SPEER FINANCIAL, INC.

JULY 2013 NEWSLETTER

INDEPENDENT PUBLIC FINANCE CONSULTANTS SINCE 1954

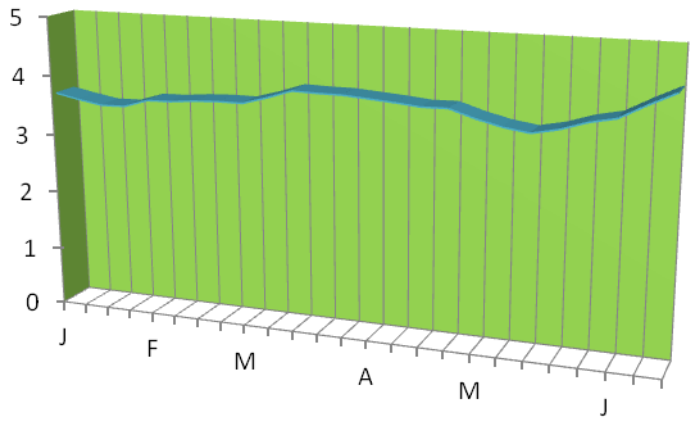
The Market

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 ratings averaging Aa2/AA and maturing in twenty years) is shown below. The July 3rd rate is 4.39%. The comparable revenue bond rate is 4.87%. The Index is used as a market barometer.

20-Bond G.O. Index

Monthly Rate Average	Jan 4.50%	Feb 3.72%	Mar 3.96%	Apr 3.92%	May 4.64%	June 4.27%
Week 1	3…3.68%	7...3.68%	7...3.86%	4...3.96%	2…3.77%	6…3.93%
Week 2	10…3.60%	14...3.72%	14...4.00%	11...3.93%	9…3.67%	13…4.16%
Week 3	17...3.53%	21...3.74%	21...3.99%	18...3.89%	16…3.61%	20…4.37%
Week 4	24…3.54%	28…3.74%	27...3.99%	25…3.90%	23…3.70%	27…4.63%
Week 5	31…3.67%				30…3.84%	

20 G.O. Bond Buyer Index – 2013 Weekly Average



STATE OF IOWA TIF LAW CHANGES

Tax Increment Financing (TIF) is used widely throughout Iowa cities and more recently by Iowa counties. TIF in Iowa began for the purpose of revitalizing blighted areas. It has since expanded to commercial, industrial and housing development. In recent years much pressure has been put on the Iowa Legislature to amend current TIF laws requiring more regulation of the program. In April 2012, the Iowa Legislature amended TIF with House File 2460.

Over the past year, cities and counties have had to navigate these changes and come up to speed with the new procedures, which in most cases will add a significant amount of time to the process of selling bonds. These are some of the most widely affected changes:

- All public entities using TIF must file an annual report with the State by December 1st which includes an increased amount of information, including, but not limited to: physical and legal aspects of TIF districts, TIF dollars expended for current and past projects, all previous year TIF expenditures, amount of outstanding TIF debt and any new TIF debt incurred and the calculation of total taxable value used for TIF.
- The use of TIF money for financing improvements of public buildings must include a feasibility statement as to why it is better to use TIF funding than another source.
- Urban Renewal Plans relating to TIF must be amended for each new project in TIF districts, where TIF money is expected to be used. These projects may include bonds, rebate agreements or development agreements. The amendments must be detailed specific to the project.
- The anti-piracy provisions prevent one city or county from offering incentives to relocate a business if that business currently resides in another Iowa city or county. The governing body of the current location of the business must sign off on the deal before incentives can be approved.
- As of April 24, 2012, the School Instructional Levy must now be excluded when calculating the TIF tax levy rate. The levies now protected from TIF tax levy calculation are the school instructional levy, all public agencies debt service levies and school physical plant and equipment levies.
- Local community colleges no longer need to be invited to the legally required TIF consultation meeting.

