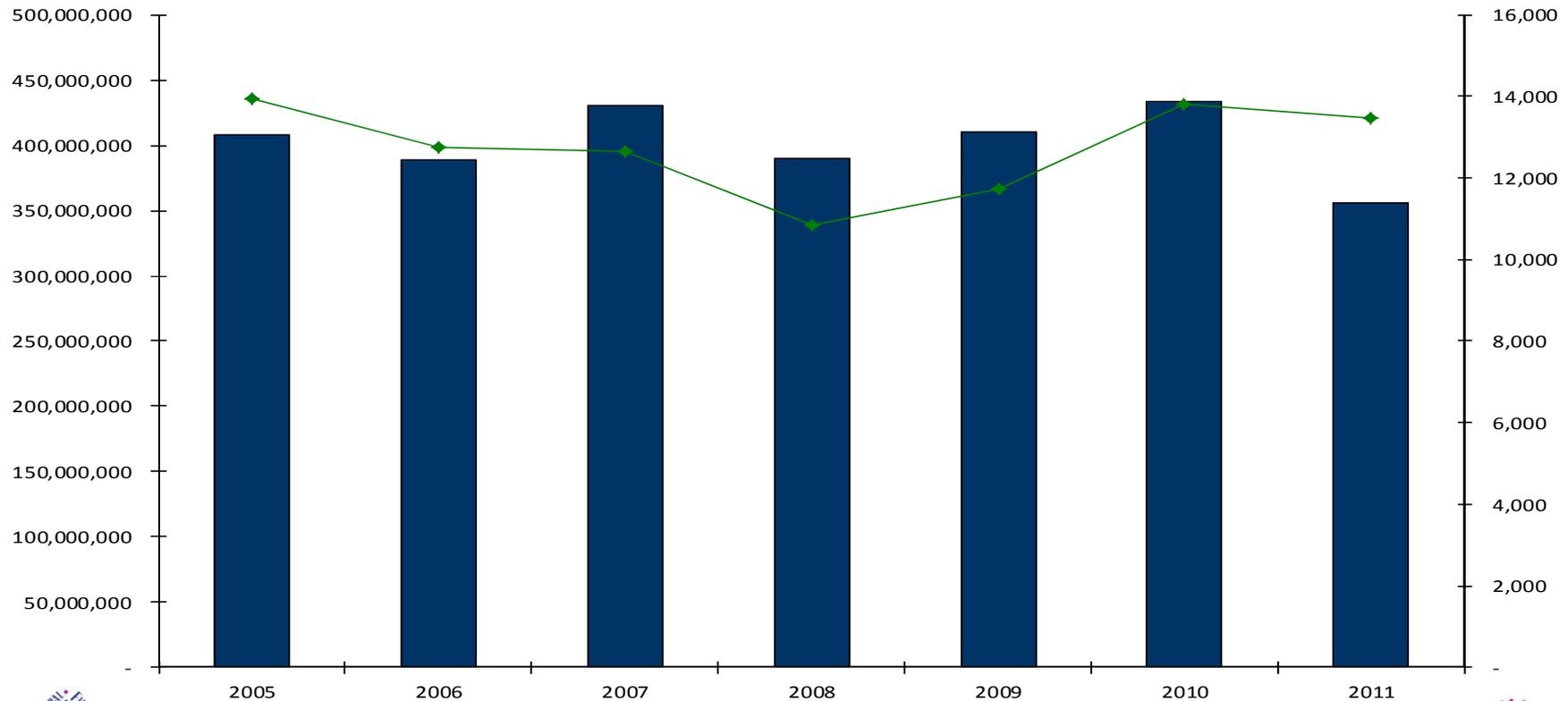




Municipal Securities Market - Issuance Volume

- 2010 witnessed record municipal volumes, which lead to a decline in 2011
- Rash of refundings pushed volume up 44% from February 2011 numbers

Bond Issuance Volume



Through 12/31/2011; Source: SDC / Thomson Financial

Volume

Issues



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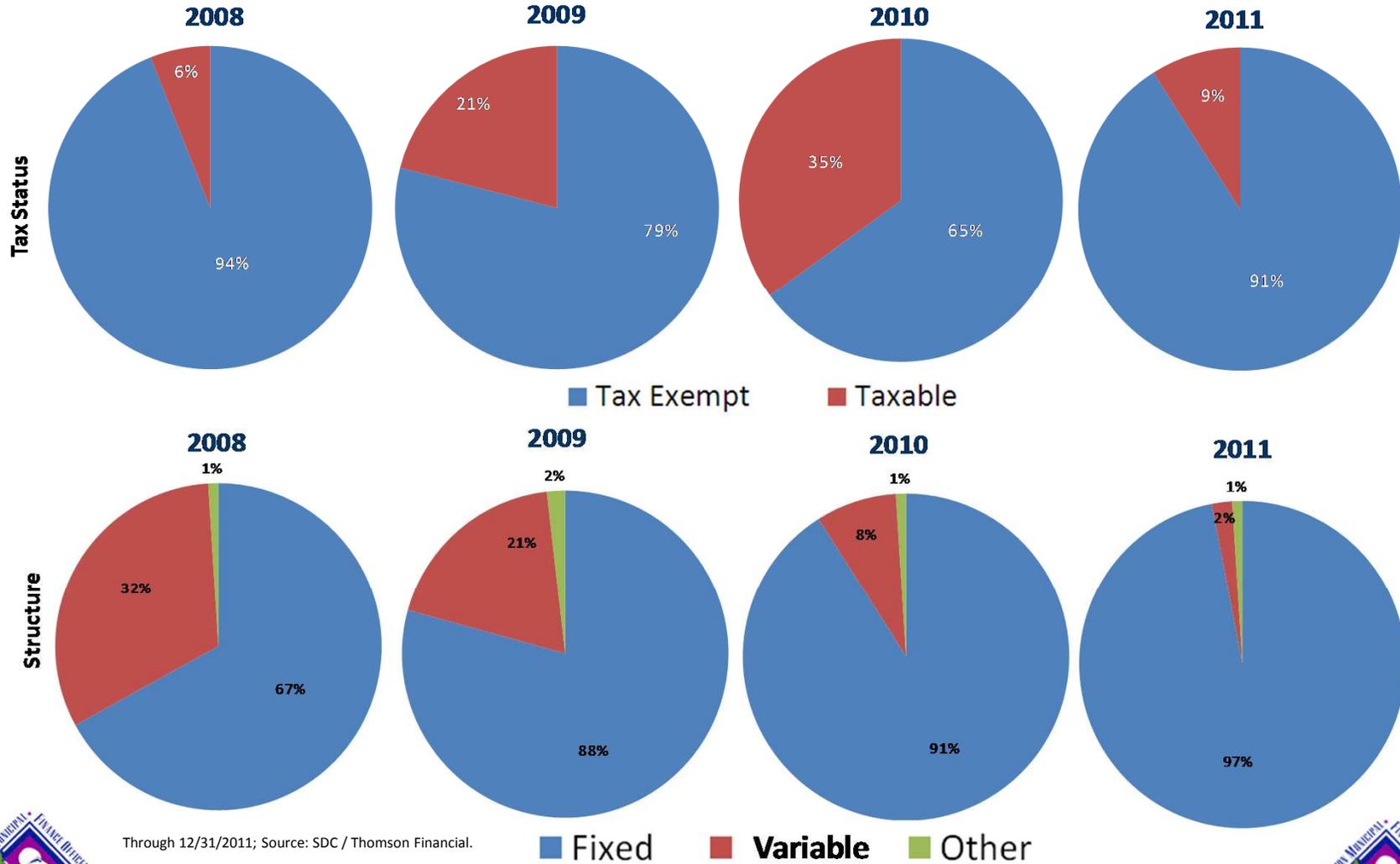
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Municipal Securities Market - Transformation Since 2008



Through 12/31/2011; Source: SDC / Thomson Financial.



