

---

# Update to the Town of Prescott Valley Council Regarding the Refinancing Outlook and 2012 Financial and Municipal Markets

---



**Presented By:**

**Bob Casillas, Managing Director**

**Sandra Park, Assistant Vice President**

**February 2, 2012**



**STONE &  
YOUNGBERG**

A DIVISION OF STIFEL NICOLAUS

2555 East Camelback Road, Suite 280 Phoenix, Arizona 85016 (602) 794-4000

# Town of Prescott Valley Sewer Revenue Bonds and WIFA Loans Refunding Savings Opportunities



## Potential Bond Issue and Loans Refunding Candidates

Series 2003 Callable 1/1/14 at par			WIFA Loan Series 2005			WIFA Loan Series 2007					
Maturity	Principal	Coupon	Maturity	Principal	Coupon	Maturity	Principal	Coupon	Maturity	Principal	Coupon
			7/1/12	\$ 436,104	3.408%	7/1/12	\$ 214,432	3.112%	7/1/25	\$ 319,381	3.112%
1/1/13	\$ 500,000	4.000%	7/1/13	450,967	3.408%	7/1/13	221,105	3.112%	7/1/26	329,320	3.112%
1/1/14	515,000	4.000%	7/1/14	466,336	3.408%	7/1/14	227,986	3.112%			
1/1/15	530,000	4.000%	7/1/15	482,229	3.408%	7/1/15	235,080	3.112%			
1/1/16	555,000	4.000%	7/1/16	498,663	3.408%	7/1/16	242,396	3.112%			
1/1/17	580,000	4.100%	7/1/17	515,657	3.408%	7/1/17	249,940	3.112%			
1/1/18	605,000	4.200%	7/1/18	533,231	3.408%	7/1/18	257,718	3.112%			
1/1/19	630,000	4.250%	7/1/19	551,403	3.408%	7/1/19	265,738	3.112%			
1/1/20	660,000	4.400%	7/1/20	570,195	3.408%	7/1/20	274,008	3.112%			
1/1/21	690,000	4.500%	7/1/21	589,628	3.408%	7/1/21	282,535	3.112%			
1/1/22	725,000	5.000%	7/1/22	609,722	3.408%	7/1/22	291,327	3.112%			
1/1/23	770,000	5.000%	7/1/23	630,501	3.408%	7/1/23	300,393	3.112%			
			7/1/24	651,989	3.408%	7/1/24	309,742	3.112%			

### Summary of the Refinancing Opportunity

<b>Estimated Par Amount of Refunded Bonds:</b>	\$6,760,000 <sup>1 2</sup>
<b>Estimated All-In True Interest Cost on the Refunding Bonds:</b>	<b>2.76%</b> <sup>2</sup>
<b>Estimated Net PV Savings:</b>	\$450,000 <sup>2 3</sup>
<b>Estimated % Net PV Savings of Refunded Bonds:</b>	<b>6.65%</b> <sup>2</sup>

<sup>1</sup> The Bond Resolution will provide the flexibility to refund and prepay the Series 2005 and Series 2007 WIFA Loans.

<sup>2</sup> Based upon certain financing assumptions and tax-exempt rates as of 1/19/12.

<sup>3</sup> Net of all estimated costs of issuance.

# Financial Markets Overview

## ◆ Financial markets

- European debt fears linger
  - S&P cuts rating for several European nations, including France and Austria
  - Uncertainty over success of negotiations between Greek bondholders and European governments looms over markets
- Treasury market weakens, but yields still near historic lows
- Equity markets rally in Q4 2011

