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Welcome to the
PMA 2009 FINANCE SEMINAR

April 28, 2009

For Institutional Investor Use Only



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President & CEO, PMA Financial Network, Inc.
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Senior Financial Advisors, PMA Financial Network, Inc.



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LESSONS LEARNED & LOOKING FORWARD

Michael English
President & CEO
PMA Financial Network, Inc.



PMA – Celebrating 25 Years!

- Celebrating our 25th anniversary
- Proud of our performance during this financial crisis
- Continue to be dedicated to a high integrity, long-term focused, value added business model
- PMA continues to grow and serve new customers and markets

PMA Highlights

- Provides custom financial solutions to over 1,300 clients
- Number one ranked financial advisor for K-12 school districts in Illinois*
- Extensive network of over 1,800 local and national banks
- 25 years of trusted service
- Over \$10 billion in assets under administration

* Source: Thomson Financial Services and Bloomberg. Based on par amount (excluding Chicago BOE deals) advised upon for K-12 districts.



Protecting Public Funds

- **PMA investment management performance**
 - Safety of principal
 - Maintenance of appropriate liquidity
 - Mitigated interest rate risk
- **The Prudent Man investment philosophy**
 - Seeking and providing long-term returns and value
- **PMA's conservative risk management approach**
 - Asset allocation/sector analysis
 - Credit underwriting and surveillance
 - Collateral process and maintenance



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- **The high integrity business model**
 - Ethics
 - Accountability
- **PMA's focus on long-term relationships and our commitment to value added service**
 - Our drive to be the leader in public finance
 - Our continued investment in improving our capacity and capability to serve clients



PMA Corporate Growth

- **Conservative and strategic growth**
 - Investment management/products
 - Public finance/debt advisory
 - Bank funding strategy
- **PMA expansion executed without debt or leverage**
- **PMA size/growth delivers additional advantage and economies of scale to clients**
- **PMA's national network and client base**

Selected Service Programs





Lessons Learned

- **“Old school” fundamental investment management...it works!**
 - Nothing wrong with getting your money back with a fair return
- **“New math” or quantitative driven investment schemes**
 - Exciting...until they blow up!
 - CDOs, SIVs, ARS, certain ABCP
- **The competitive bid paradox...getting a great rate on a product you might not want**
 - Risk and yield correlation
 - Wall Street vs. Main Street



Looking Forward

- **Proceeding with caution both in the money market space and fixed term program**
 - PMA is probably not the high rate in the market...by choice!
- **Watching closely the health of the banking sector**
 - Bank failures predicted to continue and increase
- **Most of the famous public fund investment fiascos were conceived in low interest rate environments**
 - Use discipline and stay conservative
 - Risk management perspective: lender vs. investor