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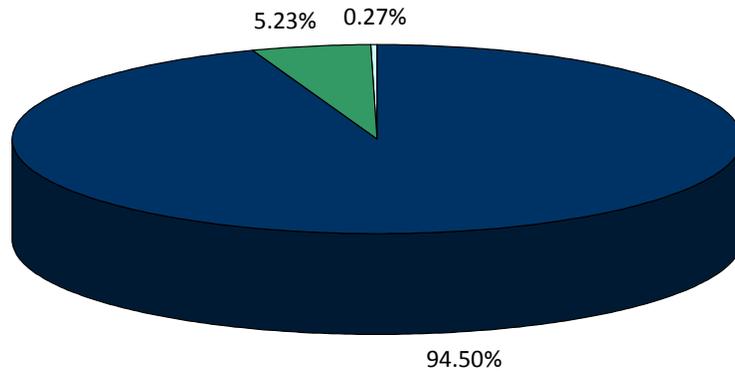
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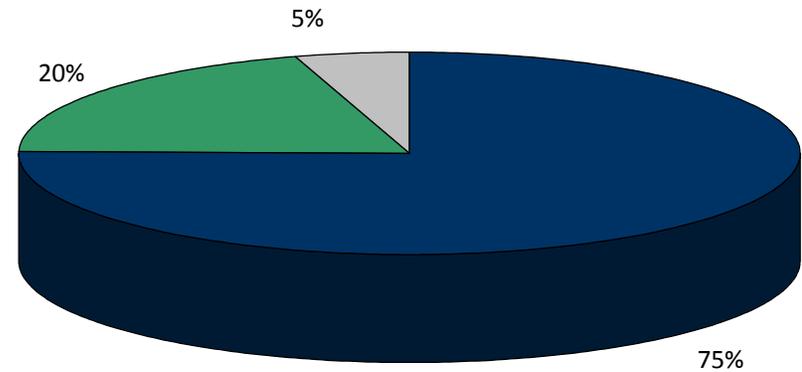


Municipal Securities Market - Variable Rate Market

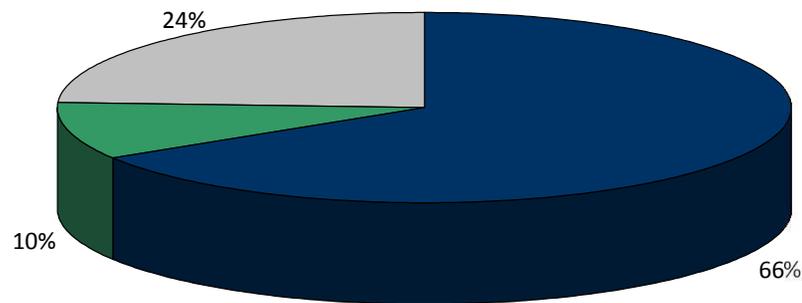
2008



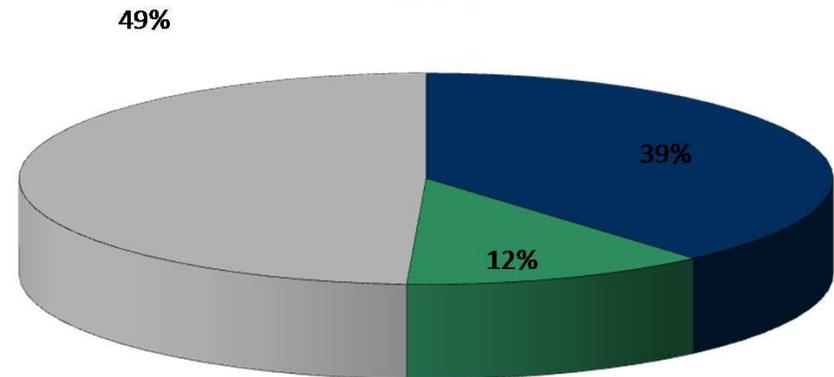
2009



2010



2011



Through 12/31/2011; Source: SDC / Thomson Financial.

■ Variable Rate (Short Put) ■ Variable Rate (Long/No Put) □ Auction Rate □ Linked Rate

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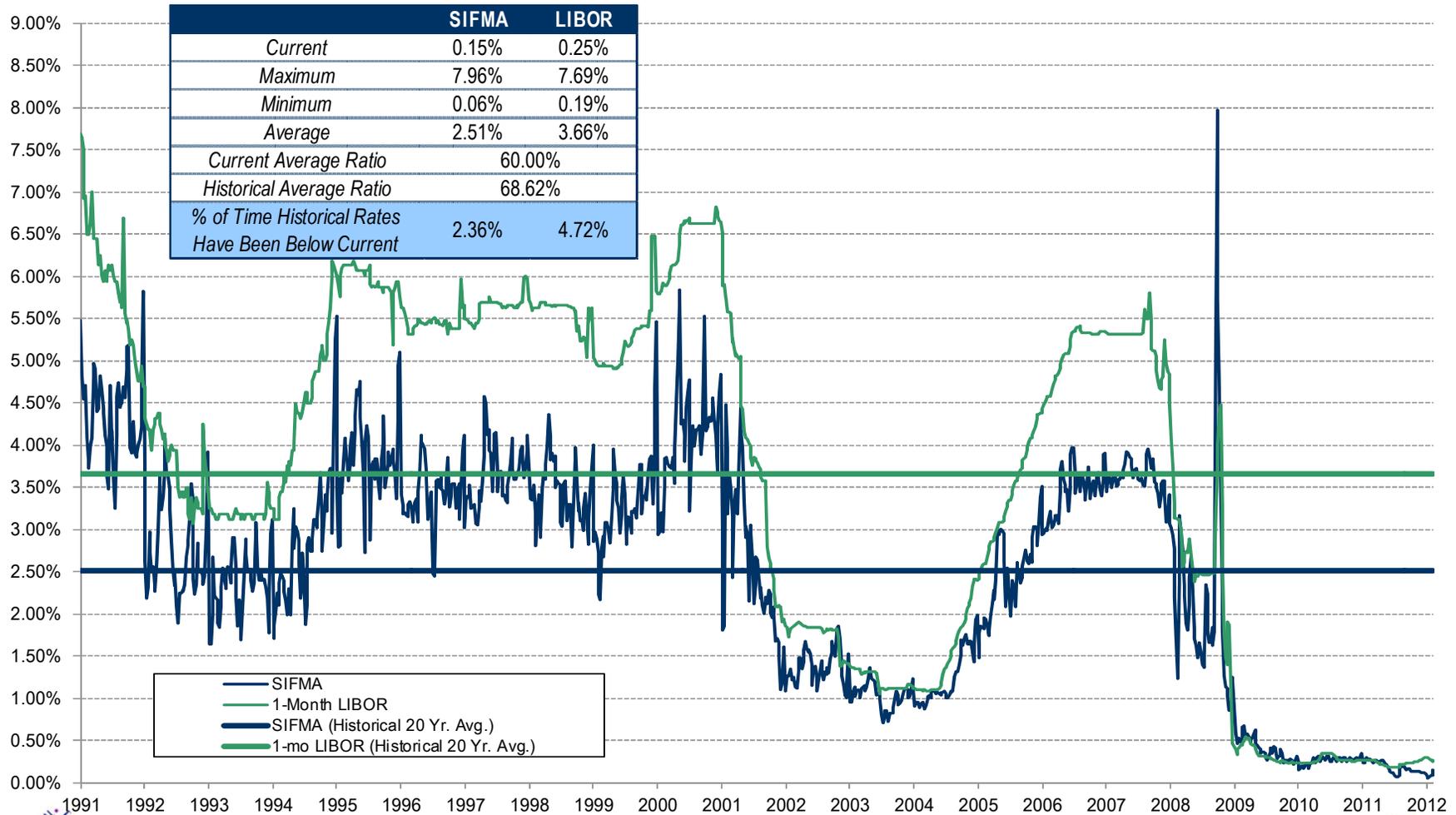
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Municipal Update – Historical SIFMA & LIBOR



