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Interviewer:
Today we're talking to Todd Curtis, portfolio manager of Aquila Tax-Free Trust of Arizona.

In spite of some volatility following the 2016 election, the municipal market has seen positive returns during 2017. What factors do you believe contributed to the earlier volatility and to the recovery in 2017?

Todd Curtis:
Well the factors, I think, to the upturn in interest rates following the election November of 2016 are pretty well known. It was viewed that legislation could be passed that was going to stimulate the fiscal stimulus and through, whether it be deregulation of certain rules, of lower taxes or whether we're going to get a lot of infrastructure spending, I think it was seen that our somewhat anemic slow growth of the last seven or eight years of below 2-percent GDP level was going to jump to the possibly 3-percent-plus range, and I think that was viewed as positive and as such the stock market jumped and interest rates jumped.

However, as we've gone into this year, we found that it's not so easy to implement some of these changes and its slowed down, and we've just kind of frozen ourselves here in the current situation and I think the market's reacting to that, seeing that and result has been interest rates that have really...you saw the volatility last November. The change in interest rates really occurred in about a two-week period and since then we've really marched along in a fairly, I'll say, somewhat narrow range. If you look at the two-year Treasury, it started the year at 245; we've jumped from the 260 down to 220, but typically have been in that 230-250 range with a 10-year Treasury with a somewhat narrow range, so the result has been munis following Treasuries and we've marched along with them on a pretty much tit for tat course, and we're up about 2 percent year-to-date and doing pretty good. Muni's have performed well and with real good supply coming into the marketplace and [*unclear*].

Interviewer:
We've heard a lot about potential federal spending on infrastructure, how might that ultimately be implemented?

Todd Curtis:
There's a moving question. It's going to be implemented; there's no question on a need. I mean there's projections I think President Trump initially had like a $1 trillion dollar projection out there. I think those projections have jumped to where it's – we might to spend as much as $3 trillion dollars to improve our roads, bridges, dams, and innards of the country here. So it's a large sum.

You look at historical way of that spending - of how we've spent for infrastructure - has really fallen down to the local level, down to the states and the local municipalities, primarily the states. I think I've seen ... it's been said that about 75 percent of infrastructure financing has fallen down to a municipal bond market. And so we have certainly the importance. And I think infrastructure, is what I'm trying to say is infrastructure and tax policy I think it will be interwoven as to how those two legislative processes go forward.

In terms of the question of infrastructure spending as to how we're going to finance it, muni bonds will certainly be first and foremost I think out there as the first thing. I think public-private partnerships are going to be very important and that could be where tax change becomes very important where you might have to have some tax credits - incentives. You might have to change the caps on some private activity type bonds as to how much can be issued. The alternative minimum tax question will certainly come into play on that. Or we could

have something such as what we had back in 2009, 2010 along the Build America Bonds program, some type of federal subsidy going down to the local level.

So there's a lot of moving parts that will probably take on a portion of all three of those.

Interviewer:
And from a relative value perspective, how do municipal bonds look currently?

Todd Curtis:
Well municipal bonds always look good, let's put it right there, but particularly on a tax-equivalent basis. But I mean over the past two to three years we've seen municipal bonds have, oh wait, for the last five or six years, a very high relative value versus taxable-equivalents of trading up to 100 percent of taxable-equivalents, and they're still there. They've lost a little of their cheapness I would say in terms of the muni-Treasury ratio, which is what we typically look at in terms of rich to cheap type situations.

The short end of the curve now has gotten a little more historical you know by short, say one- to five-year muni bonds at 75 to 80 percent of their taxable equivalent on the Treasury side. When you jump out to the 10-year mark we've fallen off that 100 percent ratio a bit but we're still in the 90s, high 90 to 95 percent there, which is still, from a long-term perspective, a cheap ratio. And if you wanna go out longer you can still very easily get 100 percent of taxable equivalents. So muni's still look very attractive on a relative basis.

Interviewer:
And what is your assessment of the Arizona municipal market from a credit quality perspective?

Todd Curtis:
One word - stable. We're just kind of poking along. I would start with the State as to how we're spending there. Our process is to pass a balanced budget every spring for the next fiscal year and we've just done that here in Arizona. They increased budget this year up to $9.8 billion from $9.5 billion last year so there's a little increase in our spending pattern, which I view as a positive standpoint.

So I think the State is doing pretty well, but nothing robust. We're still kind of slugging along. I think that transfers down to the local level. There's some questions on the school district financing and how they're doing but they're stable and holding their own; they're not being real aggressive and they're building out , or they might need to.

On a national basis, healthcare is certainly a question mark as to how the Affordable Care Act and spending of Medicaid will continue to help the hospitals, and so here in Arizona, that's still always a question mark, because that's a major portion of our economy. Banner Health here is the hospital system that's our largest employer but they are again a solid AA to AA-minus type credit.

So I would finish it up by saying we've had a few upgrades across the board in a couple of our cities and I would just put us as, Arizona is very stable in how we're reacting financially.

Interviewer:
Thank you Todd.

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