Hi Therese and Bob,

I have seen the WSJ article and have been witnessing first hand the problems we have had getting bonds in the market. Rates have been significantly higher since mid October due mostly to supply (expiration of BABs). Rates in January have continued to creep up. The blitz of negative press in the last few weeks has exacerbated the situation for Illinois issuers in particular including the "60 Minutes" piece on December 19th and subsequent news articles specifically on IL bonds in the WSJ, Bloomberg, The Bond Buyer and the Chicago Tribune. Additionally, we have well known research analysts such as Meredith Whitney and Jamie Dimon of JP Morgan raising the warning flag on municipal investments. Meredith Whitney (widely credited for predicting the mortgage crisis) has projected between 50 and 100 defaults this year. These negative news items have increased what we call the "Illinois Premium". The Illinois Premium has been with us all year as the State did little to resolve its financial problems in 2010 but issue loads of bonds. The Illinois premium for our municipal issuers was around 20 basis points most of 2010. The IL premium is now at least 40 basis points or .40% for solid AA issuers currently.

On January 6th, we updated the numbers for the League of Woman Voter's presentation and the estimated All In True Interest Cost at that time was 4.05% including the tax-exempt and taxable pieces. Economic forecasters see interest rates continuing to rise this year. Most of the volatility is at the long end of the yield curve, as described in the WSJ article. Therefore, the District is somewhat protected by amortizing the bonds over seven years.

The increase in the income tax in the State was a step in the right direction in the minds of bond buyers. If the State continues to take action to stabilize its financial situation, we will continue to see slight reductions in the IL premium. Having said that, a municipal default or two, whether in IL or elsewhere in the nation will continue to dissuade municipal investors and force interest rates higher. The taxable market, on the other hand, is much bigger and more comfortable with risk than the municipal market.

Please let me know if you have any questions.

Thanks,

Liz