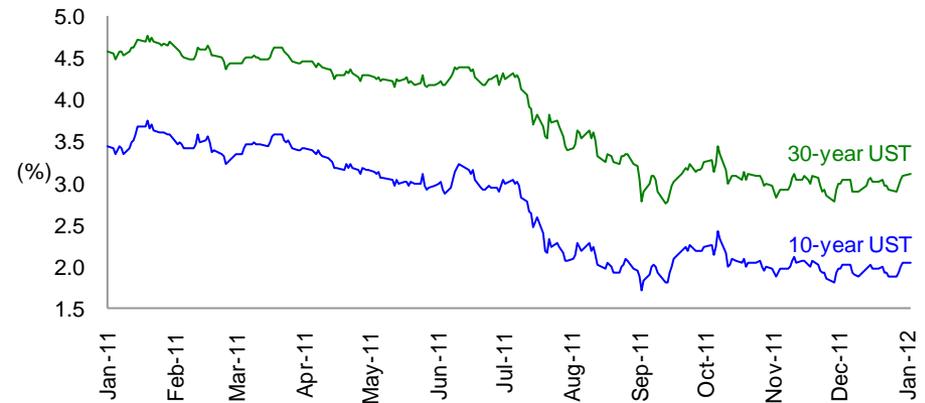
## ◆ Economic indicators

- US job market data shows signs of improvement; unemployment rate drops to 8.5% as 200,000 added to payrolls for December (forecast: 155,000)
- Consumer credit rises by \$20.4bn in December, most in decade
- US manufacturing activity resilient

## ◆ Eyes on the Fed

- Federal Reserves moves to increase transparency; will publish interest rate forecasts years into the future
- Fed weighs options to increase transparency; reiterates commitment to keep Fed Funds Rate “exceptionally low” at least through mid-2013

## 10-Year and 30-Year U.S. Treasuries (1/23/11-1/23/12)



### Market-Surveyed Forecasts<sup>1</sup> (%)

	Current 01/23/12	Q1 '12 Forecast	Q2 '12 Forecast	Q3 '12 Forecast	Q4 '12 Forecast
Fed Funds Target <sup>2</sup>	0.25	0.25	0.25	0.25	0.25
2-Year T-note	0.23	0.29	0.36	0.45	0.56
10-Year T-note	2.05	2.04	2.20	2.38	2.58
30-Year Bond	3.12	3.10	3.26	3.44	3.65

### Current Rates<sup>3</sup> (%)

Securities Industry and Financial Markets Association (SIFMA) Index	0.07
1-Month LIBOR	0.28
Bond Buyer 20 – Bond Index GO	3.60
Bond Buyer Revenue Bond Index	4.77

### Economic Data<sup>4</sup> (%)

	Q3 '11 Actual	Q4 '12 Forecast	Q1 '12 Forecast	Q2 '12 Forecast	Q3 '12 Forecast
Real GDP	1.80	3.10	2.00	2.15	2.30
Consumer Prices	3.00	3.30	2.40	2.20	1.80
Unemployment (%)	8.50	8.80	8.60	8.50	8.50

<sup>1</sup> Bloomberg Surveys as of January 12, 2012.

<sup>2</sup> On December 16, 2008, the Fed lowered its target rate to a range of 0.00%- 0.25%

<sup>3</sup> Market data as of January 23, 2012.

<sup>4</sup> Bloomberg Surveys as of January 12, 2012.

Source: Bloomberg.

