CSMFO
2009 Annual Conference

"Update on the Capital Market"

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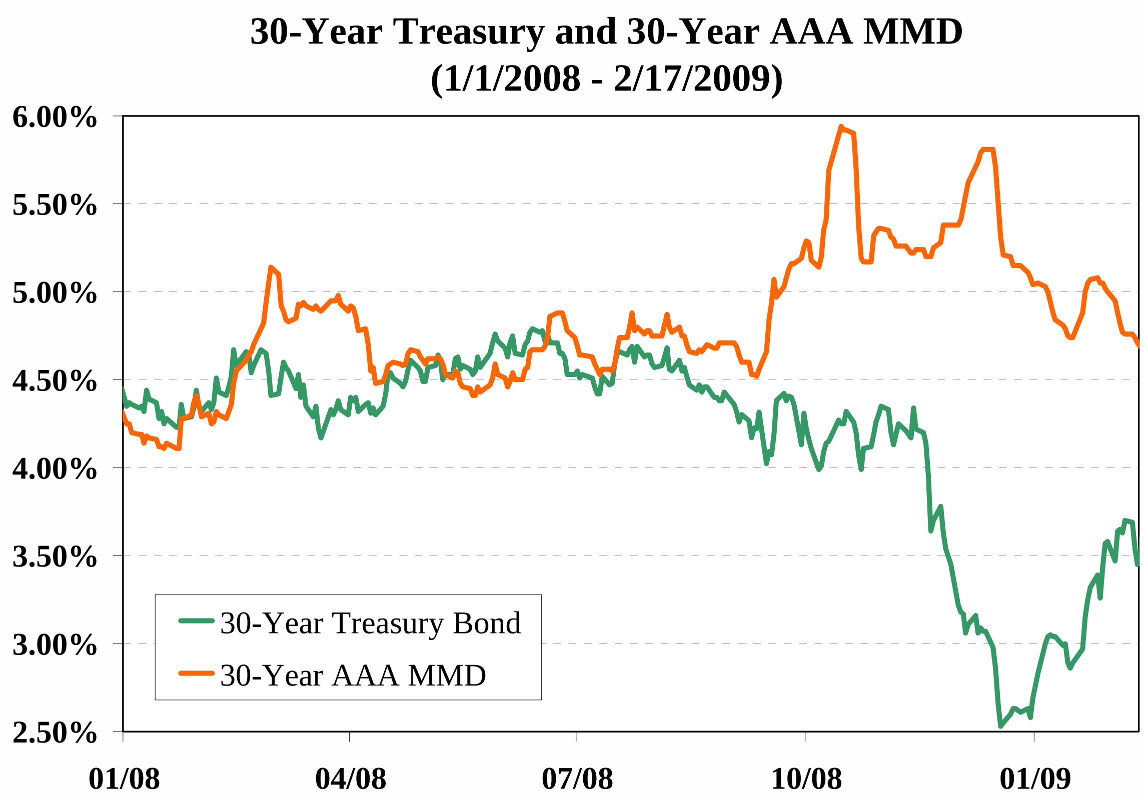
2008 - Year in Review