Rates as of February 10th, 2012
Sources: Bloomberg & TM3



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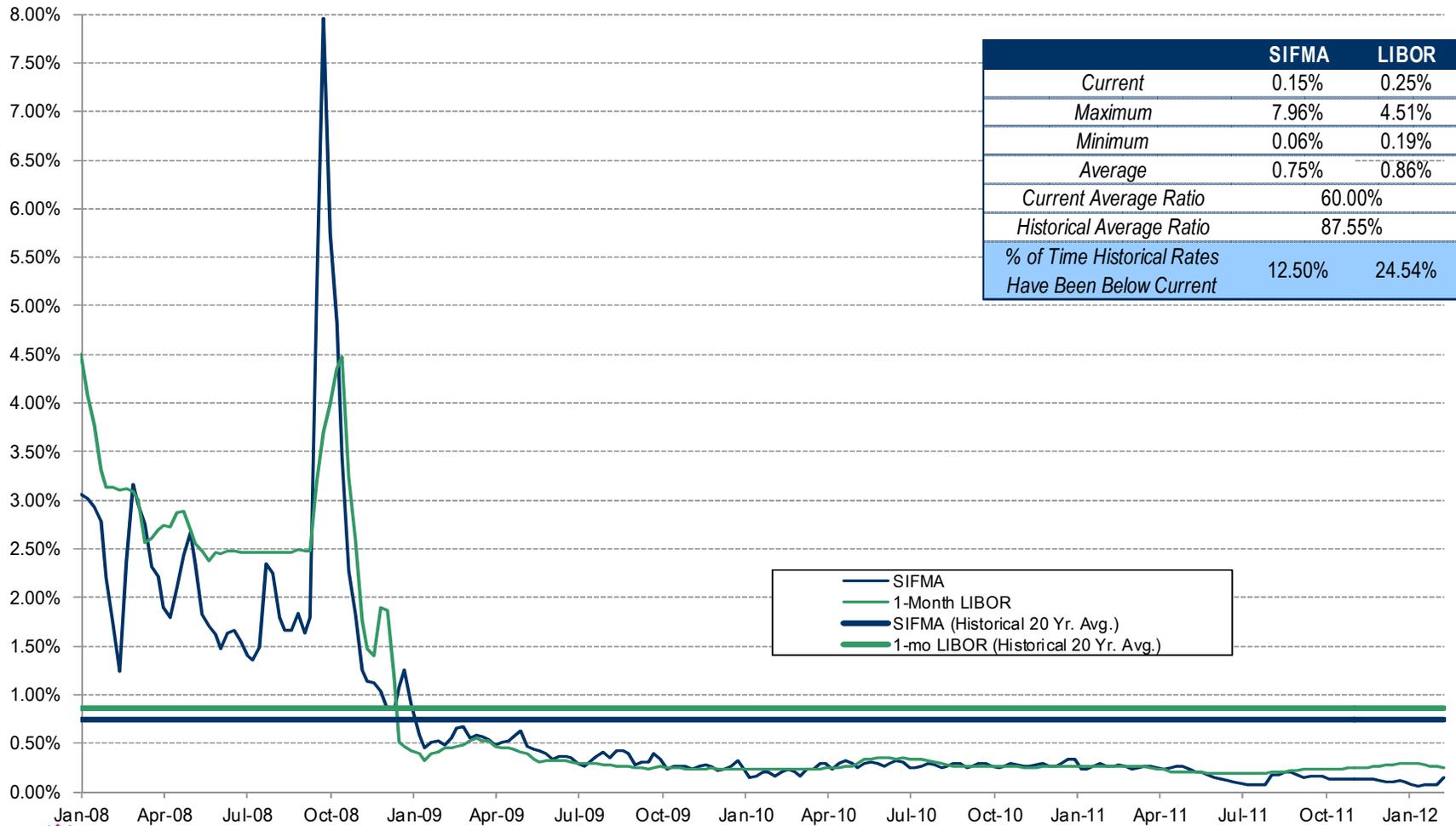
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Municipal Update – Historical SIFMA & LIBOR (Since 2008)



Rates as of February 10th, 2012
Sources: Bloomberg & TM3



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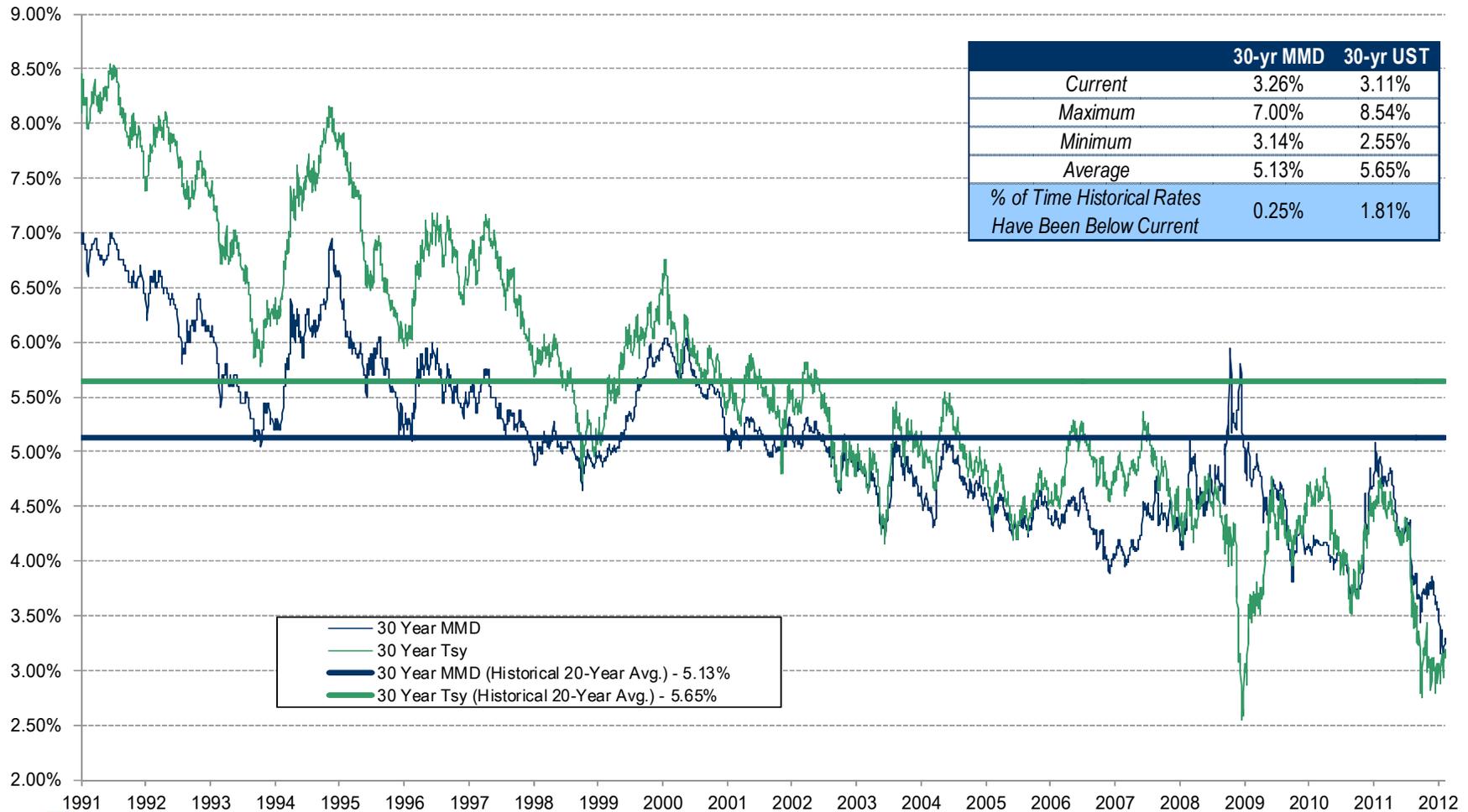
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Municipal Update – 30-Year MMD & UST Spot Yields



