NEWSLETTER JULY 2005

SPEER FINANCIAL, INC.

INDEPENDENT PUBLIC FINANCE CONSULTANTS SINCE 1954

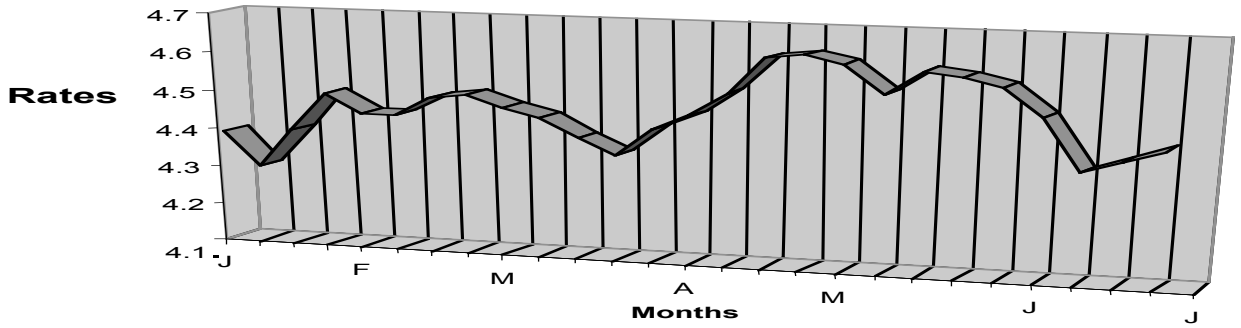
THE MARKET

The Bond Buyer Index for General Obligation Bonds (defined as the average tax-exempt market value, expressed in terms of yield, on general obligation bonds of twenty selected issuers with Moody's ratings ranging from Baa1 to Aaa, averaging A1, and maturing in twenty years) is shown below. The June 30th rate is 4.24%. The comparable revenue bond rate is 4.77%. The Index is used as a market barometer.

20-Bond G.O. Index

Monthly Rate Average	**Jan**…4.41%	**Feb** … 4.35%	**Mar** .. 4.57%	**Apr** .. 4.46%	**May**.... 4.31%	**June**…4.23%
Week 1	6 ...4.47%	3...4.37%	3...4.50%	7...4.56%	5…4.38%	2....4.18%
Week 2	13....4.41%	10...4.27%	10...4.57%	14...4.49%	12…4.35%	9....4.21%
Week 3	20....4.40%	17...4.35%	17...4.56%	21...4.42%	19…4.25%	16....4.31%
Week 4	27....4.37%	24...4.42%	24...4.63%	28...4.37%	26…4.24%	23....4.23%
Week 5			31...4.61%			30....4.24%

20 G.O. Bond Buyer Index – 2005 Monthly Average



SUITE 4100* 1 NORTH LASALLE STREET * CHICAGO, ILLINOIS 60602 * (312) 346-3700 * FAX (312) 346-8833
SUITE 608* 531 COMMERCIAL STREET * WATERLOO, IOWA 50701 (319) 291-2077 * FAX (319) 291-8628

Interest Rates

There is a lot of verbal speculation on long term interest rates – when will they actually increase and how much. We have no predictions.

However, it needs to be kept in mind that the Fed raising rates only affects short term rates. The Fed's effect on municipal rates is seen in the short term note and variable rate markets. Long term rates seem to be affected more by business cycles, inflation concerns and general economic growth perceptions.

The rate table on the cover demonstrates this lack of Fed impact on long term rates, or conversely how raising short term rates has perhaps helped dampen inflation fears allowing long rates to remain low.

Swaptions

A number of our clients have been offered swaptions and similar structures as a means of achieving refunding savings. Briefly, a swaption is a two part transaction: an option for a rate swap and the swap itself. To be beneficial, the outstanding debt needs to be of sufficient size and callable in a year or two. Often the debt is a refunding issue which can't be refunded prior to the call date or where there is such a loss in the refunding escrow because of low Treasury interest rates that a standard advance refunding doesn't work.

If a swaption is entered into, the issuer will usually receive an upfront payment for the option. Then the owner of the option will have the right to require the issuer in the future to sell variable rate debt and use the proceeds to call the outstanding fixed rate bonds. The issuer will swap the variable rate debt payments for fixed rate debt payments, equal to the original fixed rate bonds now refunded. The option holder will pay a variable rate payment periodically to the issuer, for payment of the variable rate debt.

