



FINANCIAL ADVISORY NOTES

For New Jersey Municipal Bond Issuers

FOURTH QUARTER, 2008

Selected New Jersey Municipal Bond Issues/ Interest Rate Trends – Fourth Quarter

| Sale Date | 15-Oct | 06-Nov | 18-Nov | 19-Nov | 04-Dec | 30-Dec |
|--------------|-----------------|----------------|--------------|--------------------|------------------|-----------------|
| Amount (Mil) | \$6.656 Mil | \$3.278 Mil | \$ 5.392 Mil | \$ 0.200 Mil | \$2.284 Mil | \$ 1.782 Mil |
| Issuer | Ridgefield Boro | Somerville BOE | Delaware Twp | Toms River Reg BOE | Bergen County IA | Clinton Twp BOE |
| Type | comp bond | comp note | comp bond | taxable note | taxable CREB | comp note |
| Redemption | 2018 @ par | n/a | 2018 @ par | n/a | n/a | n/a |
| NIC/TIC | 4.57% | 2.99% | 4.95% | 4.00% | 1.05% | 4.43% |
| Rating | Insured AAA | not rated | Insured Aaa | not rated | not rated | not rated |

The TIC, or NIC which determines the winning bid in a competitive sale, is influenced by the bond or lease issue's particular characteristics including term, premium/discount, average life, redemption provisions and par value. Municipal issuers need to consider these factors when structuring their bonds.

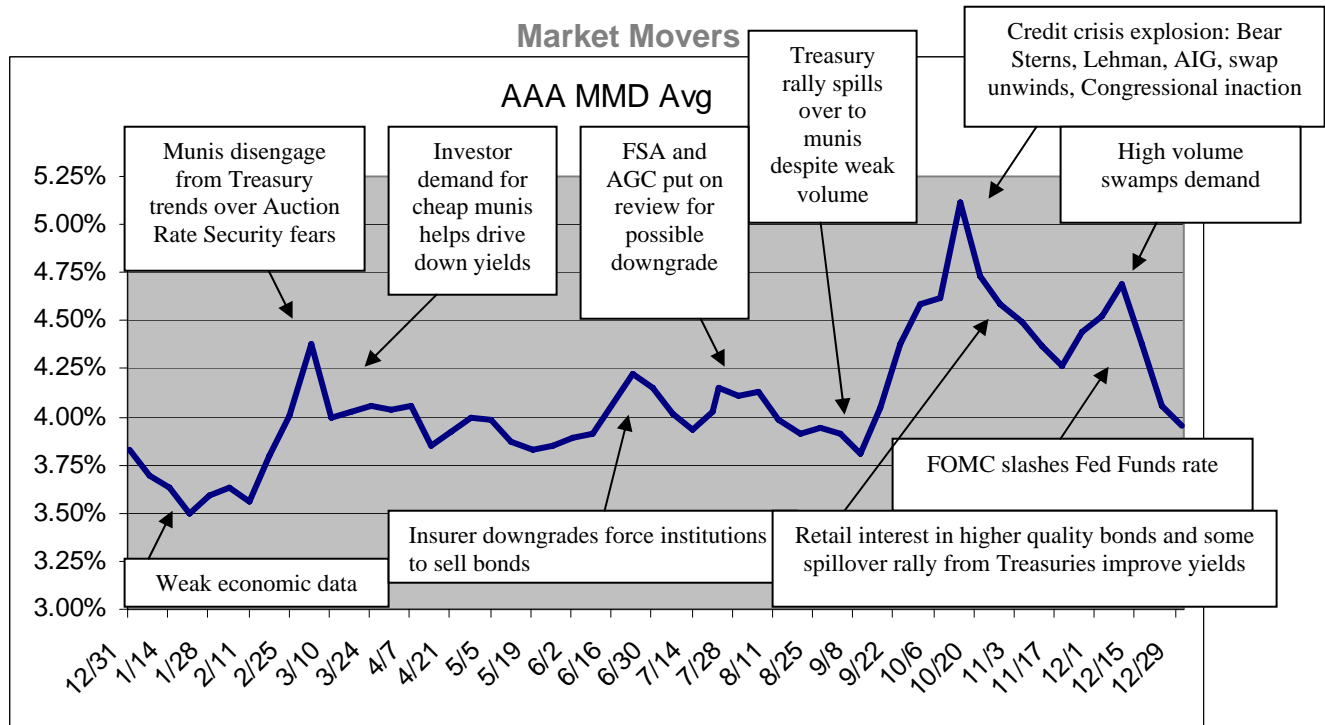
First Quarter Yield Indexes

| MMD AAA Yield Scale | 30-Jul | 31-Oct | 28-Nov | 31-Dec |
|---------------------|--------|--------|--------|--------|
| 1 Year | 2.10% | 1.55% | 1.05% | 0.85% |
| 5 Years | 2.83% | 2.85% | 2.37% | 2.03% |
| 10 Years | 3.30% | 3.39% | 2.93% | 2.47% |
| 15 Years | 4.20% | 4.31% | 4.02% | 3.52% |
| 20 Years | 4.98% | 4.84% | 4.79% | 4.42% |
| 25 Years | 5.14% | 5.06% | 5.12% | 4.80% |

