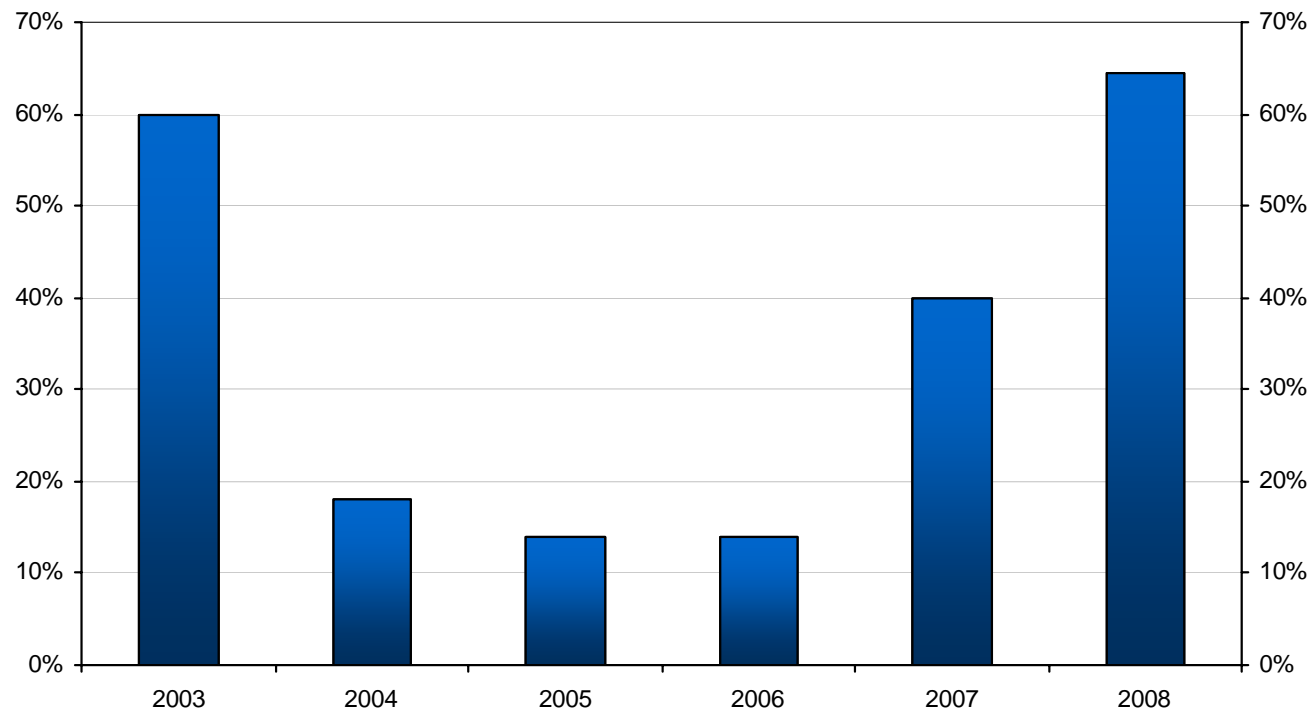


# **Municipal Finance in Peril**

**Presentation to Governmental Research Association  
Annual Conference  
Washington D.C.**

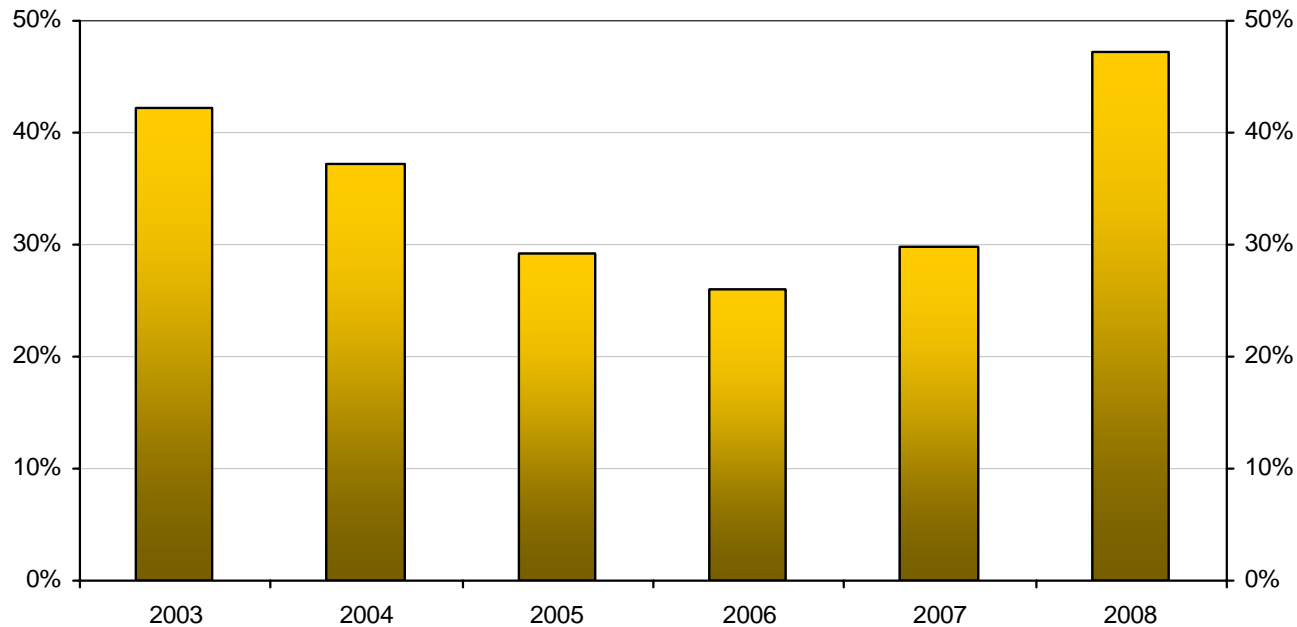
**Richard Ciccarone  
Managing Director  
McDonnell Investment Management, LLC  
*July 27, 2009***

## Percent of States with a Net General Fund Deficit by Year\* *FY 2003-2008 (preliminary)*



\* Data for all states are included in the years 2004 - 2007; 2008 data includes 48 states (two had not reported yet).  
Source: Merritt Research Services, LLC