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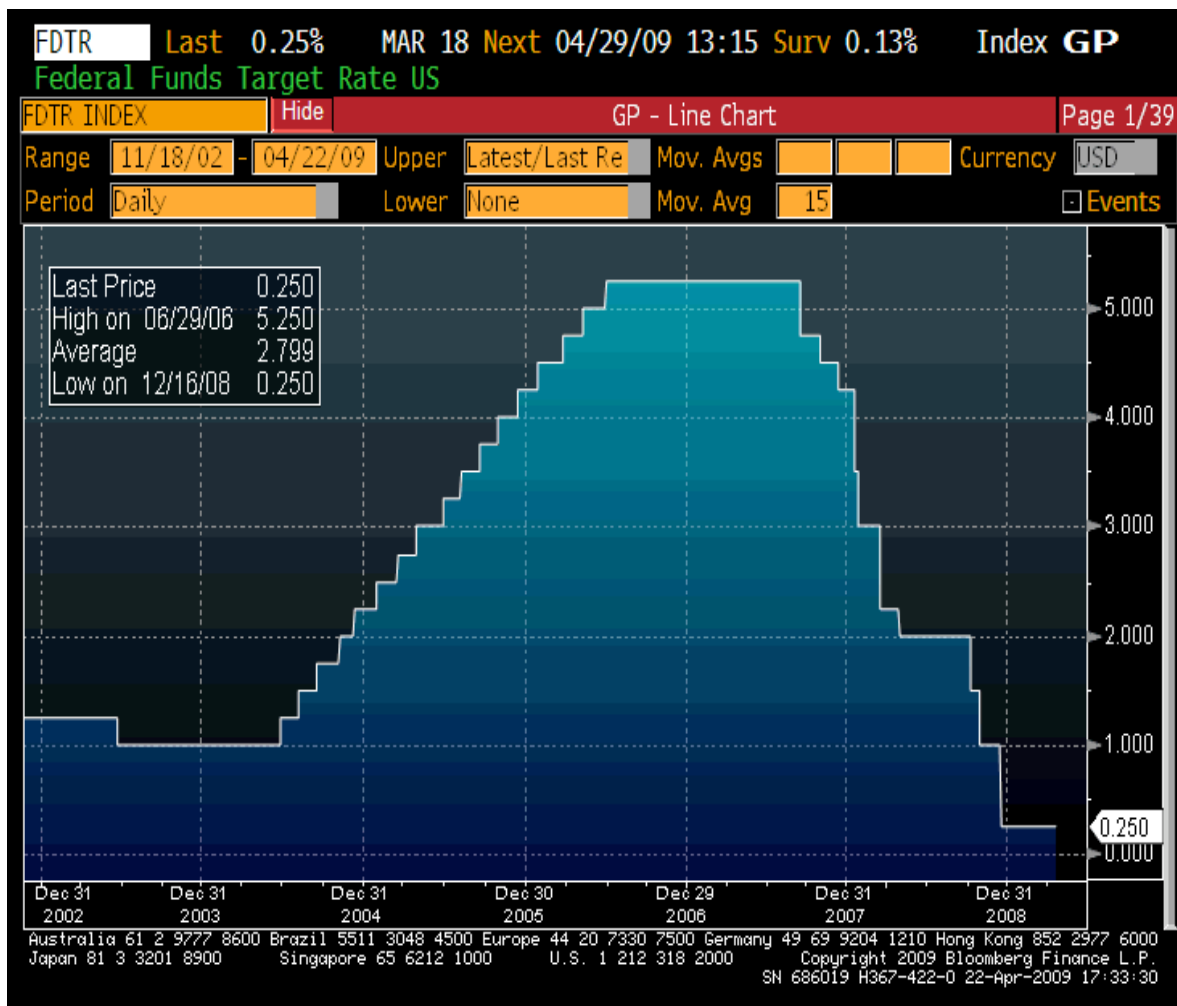


FIXED TERM INVESTMENTS: CHALLENGES & OPPORTUNITIES

Vladimir Dragosavljevic
Senior Vice President
PMA Financial Network, Inc.



