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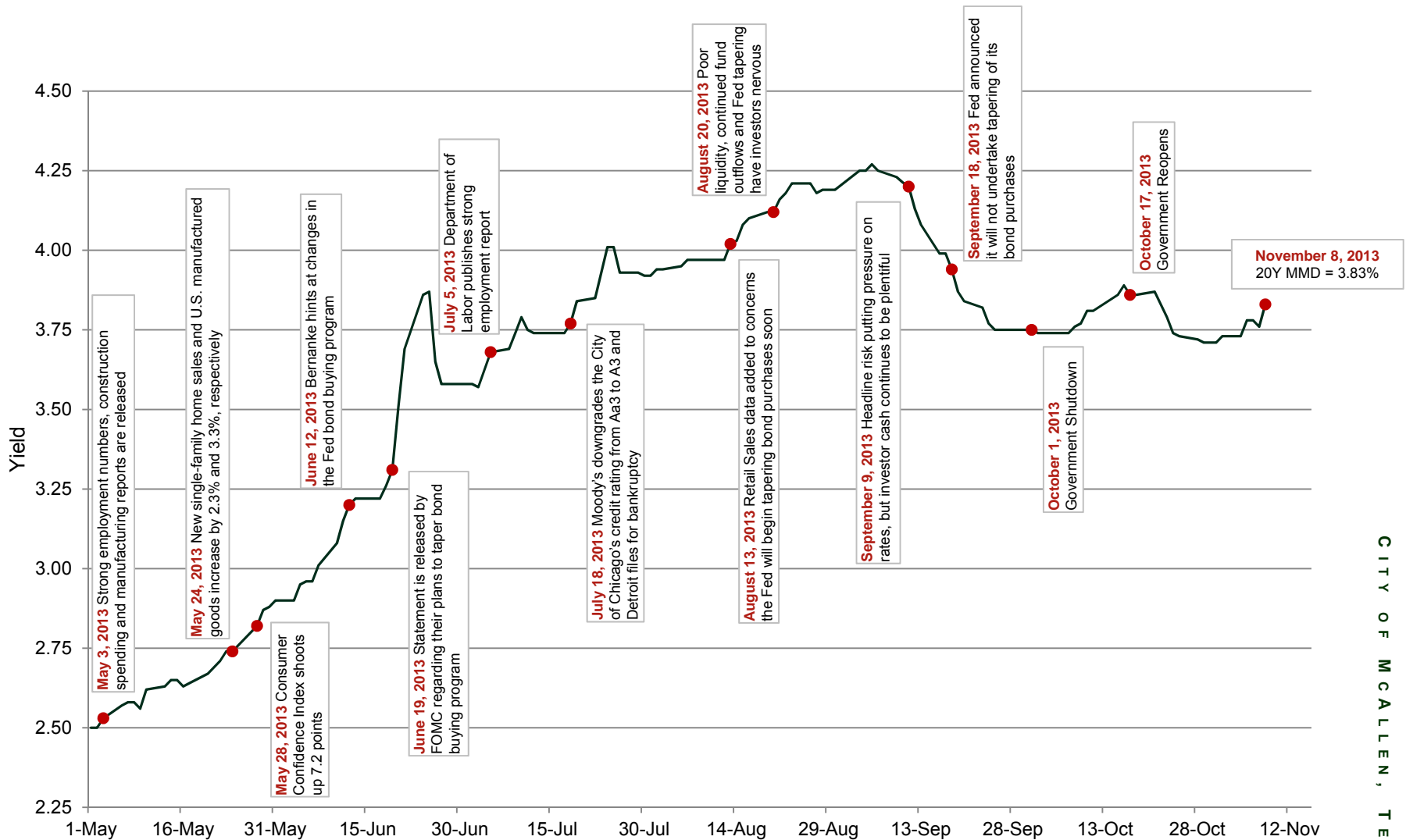
December 9, 2013

Current Municipal Market Conditions and Proposed Schedule of Events

Municipal Markets Began Eroding in May

- A combination of factors have contributed to market erosion
 - Mixed economic indicators
 - Fiscal debate
 - Debt ceiling
 - Fed Chairman selection
 - Confusion surrounding Fed tapering
 - Disjointed communications
 - Committee with wildly divergent views on the economy
 - Financial Stress
 - Detroit bankruptcy
 - Puerto Rico
 - Erosion of Pension Funds
- Issues on the horizon include:
 - Municipal Advisor Rules
 - Fed proposal to eliminate use of municipal bonds to satisfy liquidity requirements
 - Public comments due January 31, 2014
 - 35 banks with assets of over \$50 billion are affected
- These factors have led to a significant rise in long-term interest rates since May
 - Considerable municipal bond fund outflows
 - Higher borrowing costs for municipal issuers