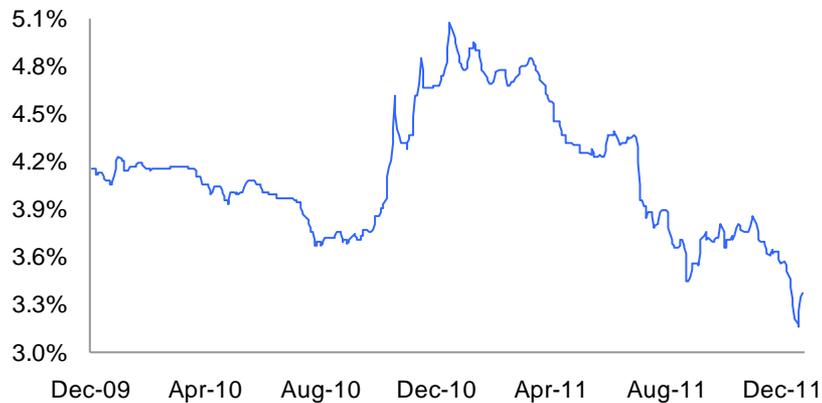
# Municipal Market Overview

*Municipals cool after hitting all-time lows at start of the year*

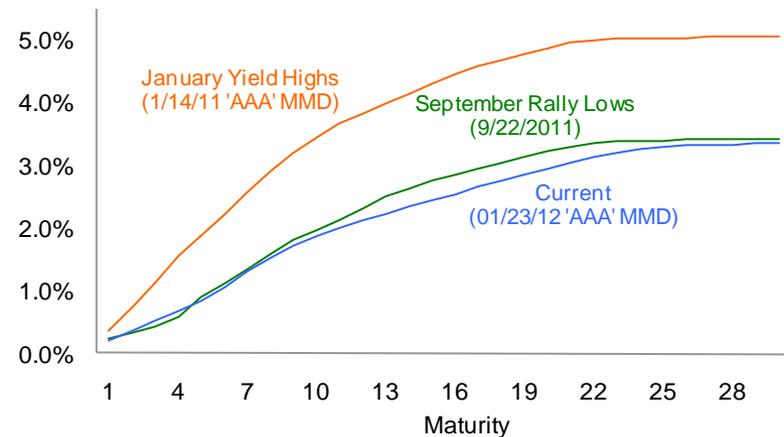
## ◆ Municipal market yields

- Market experienced nearly month-long rally till January 18<sup>th</sup>, 2012, plummeting to all-time lows in nearly every maturity across the curve
- Finally, market cools off late last week as dealers pull back
- Rates still below yields witnessed during previous record-setting rally in September 2011

**30-Year MMD Yield**  
(1/1/2010 - 1/23/2012)



**Municipal Market Data (MMD) Yield Curves**

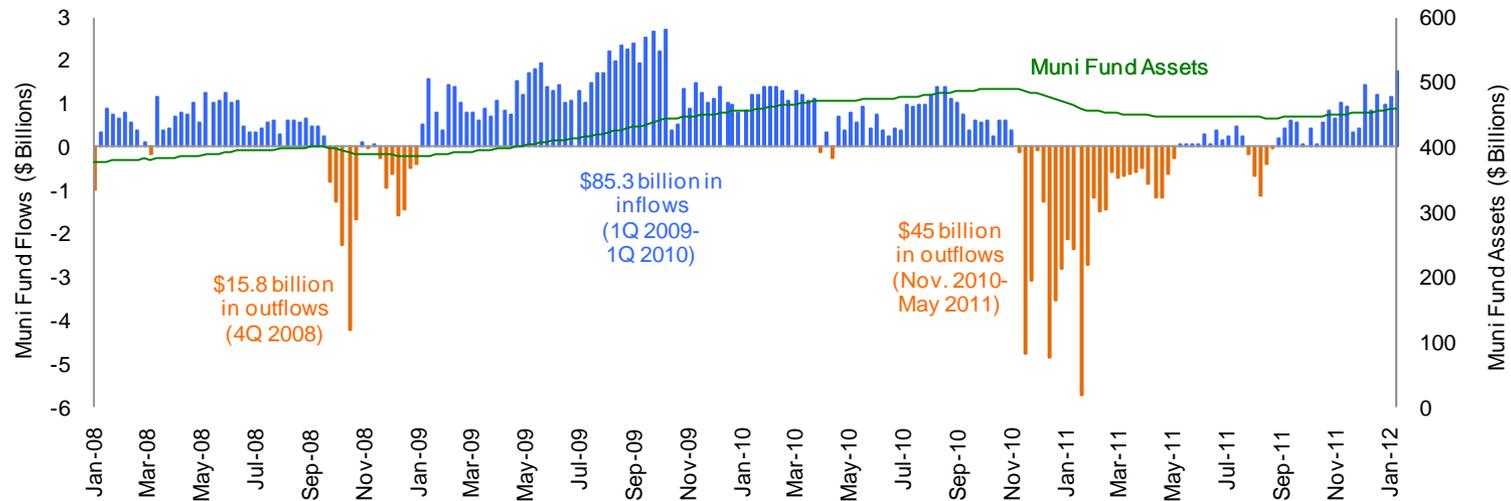


Source: Thomson Financial.

