
SPEER FINANCIAL, INC.

INDEPENDENT PUBLIC FINANCE CONSULTANTS SINCE 1954

N E W S L E T T E R

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THE MUNICIPAL MARKET

The year 2002 saw a fairly steady long-term rate with very low short-term rates. Long-term tax-exempt interest rates ranged just under a three-quarters of a percent spread through the year. The *Bond Buyer* 20-Bond General Obligation Index hit 4.66% on Oct 10th, the lowest rate for the year. High for the year was 5.34% on March 21st. The 25-Bond Revenue Index was also fairly stable with a October 10th low of 5.02% and a March 21st high of 5.67%.

The economy is perceived to be slow but trying for an upturn, with any fear of inflation being ignored.

Interest Rates

Interest rates, bond sale volumes, and related statistics in this Newsletter come from reports published in *The Bond Buyer* newspaper. The 20-Bond Bond Buyer Index is the average tax-exempt market value, expressed in terms of yield, on the general obligation bonds of twenty selected issuers with Moody's ratings ranging from Baa1 to Aaa, averaging A1, and maturing in twenty years.



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The annual yield of the Index in 2002 averaged 5.03%, lower than 2001 and for more than two decades. Volatility, as seen in the "Low-to-High-Spread" below, remained low. The variance of 0.68% between the high and low rates in 2002 indicates the relative stability of the tax-exempt market.

20 G.O. Bond Buyer Index - Annual Averages

| | <u>Year Low</u> | | <u>Year High</u> | | <u>Low-to-High Spread</u> | <u>Average Annual Yield</u> |
|------------|-----------------|--------------|------------------|--------------|---------------------------|-----------------------------|
| | <u>Date</u> | <u>Yield</u> | <u>Date</u> | <u>Yield</u> | | |
| 1992 | Jul 30 | 5.89% | Mar 19 | 6.79% | 0.90% | 6.43% |
| 1993 | Oct 20 | 5.20% | Jan 14 | 6.19% | 0.99% | 5.69% |
| 1994 | Feb 03 | 5.25% | Nov 17 | 7.06% | 1.81% | 6.15% |
| 1995 | Dec 07 | 5.35% | Jan 05 | 6.66% | 1.31% | 5.95% |
| 1996 | Feb 15 | 5.33% | Jun 13 | 6.12% | 0.79% | 5.75% |
| 1997 | Dec 23 | 5.14% | Apr 03 | 5.88% | 0.74% | 5.51% |
| 1998 | Oct 01 | 4.82% | Apr 30 | 5.32% | 0.50% | 5.07% |
| 1999 | Jan 08 | 4.96% | Dec 29 | 6.00% | 1.04% | 5.48% |
| 2000 | Dec 28 | 5.14% | Jan 20 | 6.09% | 0.95% | 5.71% |
| 2001 | Nov 08 | 4.91% | Apr 26 | 5.34% | 0.43% | 5.15% |
| 2002 | Oct 10 | 4.66% | Mar 21 | 5.34% | 0.68% | 5.03% |

A second indicator of the volatility of the municipal market is the difference in the average monthly yield. As shown below, 2002 volatility was generally low with certain periods being very active.

20 G.O. Bond Buyer Index - Monthly Average

| | <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| January | 5.72% | 5.04% | 5.01% | 6.07% | 5.09% | 5.16% |
| February | 5.64% | 5.01% | 5.03% | 6.00% | 5.17% | 5.10% |
| March | 5.76% | 5.21% | 5.10% | 5.83% | 5.13% | 5.28% |
| April | 5.88% | 5.23% | 5.07% | 5.75% | 5.27% | 5.21% |
| May | 5.70% | 5.19% | 5.18% | 6.00% | 5.29% | 5.18% |
| June | 5.54% | 5.11% | 5.37% | 5.80% | 5.20% | 5.08% |
| July | 5.35% | 5.15% | 5.39% | 5.63% | 5.19% | 5.02% |
| August | 5.41% | 5.09% | 5.58% | 5.51% | 5.03% | 4.95% |
| September | 5.39% | 4.98% | 5.69% | 5.55% | 5.09% | 4.73% |
| October | 5.39% | 4.93% | 5.92% | 5.59% | 5.04% | 4.87% |
| November | 5.33% | 5.03% | 5.86% | 5.54% | 5.03% | 4.95% |
| December | 5.19% | 4.97% | 5.95% | 5.23% | 5.24% | 4.84% |
| Monthly Average Differential .. | 0.12% | | 0.10% | 0.07% | 0.13% | 0.08% |
| | | | | | | 0.10% |

The Bond Buyer Index was reported at 4.95% on January 17, 2003. This compares to 4.79% during the last week of 2002.

The 2002 volume of long-term bonds was \$358 billion, a 25% increase from the \$287 billion in 2001. The bond volume was 87% traditional tax exempt, 8% subject to Alternate Minimum Tax and 5% taxable. About 26% was for refunding purposes, reflecting low rates. Some one-third was general obligation debt with two-thirds revenue supported. Approximately 20% of the par amount was sold competitively with 80% negotiated, primarily very large deals.