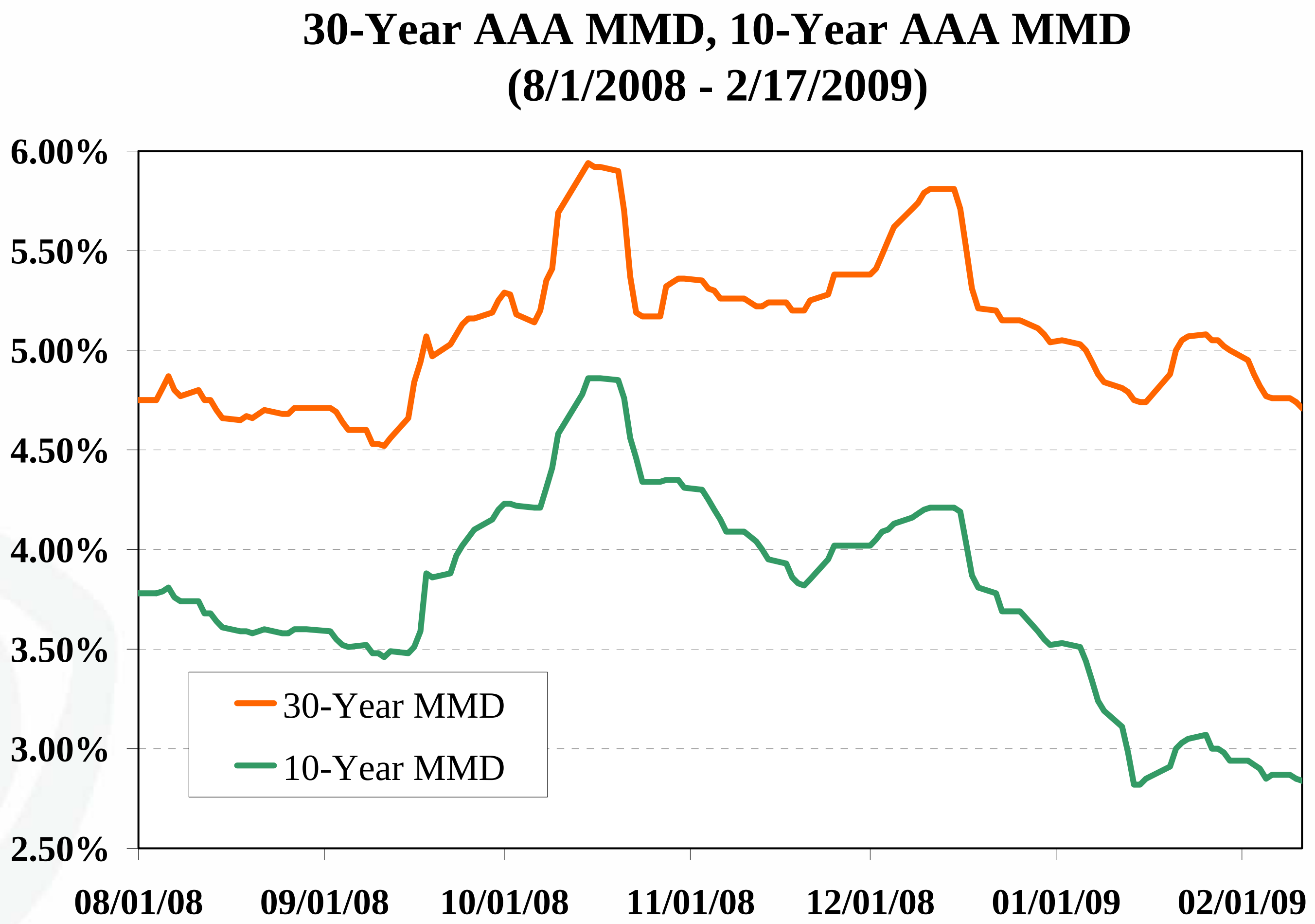
January 2, 2008		February 17, 2009
4.32%	30-Year AAA MMD	4.72%
5.07%	30-Year Baa MMD	7.00%
3.42%	SIFMA/BMA	0.55%
4.03%	30-Year Treasury	3.47%
4.57%	1-Month LIBOR	0.45%
13,044	Dow	7,553
1,447	S&P 500	789
14	Municipal Underwriters	5
1,000	TOBs	3

Investors Flock to Treasuries Causing Municipal Yields to Rise

- Since Spring 2008, investors have flocked to U.S. Treasuries, the safest investment class
- Historically, "AAA" municipal yields have been lower than "AAA" Treasury yields; **today that situation is reversed**
- **Why?**
  - Investors believe municipals are riskier than Treasuries
  - Forced selling by institutional holders
  - Many technical buyers disappear from the marketplace



Municipal Yields Are Lower Today for High-Grade Borrowers



Source: Thomson Municipal Market Monitor

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The Credit Crisis - Impact on the Municipal Bond Market