Preparing the Amended Urban Renewal Plan (item number three above) is the new step that is the most time consuming and is contributing to the lengthening of the process of debt issuance. The step of amending the urban renewal plan prior to debt issuance can add four to six weeks to a transaction. Not only does the borrower need to locate the original plan, all amendments to the plan and then explain in great detail the new borrowing plan and details, the borrower must then set a date and hold a public hearing, all before the public hearing for the bonds. Bond counsels in Iowa have worked to streamline this process but due to prior TIF regulations and meeting requirements, this task can delay plans.

We continue to encourage all clients to plan ahead on their TIF borrowing needs now and in the future. It is important to have your city council or board sit down at least once a year in a capital improvements planning session and determine what the most important tasks are to complete in the next year and what can be completed in the years to come. The costs associated with an urban renewal plan amendment can be expensive so having to amend the plan only once, possibly twice a year would be ideal.

If you are a city or county approving TIF grants for businesses, considering making an application process with a deadline once or twice a year. Once all of the applications are received, reviewed and approved, work towards amending your urban renewal plan with any other borrowing needs you may have. Implementing a program like this is not only good business for your city or county, but also may save you money in the long run by having a stable urban renewal plan amendment policy in place.

The new TIF policies and procedures will take some getting used to but it is important now to arm yourself with the most information about your projects and the best team of professionals including Speer Financial and your bond counsel.

CONTINUING DISCLOSURE – TIME FOR ISSUERS TO "JUST DO IT"

Continuing disclosure or secondary market disclosure came to municipal issuers in 1995 with the SEC's adoption of amendments to its Rule 15c2-12. Though the Tower Amendment prohibits the SEC from directly requiring municipal issuers to file post municipal securities issuance information, Rule 15c2-12 prohibits an underwriter from underwriting a new issue of municipal securities unless the issuer of such securities has entered into a written contract to provide annual financial information and material event disclosures relating to the issuer and such securities to EMMA (www.emma.msrb.org), the information repository of the MSRB.

Since 1990, many issuers have entered into such contracts but have not consistently complied with the annual filings. Why? Because there were no compelling incentives or penalties for non-compliance. Continuing disclosure contracts specifically state that non-compliance will not result in a default of the related securities. The SEC in its Release No. 34-34961 states that an underwriter is not prohibited from underwriting a new municipal securities issue of an issuer even though such issuer has previously failed to comply with previous undertakings to provide secondary market disclosure. However, Release 34-34961 states that the issuer must be brought into compliance with all previous undertakings before the underwriter could underwrite a new issue of municipal securities.

Municipal industry participants, especially underwriters and investors, are finally beginning to add some real consequences for issuers who do not comply with their continuing disclosure obligations.

Prior non-compliance with continuing disclosure obligations by an issuer must be described in such issuer's primary offering document for a new issue of municipal securities, typically an official statement (OS). The OS disclosure should describe if an issuer's prior continuing disclosure filings were made late (and if so, how late) or not at all. Moreover, the OS disclosure typically addresses whether the issuer is taking steps to assure that future continuing disclosures will be made on time.

Investors, especially those that may not hold their investment in municipal securities to maturity, are checking on the EMMA website for past compliance of an issuer in order to form an expectation that such an issuer will honor its secondary market disclosure obligations in the future. Such secondary market disclosure can greatly enhance the likelihood that securities traded in the secondary market are priced fairly. In certain cases, non-compliance with prior continuing disclosure obligations by an issuer can result in an increase in the interest rates investors are willing to accept for such an issuer's new issue of municipal securities.

In addition, underwriters need to have a reasonable basis to believe that the issuer will comply in the future with its continuing disclosure obligations on a new municipal securities issue before it can underwrite the securities. Underwriters are checking on EMMA to verify that all prior secondary market disclosures were timely made by an issuer. Release 34-34961 states that if an issuer has a history of persistent and material non-compliance with its previous continuing disclosure undertakings, it is doubtful that an underwriter can form a reasonable basis for relying on the accuracy of the issuer's ongoing disclosure representations. Without this reasonable basis, the SEC may be able to initiate an action against an underwriter of such an issuer's new issue of municipal securities.

Speer Financial, Inc. provides continuing disclosure agent services to its clients. For issuers that prepare their own continuing disclosure, Speer Financial provides a step-by-step tutorial on how to file continuing disclosure documents with EMMA on its website (www.speerfinancial.com).

