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# SPEER FINANCIAL, INC.

*INDEPENDENT PUBLIC FINANCE CONSULTANTS SINCE 1954*

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## N E W S L E T T E R

JANUARY 2004

### THE MUNICIPAL MARKET

The year 2003 saw a fairly steady long-term rate with very low short-term rates. Long-term tax-exempt interest rates ranged just 0.97 of a percent high to low spread through the year. The *Bond Buyer* 20-Bond General Obligation Index hit 4.21% on June 12<sup>th</sup>, the lowest rate for the year. High for the year was 5.18% on August 14<sup>th</sup>. The 25-Bond Revenue Index was also fairly stable with a June 12<sup>th</sup> low of 4.78% and a August 14<sup>th</sup> high of 5.50%.

The economy is perceived to be early in the stages of an upturn, with concern of inflation being downplayed.

#### **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 2003 averaged 4.74%, lower than 2002 and for more than the past two decades. Volatility, as seen in the "Low-to-High-Spread" below, picked up as various economic and other factors influenced the market. The variance of 0.97% between the high and low rates in 2003 indicates the relative stability of the tax-exempt market.

#### 20 G.O. Bond Buyer Index - Annual Averages

|            | Year Low |       | Year High |       | Low-to-High | Average      |
|------------|----------|-------|-----------|-------|-------------|--------------|
|            | Date     | Yield | Date      | Yield | Spread      | Annual Yield |
| 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%        |
| 2003 ..... | Jun 12   | 4.21% | Aug 14    | 5.18% | 0.97%       | 4.74%        |

A second indicator of the volatility of the municipal market is the difference in the average monthly yield. As shown below, 2003 volatility was higher on a intermonthly basis than in the past five years.

#### 20 G.O. Bond Buyer Index - Monthly Average

|                                 | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  |
|---------------------------------|-------|-------|-------|-------|-------|-------|
| January .....                   | 5.04% | 5.01% | 6.07% | 5.09% | 5.16% | 4.64% |
| February .....                  | 5.01% | 5.03% | 6.00% | 5.17% | 5.10% | 4.73% |
| March .....                     | 5.21% | 5.10% | 5.83% | 5.13% | 5.28% | 4.89% |
| April .....                     | 5.23% | 5.07% | 5.75% | 5.27% | 5.21% | 4.92% |
| May .....                       | 5.19% | 5.18% | 6.00% | 5.29% | 5.18% | 5.10% |
| June .....                      | 5.11% | 5.37% | 5.80% | 5.20% | 5.08% | 4.74% |
| July .....                      | 5.15% | 5.39% | 5.63% | 5.19% | 5.02% | 4.33% |
| August .....                    | 5.09% | 5.58% | 5.51% | 5.03% | 4.95% | 4.41% |
| September .....                 | 4.98% | 5.69% | 5.55% | 5.09% | 4.73% | 4.74% |
| October .....                   | 4.93% | 5.92% | 5.59% | 5.04% | 4.87% | 4.76% |
| November .....                  | 5.03% | 5.86% | 5.54% | 5.03% | 4.95% | 4.81% |
| December .....                  | 4.97% | 5.95% | 5.23% | 5.24% | 4.84% | 4.90% |
| Monthly Average Differential .. | 0.10% | 0.07% | 0.13% | 0.08% | 0.10% | 0.16% |

The Bond Buyer Index was reported at 4.64% on January 9, 2004. This compares to 4.60% during the last week of 2003.