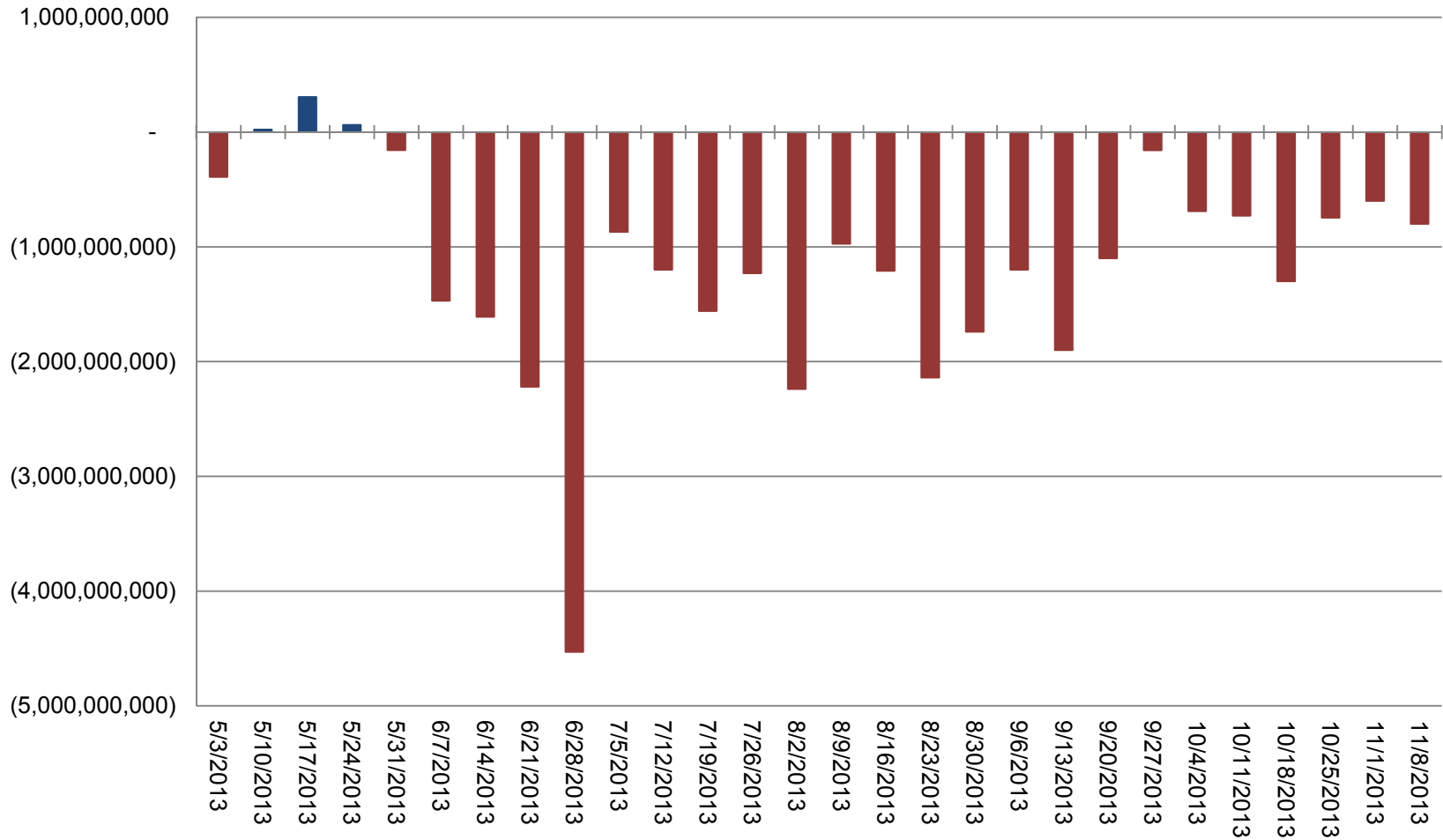
Change in 20-Year MMD Since May 1, 2013



CITY OF MCALLEN, TEXAS

Source: Thomson Reuters (TM3) MMD Interactive

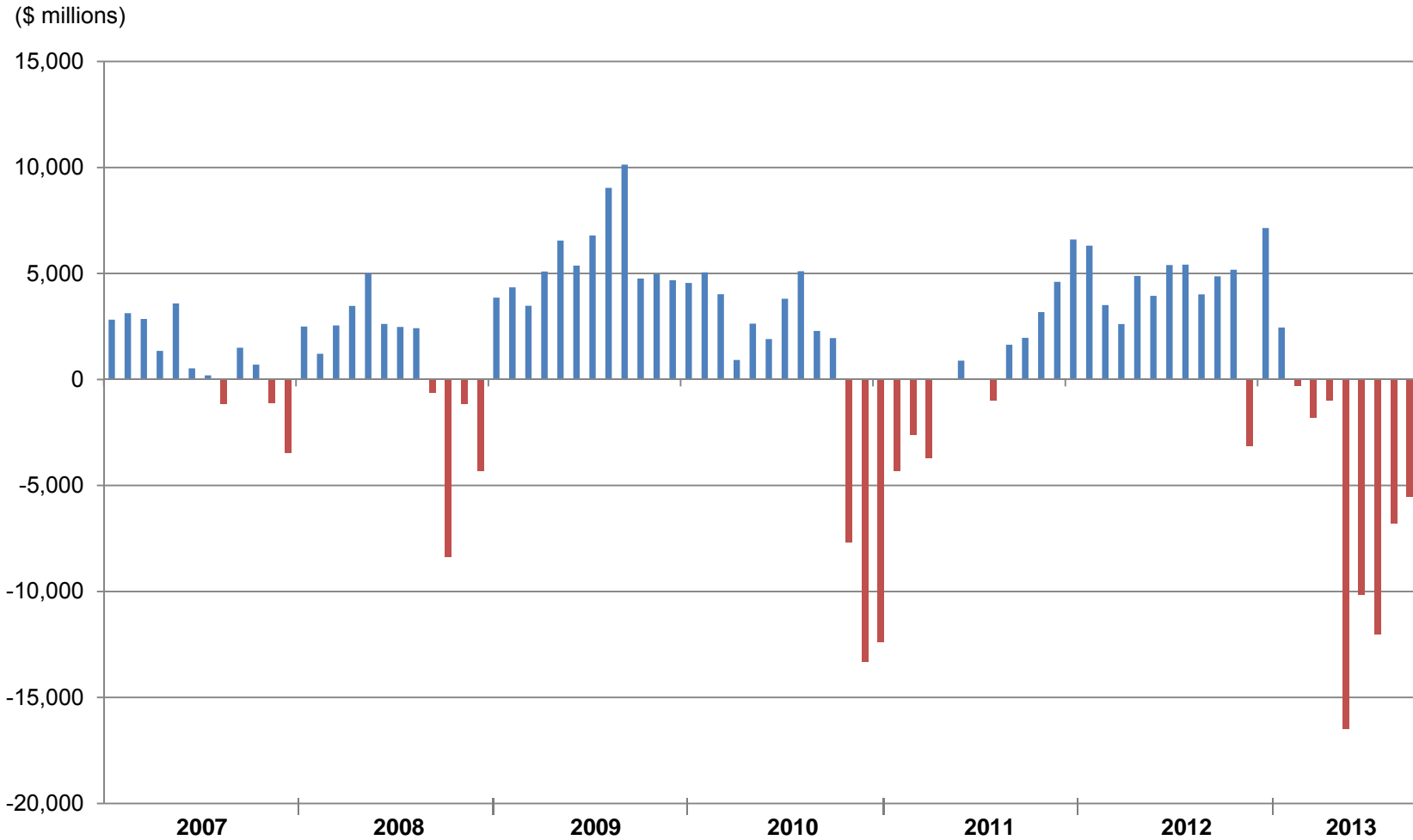
Municipal Bond Funds Outflows Have Been Significant



