PMA® SECURITIES

Navigating High Inflation – Part II

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Today's Discussion Topics

- Bond Market Update
- Method of Sale Trends

Bond Market Update

The MMD "AAA" Index

- The Municipal Market Data (MMD) Index is a daily index of AAA-rated municipal bond rates
- Issuers' bond yields are priced relative to the MMD
  - The relative difference is called the "spread" to the MMD
  - The spread varies due to the following:
    - Credit rating
    - Bank qualification
    - Length of maturity
    - Coupon or interest rates

Variables that Impact the Municipal Bond Market

FED Reserve Policy
Fed Funds Rate

Global Political Events - Ukraine

Inflation Expectations

Health of National, State and Local Economies

State of Illinois Political Challenges

Bank Qualification

Municipal Bond Supply and Demand

Europe

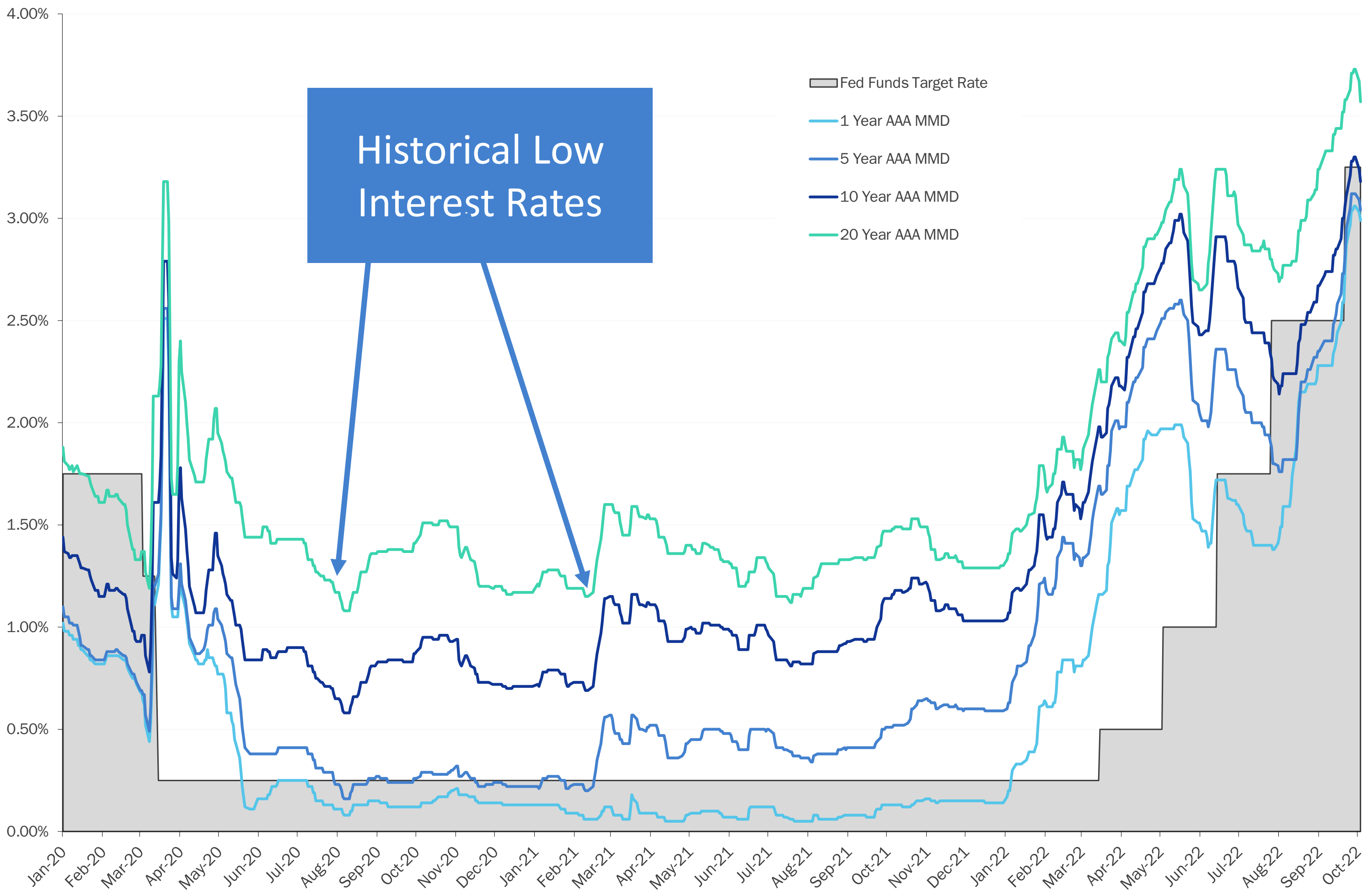
Chicago's Fiscal Challenges

Municipal Bankruptcies (e.g. Detroit, Puerto Rico)

