

# Governor's Task Force – Reclaimed Water

May 24, 2010

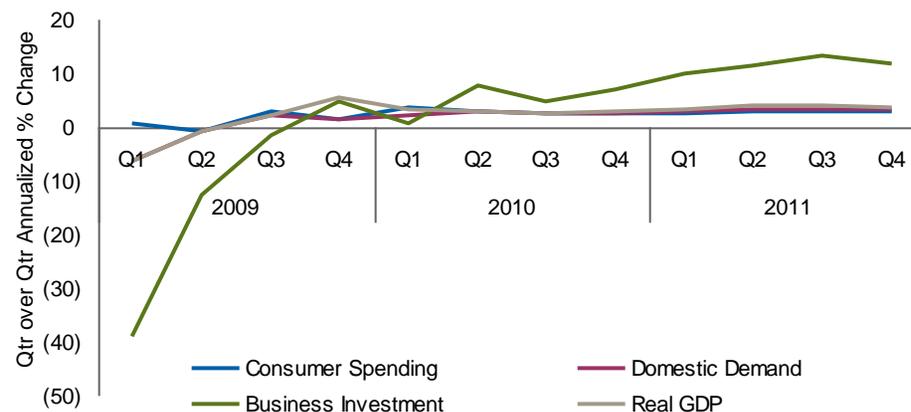


RBC Capital Markets®

# Economic Observations and Interest Rate Forecasts

## Highlights

- Improving credit conditions and low borrowing costs will help to support growth over the next two years
- The U.S. economy expanded at a 3.2% annualized pace in the first quarter of 2010, slower than the surge in the fourth quarter of 2009 but still confirming that a durable recovery is underway.
- Prior to this period, core inflation had not been this low since the 1960s.
- The Fed will concentrate on the outlook for growth, unwind stimulus later in the year and rate hikes closer to December



## Financial Market Forecasts

- Interest rates remain low as the stimulus package continues to take shape, though expectations of increasing rates as the economy recovers

RBC Interest Rate Trends and Forecast (As of May 7, 2010)														
	09Q2	09Q3	09Q4	10Q1	10Q2	10Q3	10Q4	11Q1	11Q2	11Q3	11Q4	2009	2010	2011
<b>Fed funds rate</b>	0 to 0.25	0.75	1.25	2.00	2.50	3.25	0 to 0.25	0.75	3.25					
<b>Three-month T-bills</b>	0.19	0.14	0.06	0.16	0.25	0.35	0.90	1.75	2.60	2.75	3.00	0.06	0.90	3.00
<b>Two-year bonds</b>	1.11	0.95	1.14	1.02	1.50	1.85	2.25	2.50	2.75	3.50	4.25	1.14	2.25	4.25
<b>Five-year bonds</b>	2.54	2.31	2.69	2.55	2.90	3.15	3.40	3.50	3.65	3.75	4.00	2.69	3.40	4.00
<b>10-year bonds</b>	3.53	3.31	3.85	3.84	4.00	4.25	4.50	4.25	4.25	4.25	4.50	3.85	4.50	4.50
<b>30-year bonds</b>	4.32	4.03	4.63	4.72	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.63	4.75	4.75
<b>Yield curve (10s-2s)</b>	242	236	271	282	250	240	225	175	150	75	25	271	225	25

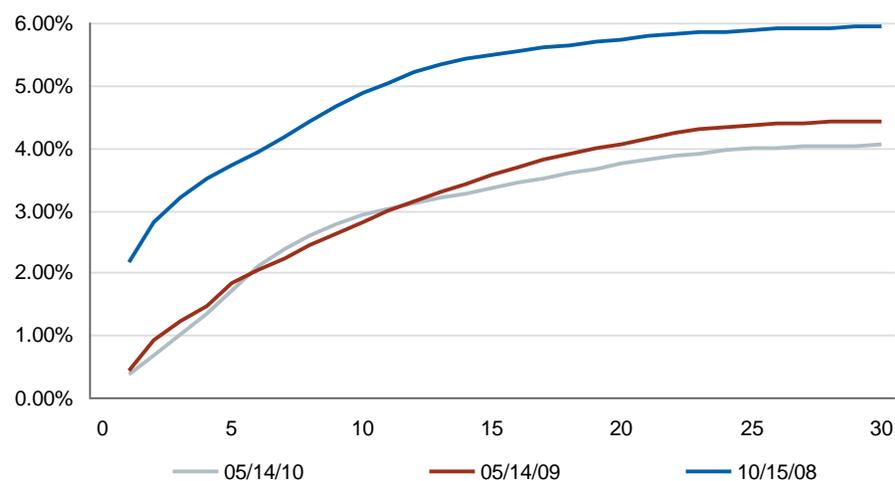
Source: Bank of Canada, Federal Reserve Board, Reuters, RBC Economics Research forecasts