CITY OF MCALLEN, TEXAS

Source: Lipper FMI

Estimated Long-Term Mutual Fund Municipal Bond Flows

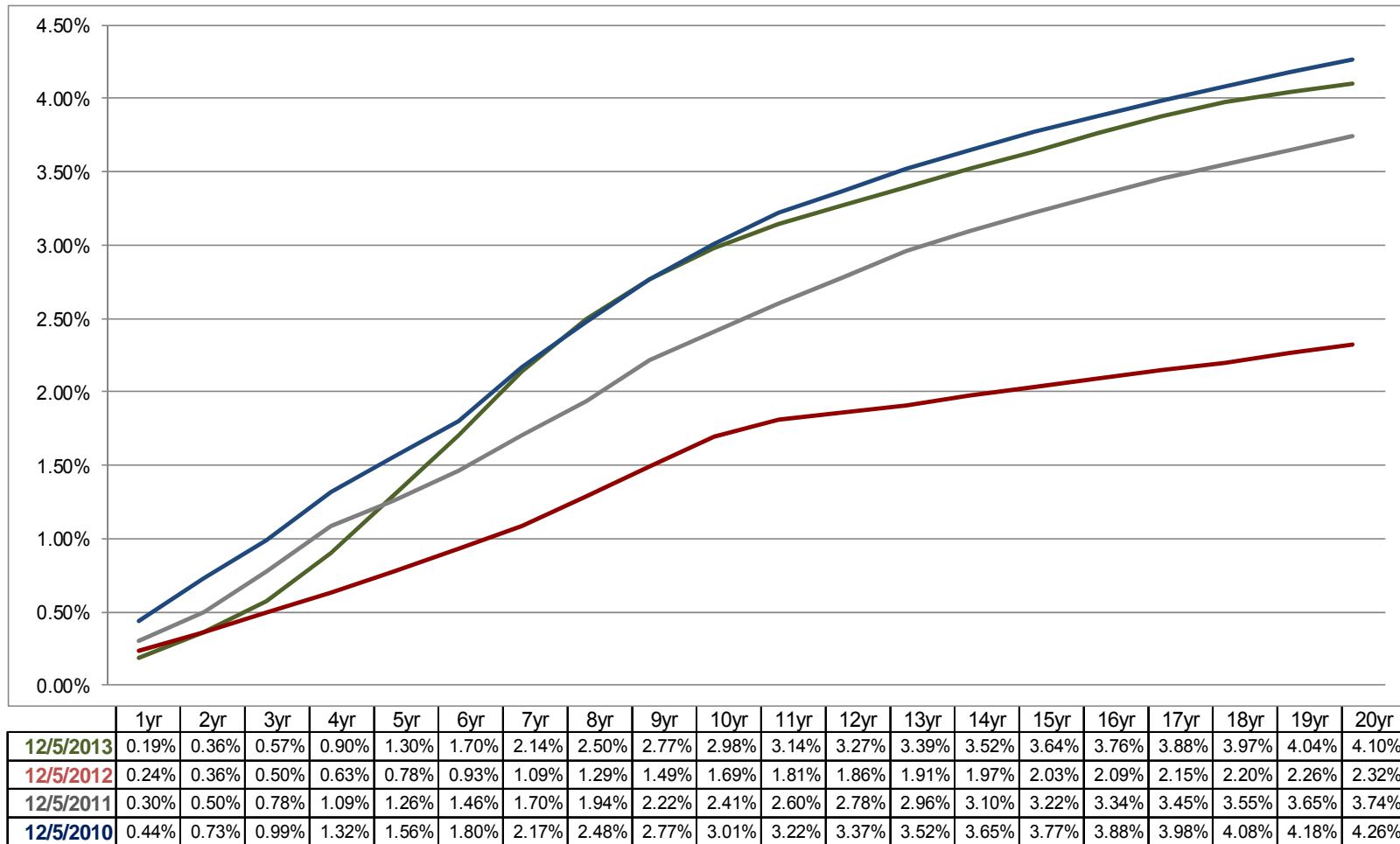


Source: Investment Company Institute

Weekly cash flows are estimates that are adjusted to represent industry totals, based on