- Heavy risk exposure to mortgage backed securities impacts most bond insurers
- Investors now question the value of bond insurance
- Institutional investors now apply their own internal ratings on municipal debt
  - Much less reliant on Moody's, Standard & Poor's and Fitch
- Important for issuers to use their investment bankers to access the bond market and facilitate open dialogue with bondholders who own their credit

Bond Insurer Ratings and Outlook (January 30, 2009)

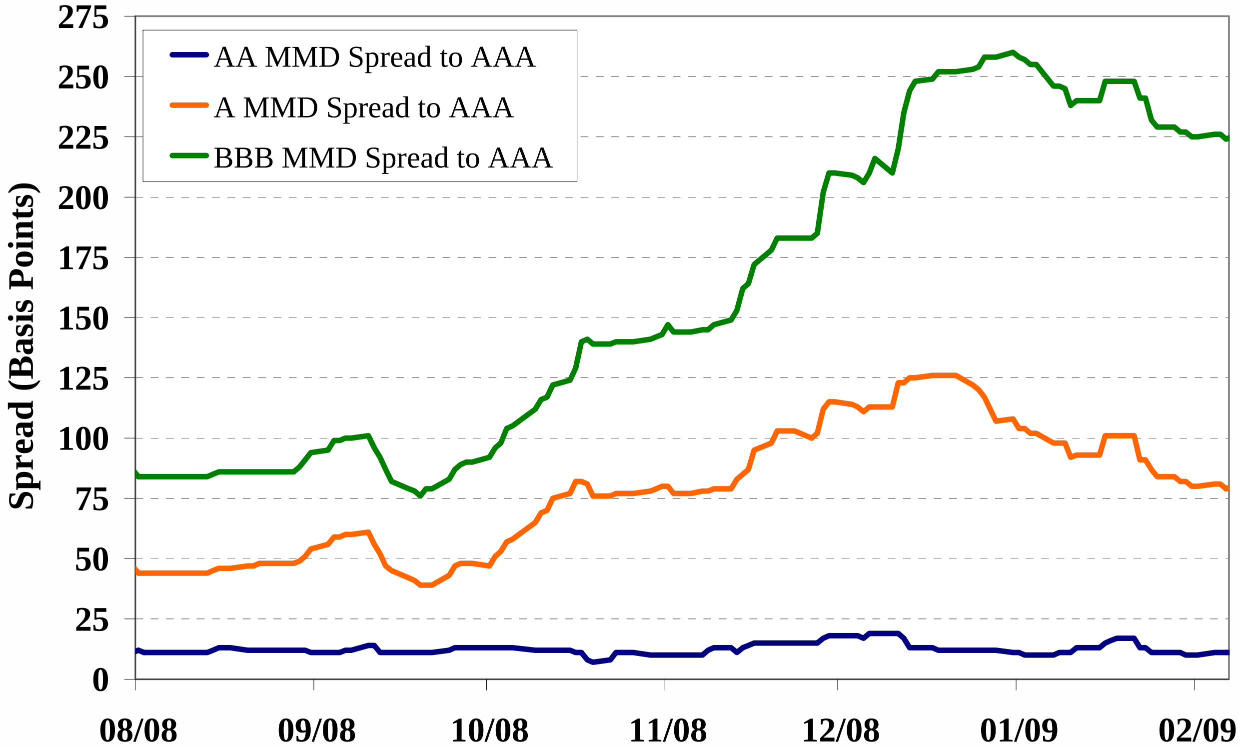
Bond Insurer	Moody's	Standard & Poor's	Fitch
	Rating (Outlook)	**Rating (Outlook)**	**Rating (Outlook)**
FSA	Aa3 (developing)	AAA (negative watch)	AAA (negative watch)
Assured Guaranty	Aa2 (stable)	AAA (stable)	AAA (stable)
Berkshire Hathaway	Aaa (stable)	AAA (stable)	Not Rated
MBIA	Baa1 (developing)	AA (negative)	Withdrawn
AMBAC	Baa1 (developing)	A (negative)	Withdrawn
CIFG	Ba3 (developing)	B (developing watch)	CCC (evolving)
FGIC	Caa1 (negative)	BB (negative)	Withdrawn
Syncora (XLCA)	Caa1 (uncertain)	CC (negative)	Withdrawn
Radian	A3 (under review)	BBB+ (negative)	Withdrawn
ACA	Withdrawn	CCC (developing watch)	Withdrawn