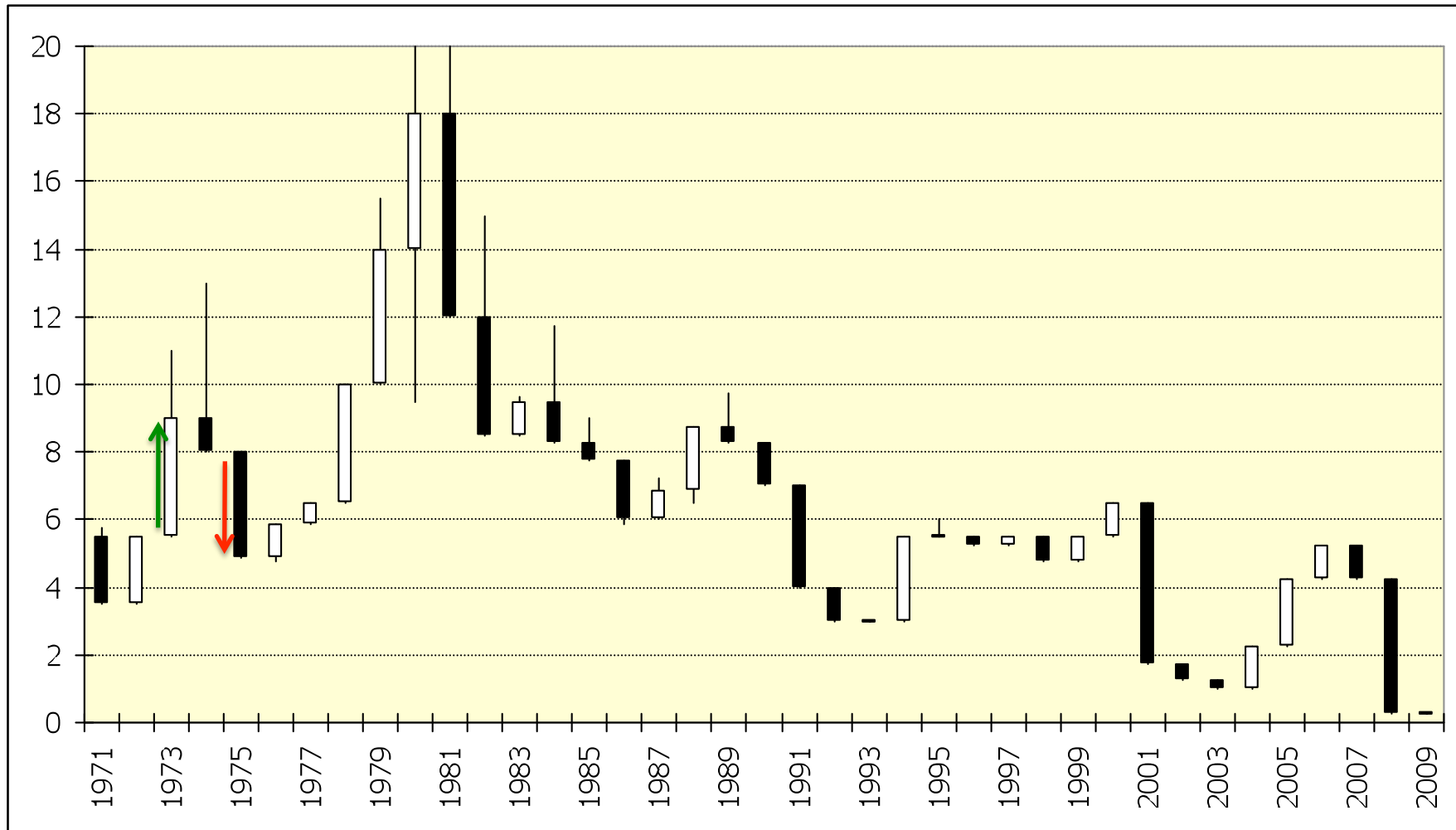
Fed Action



- Since September 2007
 - 10 cuts
 - 500bps – 525bps
- December 2008
 - Set “range” target between 0.00% - 0.25%