reporting covering 95 percent of industry assets, while Monthly flows are actual numbers as reported in ICI's "Trends in Mutual Fund Investing."

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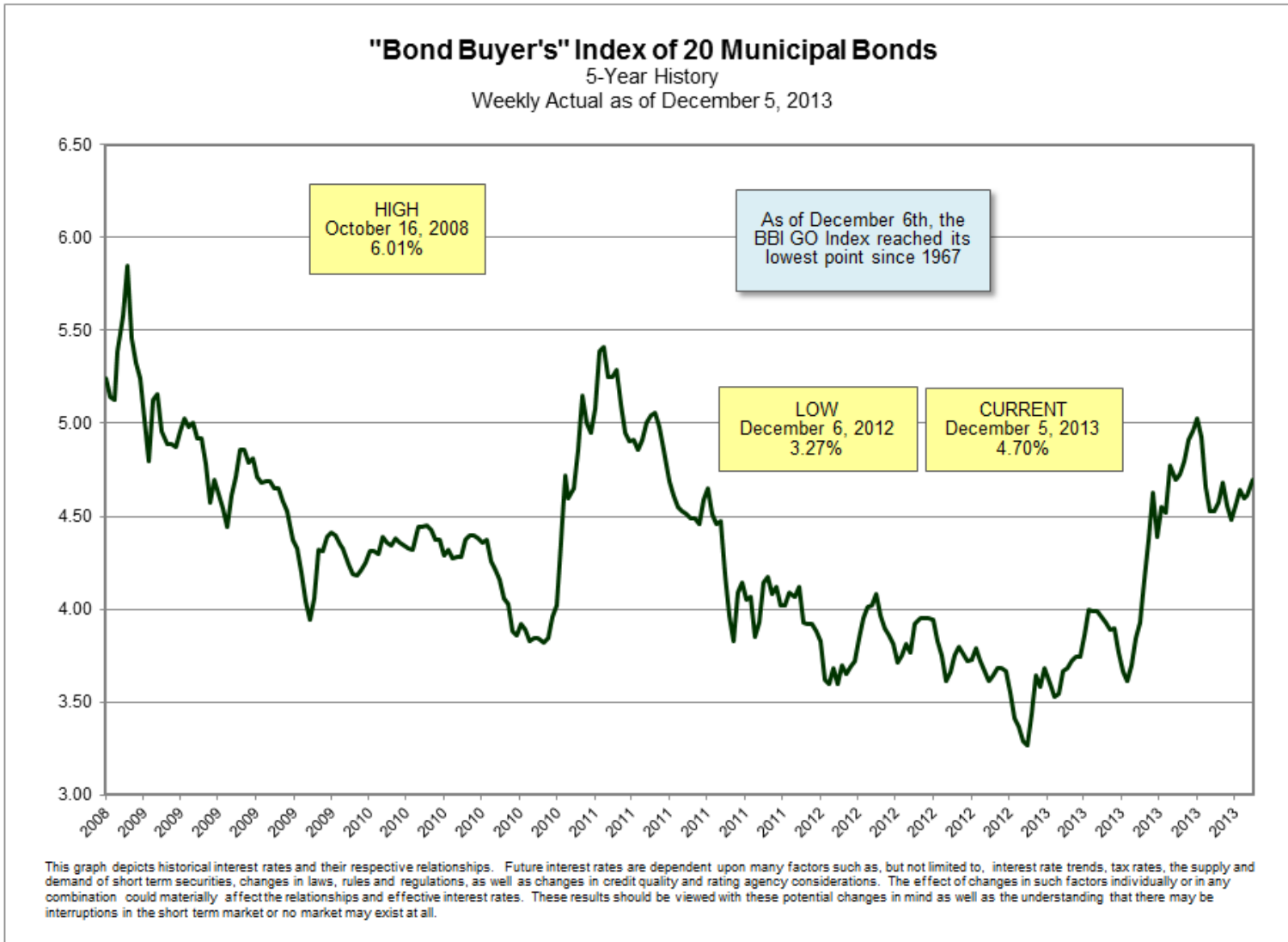
AAA MMD Yield Comparisons⁽¹⁾