## Percent of Cities with a Net General Fund Deficit by Year *FY 2003-2008 (preliminary)*

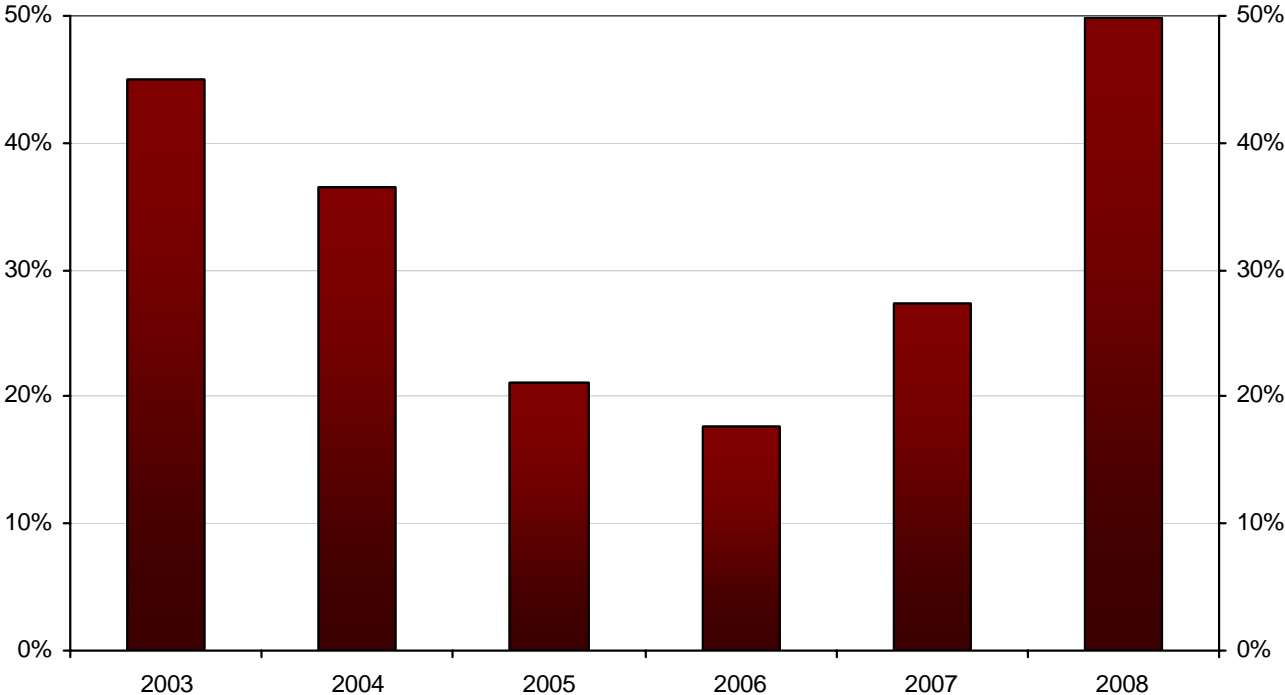


*These charts include all entities in the sample population utilized by Merritt Research that reported fiscal data for the periods shown. The sample does not include all entities in each universe (i.e., county, city, school district) but the results are believed to be indicative of the overall fiscal trend. The sample population tends to include, on average, fiscal entities with a higher level of debt.*