Rates as of February 10th, 2012
Sources: Bloomberg & TM3



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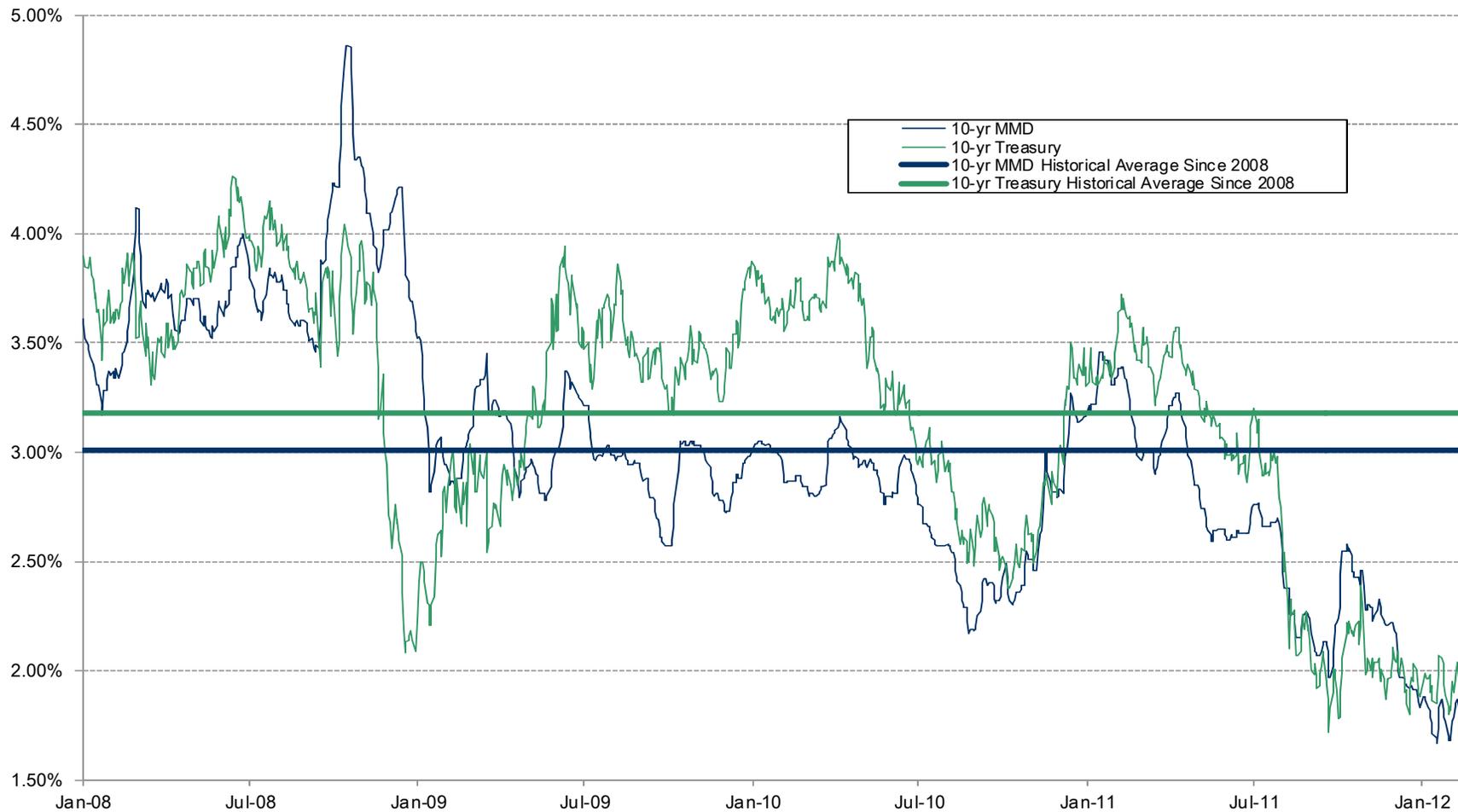
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Municipal Update – 10-YR MMD vs. 10-YR UST (Since 2008)



Rates as of February 10th, 2012
Sources: Bloomberg & TM3



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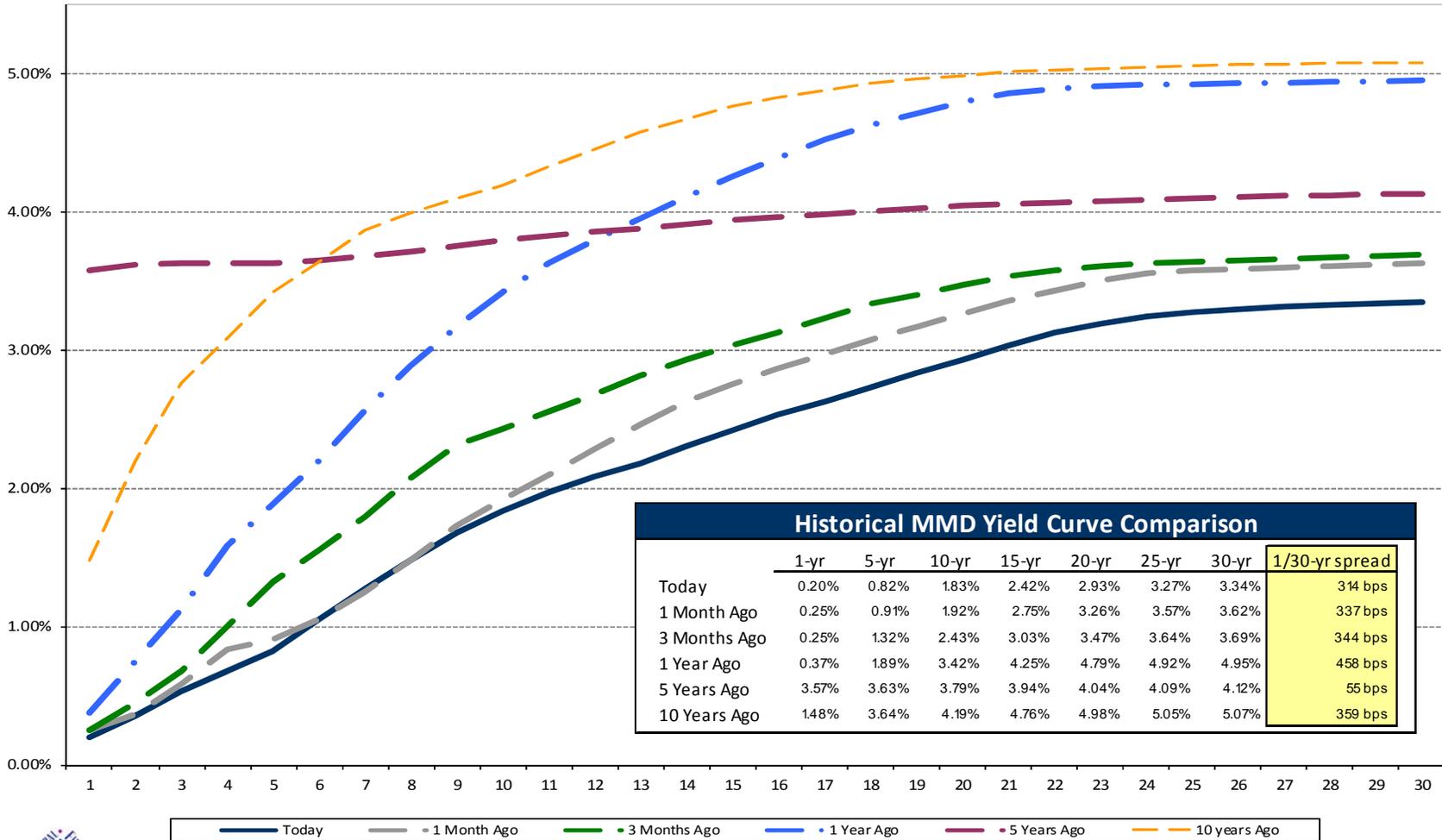
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Municipal Update – Historical MMD Yield Curve Comparison