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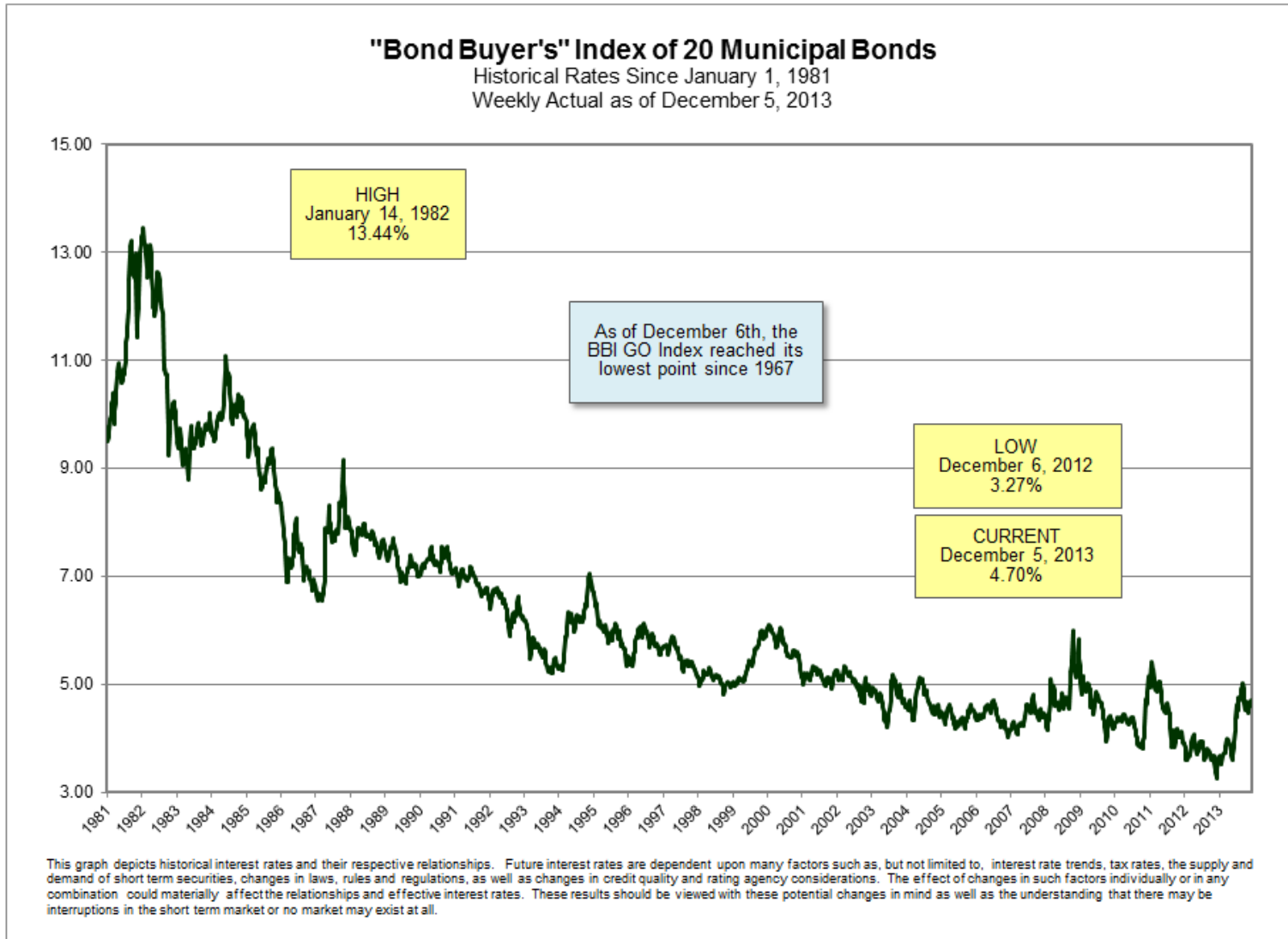
(1) Source: Thomson Reuters Municipal Market Data.