Source: The Bond Buyer

Interest Rates Have Risen Fastest for "A"/"BBB" Borrowers

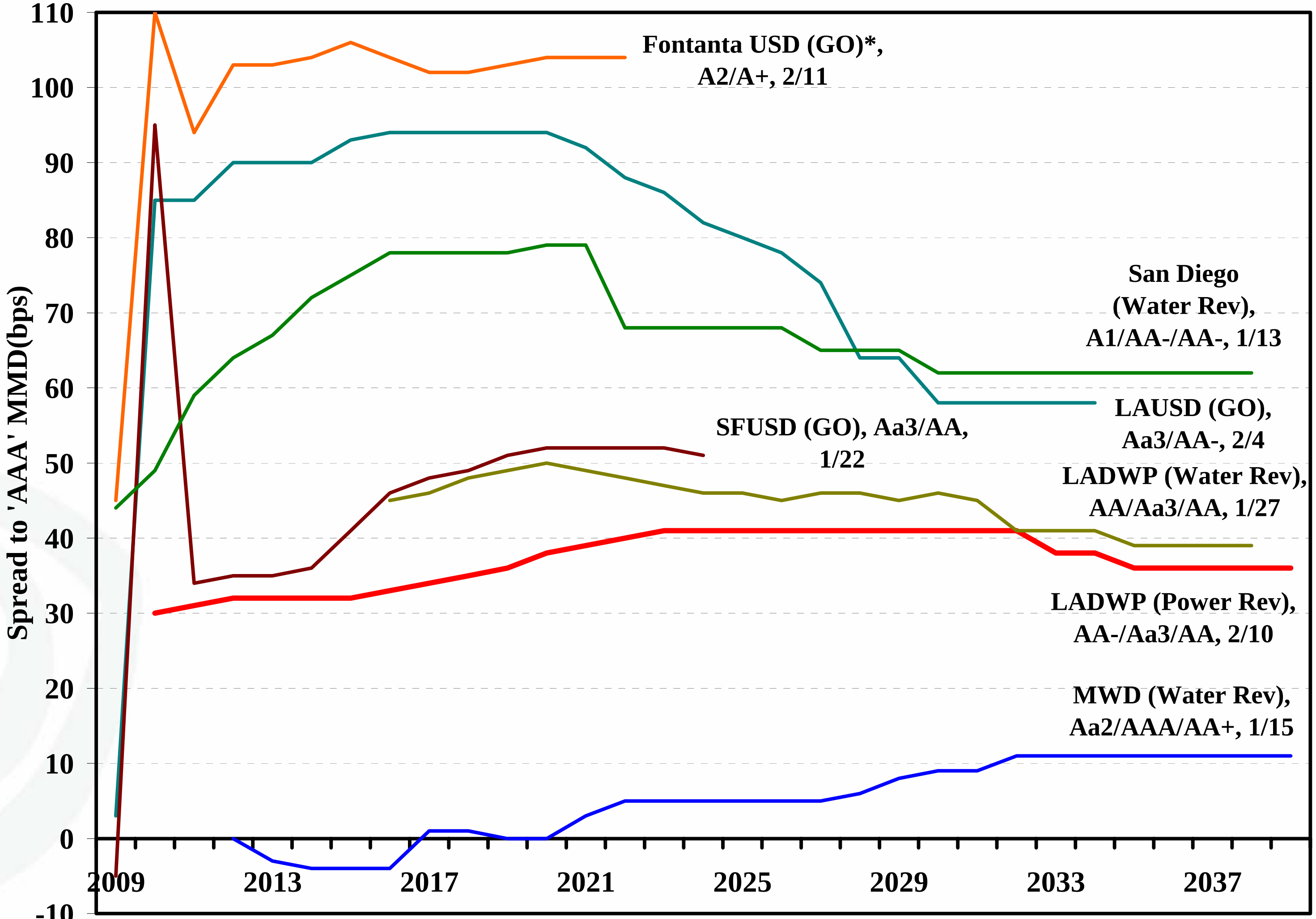
- Underlying credit ratings are "king"
- Borrowing rates are largely determined based on the credit rating and type of bond issued
- Strong credits still enjoy favorable borrowing rates
- Lesser credits face much higher borrowing rates