*Source: Merritt Research Services, LLC*

# Percent of Counties with a Net General Fund Deficit by Year

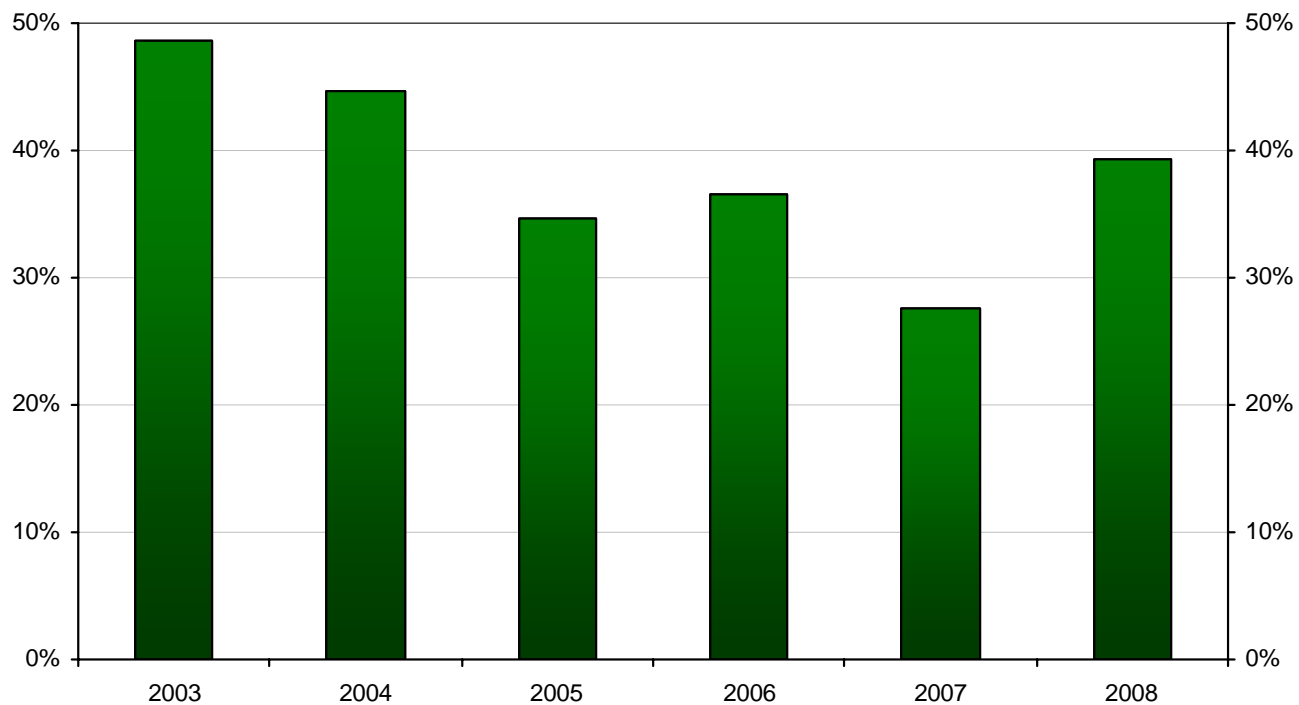
*FY 2003 -2008 (preliminary)*



*These charts include all entities in the sample population utilized by Merritt Research that reported fiscal data for the periods shown. The sample does not include all entities in each universe (i.e., county, city, school district) but the results are believed to be indicative of the overall fiscal trend. The sample population tends to include, on average, fiscal entities with a higher level of debt.*

