
SPEER FINANCIAL, INC.

INDEPENDENT PUBLIC FINANCE CONSULTANTS SINCE 1954

NEWSLETTER

JANUARY 2007

THE MUNICIPAL MARKET

The year 2006 saw fairly steady long-term rates with rising short-term rates. Long-term tax-exempt interest rates ranged just 0.68 of a percent high to low spread throughout the year. The *Bond Buyer* 20-Bond General Obligation Index hit 4.03% on December 7th, the lowest rate for the year. High for the year was 4.71% on June 29th. The 25-Bond Revenue Index was also fairly stable with a December 14th low of 4.52% and a July 6th high of 5.31%.

The economy seems to be improving, with a major focus on inflation and housing. Long term rates are (still) expected to rise, with the question of when. The Bond Buyer Index opened 2006 at 4.35% and closed at 4.17%.

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 2006 averaged 4.40%, near the low for the past two decades. Volatility, as seen in the "Low-to-High-Spread" below, increased as various economic and other factors influenced the market. The relatively low variance of 0.68% between the high and low rates in 2006 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		
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%
2005.....	Jun 02	4.18%	Mar 24	4.63%	0.45%	4.39%
2006.....	Dec 07	4.03%	Jun 29	4.71%	0.68%	4.40%

A second indicator of the volatility of the municipal market is the difference in the average monthly yield. As shown below, 2006 volatility was moderate on a intermonthly basis compared to the past five years.

20 G.O. Bond Buyer Index - Monthly Average

	2001	2002	2003	2004	2005	2006
January.....	5.09%	5.16%	4.64%	4.61%	4.41%	4.37%
February.....	5.17%	5.10%	4.73%	4.55%	4.35%	4.41%
March.....	5.13%	5.28%	4.89%	4.41%	4.57%	4.44%
April.....	5.27%	5.21%	4.92%	4.82%	4.46%	4.58%
May.....	5.29%	5.18%	5.10%	5.07%	4.31%	4.59%
June.....	5.20%	5.08%	4.74%	5.06%	4.23%	4.60%
July.....	5.19%	5.02%	4.33%	4.87%	4.31%	4.61%
August.....	5.03%	4.95%	4.41%	4.70%	4.32%	4.39%
September.....	5.09%	4.73%	4.74%	4.56%	4.29%	4.27%
October.....	5.04%	4.87%	4.76%	4.50%	4.50%	4.30%
November.....	5.03%	4.95%	4.81%	4.52%	4.57%	4.14%
December.....	5.24%	4.84%	4.90%	4.48%	4.46%	4.11%
Monthly Average Differential .	0.08%	0.10%	0.16%	0.13%	0.10%	0.06%

The Bond Buyer Index was reported at 4.15% on January 4, 2007. This compares to 4.17% during the last week of 2006.

Tax-Exempt Bond Sale Volume

The 2006 volume of long-term bonds was \$383 billion, a 6.1% decrease from the \$408 billion in 2005. The bond volume was 83.5% traditional tax exempt, 8.7% subject to Alternate Minimum Tax and 7.8% taxable. About 20% was for refunding purposes, reflecting low rates. Some one-third was general obligation debt with two-thirds revenue supported. Approximately 18% of the par amount was sold competitively with 82% negotiated, primarily very large deals.

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
January	\$27,067,700	\$20,533,400	\$22,500,400	\$18,712,300
February	30,266,500	27,117,000	30,757,700	23,866,900
March	28,230,600	38,682,500	45,021,800	27,045,900
April	35,236,100	31,790,300	31,433,600	29,301,100
May	36,714,400	37,752,100	35,858,600	34,625,800
June	48,519,200	35,562,100	44,292,000	45,093,500
July	33,304,100	25,370,500	34,168,500	27,890,100
August	25,929,700	28,125,100	34,212,400	31,625,300
September	26,277,000	25,172,000	30,956,100	27,946,900
October	35,021,800	31,999,600	27,825,900	31,392,000
November	26,146,400	25,636,500	38,889,400	42,492,800
December	<u>29,967,200</u>	<u>32,721,200</u>	<u>32,269,500</u>	<u>43,433,300</u>
Total	\$382,680,700	\$360,462,300	\$408,185,900	\$383,425,900
Monthly Avg ...	\$ 31,890,058	\$ 30,038,500	\$ 34,015,400	\$ 31,952,158

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> <u>(000)</u>	<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	8,492,498	21
1990	127,932,800	8,826	14,494,992	34
2000	198,882,700	10,924	18,206,033	42
2001	286,307,900	13,614	21,030,403	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	13,603	26,498,736	52
2005	408,185,900	13,770	29,643,130	53
2006	383,712,300	12,498	30,701,896	48

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

2006 Long-Term Municipal Bond Sales by Purpose

<u>Purpose</u>	<u>Amount</u> <u>(000)</u>	<u>Percent</u>
Development	\$ 4,873,600	1.3%
Education	106,078,100	27.6%
Electric Power	14,855,700	3.9%
Environmental	7,793,800	2.0%
Health Care	39,406,000	10.3%
Housing	29,481,700	7.7%
Public Facilities	13,864,100	3.6%
Transportation	40,522,200	10.6%
Utilities	38,354,600	10.0%
General Purpose	88,196,100	23.0%

SPEER FINANCIAL CLIENT BOND SALES

The year 2006 continued to be busy for Speer Financial for which we thank all our clients.

	<u>2006</u>		<u>2005</u>		<u>2004</u>		<u>2003</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.....	62	\$375,935,000	60	\$628,216,722	73	\$310,641,131	77	\$399,992,632
Competitive.....	148	<u>835,710,307</u>	143	<u>734,438,844</u>	129	<u>569,571,862</u>	148	<u>657,908,683</u>
Total Sales.....	210	\$1,211,645,307	203	\$1,362,655,566	202	\$880,212,993	225	\$1,057,901,314

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Speer Financial would like to thank the new and renewing clients who selected us as their Financial Advisor in 2006. 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 Libertyville, Illinois | City of Kankakee, Illinois | Orland Fire Protection District, Illinois |
| Village of Lake Bluff, Illinois | City of Moline, Illinois | Village of Sugar Grove, Illinois |
| City of Prospect Heights, Illinois | Village of Maple Park, Illinois | City of Malta, Illinois |
| Village of Findley, Illinois | City of Shelbyville, Illinois | Village of Bannockburn, Illinois |
| City of Flora, Illinois | Peru SD 124, Illinois | Dunleith Park District, Illinois |
| Glenside Library District, Illinois | Pleasant Dale Park District, Illinois | Country Club Hills Park District, Illinois |
| City of Clermont, Iowa | City of Hubbard, Iowa | Freemont County, Iowa |
| City of Shueyville, Iowa | Page County, Iowa | Thorn Creek Basin Sanitary District, Illinois |
| Adair County, Iowa | Janesville Consolidated School District, Iowa | |

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