Bond Buyer's Index of 20 Municipal Bonds



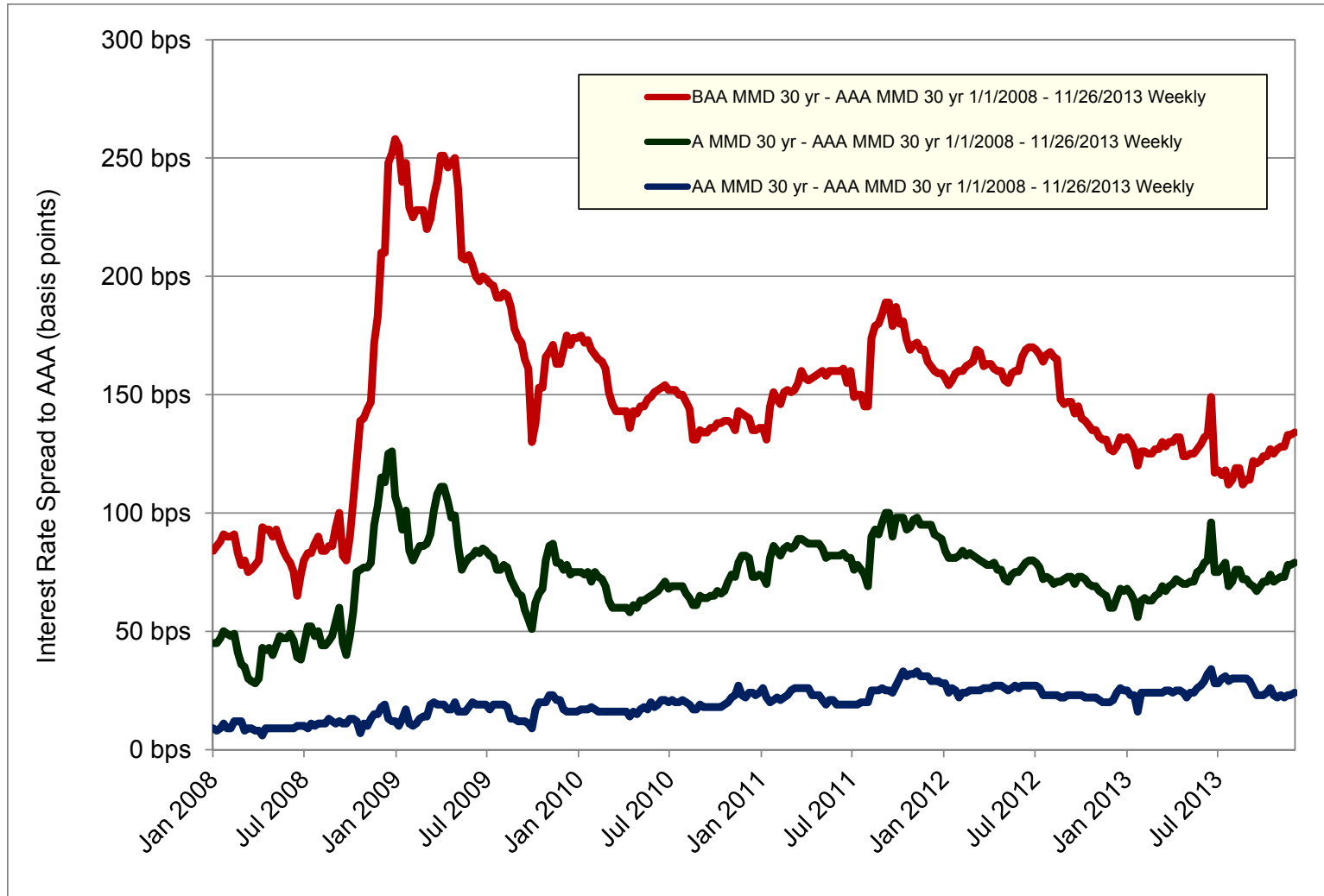
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Bond Buyer's Index of 20 Municipal Bonds



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Credit Spreads



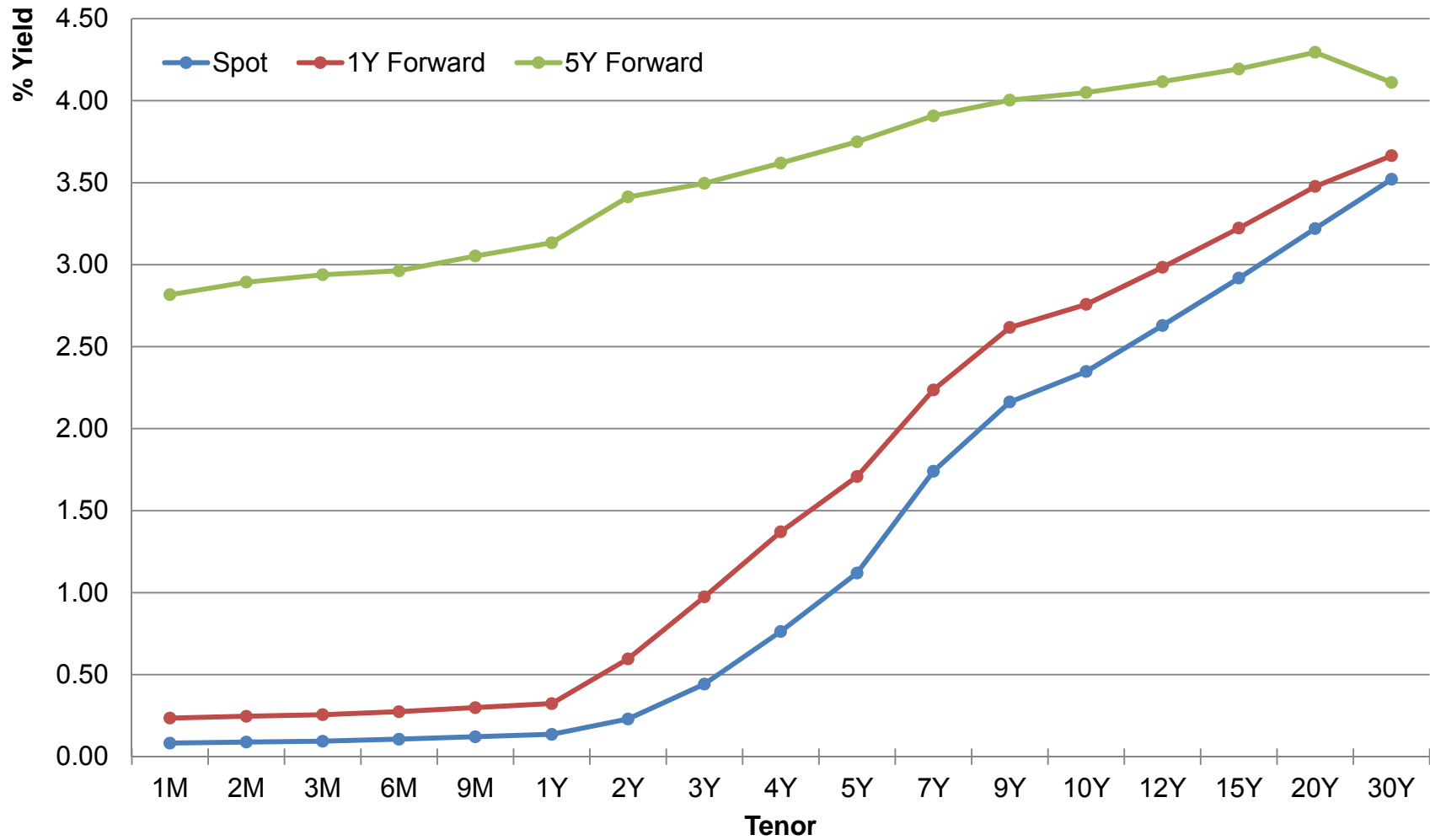
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U.S. Interest Rate Forecasts