30-Year Spreads to AAA MMD (8/6/2008 - 2/17/2009)



Source: Thomson Municipal Market Monitor

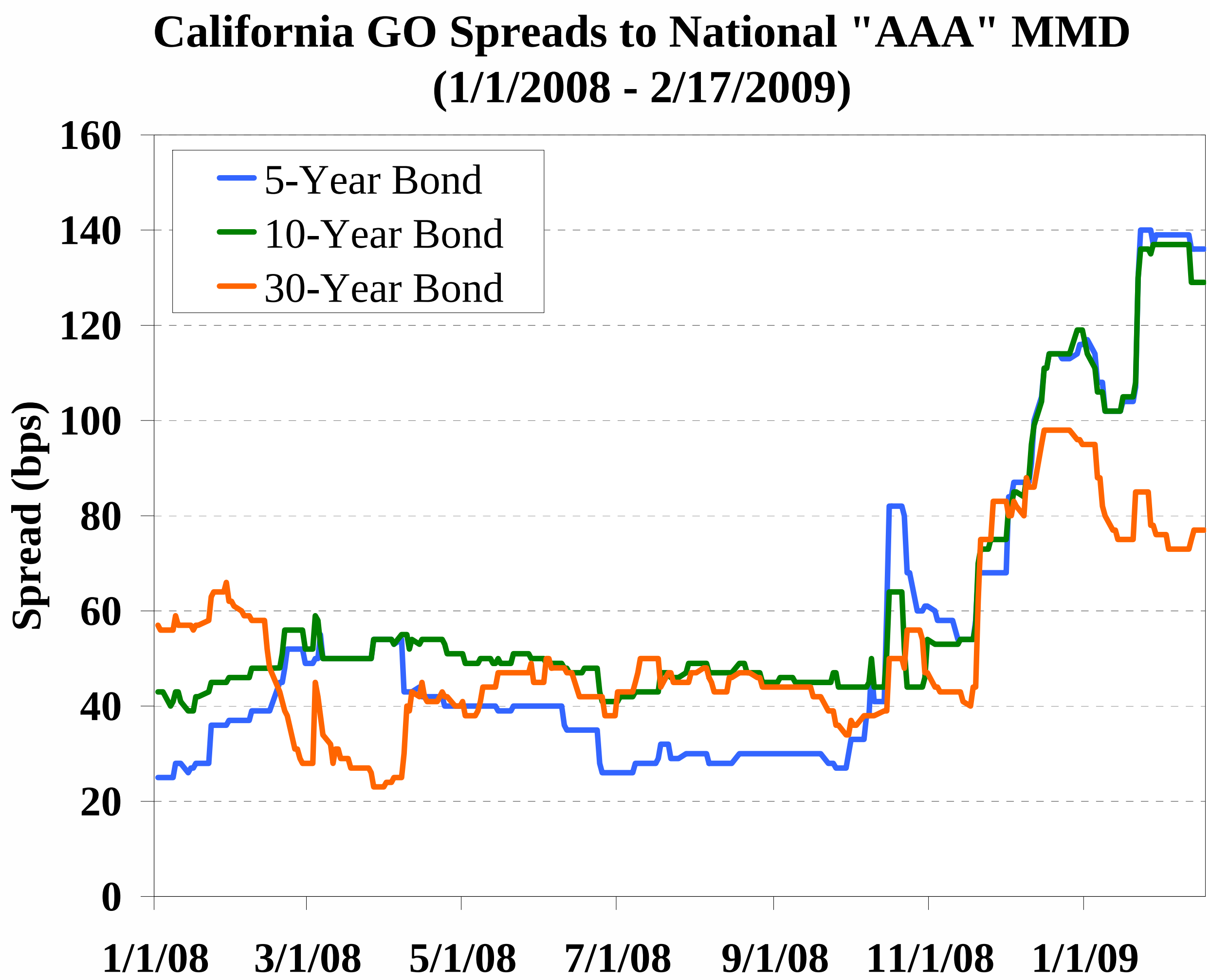
Buy-Side Trades Indicate a Credit Spread Differential