Source: Merritt Research Services, LLC

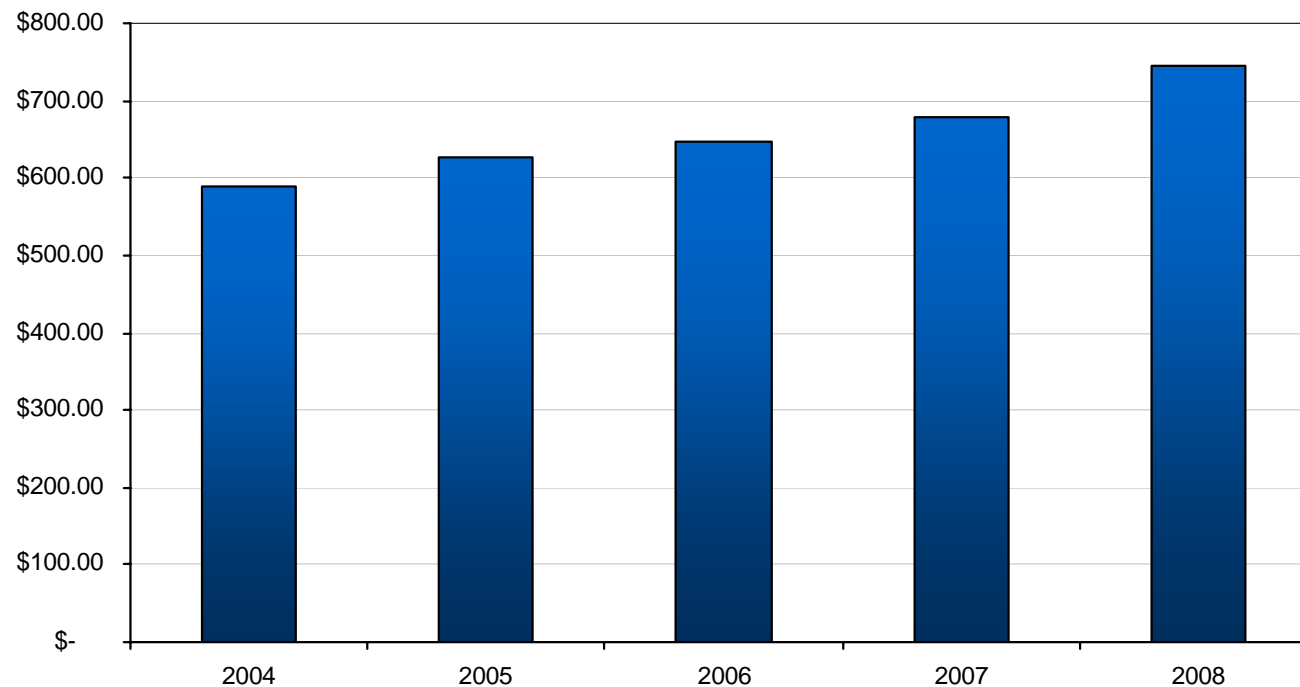
## Percent of School Districts with a Net General Fund Deficit by Year *FY 2003-2008 (preliminary)*



*These charts include all entities in the sample population utilized by Merritt Research that reported fiscal data for the periods shown. The sample does not include all entities in each universe (i.e., county, city, school district) but the results are believed to be indicative of the overall fiscal trend. The sample population tends to include, on average, fiscal entities with a higher level of debt.*