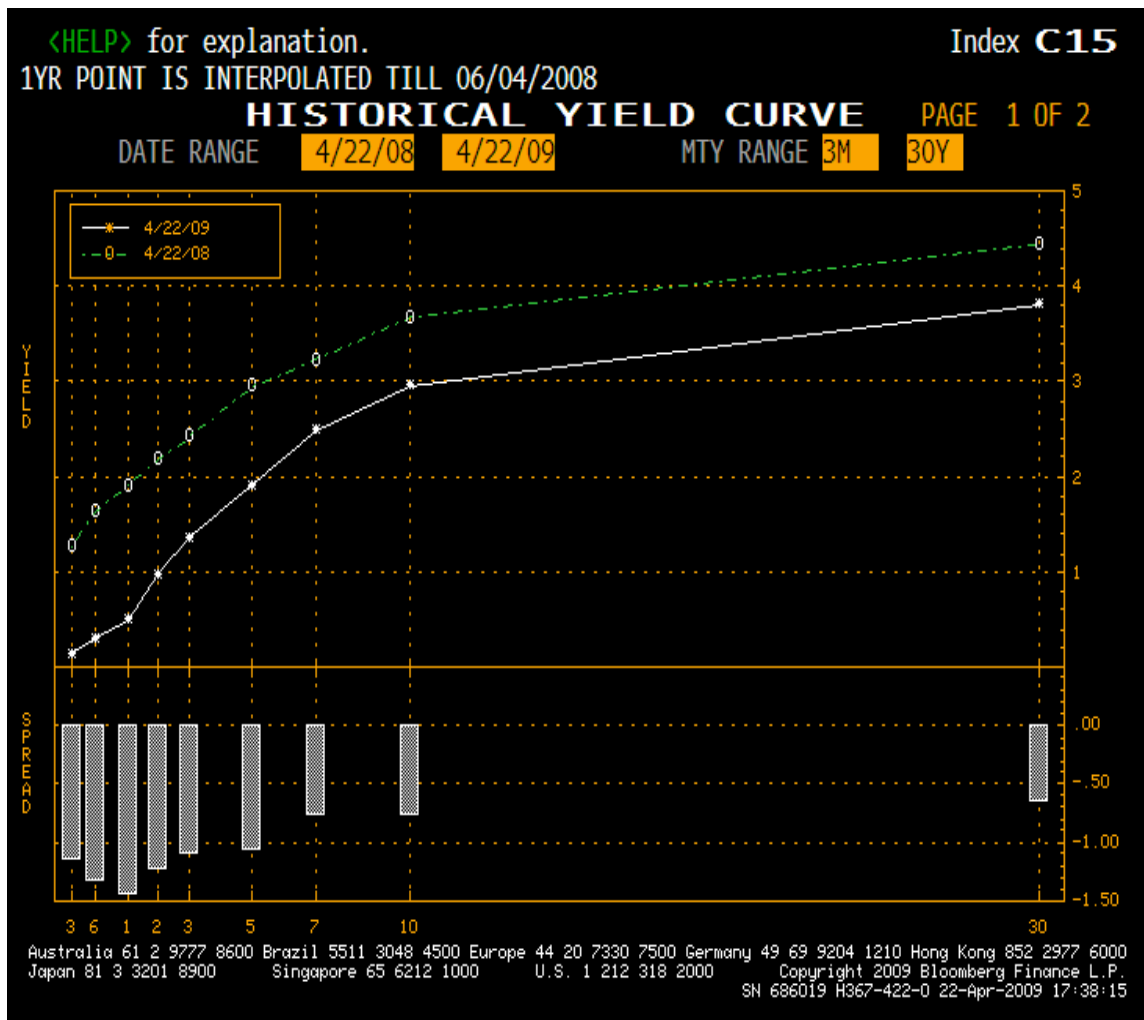


Historical Fed Fund Rate





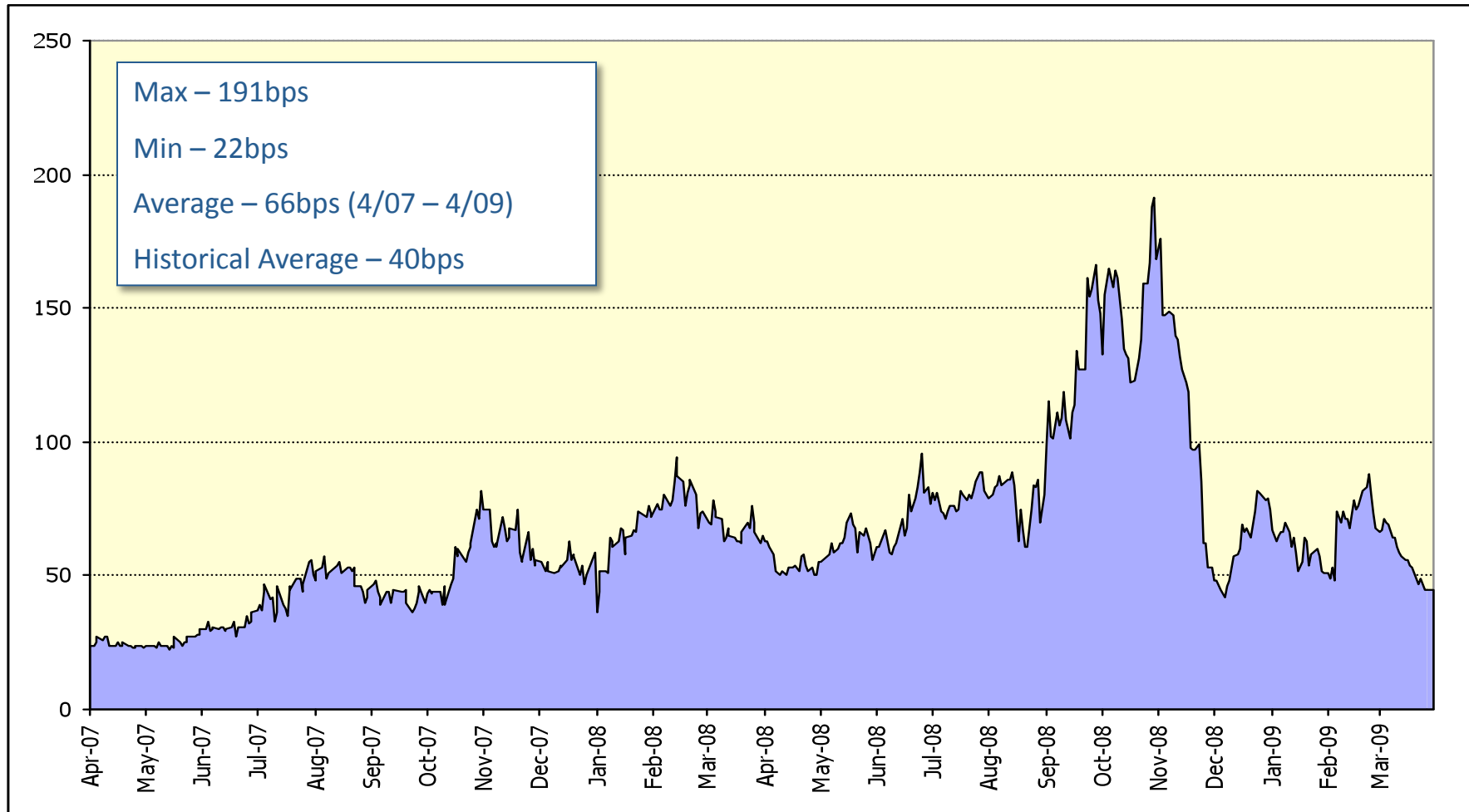
U.S. Treasury Yield Curve



- Positive Sloping
- Rates lower than a year ago
 - Rates declined 70bps – 150bps
 - Short end of curve
 - Fed rate cut
 - Long end of curve
 - Inflation perception