*Denotes AGC Insurance

State of CA G.O. Spreads to MMD

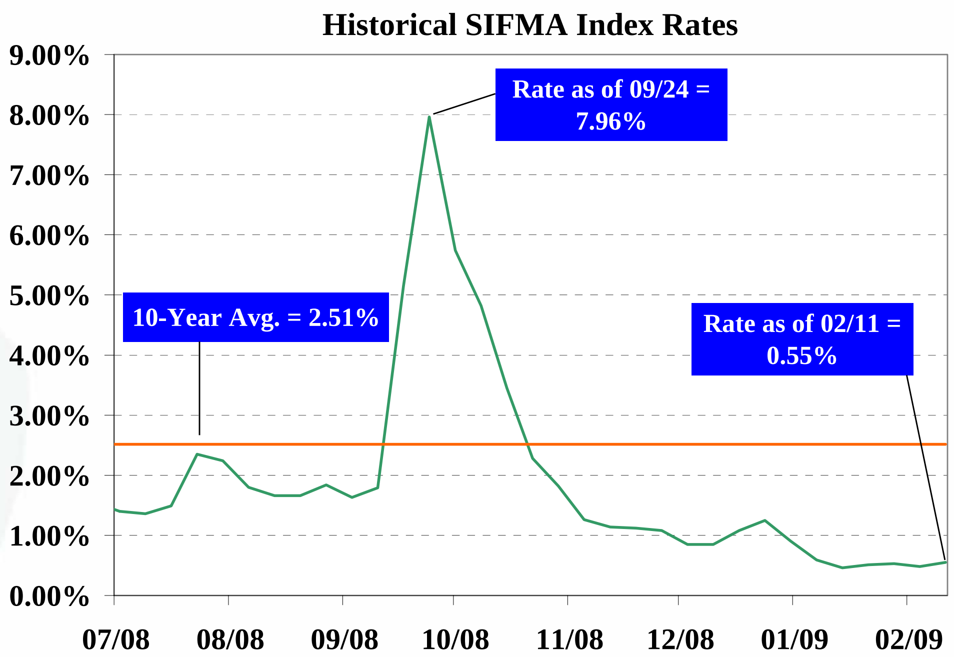
- In 2008, the trading range for the 5-,10- and 30-year bonds has fluctuated dramatically