*Source: Merritt Research Services, LLC*

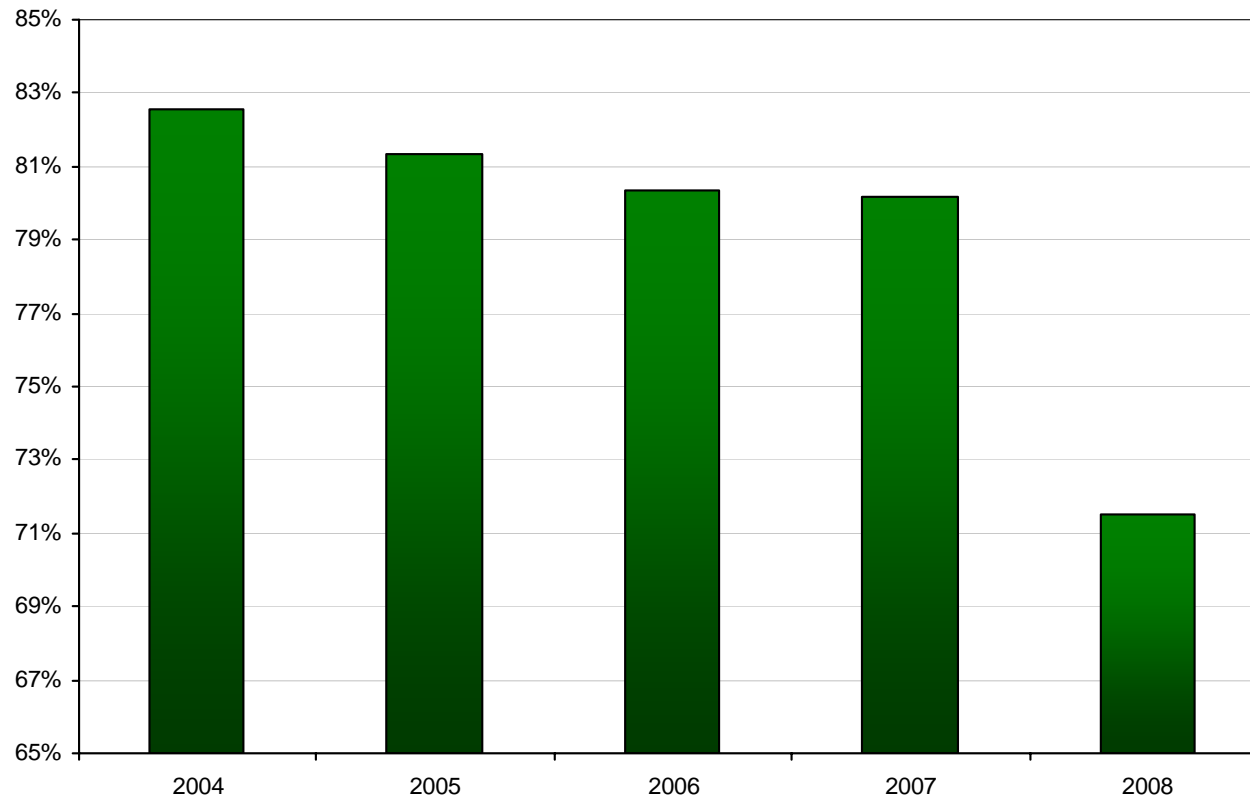
## City Annual Median: Total Tax Revenue per Capita (Government Activities) FY 2004-2008 (preliminary)



*These charts include all entities in the sample population utilized by Merritt Research that reported fiscal data for the periods shown. The sample does not include all entities in each universe (i.e., county, city, school district) but the results are believed to be indicative of the overall fiscal trend. The sample population tends to include, on average, fiscal entities with a higher level of debt.*

*Source: Merritt Research Services, LLC*

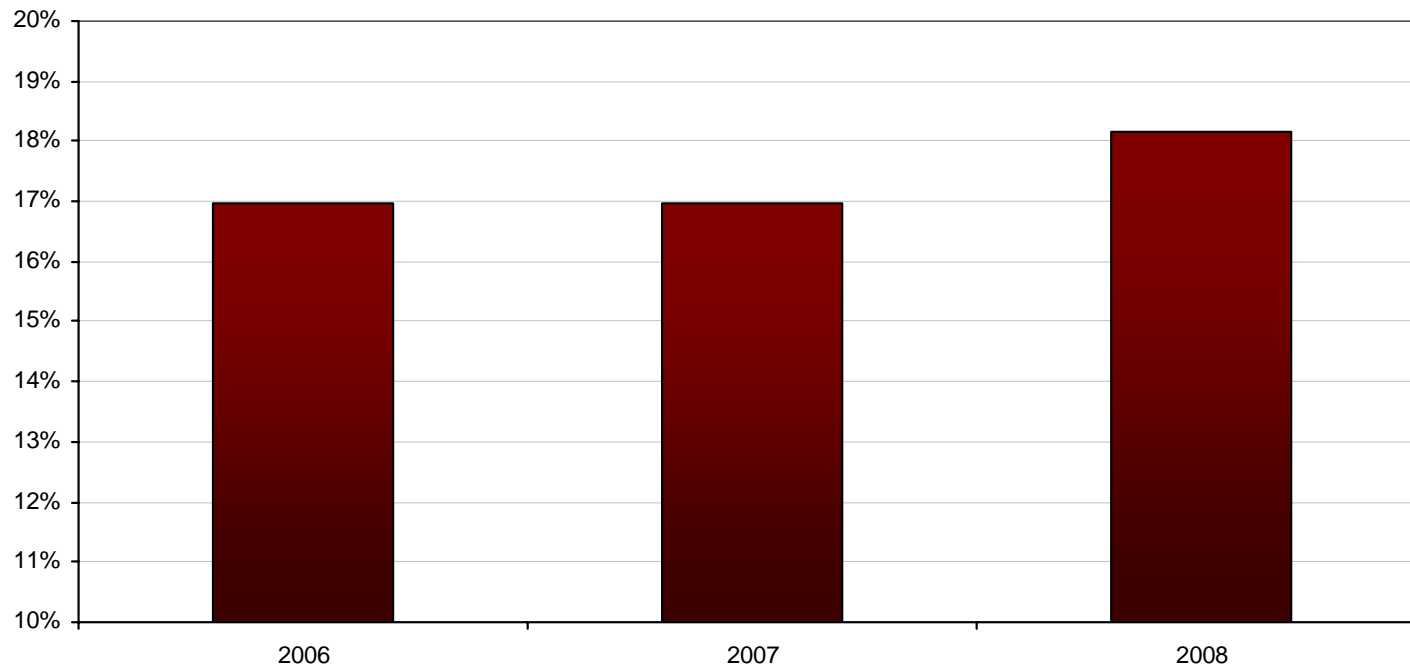
## City Annual Median: Total Pension Funded Ratio *FY 2003-2008 Preliminary*