Rates as of February 10th, 2012
Sources: Bloomberg & TM3



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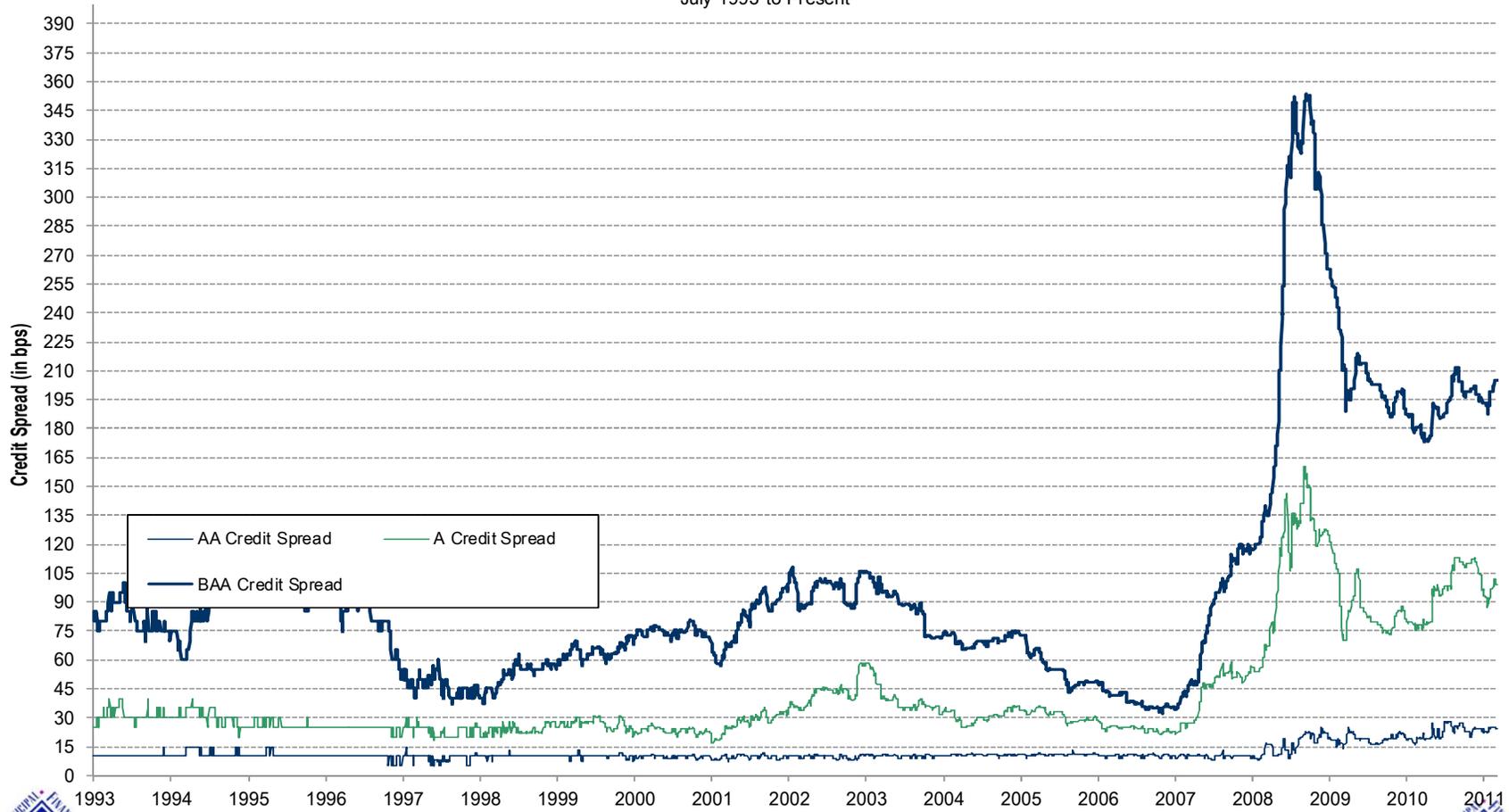
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Municipal Update – Historical Credit Spread

Historical Credit Spread Comparisons
to the 10-yr AAA MMD
July 1993 to Present



Rates as of February 10th, 2012
Sources: Bloomberg & TM3



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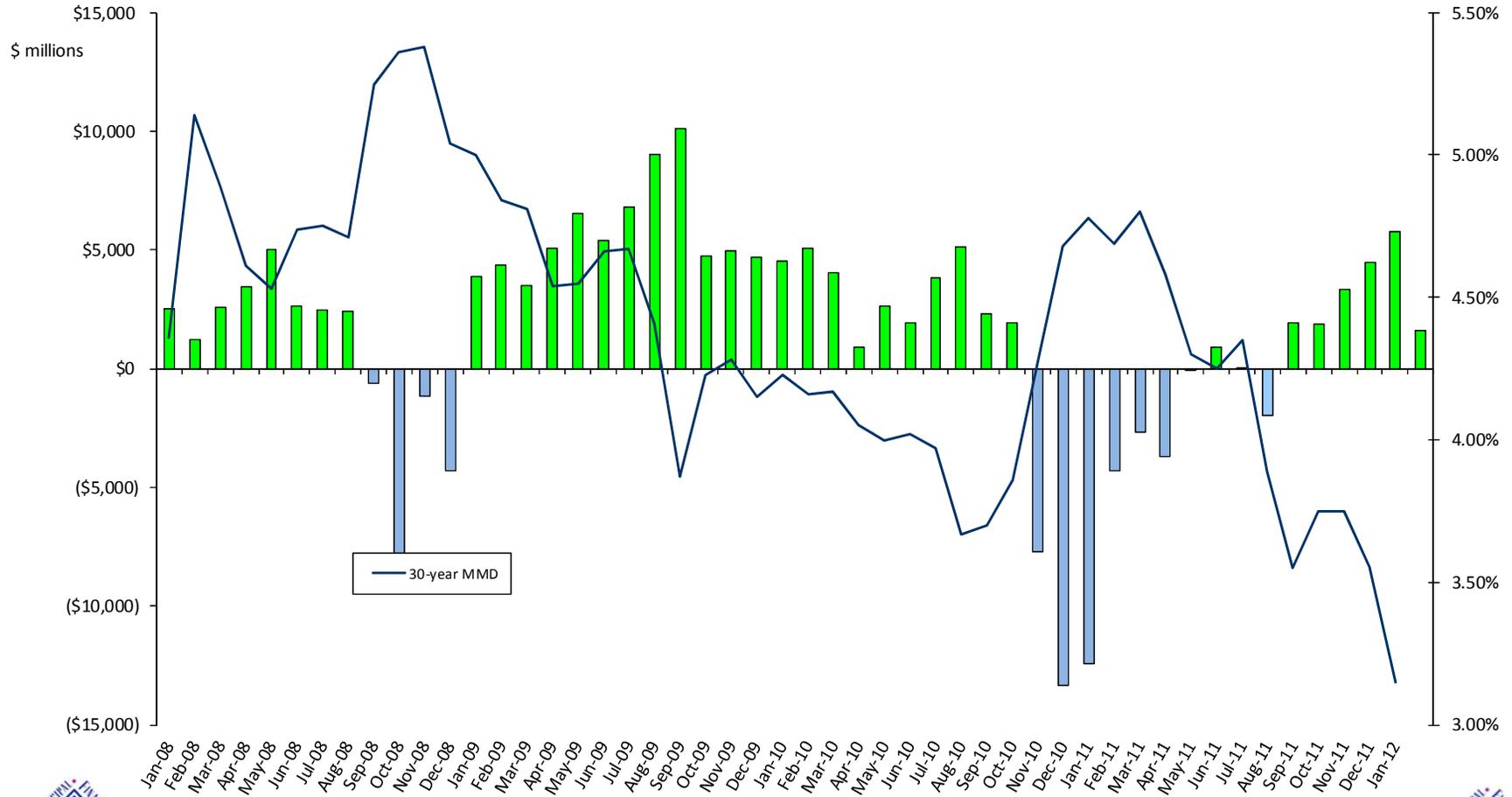
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Municipal Update – Long Term Mutual Fund Flows



Rates as of February 10th, 2012
Sources: Bloomberg & TM3



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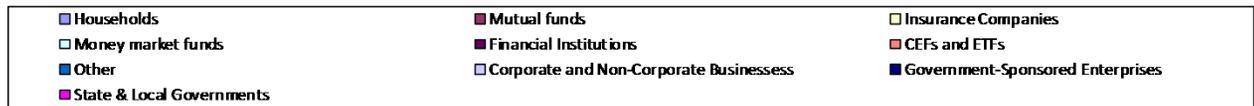
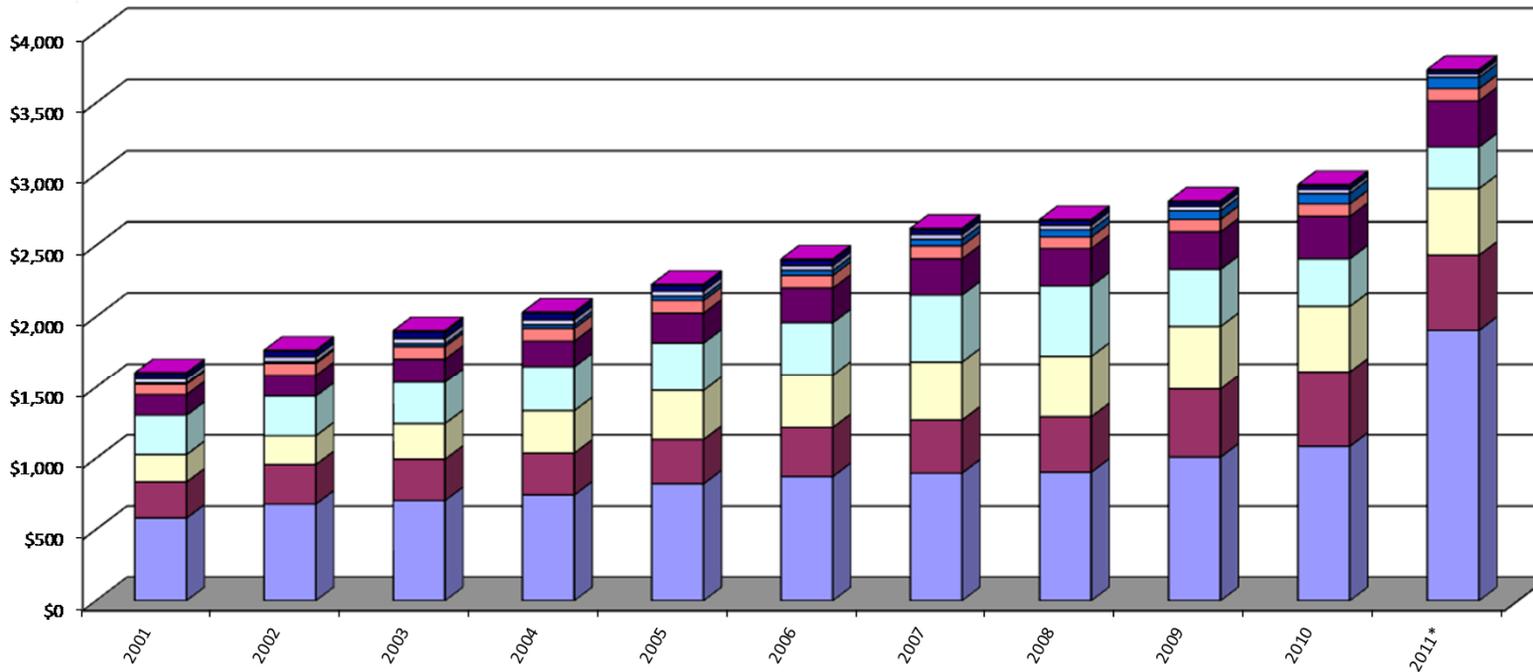