Source: Thomson Municipal Market Monitor

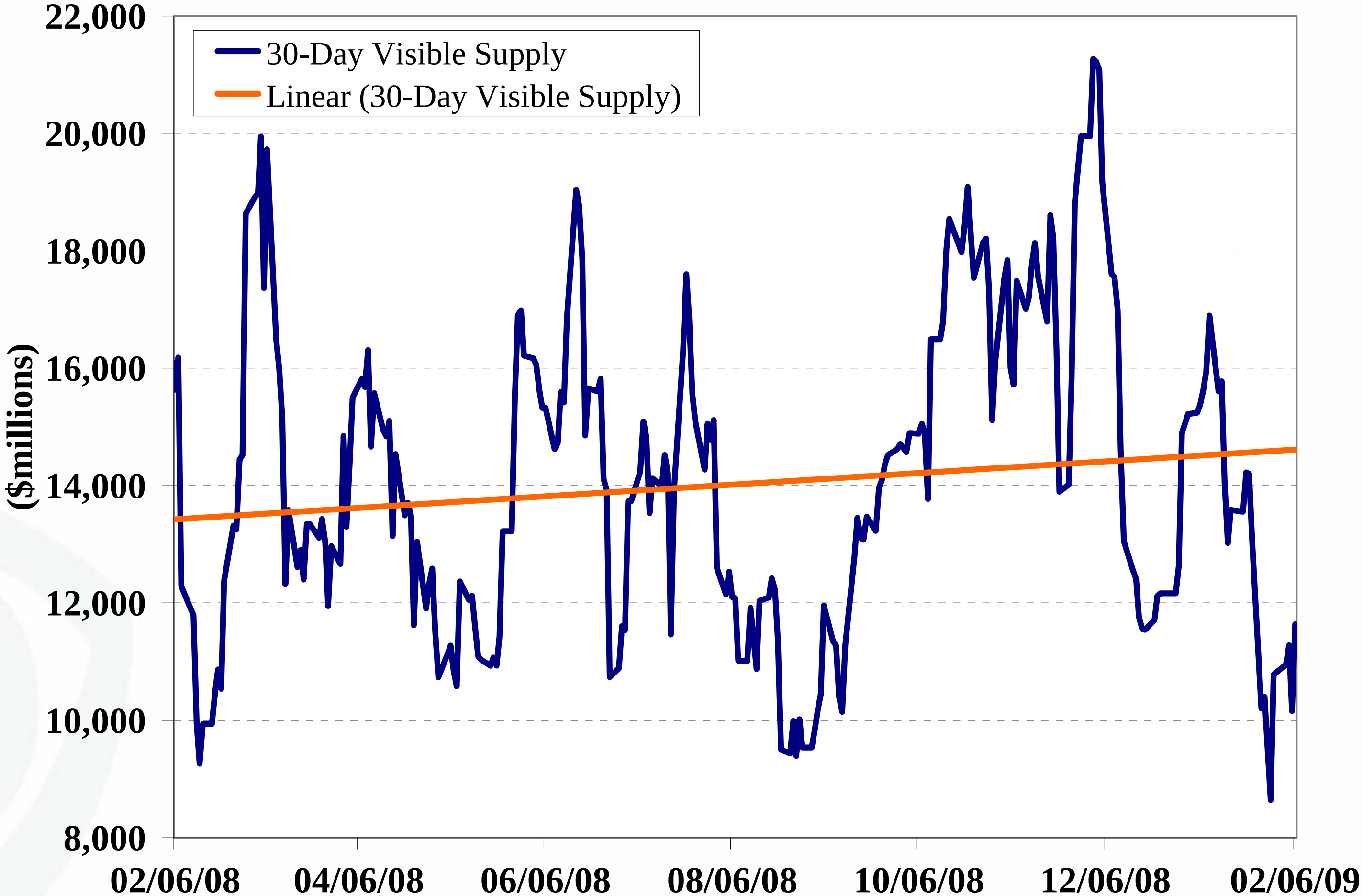
Variable Interest Rates Have Been Volatile

- Variable Rate Demand Bonds have been greatly affected by the problems of bond insurers and liquidity providers
  - SIFMA Index has changed from: 1.79% on 9/10 → 7.96% on 9/24 → 0.55% on 2/11
  - California variable rates have been set as low as 0.10% in the past 2 months for the highest credits



- Federal bailout package has helped restore confidence in money market funds, resulting in inflows