*These charts include all entities in the sample population utilized by Merritt Research that reported fiscal data for the periods shown. The sample does not include all entities in each universe (i.e., county, city, school district) but the results are believed to be indicative of the overall fiscal trend. The sample population tends to include, on average, fiscal entities with a higher level of debt.*

*Source: Merritt Research Services, LLC*

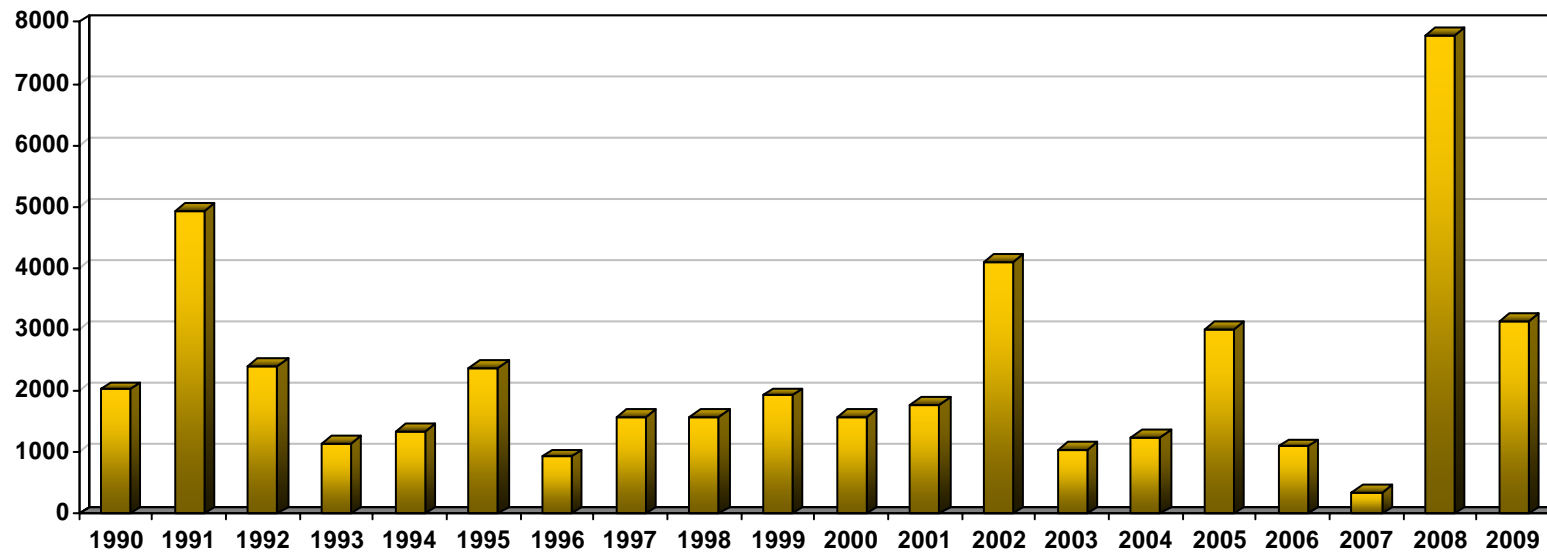
## City Annual Median: Current Debt Service + Contribution to Pension and OPEB to Total Gov Expenditures *FY 2006-2008 Preliminary*



*These charts include all entities in the sample population utilized by Merritt Research that reported fiscal data for the periods shown. The sample does not include all entities in each universe (i.e., county, city, school district) but the results are believed to be indicative of the overall fiscal trend. The sample population tends to include, on average, fiscal entities with a higher level of debt.*