	Market Yield	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15
US – 30-year	3.85	3.84	3.97	4.09	4.19	4.26	4.28
US – 10-year	2.75	2.78	2.94	3.09	3.24	3.33	3.38
US – 2-year	0.31	0.43	0.51	0.61	0.76	0.89	0.87
US – 3-Month Libor	0.24	0.27	0.28	0.31	0.35	0.4	0.48
Fed Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.38
2 Year – 10-Year Spread	2.44	2.35	2.43	2.48	2.48	2.44	2.52
2 Year – 30-Year Spread	3.53	3.41	3.46	3.47	3.44	3.36	3.41
10 Year – 30-Year Spread	1.10	1.07	1.03	0.99	0.96	0.92	0.90

Source: Bloomberg

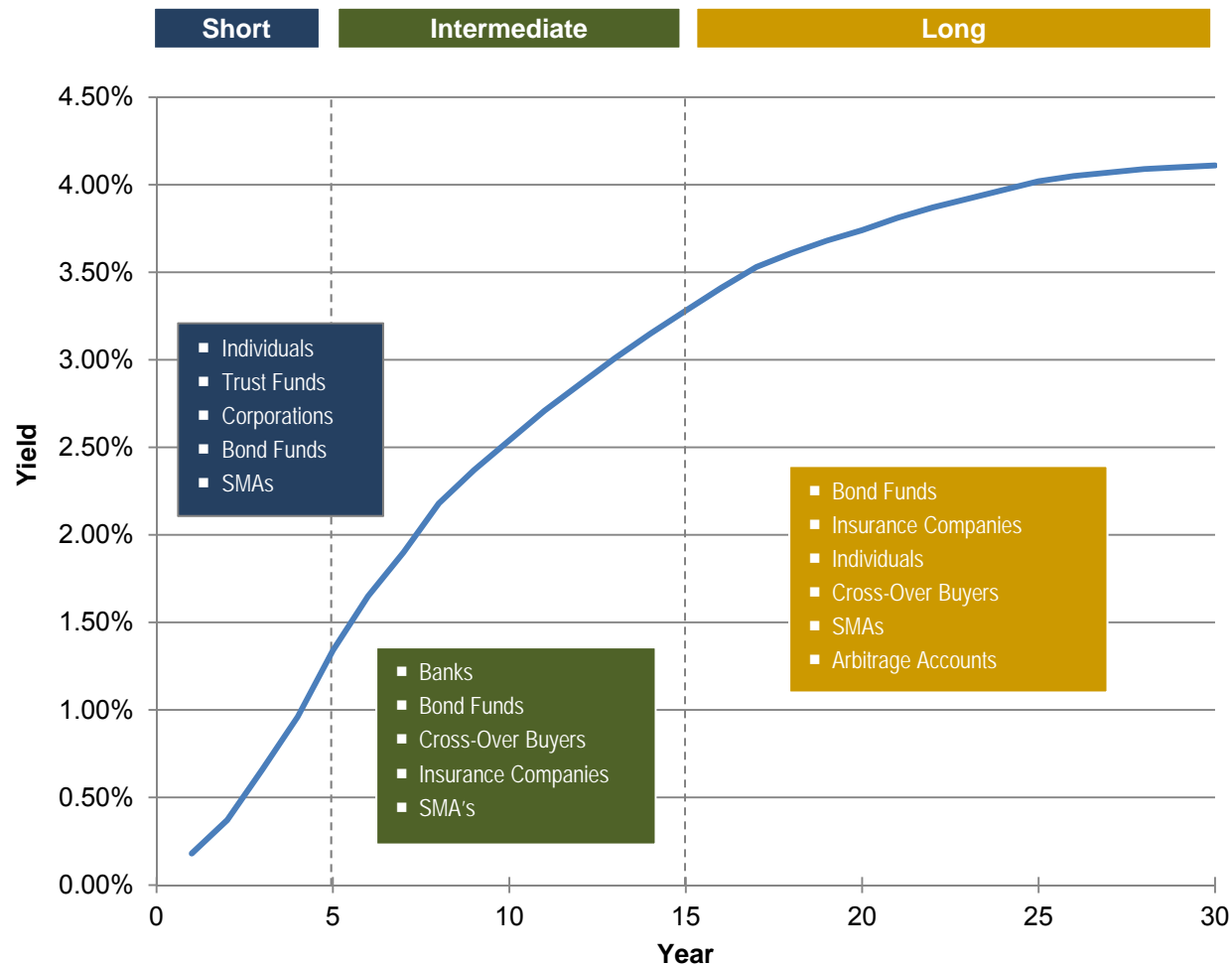
SIFMA Yield Curve



Source: Bloomberg

CITY OF McALLEN, TEXAS

Current Market Investors



Investors

Retail

- Individual Investors
- Includes Trust and/or Advisory
- Separately Managed Accounts (SMAs)