30-Day Visible Supply

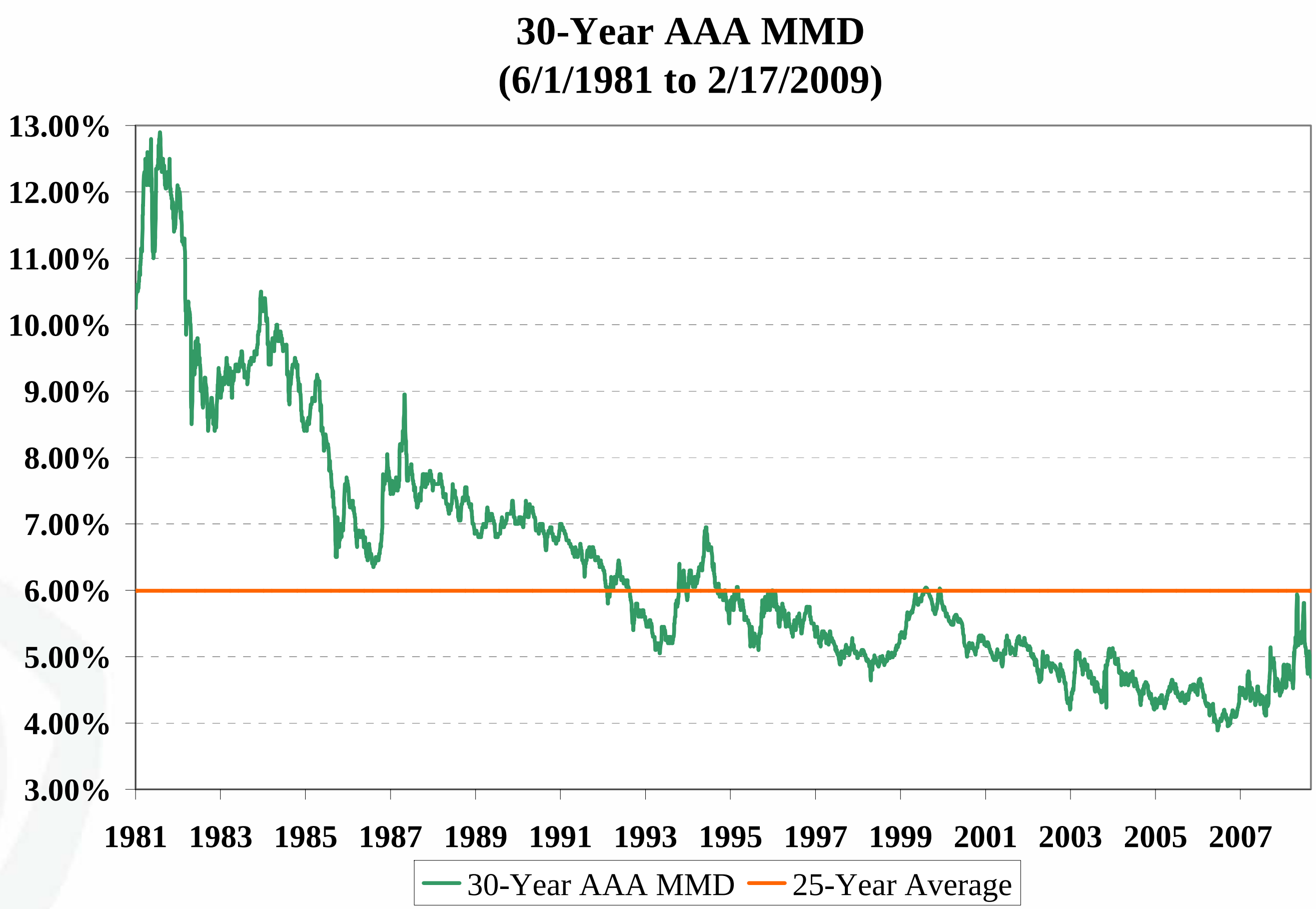


Source: Thomson Municipal Market Monitor

Municipal Market Update Summary

- Municipal vs. Treasury relationship no longer has direct relationship on pricing
- Credit evaluation by buy-side investors
- Supply vs. demand is the largest factor in the current municipal market
- Tax-exempt bonds remain stable despite the volatility in taxables and equities
- Rates are stable as investors remain very cautious and extremely credit conscious
- New issues remain manageable but the secondary market is filled with insured paper that once held but no longer holds a 'AAA' rating

Interest Rates Remain Low Compared to Recent Past



Source: Thomson Municipal Market Monitor

- Average historical 30-year interest rates have been higher over the past 28 years
- AAA average: 6.00%; Current (2/18/09): 4.72%

Should My City Wait to Borrow?

Construction Costs
- Current bid environment
- Historical CCI growth

Political Will
- Council support
- Elections
- Constituents

Public Support

Staff Support

Real Estate Costs

"Sunk" Costs

Critical Needs

Community Priorities

Revenue to Pay?
- Voter-approved
- Sales tax
- Property tax
- TOT
- Special revenues
- Impact fees / DDA
- Lower maintenance

Grant Funding
(e.g. Claremont open space)

Interest Rates

Questions & Answers

Thank You!