Credit Ratings of State and Local Governments

Level of Federal and State Income Taxes

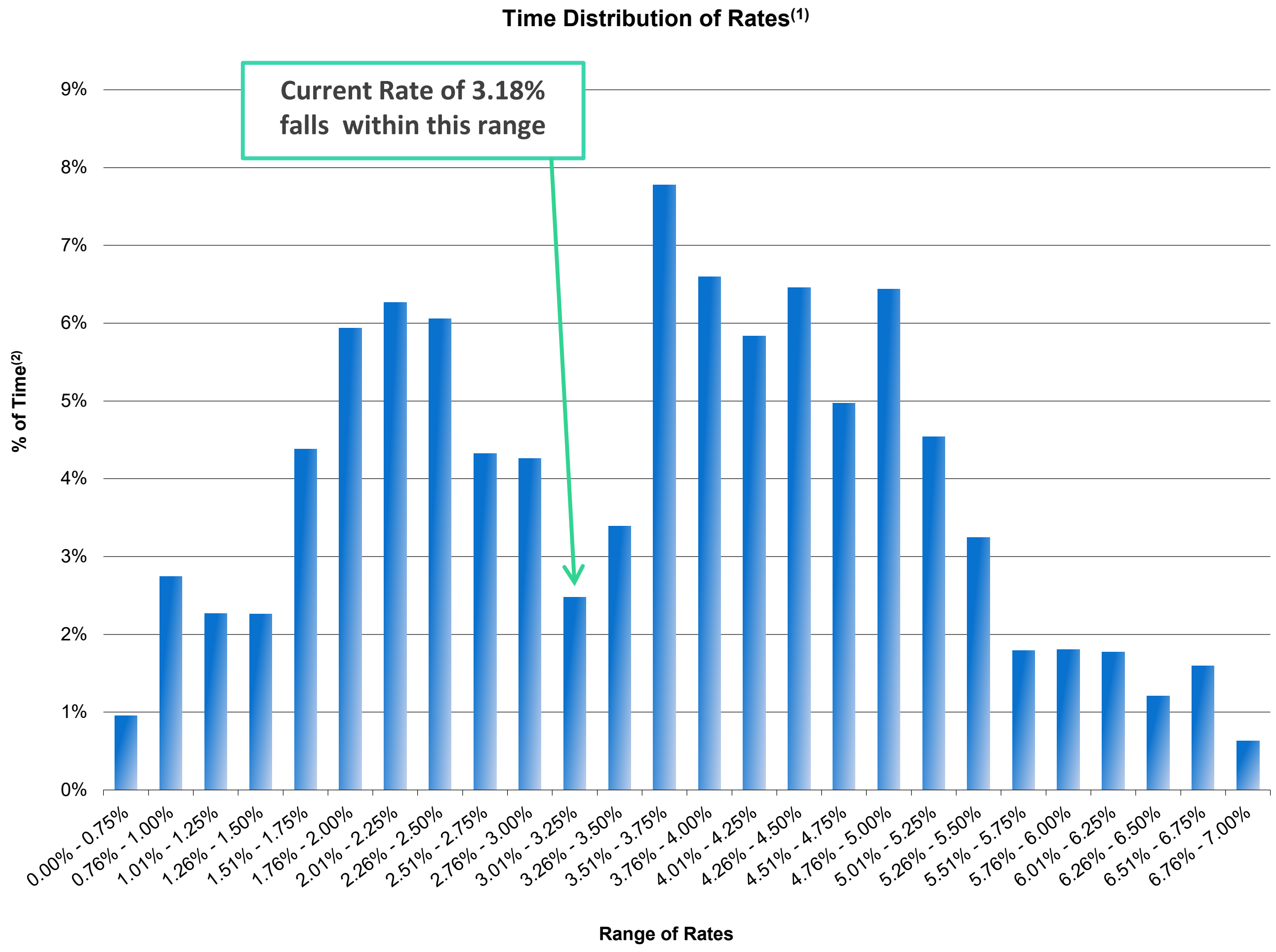
Historical Interest Rates*



- Between January 3, 2022 and April 11, 2022, rates in the MMD increased as follows:
  - 5-year: 1.53%
  - 10-year: 1.31%
  - 20-year: 1.26%
- Since April 11, 2022, rates in the MMD have increased as follows:
  - 5-year: 0.92%
  - 10-year: 0.84%
  - 20-year: 1.01%

*The Municipal Market Data "MMD" is a AAA municipal bond market index produced by TM3. As of October 4, 2022.

Dispersion of Historical Interest Rates by Range*