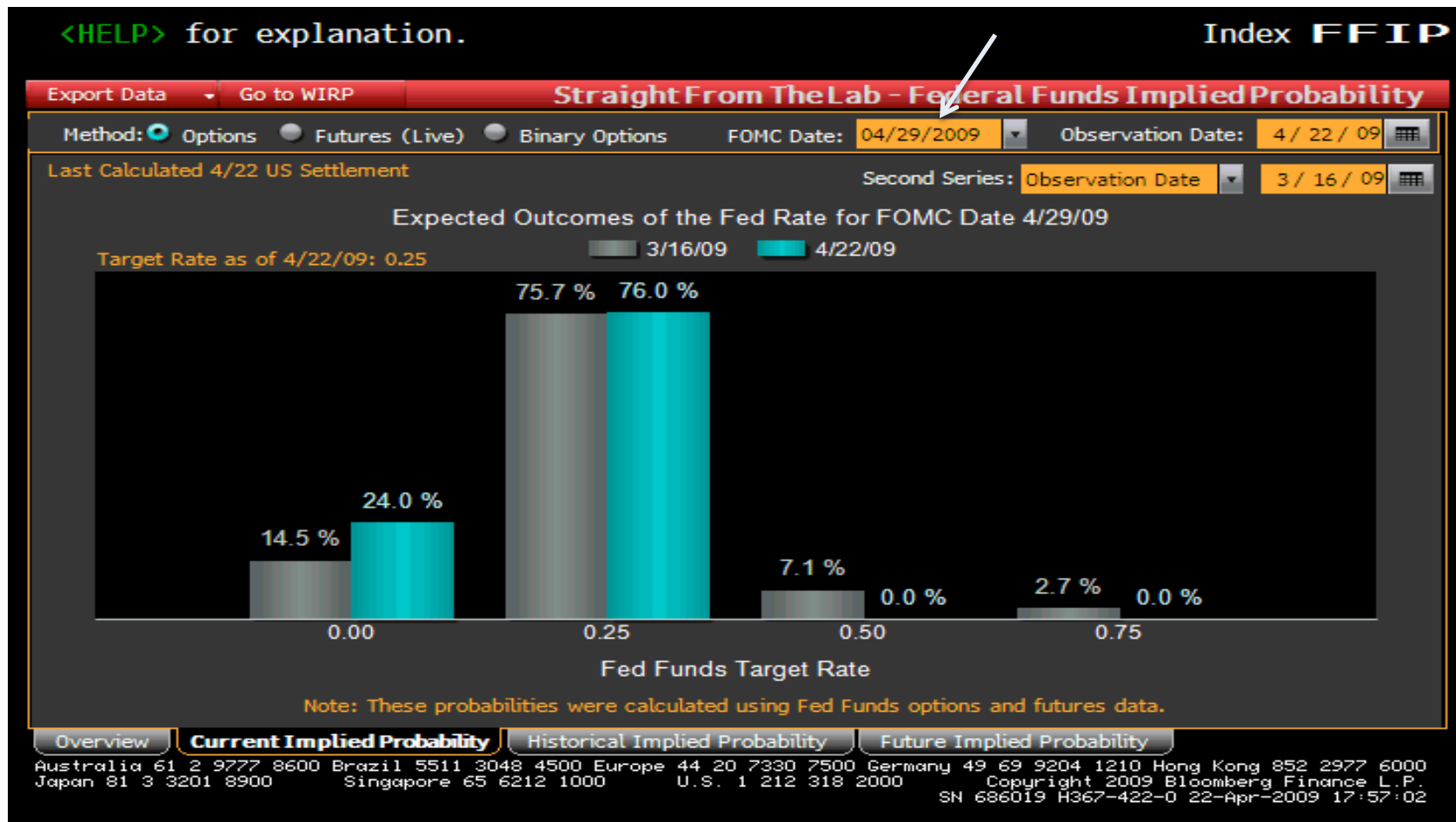
Two Year Agency vs. Two Year Treasury Spread