*Municipal mutual fund flows moving in right direction*

- ◆ **Fund flows positive since August 31**
  - \$14.5bn of total inflows since
  - \$1.7bn of inflows week ending January 11, largest weekly inflow in previous 2 years
- ◆ **Funds experience record cash outflows from November 2010 through May 2011**
  - \$45bn left the market

## Municipal Mutual Fund Flows and Assets



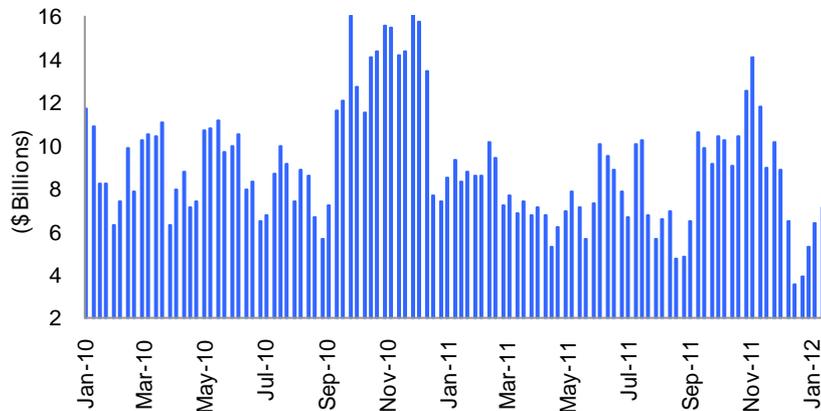
Source: Investment Company Institute

# Issuance Volume

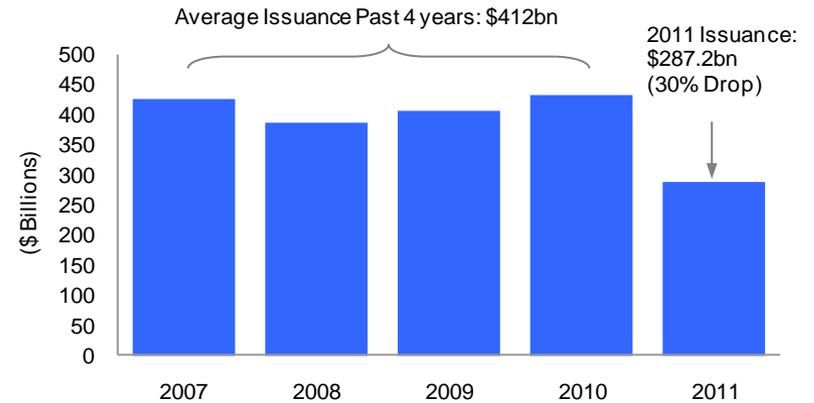
*Municipal new-issue supply low*

- ◆ **2012 begins with weak supply**
- ◆ **Supply fallen substantially since November, which saw largest monthly issuance for 2011**
- ◆ **National new-issue supply in 2011 lowest in past decade**