[1]Current Rate is the MMD 10-year rate as of 10/04/22.
[2]Data encompasses MMD 10-year rates between 01/02/90 and 10/04/22. Past performance does not guarantee future results.

- As of October 4, 2022, since January 1, 1990, the 10-year MMD has been lower **39%** of the time
- On April 11, 2022, the 10-year MMD had been lower **25%** of the time
- In February 2022 the 10-year MMD had been lower **6%** of the time

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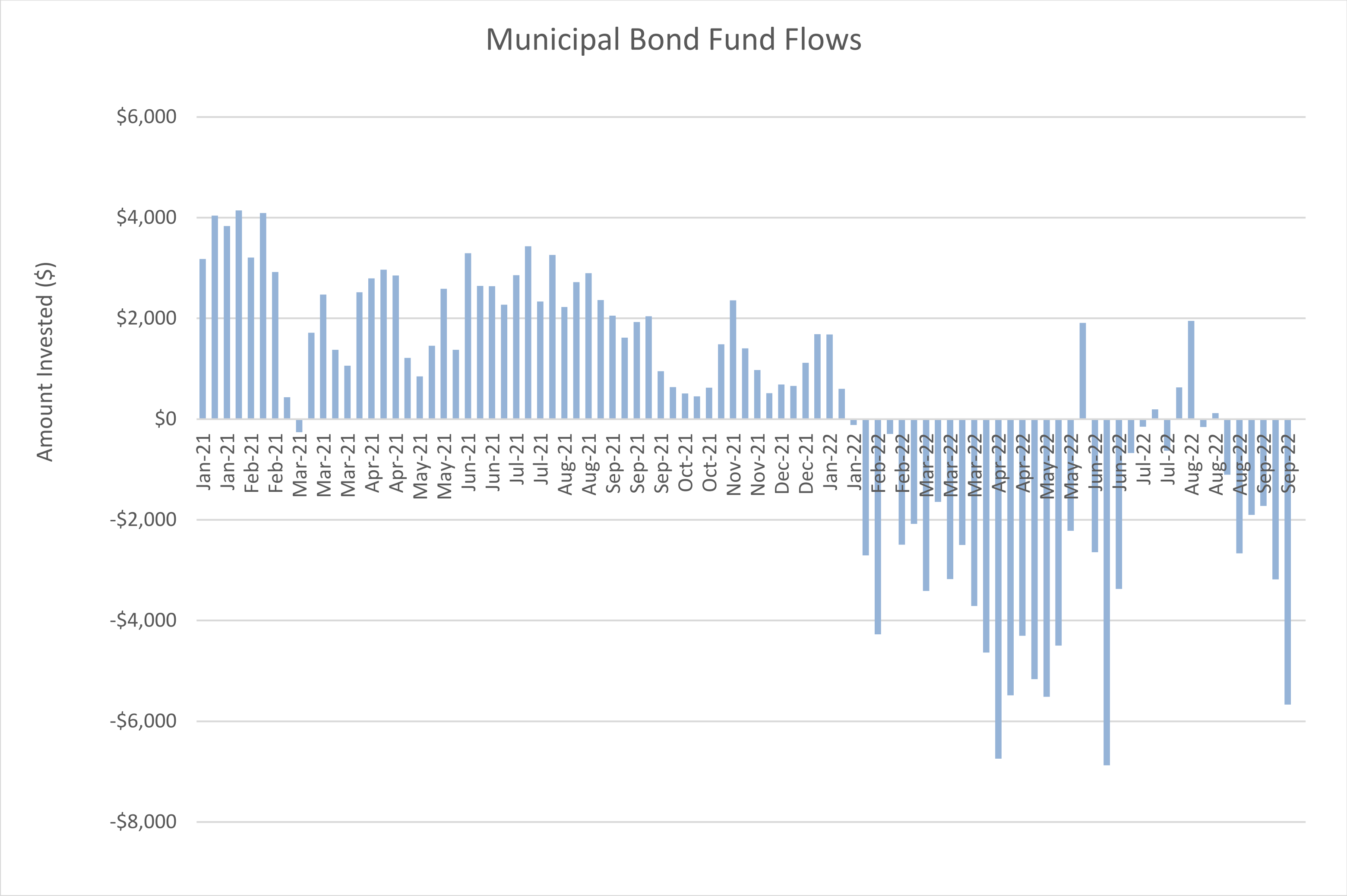
Municipal Bond Fund Flows Through September 2022