Municipal Update – Holdings of Municipal Securities

Holdings
(\$ Billions)

Trends in the Holdings of Municipal Securities
2001 - 2011*



*Figures for 2011 are as of Jun. 30, preliminary, and seasonally unadjusted. Dollar amounts are in billions of dollars. Components may not add to totals because of rounding. Source: Federal Reserve Board.



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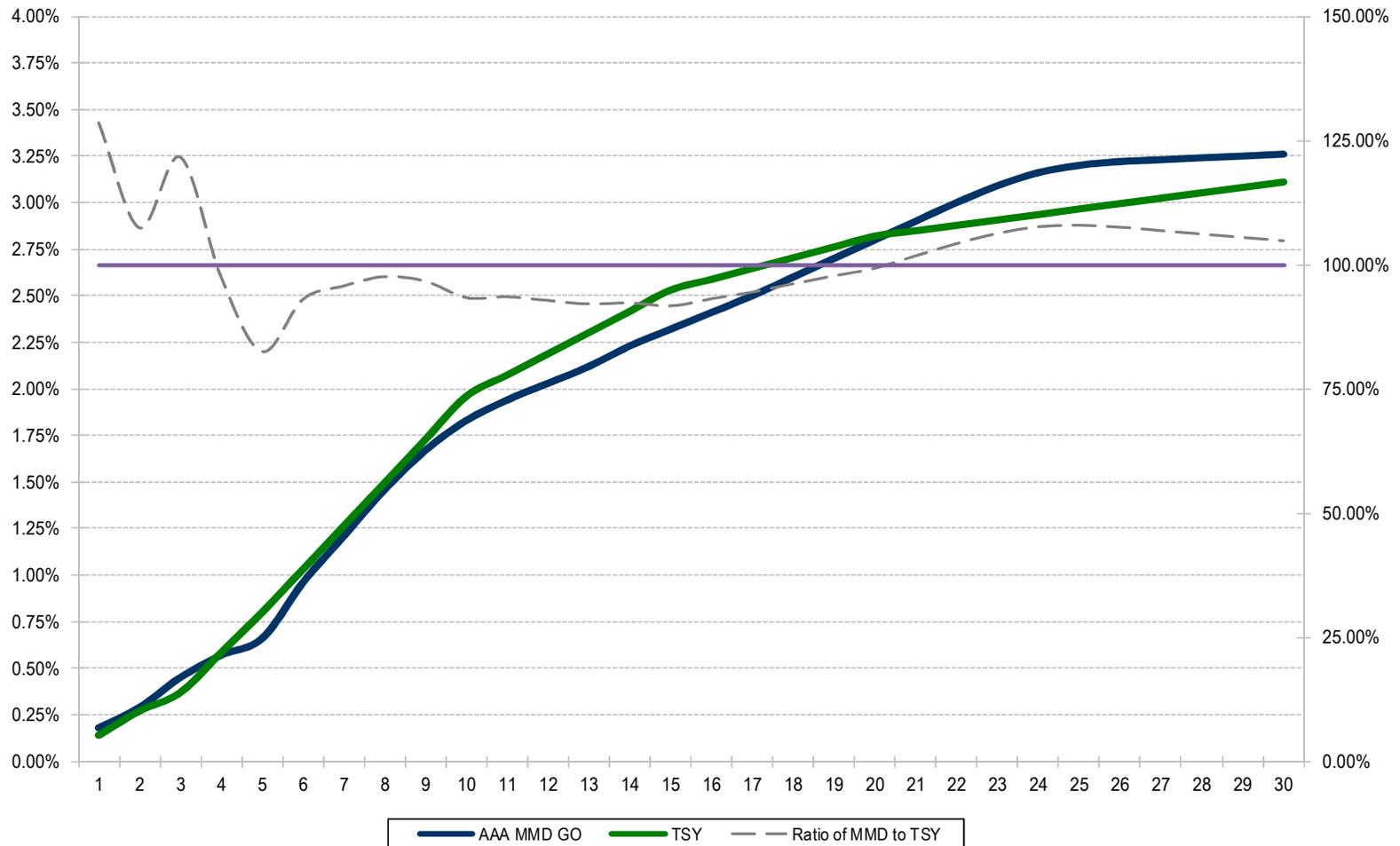
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Municipal Update – MMD vs. Treasury



Rates as of February 10th, 2012
Sources: Bloomberg & TM3



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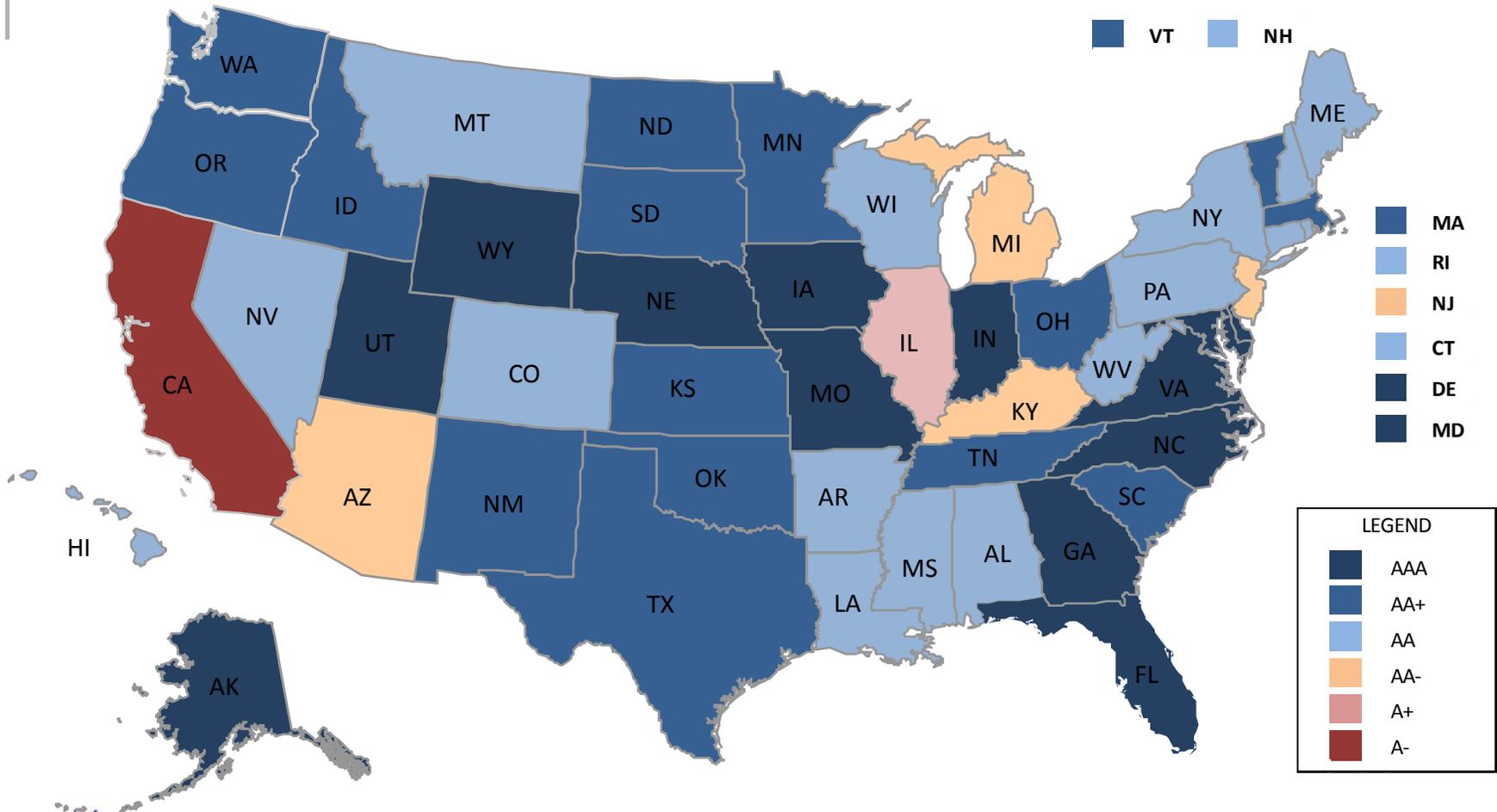
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United States Credit Rating Map