Fed Fund Rate Outlook 4/29/09

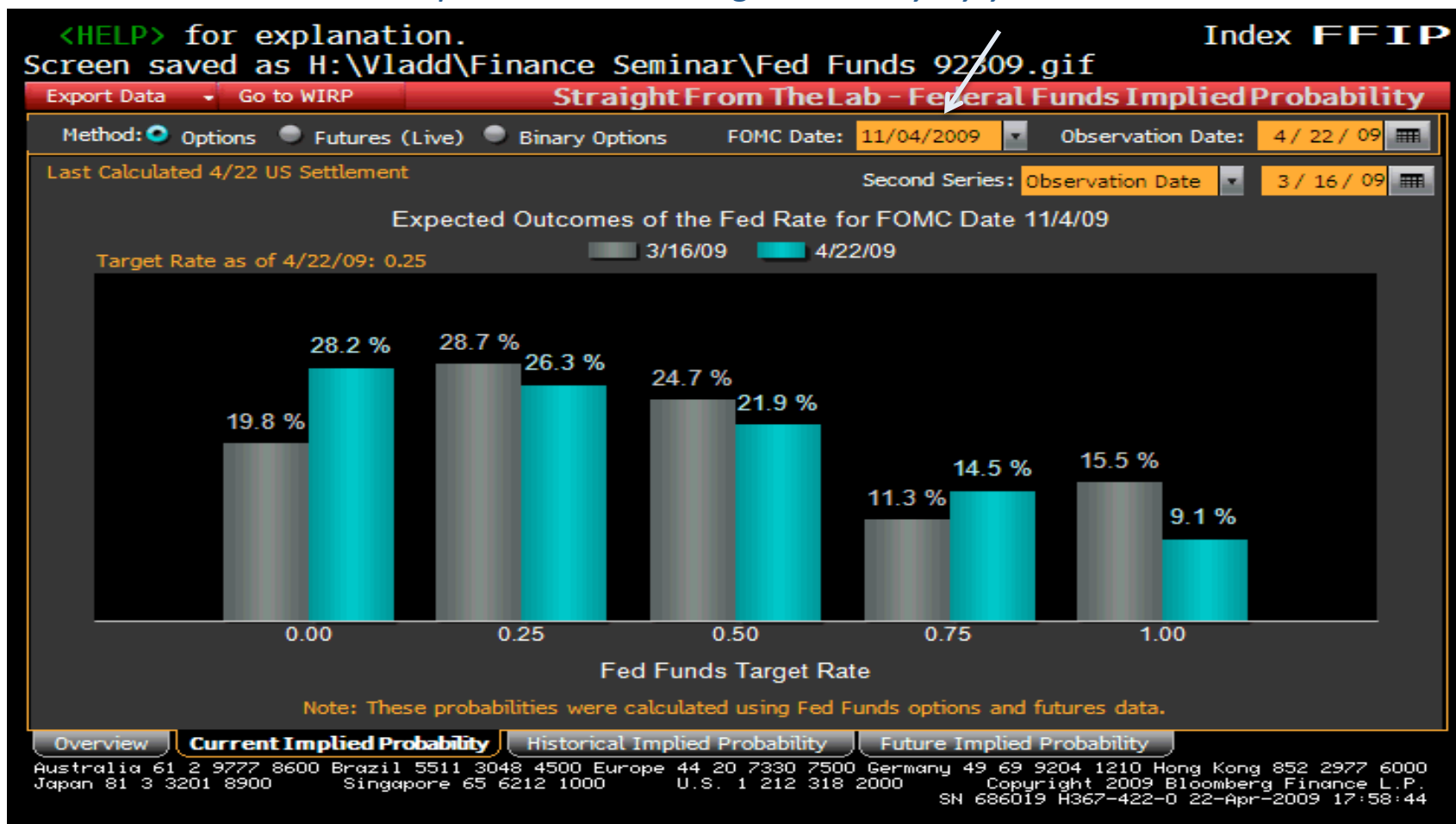
Rates not expected to change at the next FOMC meeting.