*Source: Merritt Research Services, LLC*

## Recent History of Municipal Defaults, Bankruptcies Overall (1990 thru June 2009) \$ in Millions



Source: Income Securities Advisors Inc, Miami Lakes, FL (IncomeSecurities.com)

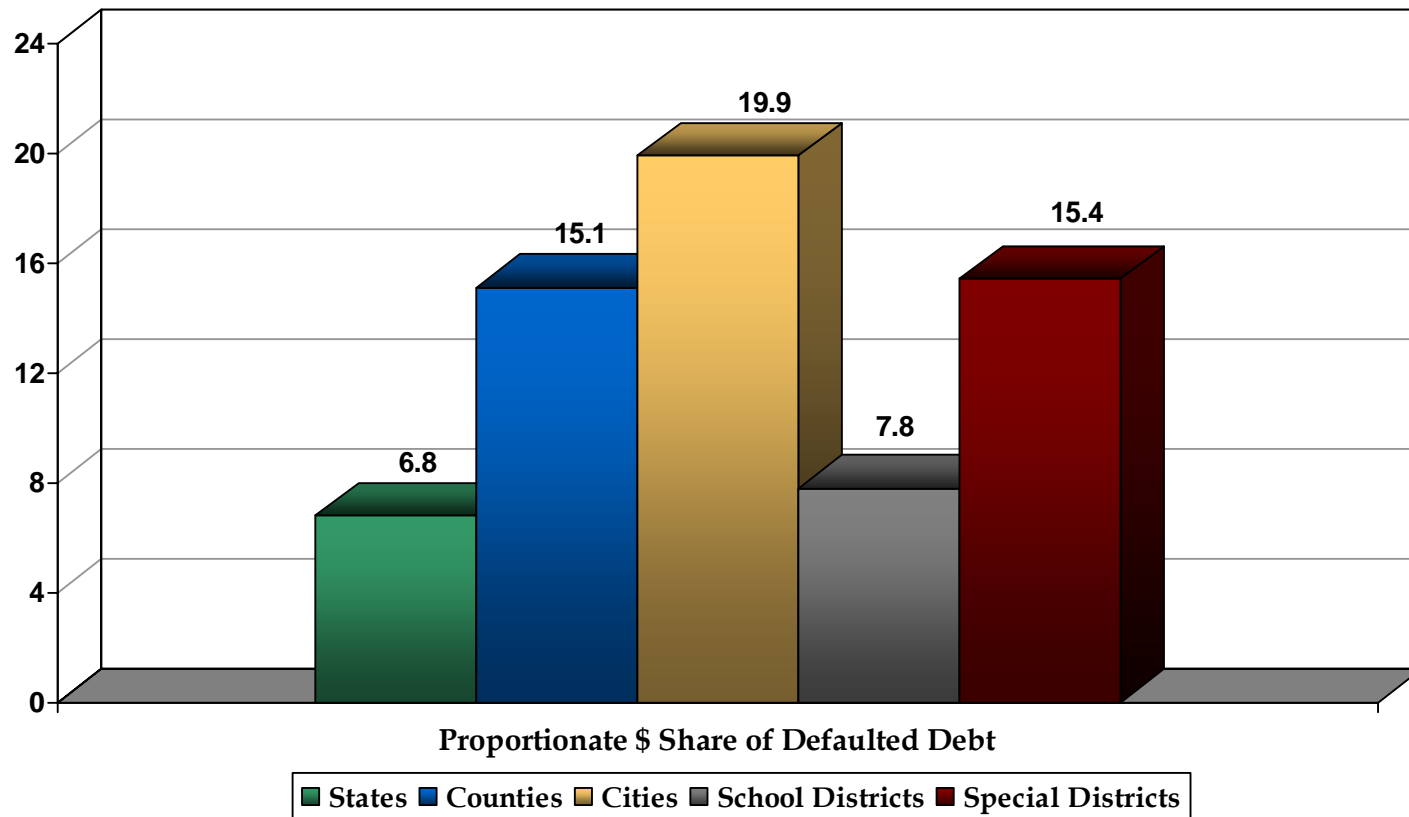
## Peak Number of Defaults on Municipal Bonds 1932 - 1946

Type	Peak Number in Default	Date
States	1	May 1, 1933
Counties	359	July 1, 1934
Cities & Towns	851	January 1, 1935
School Districts	882	August 1, 1935
Other Districts	299	September 1, 1935
Special Purpose & Special Districts	1173	May 1, 1938