Sources: Bloomberg



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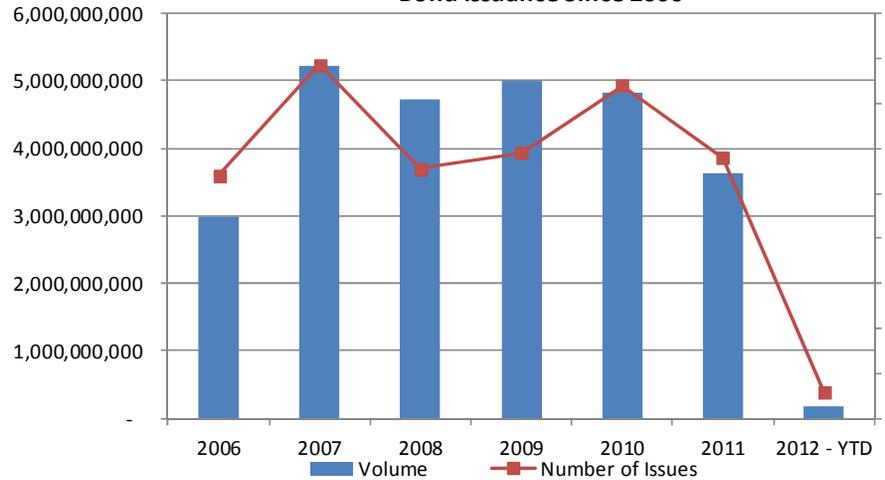
Oregon Municipal Market Overview



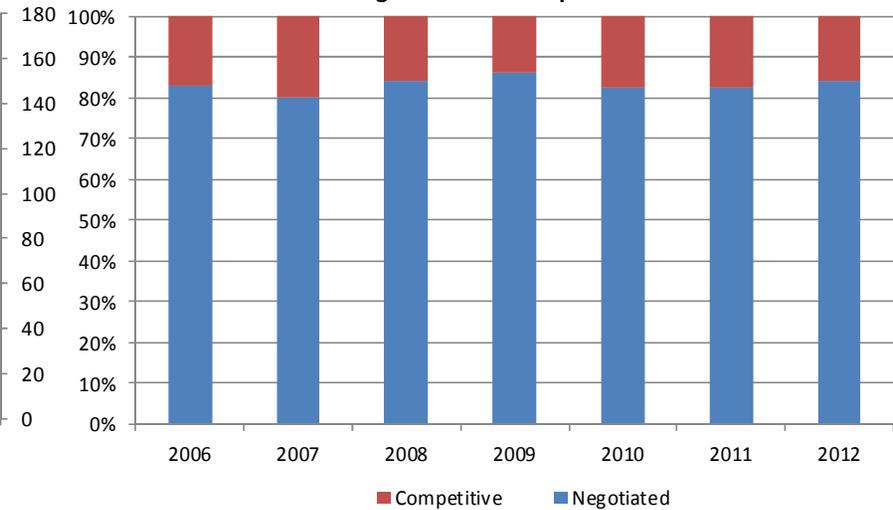


The Oregon Municipal Market

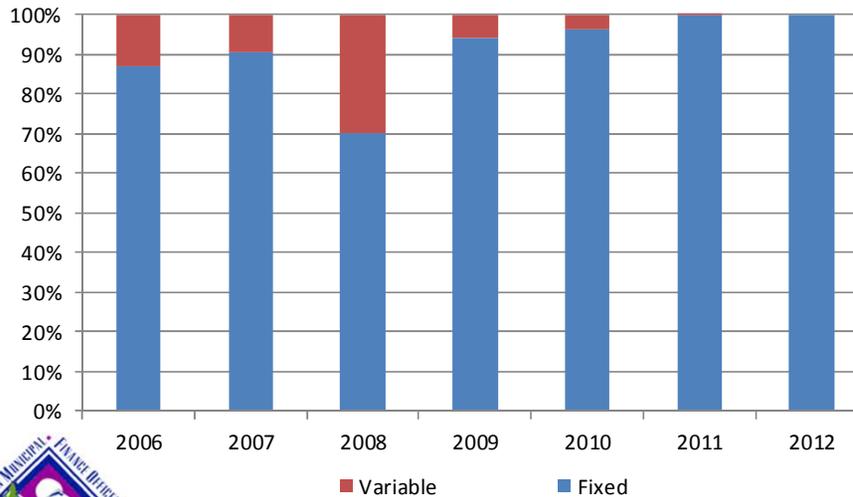
Bond Issuance Since 2006



Negotiated vs. Competitive



Fixed vs. Variable



Oregon Statistics	
As of 12/31/2011	
Existing Home Sales*	53,200
Building Permits	668
Unemployment	8.90%
Nonfarm Employment	1,626,300

*As of 9/30/2011

Sources: SDC, Bloomberg



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Interest Rate Impact





Market Impacts – Low Interest Rates

	LGIP/OSTF	FHLMC 1-year	20-year MMD
Average 2009	1.60%	0.59%	4.12%
Average 2010	0.36%	0.40%	3.71%
Average 2011	0.22%	0.24%	3.87%
Current (3/1/2012)	0.12%	0.16%	2.79%

Low interest earnings



Low borrowing rates



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Market Contradictions





Market Impacts – Contradictions



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Credit Characteristics





Market Impacts – Credit Characteristics

- Shift towards smaller and more unique credits
 - Early redemption features
 - Reduced reserve requirements
 - Interest only and/or deferred interest
 - Double-barrel securities
 - Increase in debt restructures and borrowing for operational purposes

Recent long-term bond issuance:

2009: \$409.7B, 11,721 issues = **\$35.0MM** average size

2010: \$433.3B, 13,828 issues = **\$31.3MM** average size

2011: \$296.7B, 10,589 issues = **\$28.0MM** average size

- Increase in private placements and direct bank placements
 - Private placements increased from average of around \$3B over past 10 years to over \$9B in 2011.
 - Subsequent focus on transparency of same.



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Regulatory Focus & Disclosure





Market Impacts – Regulatory Focus & Disclosure

- Financial institution capital requirement changes
- Rating agency oversight
- Registration of municipal advisors
- Exploration of reductions to tax-exemption

- Increased focus on disclosure (especially pension)
- Expanded use of MSRB's EMMA reporting portal
 - POS posting
 - Voluntary/interim disclosure
 - Post-issuance pricing data
- Higher expectations and increased spotlight/microscope
- Increase in public interest and need for good communication
- Enhanced credit analysis and investor due diligence.