The result of all of this is that the issuer gets an upfront payment and keeps making fixed rate payments as if the refunding didn't occur. The upfront payment is therefore the savings from the refunding. Additionally, the issuer is making payments on a variable rate issue while receiving matching payments from a third party.

Various considerations exist:

> The upfront payment may or may not be equivalent to what could be received if a standard refunding is accomplished at a later time. The value of the earlier payment is a judgment call, influenced by need and interest rate movement perceptions. Also, the earlier payment may often be used for non-debt purposes (project costs, teachers salaries, etc.,) while debt savings usually only affects a tax or utility rate.

Certain risks with the transaction exist:

> These may include a potential mismatch of variable payments in and out, the effect of a change in income tax rates and the financial strength of the third party's pledge to make payments to the issuer.

For further analysis, feel free to contact us.

Local Bank Direct Bond Bids

Change adds purpose to life. The right kind of change can also drive down an issuer's bond interest costs. Many of the recent technological changes in the bond market have resulted in a wider range of bids from underwriters, but at the cost of bids from local banks.

Many local banks understand a bond issuer and often have a financial relationship with the issuer that would allow them to be the lowest and best bidder on a certain type of bond issue. However, many bond issues are too long or too large or have other structures that do not attract local bank bids where the entire issue must be purchased.

In many bond competitive sales, an underwriter will check with an issuer's local banks to determine a level of bank interest in certain maturities of a bond issue. The underwriter then submits a bid on the bonds, sells certain maturities to the local banks, and sells the remaining maturities to other investors who can purchase maturities usually not desirable to local banks. The underwriter's commission, as well as any bond credit enhancement costs, is usually applied to all the bonds.

Speer Financial, Inc. has created a structure for certain bond issues that encourages local banks to submit direct bids on certain of the bonds without having to use an underwriter. This structure splits the bond issue into two series (short and long), with the shorter series retaining the maturities and features that are desirable to the local banks. Sometimes the underwriters are the lowest bidders on this separate shorter series; sometimes the local banks are the lowest bidders because they typically bid without underwriter commissions or credit enhancement costs.

In almost all cases where such splitting of series is appropriate, the increased bidding competition more than offsets any increased legal and bond registrar costs associated with the additional series. However, issuers are well served to have a financial advisor recommend whether such splitting is appropriate to a particular issue. Splitting may not work because of issue size, odd structures, credit concerns, etc.

Speer Financial, Inc. would be pleased to discuss this structure and other financing structures for any prospective bond issue.

Circular 230

New IRS regulations are forthcoming due to the misdeeds of the few that will penalize the many. The IRS has issued a ruling and a subsequent notice that emphasizes that legal opinions must exercise some discernment and not base a tax opinion on unreasonable factual or legal assumptions, nor on unreasonable reliance on representations, statements, findings or other arguments, after performing an adequate amount of due diligence. While the specific impact on municipal issuers is in flux, it will evolve and crystallize over time. Watch for Circular 230 announcements and pronouncements in the months ahead.

50 Years and Counting

It is often difficult to keep track of mile markers in our life. We see the passage of time measured in births of children and, grandchildren, graduations, weddings and other occasions. Speer Financial, Inc. as well, has seen time pass. As we were formed in 1954, we realized that we've experienced a golden anniversary and did not even pause to recognize and rejoice in what that mile marker denotes.

As the third generation of owners of a firm that has specialized in serving as an independent public financial advisor to units of local government in the mid-west we look around at the names of the firms that existed in 1954 and find much has changed over the years. By specializing as an independent financial advisor and doing so with passion and with a commitment to creative, innovative, independent, effective and friendly service, we find each year passes quickly with the year full of opportunities to serve you.

We continue to add top young talent to our team and are pleased to introduce the newest member of our team, Will Glass who recently joined our firm as a Financial Analyst. Will is a new Indiana University graduate and will assist the officers on financing teams serving clients. We welcome Will to the firm.

SPEER FINANCIAL, INC
1 NORTH LASALLE STREET
SUITE 4100
CHICAGO IL 60602