- *Hundreds of municipal governmental credits defaulted during the Great Depression.*
- *Highest number in default didn't occur until at least three to four years into the Depression.*

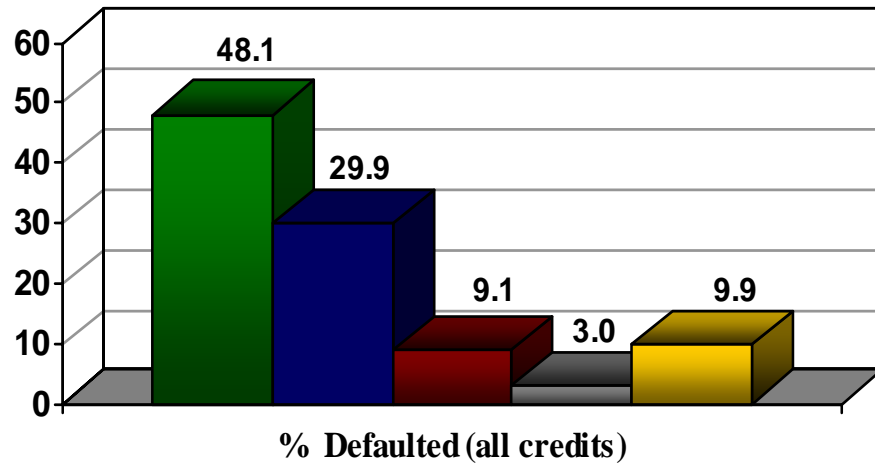
*Source: George Hempel, The Postwar Quality of Municipal Bonds, 1964 PhD dissertation on municipal defaults during the Great Depression.*

## Incidence of Depression Defaults by Type of Governmental Unit, 1929-1937 *By Percent*

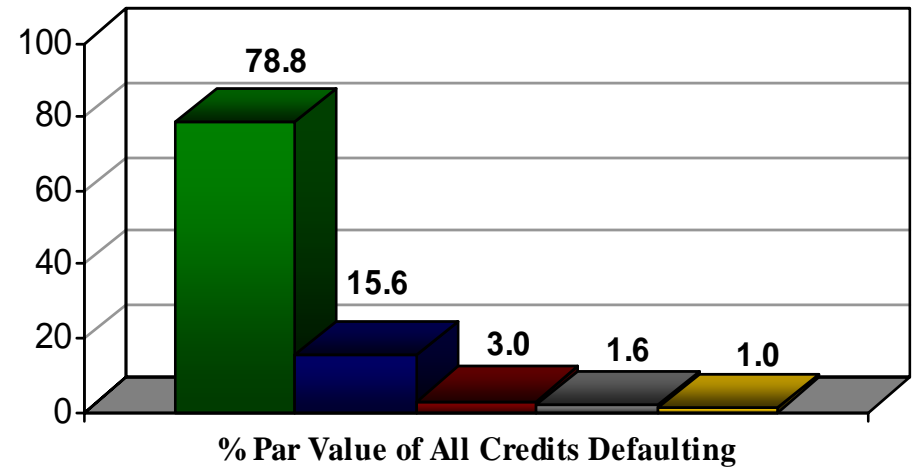


Source: George Hempel, *The Postwar Quality of Municipal Bonds*, National Bureau of Economic Research 1971.

## Bond Ratings for Defaulted Situations During Depression Based on Moody's Municipal Bond Ratings in 1929



■ Aaa 
 ■ Aa 
 ■ A 
 ■ Baa 
 ■ NR



■ Aaa 
 ■ Aa 
 ■ A 
 ■ Baa 
 ■ NR

Source: George Hempel, *The Postwar Quality of Municipal Bonds*, 1964 PhD dissertation on municipal defaults during the Great Depression (pages 122-125).

*This commentary is prepared by McDonnell Investment Management, LLC (“MIM”) for informational purposes only. The information contained herein is neither investment advice nor a legal opinion. The data used for this presentation was obtained from publicly available reports. MIM believes the data to be reliable but does not make any representations as to its accuracy or completeness. The views expressed by Mr. Ciccarone are as of the date of publication of this piece, and are subject to change without notice. Merritt Research Services, LLC is an affiliate of MIM and certain of its employees, including Mr. Ciccarone. MIM cannot assure that the type of investments discussed herein will outperform any other investment strategy in the future, nor can it guarantee that such investments will present the best or an attractive risk-adjusted investment in the future. There are no assurances that any predicted results will actually occur. Past performance is no guarantee of future results.*

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