# Fixed Rate Municipal Market Update

- After spiking to unprecedented levels in fall 2008, Municipal-to-Treasury ratios have fallen to below historically “normal” levels with the 30-year “AAA” MMD currently yielding 87% of its U.S. Treasury counterpart
- Upward pressure on the short end of the curve in March 2010 was created though a large supply in the market
  - Has corrected, but market remains nervous from the global uncertainty
- The long end of the MMD curve has fallen significantly over the past year while the shorter end has remained at 2009 levels

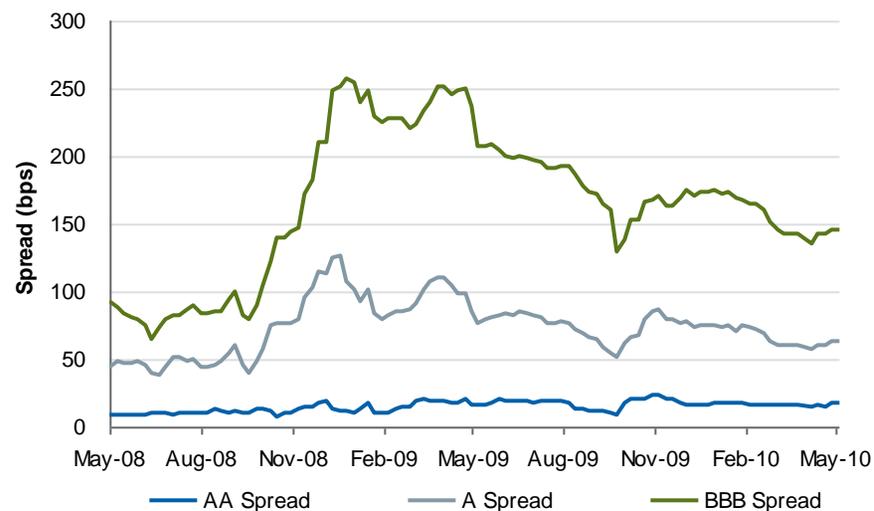
Rating Level	MMD Today (20 Yr)	MMD 1 Yr Ago (20 Yr)	1 Yr Change
Aaa	3.74%	4.77%	(1.03%)
Aa	3.93%	4.95%	(1.02%)
A	4.58%	5.89%	(1.31%)
Baa	5.60%	7.37%	(1.77%)

## The MMD Yield Curve Has Rallied an Average of 198 bps Across the Curve Since 10/15/08



Source: Thomson Financial, Municipal Market Data and Bloomberg as of May 14, 2010

## 30 Year MMD AA, A and BBB Spread to AAA



# Existing Financing Options

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- Pay-as-you-go
- General obligation bonds
- Revenue bonds
  - Utility revenue bonds
  - Street and highway revenue bonds
- Lease purchase financings
- Special Districts
  - Improvement Districts
  - Community Facilities Districts
  - Revitalization Districts
- State Agency Options

## Other Potential Options

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- Tax increment financing
  - Property tax – no
  - Sales tax - maybe
- “Joint powers authorities”
- Impact Fees

# Stimulus Programs

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- American Recovery and Reinvestment Act (ARRA)
  - Intended to “unfreeze” the capital markets
  - BABs
  - Recovery Zones
  
- “Restoring American Financial Stability” Act – update to ARRA
  
- Tax Credits
  - New Market
  - Historical