Indirect Regulation
= Increased Cost

Disclosure Impacts =
More Effort



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Buy-Side Market Overview

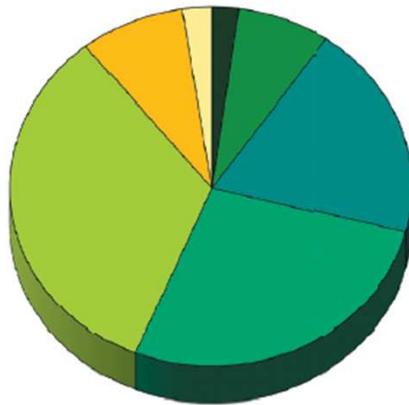




Profile of an Investor – Tax-Free Trust of Oregon*

- Net assets \$506.8 million
- 210 Holdings
- General Obligation Bonds: 50.83% Revenue Bonds: 49.17%

Maturity Allocation



■ 2.17%	< 1 year
■ 7.46%	1 - 5 years
■ 19.44%	5 - 10 years
■ 27.15%	11 - 15 years
■ 33.05%	16 - 20 years
■ 8.35%	21 - 25 years
■ 2.37%	> 25 years

Top 5 Holdings

Description	Percentage
Medford OR Hosp FA Rev Asante Hlth Sys, 5.50%, 08/15/28	2.11%
Clackamas Cnty OR SD 12, N Clack SD, 5.00%, 06/15/29	2.06%
Portland OR Cmnty College District, 5.00%, 06/15/28	1.87%
Oregon St Dept Adm Svcs Lottery Rev Ser A, 5.25%, 04/01/26	1.82%
Clackamas Cnty OR SD 12, N Clack SD, 5.00%, 06/15/27	1.79%

*As of December 31, 2011



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BUY-SIDE
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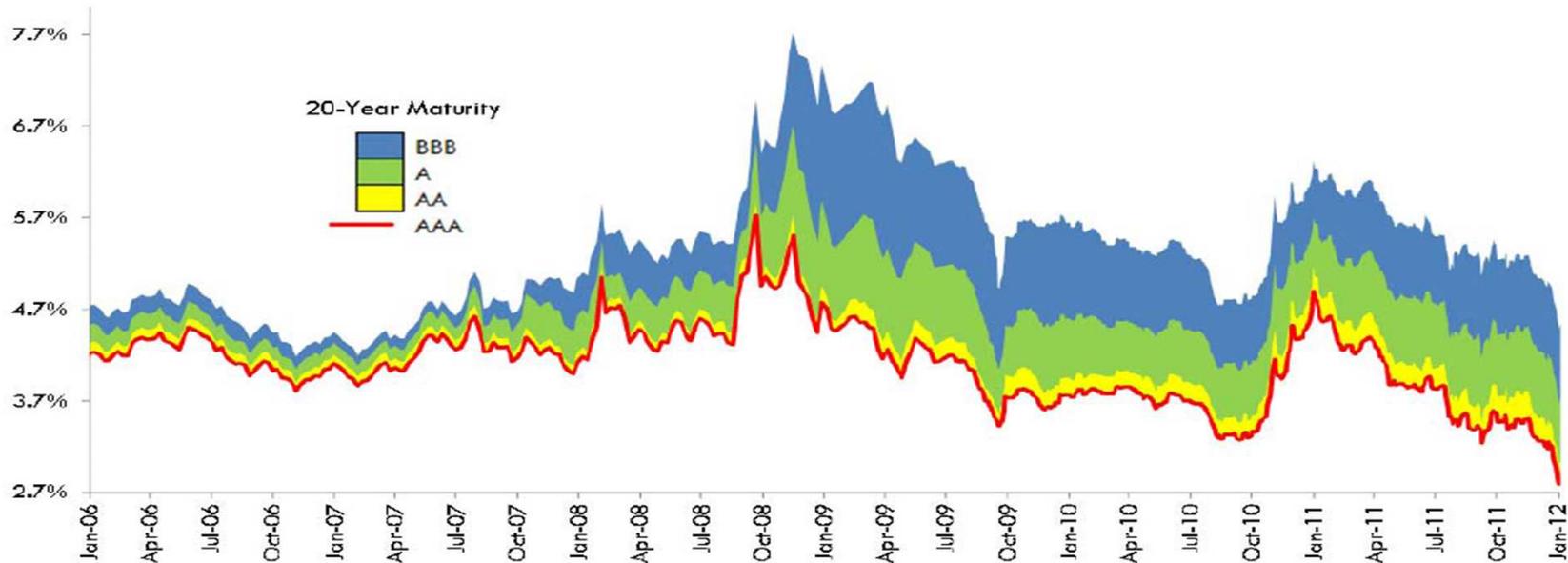




Volatile Market Conditions

- Supply and Demand - Supply and Returns Decline
- Liquidity Premium
- Credit Market Vs. Rate Market
- Quality Spreads

MUNICIPAL MARKET DATA INDEX (MMD) BY CREDIT SPREAD: 01/27/2006-01/27/2012



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Legislative Considerations





Legislative Considerations

- Build America Bonds
- Eliminate Tax Exemption?
- Infrastructure Bank
- Tax-Exempt Income Limits



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BUY-SIDE
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Credit Considerations





Credit Considerations

- Bond Insurance – Lack of Availability and Credibility
- Rating Agency Infrequency of Issuer Review and Tarnished Reputations
- In-Depth Credit Analysis Required
 - Heightened Sensitivity to Credit Risk - Headlines
 - Increased Demand for Yield
- Volatility of Federal, State and Local Gov't. Revenues
 - Federal Government Spending Changes
 - Uncertain Economic Recovery – Revenue Projections are Challenging
 - Progress of Pension Reform and OPEBs
- Stale Financial Filings and Limited Municipal Disclosure



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BUY-SIDE
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Metrics

Metric	GO Bonds	COP/FFC	Revenue Bonds
Debt Service Coverage Ratio		X	X
Population	X	X	X
Ratepayer/Taxpayer Ratio	X	X	X
Debt to Full Value	X	X	X
Employment	X	X	X
Income Levels	X	X	X
Full Value Per Capita	X	X	
Direct and Overlapping Debt Per Capita	X	X	



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BUY-SIDE
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Management Evaluation

- Timeliness/Qualified Audit Opinions
- Revenue Trends and Diversity of Sources of Funding
- Relative Level of Debt and Future Debt Service
- Use of Reserves
- Capital Spending and Improvements
- Cash and Equivalents – Days Cash on Hand
- Pension Plan
 - Type of Plan
 - Funding History/Method
 - Plan Valuation and Actuarial Assumptions
- Post Employment Benefits



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BUY-SIDE
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Continuing Disclosure





Continuing Disclosure

- Continuing Disclosure Undertaking Requirement
 - Annual Financial Information
 - Material Events

- Events Exempt From Materiality
 - Rating Changes
 - Unscheduled Draws On Debt Service Reserve Funds
 - Failure to Pay Principal and Interest
 - Events Affecting the Tax Status

- Timely - No Later Than 10 Business Days Following Occurrence

- MSRB Emma - <http://emma.msrb.org/>
 - Youtube Document Submission Video
<http://www.youtube.com/user/MSRBNEWS#p/a/u/0/GziOuo5tc1Q>

- Consequences of Failure to Comply



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Material Events Case Study

- 12/01/2011 – Failed to make debt service payment
- 12/19/2011 – Assured Guaranty Makes Debt Service Payment
- 01/11/2012 – Material Events Notice:
 - “The District believes that the insufficiency in Pledged Revenues was the result of a mistake in the calculation of the debt service ... as well as a failure to pay property taxes by certain property owners.”
- 01/20/2012 – Notice of Payment Default sent by Trustee to investors.



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BUY-SIDE
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Disclosure

DISCLOSURE OF PARTIES, DUAL EMPLOYEE STATUS AND RELATED MATTERS

KeyBanc Capital Markets is a trade name under which the corporate and investment banking products and services of KeyCorp and its subsidiaries, KeyBanc Capital Markets Inc., Member NYSE/FINRA/SIPC, and KeyBank National Association (“KeyBank N.A.”), are marketed. Securities products and services are offered by KeyBanc Capital Markets Inc. and by its licensed securities representatives. Banking products and services are offered by KeyBank N.A.

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Further, in connection with our effort to deliver a comprehensive array of banking and securities products and services to you in a seamless manner, from time to time KeyBank N.A. and KeyBanc Capital Markets Inc. will share with each other certain non-public information that you provide to us. Of course, as always, this information will not be shared or otherwise disclosed outside of the KeyCorp organization without your express permission. Please also be assured that, as with other banks and broker-dealers, KeyBank N.A. and KeyBanc Capital Markets Inc. adhere to established internal procedures to safeguard your corporate information from areas within our organization that trade in or advise clients with respect to the purchase and sale of securities.

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