
SPEER FINANCIAL, INC.

INDEPENDENT PUBLIC FINANCE CONSULTANTS SINCE 1954

NEWSLETTER

JANUARY 2005

THE MUNICIPAL MARKET

The year 2004 saw a fairly steady long-term rate with rising short-term rates. Long-term tax-exempt interest rates ranged just 0.79 of a percent high to low spread through the year. The *Bond Buyer* 20-Bond General Obligation Index hit 4.35% on March 11th, the lowest rate for the year. High for the year was 5.14% on May 13th. The 25-Bond Revenue Index was also fairly stable with a March 18th low of 4.73% and a May 13th high of 5.45%.

The economy is perceived to be early in the stages of an upturn, with inflation being downplayed as a major concern. A primary focus is on jobs creation as an indicator of economic recovery.

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 2004 averaged 4.68%, barely lower than 2003's 4.74% and lower than the past two decades. Volatility, as seen in the "Low-to-High-Spread" below, declined as various economic and other factors influenced the market. The relatively low variance of 0.79% between the high and low rates in 2004 indicates the relative stability of the tax-exempt market.

20 G.O. Bond Buyer Index - Annual Averages

	Year Low		Year High		Low-to-High Spread	Average Annual Yield
	Date	Yield	Date	Yield		
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%
2004	Mar 11	4.35%	May 13	5.14%	0.79%	4.68%

A second indicator of the volatility of the municipal market is the difference in the average monthly yield. As shown below, 2004 volatility was moderately high on a intermonthly basis compared to the past five years.

20 G.O. Bond Buyer Index - Monthly Average

	1999	2000	2001	2002	2003	2004
January	5.01%	6.07%	5.09%	5.16%	4.64%	4.61%
February	5.03%	6.00%	5.17%	5.10%	4.73%	4.55%
March	5.10%	5.83%	5.13%	5.28%	4.89%	4.41%
April	5.07%	5.75%	5.27%	5.21%	4.92%	4.82%
May	5.18%	6.00%	5.29%	5.18%	5.10%	5.07%
June	5.37%	5.80%	5.20%	5.08%	4.74%	5.06%
July	5.39%	5.63%	5.19%	5.02%	4.33%	4.87%
August	5.58%	5.51%	5.03%	4.95%	4.41%	4.70%
September	5.69%	5.55%	5.09%	4.73%	4.74%	4.56%
October	5.92%	5.59%	5.04%	4.87%	4.76%	4.50%
November	5.86%	5.54%	5.03%	4.95%	4.81%	4.52%
December	5.95%	5.23%	5.24%	4.84%	4.90%	4.48%
Monthly Average Differential	0.07%	0.13%	0.08%	0.10%	0.16%	0.13%

The Bond Buyer Index was reported at 4.47% on January 6, 2005. This compares to 4.49% during the last week of 2004.

Tax-Exempt Bond Sale Volume

The 2004 volume of long-term bonds was \$360.5 billion, a 6% decrease from the \$382.7 billion in 2003. The bond volume was 87% traditional tax exempt, 6.5% subject to Alternate Minimum Tax and 6.5% taxable. About 24% 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>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
January	\$12,690,200		\$21,612,100	\$27,067,700
.....	\$20,533,400			
February	21,137,500	21,000,000	30,266,500	27,117,000
March	25,251,100	25,421,000	28,230,600	38,682,500
April	18,707,100	25,623,400	35,236,100	31,790,300
May	28,773,700	34,163,500	36,714,400	37,752,100
June	30,210,500	38,848,100	48,519,200	35,562,100
July	20,944,300	27,955,800	33,304,100	25,370,500
August	24,049,400	31,574,200	25,929,700	28,125,100
September	14,253,800	27,559,300	26,277,000	25,172,000
October	29,630,000	42,202,600	35,021,800	31,999,600
November	20,010,300	35,334,300	26,146,400	25,636,500
December	<u>28,491,400</u>		<u>26,565,900</u>	<u>29,967,200</u>
				<u>32,721,200</u>
Total	\$286,307,900	\$357,860,600	\$382,680,700	\$360,462,300
Monthly Avg ...	\$ 23,858,991	\$ 29,821,700	\$ 31,890,058	\$ 30,038,500

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 (000)</u>	<u>No. Of Issues</u>	<u>Size of Avg. Issue</u>	<u>Sales 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
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
2004.....	360,462,300	13,400	29,900,172	52

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

2004 Long-Term Municipal Bond Sales by Purpose

<u>Purpose</u>	<u>Amount (000)</u>	<u>Percent</u>
Development	\$ 6,423,400	1.78%
Education	96,398,900	26.75%
Electric Power	7,019,300	1.95%
Environmental	6,905,100	1.92%
Health Care	28,359,000	7.86%
Housing	22,448,700	6.22%
Public Facilities	8,664,000	2.40%
Transportation	32,345,600	8.98%
Utilities	33,201,800	9.22%
General Purpose	118,696,500	32.92%

SPEER FINANCIAL CLIENT BOND SALES

The year 2004 continued to be busy for Speer Financial for which we thank all our clients.

	<u>2004</u>		<u>2003</u>		<u>2002</u>		<u>2001</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.....	73	\$310,641,131	77	\$399,992,632	83	\$644,329,624	58	\$162,885,391
Competitive.....	129	<u>569,571,862</u>	148	<u>657,908,683</u>	131	<u>713,400,212</u>	127	<u>538,814,739</u>
Total Sales.....	202	\$880,212,993	225	\$1,057,901,314	214	\$1,357,729,836	185	\$701,700,130

Speer Financial would like to thank the new and renewing clients who selected us as their Financial Advisor in 2004. We appreciate your trust and continue to strive to provide the highest possible quality of service to all clients, regardless of issue size or length of service.

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| Village of Morton Grove, IL | Village of Tremont, IL | Village of Burlington, IL |
| City of Freeport, IL | City of Sullivan, IL | New Lenox Park District, IL |
| Village of Hanover Park, IL | Village of Elwood, IL | Blue Island Park District, IL |
| Village of Maywood, IL | City of Manchester, IA | Gurnee Park District, IL |
| City of McHenry, IL | City of Eureka, IL | Bourbonnais Township Park District, IL |
| Murphysboro Park District, IL | Riverdale Park District, IL | Channahon Park District, IL |
| Peoria Civic Center Authority, IL | Lake Villa Township, IL | Huntley Area Public Library District, IL |
| City of Tripola, IA | City of Latimer, IA | Carbondale School District No.165, IL |

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