

SPEER FINANCIAL, INC.

INDEPENDENT PUBLIC FINANCE CONSULTANTS SINCE 1954



NEWSLETTER

JANUARY 2012

THE MUNICIPAL MARKET

The year 2011 was a continuing time of apprehension about the U.S. and European economy. The taxable Build America Bonds (BABs) that became very popular and expanded the market for municipal debt to new categories of buyers were not renewed. Whatever was not renewed, however, a reduced volume of tax exempts resulted in lower rates. Long-term tax-exempt interest rates ranged over a one and one-half percent high to low spread throughout the year. The *Bond Buyer* 20-Bond General Obligation Index hit a January 20th high of 5.41% and fell to 3.83% on August 18th, the lowest rate for the year.

The Bond Buyer Index opened 2011 at 4.95% posted on December 30, 2010 and closed at 3.88% on December 30, 2011.

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 ratings averaging Aa2/AA and maturing in twenty years.



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The annual yield of the Index in 2011 averaged 4.51%, near the low for the past two decades. Volatility, as seen in the "Low-to-High-Spread" below, increased a bit and was relatively high as various economic and other factors influenced the market. The variance of 1.58% between the high and low rates in 2011 reflects the general domestic and foreign economy as seen in the tax-exempt market.

20 G.O. Bond Buyer Index - Annual Averages

	<u>Year Low</u>	<u>Year High</u>	<u>Low-to-High</u>	<u>Average</u>
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%
2009.....	Oct 01 3.94%	Jan 16 5.16%	1.22%	4.62%
2010.....	Oct 14 3.98%	Dec 16 5.15%	1.33%	4.32%
2011.....	Aug 18 3.83%	Jan 20 5.41%	1.58%	4.51%

A second indicator of the volatility of the municipal market is the difference in the average monthly yield. As shown below, 2011 volatility was average on an intermonthly basis compared to the past five years.

20 G.O. Bond Buyer Index - Monthly Average

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
January.....	4.37%	4.23%	4.27%	5.02%	4.32%	5.28%
February.....	4.41%	4.22%	4.64%	4.90%	4.77%	5.14%
March.....	4.44%	4.15%	4.93%	4.99%	4.37%	4.92%
April.....	4.58%	4.26%	4.70%	4.74%	4.40%	4.98%
May.....	4.59%	4.31%	4.58%	4.55%	4.29%	4.59%
June.....	4.60%	4.60%	4.72%	4.80%	4.36%	4.63%
July.....	4.61%	4.56%	4.68%	4.71%	4.31%	4.52%
August.....	4.39%	4.67%	4.69%	4.60%	4.03%	4.02%
September.....	4.27%	4.52%	4.86%	4.23%	3.87%	4.01%
October.....	4.30%	4.41%	5.50%	4.20%	3.86%	4.12%
November.....	4.14%	4.46%	5.23%	4.37%	4.39%	4.05%
December.....	4.11%	4.43%	5.49%	4.21%	4.16%	3.94%
Monthly Average Differential..	0.07%	0.09%	0.23%	0.16%	0.24%	0.16%

The Bond Buyer Index was reported at 3.83% on January 5, 2012. This compares to 3.88% during the last week 2011.

Bond Insurance

Use of bond insurance was just 5% of all municipal financing. This reflects continued rating downgrades of the municipal bond insurers and a lack of confidence in some quarters as to the benefit of insurance. This use of insurance fell from a peak of over a half percent in a year.

The 2011 volume of long-term bonds was \$294.9 billion, a 31% decrease from the \$431.9 billion in 2010, which was the highest historical market volume. The bond volume was 86% traditional tax exempt, 3% subject to Alternate Minimum Tax and 11% taxable. About 31% 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 and due to very difficult market conditions. Just 6.4% was bank qualified.

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

	2008	2009	2010	2011
January.....	\$20,170,600	\$23,153,300	\$32,659,200	\$ 12,452,800
February.....	21,341,000	23,385,100	27,175,800	16,535,100
March.....	43,686,300	38,909,400	44,555,900	18,886,700
April.....	51,531,400	36,840,300	27,498,000	15,689,100
May.....	43,565,800	30,396,900	38,222,600	21,283,100
June.....	50,678,400	43,768,100	34,769,500	33,799,800
July.....	37,357,800	26,121,400	29,126,100	24,838,000
August.....	31,796,000	36,187,400	29,697,400	23,701,400
September.....	20,676,000	29,950,400	35,563,100	27,765,000
October.....	22,315,100	46,274,000	45,602,200	35,554,000
November.....	25,630,900	38,072,100	45,715,100	37,567,600
December.....	21,840,000	36,075,800	41,209,000	26,870,100
Total.....	\$390,589,300	\$409,134,200	\$431,893,900	\$294,942,700
Monthly Avg....	\$32,549,108	\$ 34,094,517	\$ 31,479,147	\$ 24,578,558

The summary of bond sales below shows an 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>Average Issue</u>	<u>Average 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
2007.....	427,588,700	12,392	34,505,221	48
2008.....	390,589,300	10,635	36,726,780	41
2009.....	409,134,200	11,606	35,251,956	45
2010.....	431,893,900	13,720	31,479,147	53
2011.....	294,942,700	10,536	27,993,802	40

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

2011 Long-Term Municipal Bond Sales by Purpose

<u>Purpose</u>	<u>Amount</u> <u>(000)</u>	<u>Percent</u>
Development	\$14,576,100	5.0%
Education	75,255,800	25.5%
Electric Power	11,336,200	3.9%
Environmental	2,750,600	0.9%
Health Care	25,169,700	8.5%
Housing	9,034,000	3.1%
Public Facilities	7,192,500	2.4%
Transportation	32,837,200	11.1%
Utilities	31,623,500	10.7%
General Purpose	85,167,100	28.9%

SPEER FINANCIAL CLIENT BOND SALES

The year 2011 continued to be busy for Speer Financial for which we thank all our clients.

	2011		2010		2009		2008	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Negotiated.....	70	\$212,060,108	67	\$381,116,125	65	\$415,863,459	53	\$235,261,072
Competitive.....	<u>138</u>	<u>630,983,973</u>	<u>163</u>	<u>906,403,955</u>	<u>146</u>	<u>675,133,732</u>	<u>127</u>	<u>678,864,178</u>
Total Sales	208	\$843,044,081	230	\$1,287,520,080	211	\$1,090,997,192	180	\$914,125,250

* * * * *

Speer Financial would like to thank the new and renewing clients who selected us as their Financial Advisor in 2011. 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.

Geneseo, IL
 Wheeling, IL
 Fulton, IL
 Justice Park District, IL
 Manhattan Park District, IL
 Olympia Fields Park District, IL
 Genoa Township Park District, IL
 Western Iowa Tech CC, IA

Mason City, IA
 Champaign County FPD, IL
 Summit Park District, IL
 Worth Park District, IL
 County of Kane, IL
 Mason City, IA
 Tripoli CSD, IA
 North Berwyn PD, IL

Delhi, IA
 Eagle Grove, IA
 Monona, IA
 Nashua-Plainfield CSD, IA
 Rockwell, IA
 Tipton, IA
 Lake Delhi, IA



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