
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 2008 was momentous. The year opened with rates averaging about four and one-half percent, saw an early jump to 5% because of problems with auction rate securities, regained the mid-4% area and then the market collapsed in September. Rates hit 6% on general obligation bonds and have meandered lower since October. Long-term tax-exempt interest rates ranged over a nearly 2 percent high to low spread throughout the year. The *Bond Buyer* 20-Bond General Obligation Index hit 4.15% on January 17th, the lowest rate for the year. High for the year was 6.01% on October 16th. The 25-Bond Revenue Index followed with a January 17th low of 4.63% and a October 16th high of 6.48%.

The Bond Buyer Index opened 2008 at 4.32% and closed at 5.24%.

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 2008 averaged 4.86%, near the low for the past two decades but above the past five years. Volatility, as seen in the "Low-to-High-Spread" below, increased dramatically as various economic and other factors influenced the market. The variance of 1.86% between the high and low rates in 2008 reflects the general economy as seen in 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		
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%
2007	Mar 08	4.08%	Aug 23	4.81%	0.73%	4.40%
2008	Jan 17	4.15%	Oct 16	6.01%	1.86%	4.86%

A second indicator of the volatility of the municipal market is the difference in the average monthly yield. As shown below, 2008 volatility was high on a intermonthly basis compared to the past five years.

20 G.O. Bond Buyer Index - Monthly Average

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
January	4.64%	4.61%	4.41%	4.37%	4.23%	4.27%
February	4.73%	4.55%	4.35%	4.41%	4.22%	4.64%
March	4.89%	4.41%	4.57%	4.44%	4.15%	4.93%
April	4.92%	4.82%	4.46%	4.58%	4.26%	4.70%
May	5.10%	5.07%	4.31%	4.59%	4.31%	4.58%
June	4.74%	5.06%	4.23%	4.60%	4.60%	4.72%
July	4.33%	4.87%	4.31%	4.61%	4.56%	4.68%
August	4.41%	4.70%	4.32%	4.39%	4.67%	4.69%
September	4.74%	4.56%	4.29%	4.27%	4.52%	4.86%
October	4.76%	4.50%	4.50%	4.30%	4.41%	5.50%
November	4.81%	4.52%	4.57%	4.14%	4.46%	5.23%
December	4.90%	4.48%	4.46%	4.11%	4.43%	5.49%
Monthly Average Differential..	0.16%	0.13%	0.10%	0.07%	0.09%	0.23%

The Bond Buyer Index was reported at 5.02% on January 8, 2009. This compares to 5.24% during the last week of 2008.

Bond Insurance

Use of insurance was down 60%, from 47% of all bonds, to just 18%. This reflects the 2008 turmoil in the bond market due to rating downgrades of all bond insurers which have been around for one year or more.

Tax-Exempt Bond Sale Volume

The 2008 volume of long-term bonds was \$390 billion, an 8.7% decrease from the \$427 billion in 2007. The bond volume was 87.4% traditional tax exempt, 6.0% subject to Alternate Minimum Tax and 6.6% taxable. About 28% was for refunding purposes, reflecting low rates and market conditions in the earlier part of 2008. Some one-third was general obligation debt with two-thirds revenue supported. Approximately 13.6% of the par amount was sold competitively with 86.4% negotiated, primarily very large deals and due to very difficult market conditions. Just 3.9% was bank qualified.

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

	2005	2006	2007	2008
January	\$22,500,400	\$18,712,300	\$31,217,100	\$20,170,600
February	30,757,700	23,866,900	32,028,500	21,341,000
March	45,021,800	27,045,900	44,285,000	43,686,300
April	31,433,600	29,301,100	33,541,000	51,531,400
May	35,858,600	34,625,800	43,136,900	43,565,800
June	44,292,000	45,093,500	47,014,300	50,678,400
July	34,168,500	27,890,100	31,852,300	37,357,800
August	34,212,400	31,625,300	29,332,000	31,796,000
September	30,956,100	27,946,900	32,757,700	20,676,000
October	27,825,900	31,392,000	45,014,300	22,315,100
November	38,889,400	42,492,800	29,377,600	25,630,900
December	32,269,500	43,433,300	28,032,000	21,840,000
Total	\$408,185,900	\$383,425,900	\$427,588,700	\$390,589,300
Monthly Avg....	\$ 34,015,400	\$ 31,952,158	\$ 35,632,392	\$ 32,549,108

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

Long-Term Municipal Bond Sales -- Annual Summary

Year	Amount (000)	No. Of Issues	Size of Avg. Issue	Sales 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	8,492,498	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
2007	427,588,700	12,392	34,505,221	48
2008	390,589,300	10,635	36,726,780	41

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

2008 Long-Term Municipal Bond Sales by Purpose

Purpose	Amount (000)	Percent
Development	\$ 7,920,100	2.0%
Education	91,053,800	23.3%
Electric Power	21,772,400	5.6%
Environmental	7,489,900	1.9%
Health Care	60,840,400	15.6%
Housing	17,453,500	4.5%
Public Facilities	15,525,300	4.0%
Transportation	49,239,800	12.6%
Utilities	37,525,400	9.6%
General Purpose	81,768,700	20.9%

SPEER FINANCIAL CLIENT BOND SALES

The year 2008 continued to be busy for Speer Financial for which we thank all our clients.

	<u>2008</u>		<u>2007</u>		<u>2006</u>		<u>2005</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	53	\$235,261,072	45	\$391,064,830	62	\$375,935,000	60	\$628,216,722
Competitive	<u>127</u>	<u>678,864,178</u>	<u>115</u>	<u>517,182,528</u>	<u>148</u>	<u>835,710,307</u>	<u>143</u>	<u>734,438,844</u>
Total Sales	180	\$914,125,250	160	\$909,847,358	210	\$1,211,645,307	203	\$1,362,655,566

Speer Financial would like to thank the new and renewing clients who selected us as their Financial Advisor in 2008. 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.

City of Arcola, Il	Barrington Park District, Il	Benton County, IA
Boone County, Il	Champaign County Forest Preserve Dist., Il	Village of Fox River Grove, Il
V i l l a g e	o f G l e n c o e ,	I l
City of Lockport, Il	Lincoln Land Community College 526, Il	City of Mattoon, Il
Village of Palatine, Il	Peoria Public Building Commission, Il	City of Rock Island, Il
City of Rockford, Il	Sangamon County, Il	Village of Schaumburg, Il
Village of Thornton, Il	Village of Willow Springs, Il	

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