Source: TM3

Yield Movement for the Quarter

The adoption of the fiscal bailout bill did little to strengthen the municipal bond market. The quarter began on an incline with sharply steepening yields in mid-October as leveraged trades began to unwind and investors for longer-termed municipals disappeared. Yields declined through November's end as investors recognized the cheapness of munis versus other securities. The rally ended in early December due mostly to a large increase in municipal bond issuance and the lack of depth in market investors, primarily trust funds and high worth individuals. Once the Federal Reserve slashed the fed funds rate however, investor interest was again piqued, and yields resumed their downward movement helped in part by a light calendar .



Quarterly Statistics of Interest

Volume - New issue volume was down 9% for the year and 33% for the last quarter at \$70 billion in new issue volume. The decline was due, among other factors, to the downgrading of insurers, the failure of the auction rate securities market, the disappearance of several larger broker-dealer market participants, and the unwinding of leveraged transactions. Competitive sales in particular were down 27% for the year and 64% for December as issuers turned to negotiated transactions for fear of failed sales. (Several NJ issuers including the Port Authority of New York/New Jersey were unable to procure competitive bids for note sales this quarter). Volume in early December did pick up however, as, in response to falling yields, issuers brought to market postponed debt offerings that could no longer be delayed.

More Downgrades - Standard and Poor's lowered ratings on a number of US financial institutions, and Moody's Investors Service downgraded two of the last Aaa rated municipal bond insurers this quarter. S&P's downgrade affected several municipal bond market participants, both as letter of credit providers and bond purchasers including Bank of America NA and JPMorgan Chase Bank NA. Moody's downgrade of the insurers was based on a reduced financial model for financial guaranty insurance and diminished business profile. S&P still rates both insurers, Assured Guaranty and FSA as triple-A. Berkshire Hathaway Assurance is the only remaining insurer still rated at triple-A by Moody's, S&P and Fitch; however its rating is supported by a guarantee from its affiliate Columbia Insurance Company.

Historically Wide Spreads - Those fortunate issuers with natural triple-A ratings had a much easier time selling bonds this quarter due to a flight to US Treasury equivalent quality debt among investors. On December 22, the spread between a triple-A and a single-A rated bond was 126 basis points, the highest level recorded since 1991

Forward Financing Concerns for New Jersey Boards of Education

Return of the Retail Investor - Improvement in municipal bond yields during the last quarter has been largely attributed to a renewed interest by the retail investor. Much of the traditional institutional investor base dried up and became sellers rather than purchasers of munis, and retail investors were attracted by the resulting high yields and relative security of municipal bonds. In the absence of the institutional buyers whose purchases were larger and often short-term, the market going forward will be much thinner, with higher quality bond issuers faring better. Bond issuers need to monitor retail appetite to gauge increasing investor confidence along the yield curve and structure their offerings accordingly.

Troubled Times Ahead? - Local governments and boards of education face potentially difficult times in the first half of 2009. In addition to severe fiscal crises at the state level as cited by the National Governor's Association, Moodys noted in a recent report that property tax revenues, about 72% on average of local governments' taxes, may fall more quickly than in other recessions. This decline will impact both operational budgets and debt capacity. Market volatility may exacerbate the problem, increasing costs for local governments dependent on cash-flow borrowing for short-term liquidity, and for those infrequent issuers that borrow short-term (such as bond anticipation notes sometimes issued by BOES)

Federal Aid? - Hope is mounting for assistance, both direct and indirect for the municipal bond market from the economic stimulus package being developed by the incoming Obama Administration. Direct assistance may include the purchase and/or guarantee of municipal bonds by the federal government, backstopping of municipal investments, and greater use of tax-credit bonds at the federal level, particularly for infrastructure and energy projects. Indirect assistance could include monies to states for infrastructure needs, Medicaid and unemployment benefits and an increase in education funding.

Energy Generation and Management - The Obama Administration is likely to increase its support for renewable energy projects in the public sector via tax-credit bonds. In 2008, CFA was the only financial advisor in NJ to issue 0% tax credit bonds for energy projects and we look forward to new energy financings in the coming year. The State of NJ has also enacted several new subsidy programs, and the legislature has approved two bills regarding financing options for energy conservation to allow for solar power purchase agreements and 15 year energy conservation agreements, to be funded by a lease or refunding bonds. (No referendum!) Regulations are currently being developed - Please contact us for further information.

Please contact Robbi Acampora or Mary Lyons with any questions or comments.