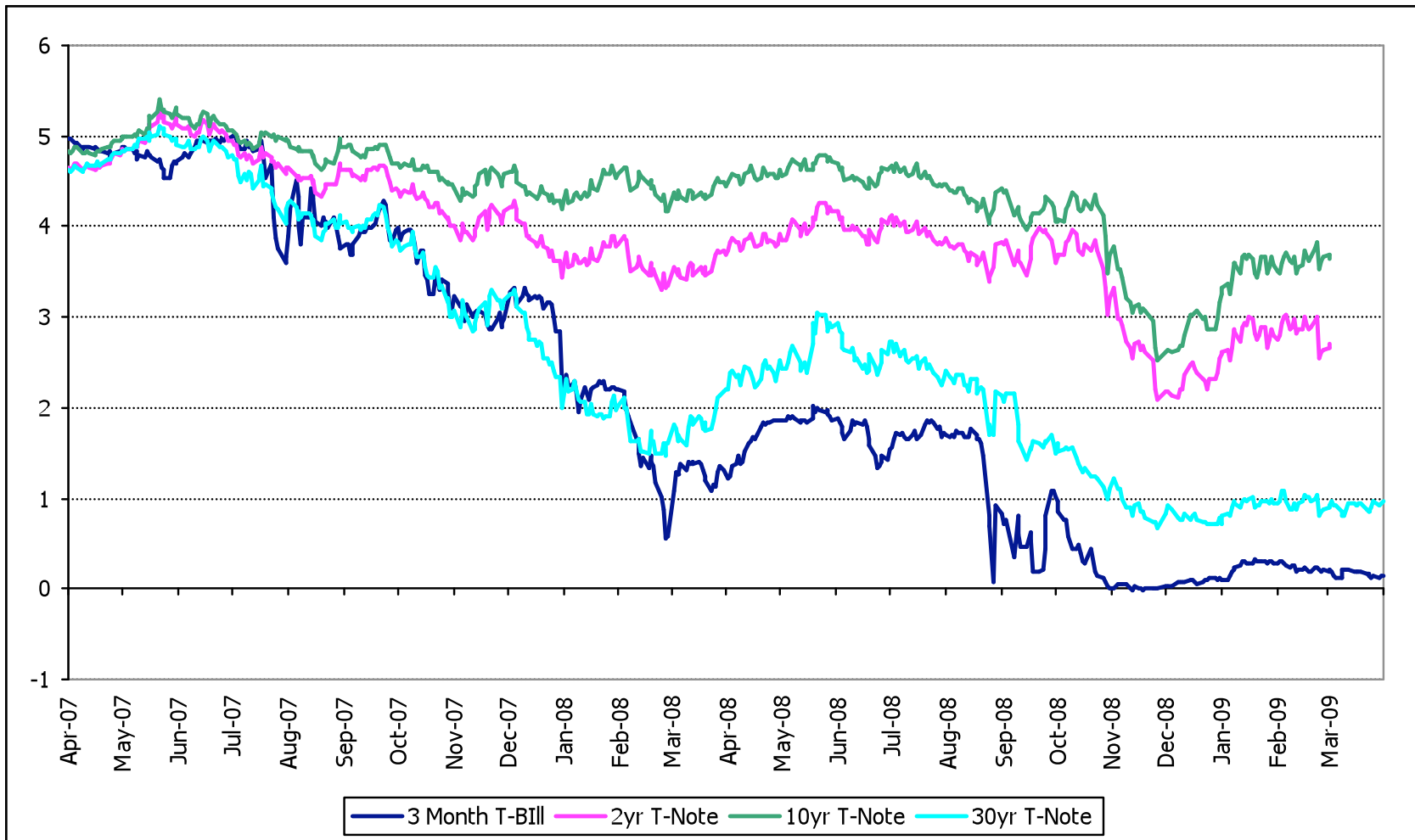
Fed Fund Rate Outlook 11/04/09

Rates expected to hold or grow slowly by year-end.





Historical U.S. Treasury Rates





Certificates of Deposit

- **Be aware of risks and do your homework**
 - Credit risk – Although the deposit is guaranteed, there is no guarantee that the institution will not fail (potential administration or headline risk)
 - Liquidity risk – CDs are not liquid investments and may have early withdrawal penalties if not held to maturity
- **What other factors should I consider with FDIC insured CDs?**
 - Financial strength of the institution
 - Understand the financial strength of the institution
 - Understand the credit process employed by your investment provider



Why Worry About Credit Risk in CDs?

- Banks fail
- A Surety Bond, Letter of Credit or Perfected Security Interest in Pledged Collateral serves as your protection if your bank fails

YEAR	NUMBER OF BANK FAILURES
1994	11
1995	6
1996	5
1997	1
1998	3
1999	7
2000	7
2001	4
2002	11
2003	2
2004	4
2005	0
2006	0
2007	3
2008	25
2009	25 (through 4/23)
TOTAL	114



Prudent Man Analysis

- **Understanding credit quality**
 - Is the bank well capitalized?
 - What type and quality of loans are made?
 - How profitable is the bank and what is the trend?
 - Does the bank face liquidity challenges?
- **Other considerations**
 - Does this investment hold undue headline risk?
 - Has the institution or management faced regulatory issues?
- **Ongoing surveillance of credit quality is critical**
 - Who is watching the bank while the deposit is outstanding?
 - When is it time to limit exposure to institution?