Source: Investment Company Institute

10-Year MMD to 10-Year Treasury Ratio

Source: Treasury.gov and TM3

Method of Sale Trends

Sale Type

PUBLIC OFFERING

- The Issuer and financial advisor prepare an official statement
- Underwriter that will resell the bonds to investors is selected via a competitive or negotiated sale
- Issuer obtains a bond rating
- Requires disclosure counsel to review the official statement
- Will likely have a lower interest rate, but will have higher costs of issuance

DIRECT PLACEMENT

- No official statement, rating, underwriter or disclosure counsel is required
- A term sheet is sent out to banks and other local units of government that will provide a proposal to purchase the bonds directly
- The interest rate is typically higher than a public offering but may result in a lower overall financing cost since some costs of issuance are avoided
- This process has typically proven to be effective for relatively smaller bond issues paid off with a shorter amortization

Types of Public Offerings

NEGOTIATED SALE

- The Issuer preselects a broker-dealer as underwriter
- This firm sells the bonds to investors

COMPETITIVE SALE

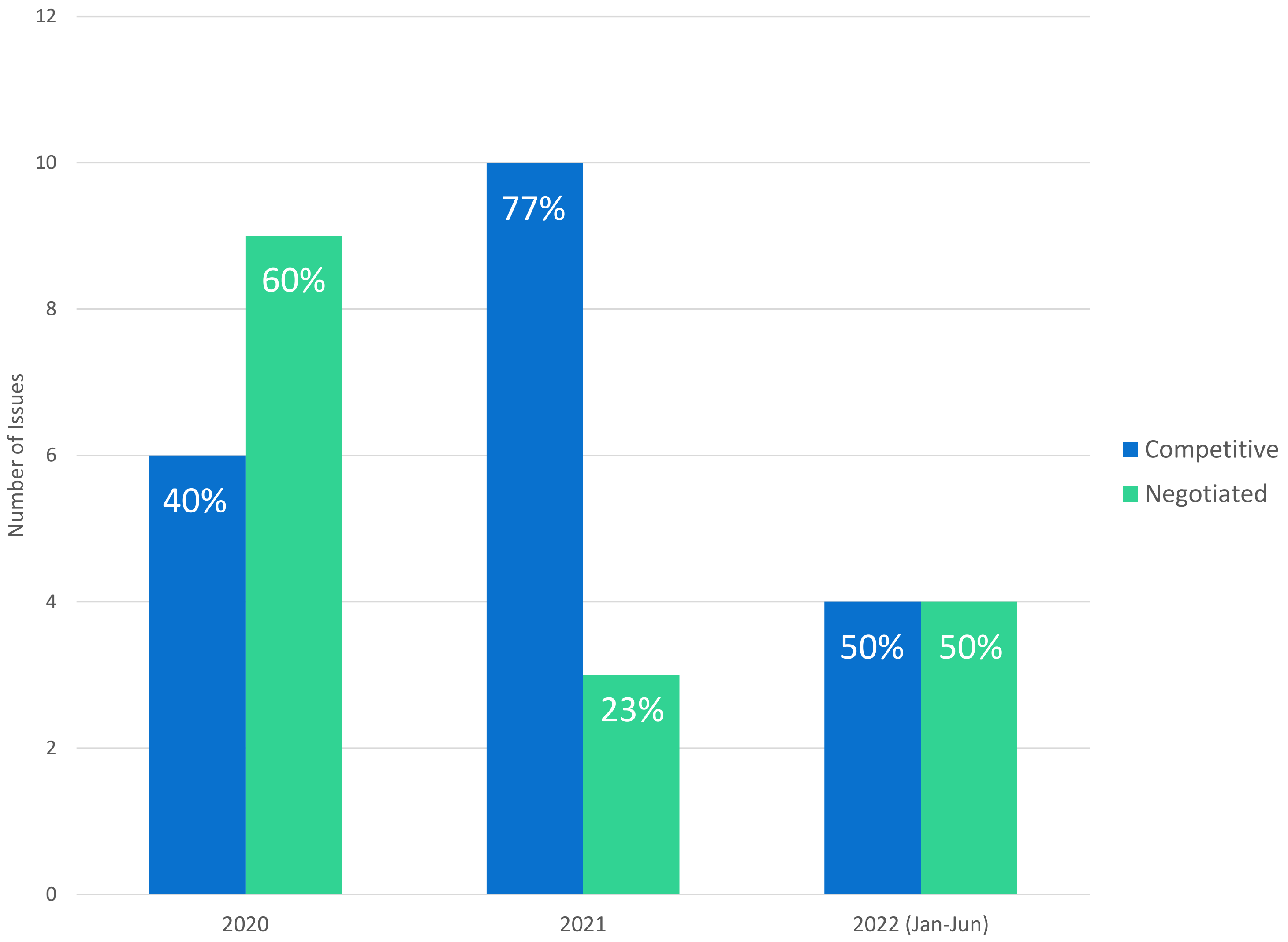
- The Issuer engages a municipal advisor to manage the bond issuance process
- Underwriter selected via a competitive sale in which multiple bids are received to purchase the bonds
- The winning bidder sells the bonds to investors
- The bidder with the lowest true interest cost is selected