**Bond Buyer 30-Day Visible Supply<sup>1</sup>**



**National Municipal New Issuance**

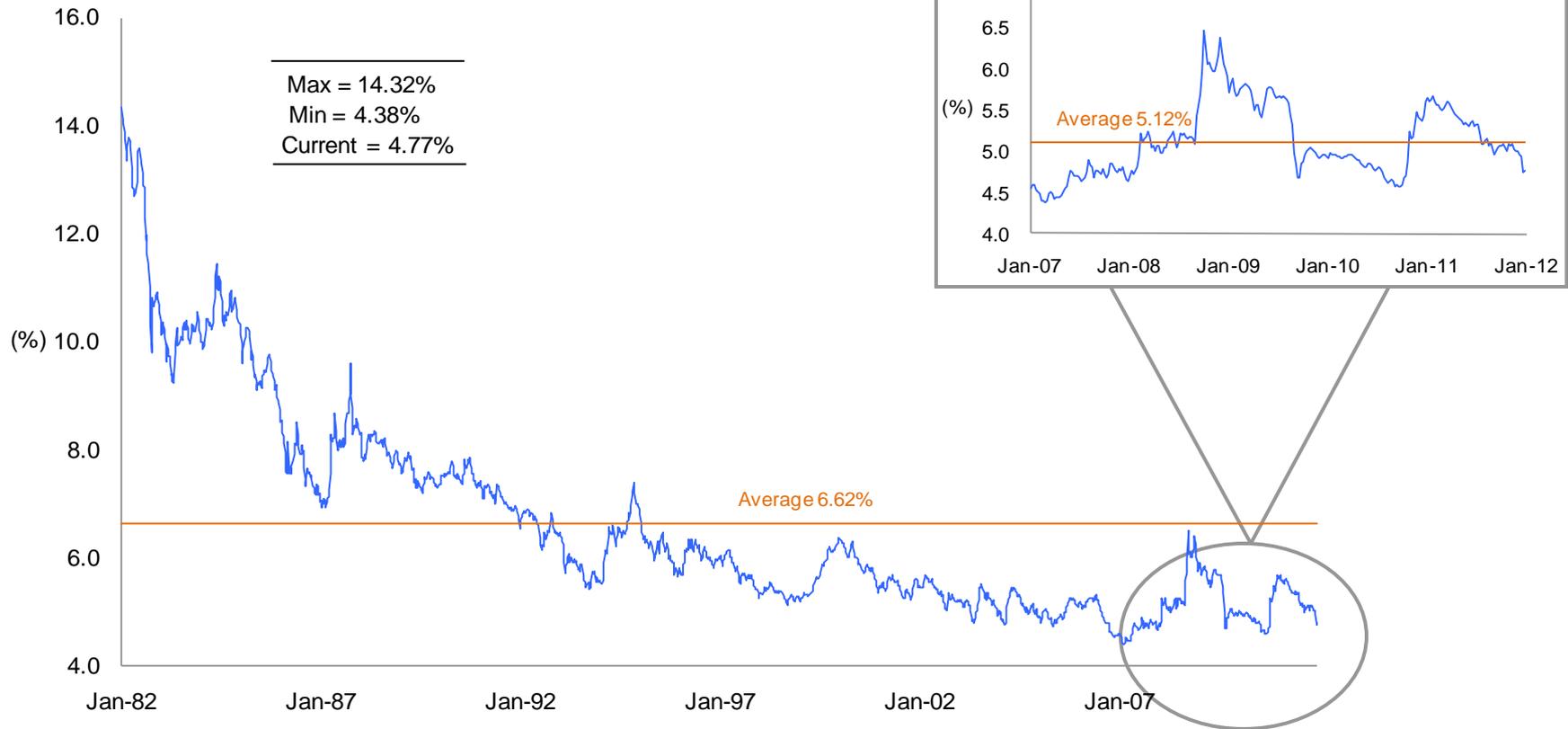


<sup>1</sup>Long term issues only. Weekly averages of estimated 30-day visible supply  
Sources: SDC and The Bond Buyer