Bank Deposits – PMA Update

Washington, D.C. (March 20, 2009) – The Independent Community Banks of America (ICBA) announced today that it has selected PMA Funding, a service of PMA Financial Network Inc. and PMA Securities Inc., as a Preferred Service Provider. PMA Funding is a value-added service provider for banks, delivering access to stable and consistent deposits that help them more efficiently and proactively manage costs and diversify their funding sources. Through this new relationship, ICBA members can take advantage of multiple funding sources, including access to an established source of municipal deposits.



Summary

- **Focus on Investment Needs**
 - Safety, liquidity and then yield
- **Invest to Your Cash Flow**
 - Do not try to time the market
- **Maximize Earned Interest Income**
 - Diverse product mix
- **Maintain the Highest Level of Service**
 - Integrity. Commitment. Performance.



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DEBT MANAGEMENT UPDATE

Linda Matkowski
Senior Vice President
PMA Financial Network, Inc.

Kelly Kost
Partner

Chapman & Cutler, LLP



A Return to Fundamentals

- **Credit, Credit, Credit...**
 - Fund balance is important
 - Bigger is better...
 - Revenues/Expenditures
 - Reasonable expectations
 - Historic precedent
 - Long Range Financial Projections
 - Assumptions are critical
 - Ability to articulate what the plan will be to “balance the budget”
 - Fund balance is important
 - Fund Balance Policy
 - Debt Policy/Derivative (Swap) Policy
 - Investment Policy
 - Stability with senior financial staff and general administration



A Return to Fundamentals

- **Structure, Structure, Structure...**
 - Bond Insurance
 - Use of insurance is tied to credit rating
 - Expensive if required
 - Current Interest Bonds (CIBs) vs. Capital Appreciation Bonds (CABs)
 - Semi-annual interest payment every year through maturity (CIBs)
 - Annual interest payment for each year/maturity (CABs)
 - Flexibility for future refunding (CIBs)
 - Ability to “hit” tax rate objective (CABs)



A Return to Fundamentals

- Discount vs. Premium Bonds
 - Paying for cost of issuance and, if necessary, capitalized interest
 - Requesting enough to cover it – discount
 - » Asking for enough borrowing authority to cover paying costs of issuance with bond proceeds
 - » Generally less expensive
 - Generating enough to cover it - premium
 - » Generating a high enough sale price to cover paying costs of issuance through “premium”
 - » Generally more expensive
- Bond and Interest Rates and Taxpayers
 - Recent difficulties with “level” bond and interest rate
 - Level Debt Service



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GOOD FINANCIAL PLANNING IN A BAD ECONOMY

Steve Miller and Scott Smith
Senior Financial Advisors
PMA Financial Network, Inc.



Case Study – Expenditure Reductions

- **District forecast shows a \$6.7 million deficit for FY2010 and District’s goal is a balanced budget (Exhibit 1)**
- **Proposed Solutions for FY2010**
 - Increase average class-size by three students (Ex. 2)
 - Additional laundry list of reductions (Ex. 3)
 - Administrative reductions
 - Support staff reductions
 - Defer capital items
 - Hiring freeze
 - Wage freeze
 - Close two elementary buildings (Ex. 4)
- **For FY2010 close a high school (Ex.5)**



Case Study – Tax Increase Referendum

- **District forecast shows significant deficit spending over the next five years, District is considering appealing to the voters for a tax increase (Ex. 6)**
 - What is the rate increase necessary to address the fund balance trend? (Ex. 7)
 - What would be the impact of declining EAV be on a traditional rate increase question? (Ex. 8)
 - Would a PTELL referendum be a better solution? (Ex. 9)



Debt Service Considerations

- **Bond and Interest Tax Rate**
 - With EAV growth being less or even declining, how much of an effect is this having on your District's total tax rate?
- **Debt currently paid from Operating Funds (Debt Certificates, Lease Certificates)**
 - When can a Funding Bond be considered?
- **Working Cash Bonds**
 - Is this a better option than a tax rate increase?
 - SB2051



IMRF/TRS Considerations

- **IMRF – Overall investment loss of \$6.1 billion for 2008 increases employer contribution rate by 10% per year as part of phase-in**
 - How will this impact the IMRF Levy each year?
 - What impact will this have on Educational or other Funds?
 - If not tax-capped, will total tax rate be increasing significantly?
- **TRS**
 - Will investment losses have similar impact?
 - How does current contract read if TRS is Board paid?



Disclaimer

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Data contained in slides 11-17 is sourced from Bloomberg as of April 22, 2009.

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