Choosing the Method of Sale

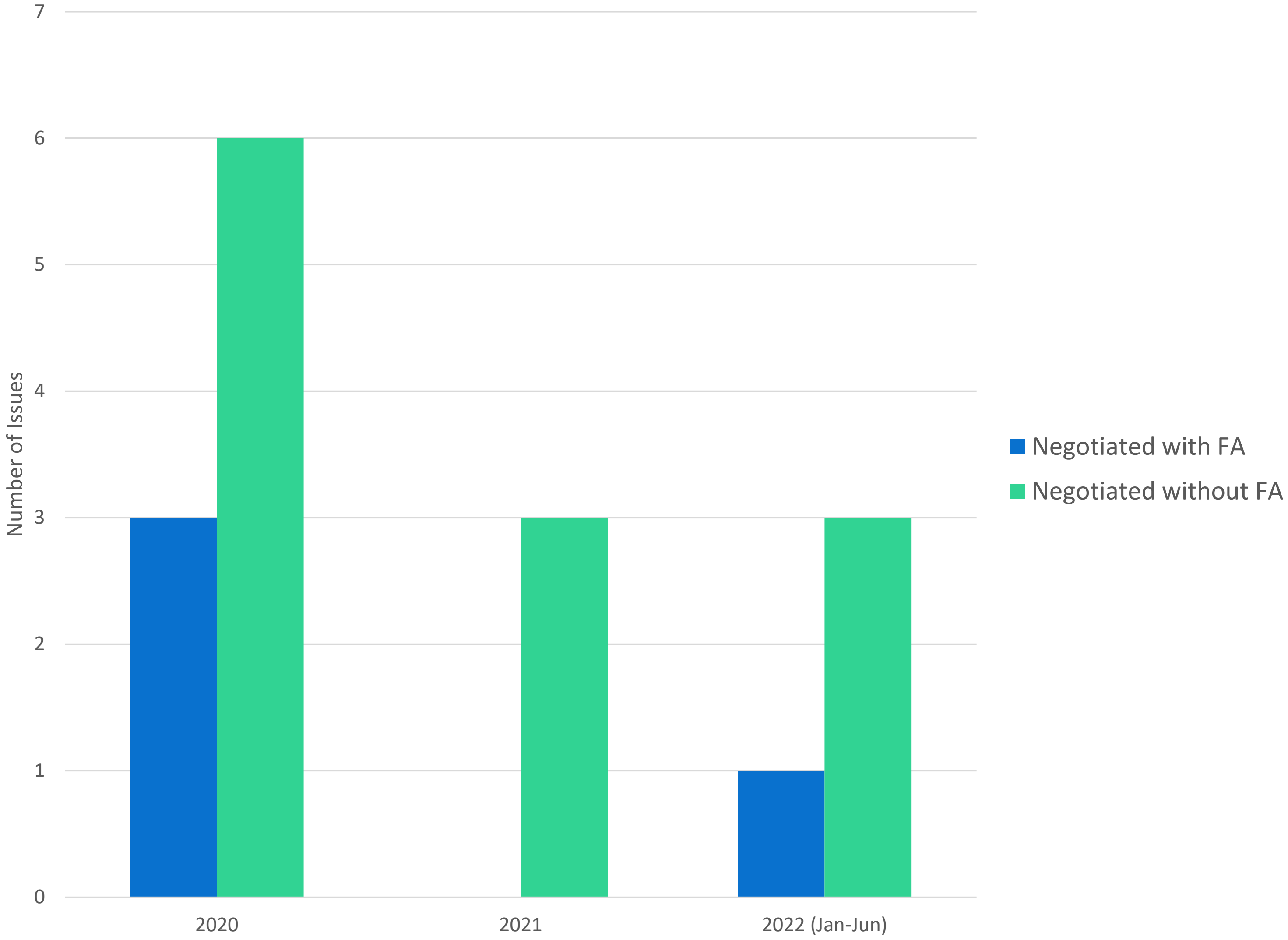
A **competitive** sale is appropriate when:	A **negotiated** sale is appropriate when:
• Issuer has a strong underlying credit rating at least in the "A" category • General obligation bonds or full faith obligations (e.g. alternate revenue bonds or debt certificates) • Structure does not include special features that would require extensive explanation to the market • Issuer is frequently in the market and/or issue size is conducive to attracting investors	• Issuer has a credit rating lower than "A" • Bond insurance is unavailable • Debt structure is complicated • Issuer wants input in how bonds are allocated among underwriting firms and/or the types of investors to be reached • Other factors exist that the issuer, in consultation with its municipal advisor, believes favor the use of a negotiated sale process

Source: Selecting and Managing the Method of Sale of Bonds (February 2014), Government Finance Officers Association (Best Practice).
See the following webpage: http://www.gfoa.org/selecting-and-managing-method-sale-bonds