# Municipal Tax-Exempt Interest Rates

*Tax-exempt revenue bond rates remain historically low*

## Bond Buyer Revenue Bond Index (RBI)

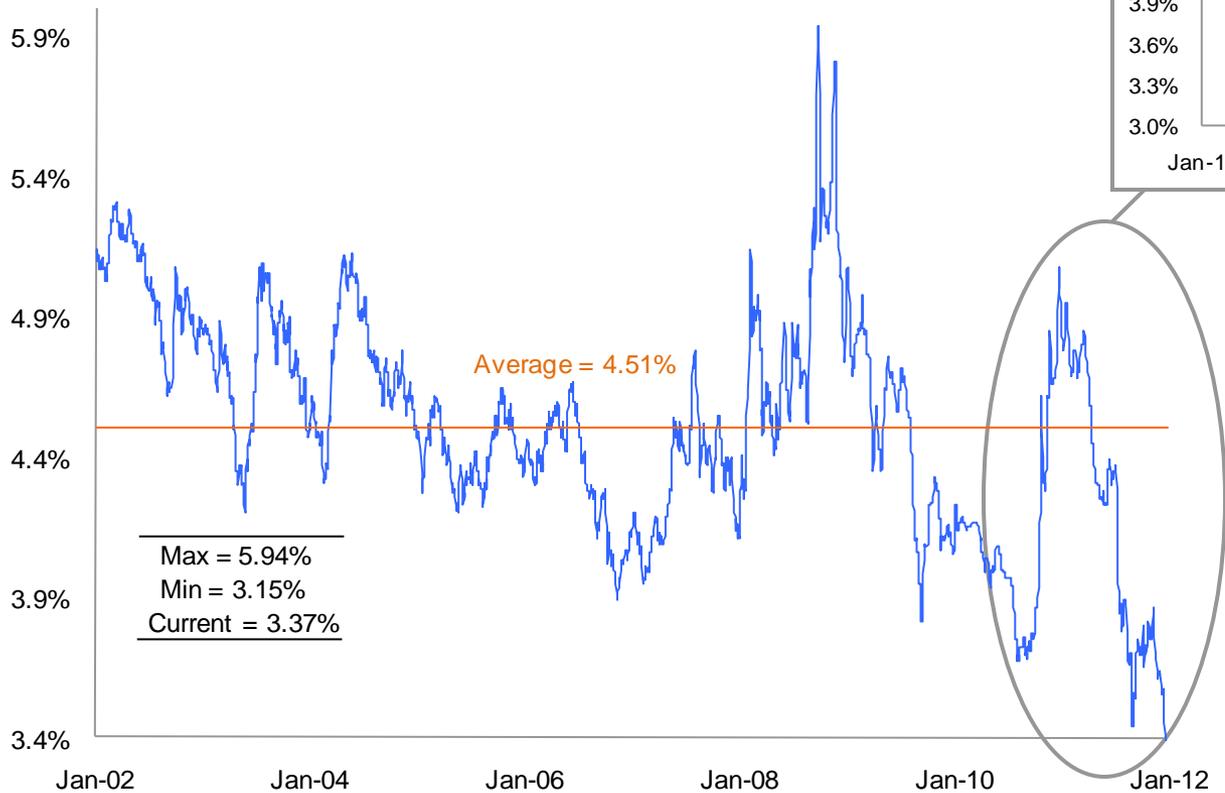


Source: The Bond Buyer. Tax-Exempt Bonds maturing in 30 years with average rating of A1/A+. As of 1/23/2012.

# Municipal Tax-Exempt Rates at Historic Lows

*Long-term high-grade yields hit all-time lows*

**30-Year Municipal Market Data Index (MMD)**



Source: Thomson Financial. MMD is an index of 'AAA' rated general obligation bonds. As of 1/23/2012.

# Treasury Yields Extremely Low

*Rates drop amid European debt fears*

**10-Year U.S. Treasury Note**



Source: Federal Reserve & Bloomberg. As of 1/23/2012.

## **Additional Information**

This material contains proposed terms and conditions that are indicative and for discussion purposes only. Finalized terms and conditions are subject to further discussion and negotiation and Stifel, Nicolaus & Company, Incorporated, dba Stone & Youngberg, a division of Stifel Nicolaus (“S&Y”) does not guarantee that all financing options will be available at the time of the contemplated transaction. Where indicated, this presentation may contain information derived from sources other than S&Y. While we believe such information to be accurate and complete, S&Y does not guarantee the accuracy of this information. This material is based on information currently available to S&Y or its sources and we do not undertake to update the recipient of this presentation of changes that may occur in the future. Stone & Youngberg does not provide accounting, tax or legal advice; however, you should be aware that any proposed indicative transaction could have accounting, tax, legal or other implications that should be discussed with your advisors and /or counsel.

## **S&Y Is Not Acting as a Municipal Advisor**

Stone & Youngberg is not acting as your financial advisor or Municipal Advisor, as defined in Section 15B of the Exchange act of 1934 (as amended), and shall not have a fiduciary duty to you, in connection with the matters contemplated by these materials. This material is delivered to you for the purpose of working with you as an underwriter on the transaction described herein. In our capacity as underwriter, we will be acting solely as a principal in a commercial, arms length transaction and not as a municipal advisor, financial advisor or fiduciary to you or any other person or entity regardless of whether we or an affiliate has or is currently acting in this capacity on a separate transaction. You should consult your own legal, accounting, tax, financial and other advisors, as applicable, and to the extent you deem appropriate.