Long-Term Municipal Bond Sales Volume - By Month
(000 Omitted)

| | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| January | \$ 18,082,300 | \$ 9,864,200 | \$12,690,200 | \$21,612,100 |
| February | 16,921,400 | 13,176,700 | 21,137,500 | 21,000,000 |
| March | 24,421,900 | 17,514,700 | 25,251,100 | 25,421,000 |
| April | 17,326,500 | 16,166,100 | 18,707,100 | 25,623,400 |
| May | 17,514,600 | 15,842,400 | 28,773,700 | 34,163,500 |
| June..... | 24,447,900 | 23,508,800 | 30,210,500 | 38,848,100 |
| July..... | 19,259,300 | 14,942,100 | 20,944,300 | 27,955,800 |
| August | 16,785,700 | 16,873,000 | 24,049,400 | 31,574,200 |
| September..... | 19,450,100 | 16,479,500 | 14,253,800 | 27,559,300 |
| October | 18,733,200 | 20,010,300 | 29,630,000 | 42,202,600 |
| November | 22,287,400 | 18,733,200 | 20,010,300 | 35,334,300 |
| December | <u>14,401,700</u> | <u>14,977,400</u> | <u>28,491,400</u> | <u>26,565,900</u> |
| Total | \$225,871,300 | \$198,882,700 | \$286,307,900 | \$357,860,600 |
| Monthly Avg | \$ 18,822.608 | \$ 16,573.558 | \$ 23,858.991 | \$ 29,821,700 |

The summary of bond sales below shows a very active market with issue size increasing.

Long-Term Municipal Bond Sales -- Annual Summary

| <u>Year</u> | <u>Amount</u> (000) | <u>No. Of</u> <u>Issues</u> | <u>Size of</u> <u>Avg. Issue</u> | <u>Sales</u> <u>Per Day(1)</u> |
|-------------|------------------------|--------------------------------|-------------------------------------|-----------------------------------|
| 1960 | \$ 7,229,500 | 6,529 | \$ 1,107,291 | 25 |
| 1970 | 17,761,646 | 4,701 | 3,778,270 | 18 |
| 1980 | 47,133,366 | 5,550 | 8,942,498 | 21 |
| 1985 | 204,280,608 | 10,062 | 20,302,187 | 39 |
| 1990 | 127,932,800 | 8,826 | 14,494,992 | 34 |
| 1993 | 291,853,600 | 14,379 | 20,297,211 | 55 |
| 1996 | 183,346,000 | 11,326 | 16,188,063 | 43 |
| 1997 | 220,449,000 | 12,316 | 17,899,400 | 47 |
| 1998 | 284,156,200 | 14,993 | 18,952,591 | 58 |
| 1999 | 225,871,300 | 13,017 | 17,352,025 | 50 |
| 2000 | 198,882,700 | 10,924 | 16,573,558 | 42 |
| 2001 | 286,307,900 | 13,614 | 21,030,336 | 52 |
| 2002 | 357,860,600 | 14,927 | 23,974,047 | 57 |

Note: (1) Sales per day assumes 52, five-day weeks.

2002 Long-Term Municipal Bond Sales by Purpose

| <u>Purpose</u> | <u>Amount</u> (000) | <u>Percent</u> |
|-------------------------|------------------------|----------------|
| Development | \$ 6,888,600 | 1.92% |
| Education..... | 86,706,700 | 24.23% |
| Electric Power..... | 23,077,700 | 6.45% |
| Environmental | 7,309,700 | 2.04% |
| Health Care | 26,158,200 | 7.31% |
| Housing | 23,163,300 | 6.47% |
| Public Facilities | 15,225,600 | 4.25% |
| Transportation..... | 44,651,600 | 12.48% |
| Utilities..... | 34,470,700 | 9.63% |
| General Purpose..... | 90,208,500 | 25.20% |

SPEER FINANCIAL CLIENT BOND SALES

The year 2002 continued to be busy for Speer Financial for which we thank our clients.

| | <u>2002</u> | | <u>2001</u> | | <u>2000</u> | | <u>1999</u> | |
|-------------------|-------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|--------------------|
| | <u>No.</u> | <u>Amount</u> | <u>No.</u> | <u>Amount</u> | <u>No.</u> | <u>Amount</u> | <u>No.</u> | <u>Amount</u> |
| Negotiated..... | 82 | \$643,049,624 | 58 | \$162,885,391 | 35 | \$151,538,460 | 49 | \$305,399,035 |
| Competitive..... | <u>131</u> | <u>713,400,212</u> | <u>127</u> | <u>538,814,739</u> | <u>93</u> | <u>288,545,895</u> | <u>84</u> | <u>327,379,506</u> |
| Total Sales | 213 | \$1,356,449,836 | 185 | \$701,700,130 | 128 | \$440,084,355 | 133 | \$632,778,541 |

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Speer Financial would like to thank the new and renewing clients who selected us as their Financial Advisor in 2002. We appreciate your trust and continue to strive to provide the highest possible quality of service to all clients.

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| Village of Round Lake, IL | Elmwood S.D. No. 322, IL | Village of Wauconda, IL |
| Village of Hawthorn Woods, IL | Glenbard H.S.D. No. 87, IL | Village of Beach Park, IL |
| Village of Machesney Park, IL | North Chicago C.U.S.D. No. 187, IL | Village of Kingston, IL |
| Village of Mount Zion, IL | Glen Ellyn S.D. No. 41, IL | Village of Harwood Heights, IL |
| Norridge Park District, IL | Crystal Lake Park District, IL | Palos Heights Library, IL |
| Lombard Park District, IL | Shelby County Social Services, IL | City of Walker, IA |
| North Suburban Municipal Joint Action Water Agency | | |

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