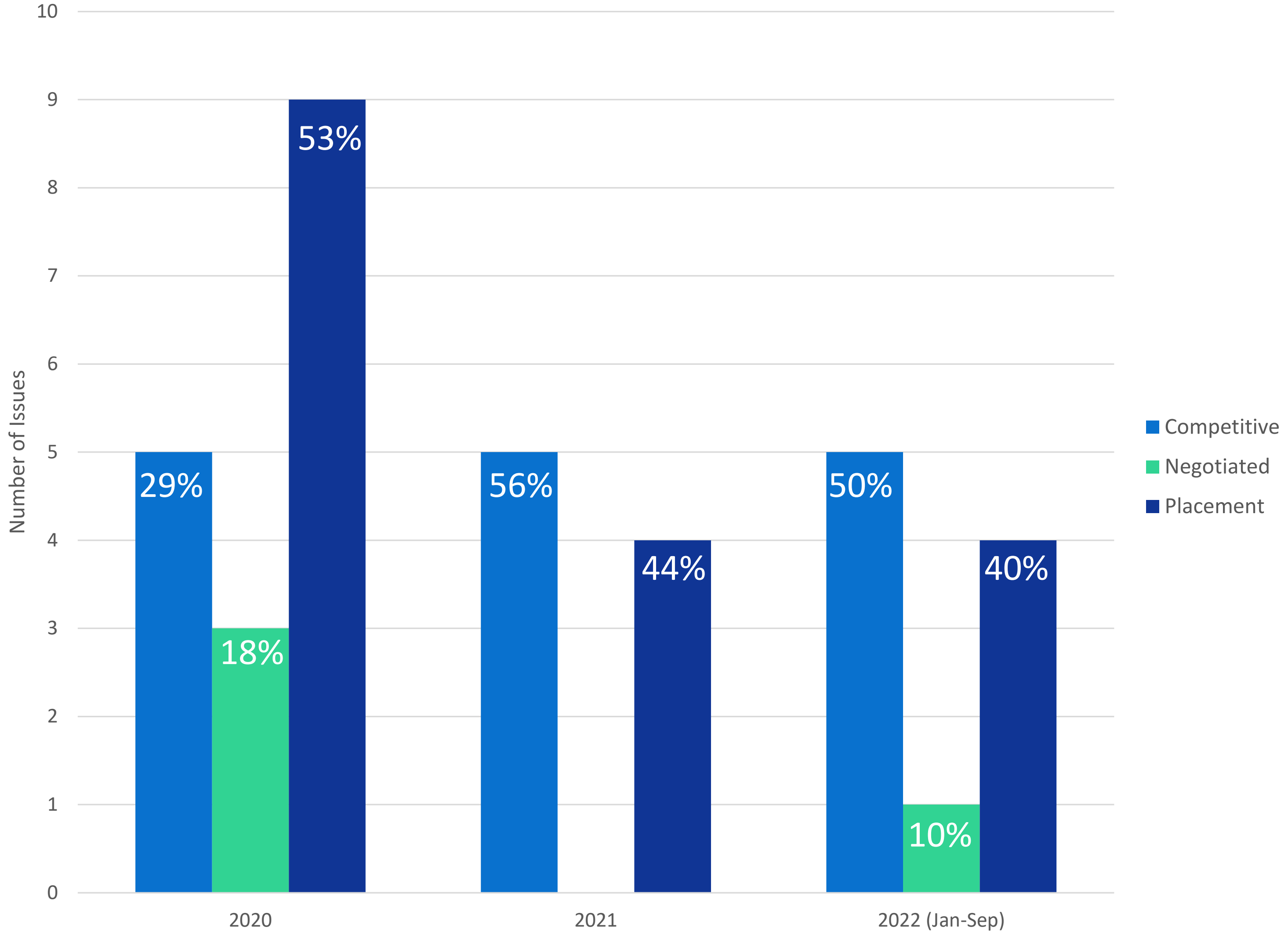
Illinois Community College Bond Issues
Method of Sale 2020, 2021 and 2022 YTD



Illinois Community College Bond Issues
Negotiated Sales With and Without a Financial Advisor



Illinois Community College Transactions with PMA as Financial Advisor Method of Sale in 2020, 2021 and 2022 YTD



Homewood Flossmoor HSD 233 Summary

Homewood Flossmoor 233
General Obligation Limited Tax School Bonds, Series 2022A
Indication Summary - June 9, 2022

	Option A	Option B	Option C
Type of Sale..........................	Public Offering	Placement with Bank 1	Placement with Bank 2
Total Est. Proceeds.................	$ 20,000,000	$ 19,790,000	$ 20,000,000
Indicative Rate % (TIC)...........	3.88%	2.80%	3.42%
Total Est. Debt Service...........	$ 27,615,588	$ 24,850,020	$ 26,220,809

Bank Placements

- Bank Placements have been successful for numerous community colleges over the last several years
- They continue to be particularly attractive for shorter transactions
- Evolving market conditions and inflationary pressures will influence the placement market and the municipal bond market as a whole
- Illinois community colleges should continue to be nimble and flexible with the method of sale for its municipal securities

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