## Tax-Exempt Bond Sale Volume

The 2003 volume of long-term bonds was \$382.7 billion, a 6.7% increase from the \$357.9 billion in 2002. The bond volume was 83.3% traditional tax exempt, 6.1% subject to Alternate Minimum Tax and 10.6% taxable. About 24.5% 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)

|                   | 2000          | 2001          | 2002          | 2003          |
|-------------------|---------------|---------------|---------------|---------------|
| January .....     | \$ 9,864,200  | \$12,690,200  | \$21,612,100  | \$27,067,700  |
| February .....    | 13,176,700    | 21,137,500    | 21,000,000    | 30,266,500    |
| March .....       | 17,514,700    | 25,251,100    | 25,421,000    | 28,230,600    |
| April .....       | 16,166,100    | 18,707,100    | 25,623,400    | 35,236,100    |
| May .....         | 15,842,400    | 28,773,700    | 34,163,500    | 36,714,400    |
| June .....        | 23,508,800    | 30,210,500    | 38,848,100    | 48,519,200    |
| July .....        | 14,942,100    | 20,944,300    | 27,955,800    | 33,304,100    |
| August .....      | 16,873,000    | 24,049,400    | 31,574,200    | 25,929,700    |
| September .....   | 16,479,500    | 14,253,800    | 27,559,300    | 26,277,000    |
| October .....     | 20,010,300    | 29,630,000    | 42,202,600    | 35,021,800    |
| November .....    | 18,733,200    | 20,010,300    | 35,334,300    | 26,146,400    |
| December .....    | 14,977,400    | 28,491,400    | 26,565,900    | 29,967,200    |
| Total .....       | \$198,882,700 | \$286,307,900 | \$357,860,600 | \$382,680,700 |
| Monthly Avg ..... | \$ 16,573,558 | \$ 23,858,991 | \$ 29,821,700 | \$ 31,890,058 |

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

### Long-Term Municipal Bond Sales -- Annual Summary

| Year       | Amount<br>(000) | No. Of<br>Issues | Size of<br>Avg. Issue | Sales<br>Per Day(1) |
|------------|-----------------|------------------|-----------------------|---------------------|
| 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                  |
| 2003 ..... | 382,680,700     | 14,833           | 25,799,279            | 57                  |

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

### 2003 Long-Term Municipal Bond Sales by Purpose

| Purpose                 | Amount<br>(000) | Percent |
|-------------------------|-----------------|---------|
| Development .....       | \$ 6,424,200    | 1.68%   |
| Education .....         | 90,712,200      | 23.70%  |
| Electric Power .....    | 16,761,700      | 4.38%   |
| Environmental .....     | 5,293,100       | 1.38%   |
| Health Care .....       | 28,043,400      | 7.33%   |
| Housing .....           | 26,499,800      | 6.92%   |
| Public Facilities ..... | 12,540,400      | 3.28%   |
| Transportation .....    | 39,468,200      | 10.31%  |
| Utilities .....         | 35,231,700      | 9.21%   |
| General Purpose .....   | 121,706,000     | 31.81%  |

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**SPEER FINANCIAL CLIENT BOND SALES**

The year 2003 continued to be busy for Speer Financial for which we thank our clients.

|                   | <u>2003</u> |                 | <u>2002</u> |                 | <u>2001</u> |               | <u>2000</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.....   | 77          | \$399,992,632   | 83          | \$644,329,624   | 58          | \$162,885,391 | 35          | \$151,538,460 |
| Competitive.....  | 148         | 657,908,683     | 131         | 713,400,212     | 127         | 538,814,739   | 93          | 288,545,895   |
| Total Sales ..... | 225         | \$1,057,901,314 | 214         | \$1,357,729,836 | 185         | \$701,700,130 | 128         | \$440,084,355 |

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Speer Financial would like to thank the new and renewing clients who selected us as their Financial Advisor in 2003. We appreciate your trust and continue to strive to provide the highest possible quality of service to all clients.

Village of Franklin Park, IL  
City of Coultier, IA  
City of Woodbine, IA  
Tripoli Nursing Home, IA  
Lockport Township Park Dist., IL

Village of Capron, IL  
Kane Co. Forest Preserve District, IL  
City of Parkersburg, IA  
Grundy Co. Memorial Hospital, IA  
Lineville-Clio CSD, IA

Village of Berkely, IL  
Knox County Nursing Home, IL  
Union County, IA  
Round Lake Public Library District, IL

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