INVESTING IN YOUR OWN BONDS

In Illinois there are two primary investment statutes for public entities.

The Public Funds Investment Agreement (30 ILCS 235/1) requires public agencies to purchase only "highly rated" or "high grade" municipal bonds while the Investment of Municipal Fund Act (50 ILCS 340) is a separate and independent authority without the "highly rated" restriction.

The Public Funds Investment Act permits a public agency to purchase its own unrated bonds, or those of a neighboring agency. If a municipal corporation's investment policy includes investments under the Investment of Municipal Funds Act, it would permit such municipal corporation to consider purchasing unrated debt, including its own.

Ancel Glink, on behalf of one of our mutual park district clients, proposed the following purchase category amendment to the client's policy:

> "Interest bearing bonds of any Park District or any county, township, city, village, incorporated town, municipal corporation or school district. The bonds must be registered in the name of the District or held under a custodial agreement at a bank. ~~The bonds must be rated at the time of purchase within the four (4) highest general classifications established by a rating service of nationally recognized expertise in rating bonds of states and their political subdivisions~~."

Naturally, your individual investment policy will need review and editing by local counsel to incorporate any such added flexibility of the Investment of Municipal Funds Act.

ILLINOIS ENTERPRISE BACKED ALTERNATE GENERAL OBLIGATION BOND CHANGES

Changes to General Obligation (Alternate Revenue Source) Bonds have been adopted but are limited to enterprise backed bond issues. These bonds have been the source of some publicity in the past when the failure of the enterprise revenues to materialize resulted in the unlimited property tax levy so that bond holders are paid from property taxes, much to the chagrin of the affected tax payers.

If you are considering a solely enterprise backed Alternate Bond, please recognize that the petition level has been lowered from 7.5% to 5.0% and the length of the petition period has been extended from 30 to 45 days.

RATING SURVEILLANCE

The rating agencies have developed a thorough and all-encompassing process to review all ratings on an annual basis. This gigantic sweep may, in some instances, entail a call and information submittal to a surveillance analyst.

In those instances where you are contacted, please also inform your Speer Financial primary contact as we would like to participate. Most contacts in surveillance are to explore downward pressure to the contact should not be dismissed as trivial but instead elevated as a threat alert.

THE "ILLINOIS PENALTY"

Issuers of municipal bonds in the State of Illinois over the last several years have had to face the reality that they will pay higher interest costs than similarly rated issuers in other states. The premium Illinois issuers must pay is often referred to as the "Illinois Penalty" or "Illinois Effect". The penalty is due to a combination of several factors involving the credit quality of the State of Illinois.

In late 2010, it was the State's budget and liquidity issues that drove the penalty. The State had delayed passing its budget and was several months behind in paying bills and relaying revenues to local governments, making bond investors leery. More recently, the State's pension crisis and resulting rating downgrades have contributed to the penalty. In May, State lawmakers in the General Assembly adjourned the Spring legislative session without reaching a deal on pension reform. This was the fifth time in 12 months that they adjourned without agreeing on a solution. Days later, both Moody's Investors Service and Fitch Ratings downgraded the state to "A3" (Negative Outlook) and "A-" (Negative Outlook), respectively. Standard and Poor's rates the State as "A-" (Negative Outlook).

As a result of these ongoing credit issues, many municipal bond investors will not buy State of Illinois bonds or bonds sold by local governments within the State. This lack of demand has created a situation where the investors who are willing to purchase these bonds will demand a higher interest rate for their investment. While the magnitude of the penalty is always fluctuating, it generally has a lower impact on higher rated credits and a higher impact on lower rated credits or credits with more exposure to or reliance on the State.

The record low municipal interest rates realized over the last few years have helped local Illinois issuers ignore the full sting of the penalty. Many issuers have been able to take advantage of these low interest rates to refinance debt or to borrow for new capital projects despite the penalty. Should interest rates continue to trend upward as they have in recent months, local issuers may find themselves more concerned over the State's credit issues and how those issues directly affect their borrowing costs.

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