Institutional

- Property and Casualty Insurance Companies
- Bond Funds
- Other large buyers such as Large Corporations
- Hedge Funds/Trading Accounts
 - Dealer Tender Option Bonds (TOBs)
 - Smaller share than before

Middle Market

- Banks
- Small Mutual Insurance Companies
- Local and Regional Money Managers and Investment Advisors

CITY OF MCALLEN, TEXAS

Competitive vs. Negotiated Sale

Negotiated Sale

- Pre-selected syndicate negotiates the rates and terms with the issuer and the financial advisor
- Pricing occurs 1 to 3 days prior to the award date
- Size and structure can be finalized at pricing
- Underwriting spreads may be lower since there is less uncertainty during volatile markets
- Significant market data provides comparable transactions for pricing evaluation

Pros	Cons
<ul style="list-style-type: none"> ▪ Flexibility in timing of sale to take advantage of market conditions ▪ Effective pre-sale education and marketing ▪ Reduced need to compensate for risk ▪ Ability to reprice with strong order flow ▪ Issuer involvement with allocations 	<ul style="list-style-type: none"> ▪ Potential criticism of underwriting syndicate selection ▪ Need to find market comparisons for price evaluation ▪ Potential additional underwriting cost for management fee

Competitive Sale

- Bonds sold at a certain date and time
- Once announced, the date, time, size and structure cannot be easily changed
- Limited flexibility could be mitigated with the ability to modify the bid specs before and after the sale
- Underwriter's discount is imputed in the interest rate
- Underwriting spreads may be higher during volatile market and/or with more complex credits
- In today's market, buyers are willing to pay-up for higher quality credits
- Numerous bids result in fair comparison

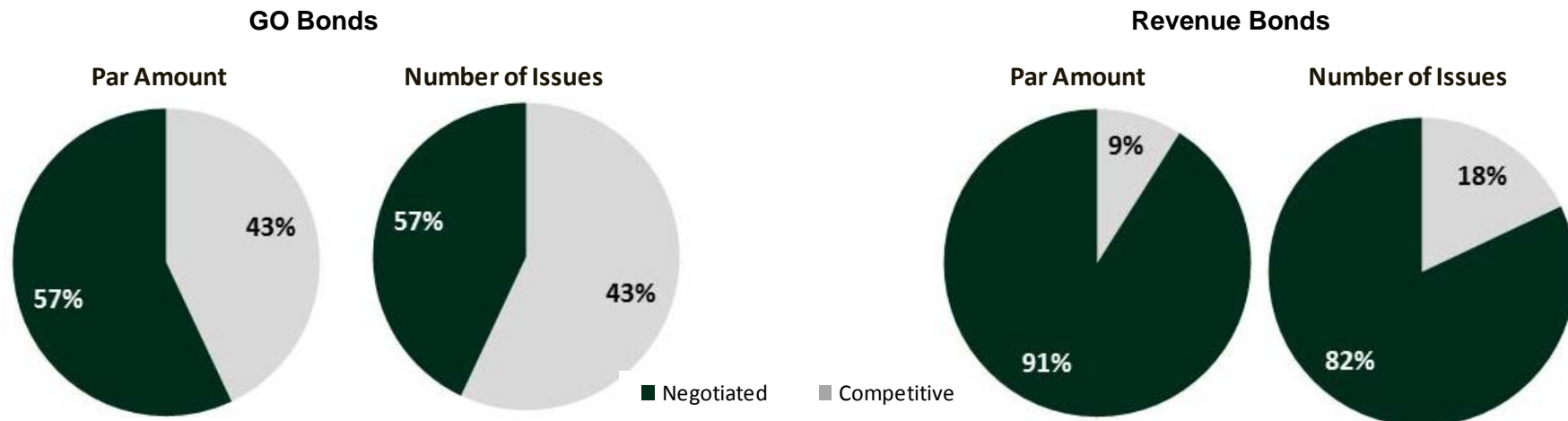
Pros	Cons
<ul style="list-style-type: none"> ▪ Competitive posture ▪ Simplification of marketing process ▪ Objectivity related to underwriter selection 	<ul style="list-style-type: none"> ▪ Lowest cost of funds not assured ▪ Underwriting risk built into rate ▪ Lack of financing input ▪ Limited flexibility

Which Method is Appropriate?

	Conditions Favoring Competitive Sale	Conditions Favoring Negotiated Sale
-Debt Structure *Pledge *Debt Instrument	-General Obligation -Serial or term CIBs	-System or project supported revenues -Derivatives, discounts, CABs, PACs
-Credit Quality *Rating *Outlook	-Highly Rated -Stable	-Lower Rated -Weak or negative
-Market Conditions *Interest Rates *Supply & Demand	-Stable, predictable -Strong investor demand, good liquidity, light forward calendar	-Volatile or declining market -Oversold Market, heavy supply
-Policy Considerations *Participation in Sale of Bonds *Stimulation of Investor Interest	-Broad Market Participation desired for Sale of Bonds/Notes -Broad Market Participation desired for Purchase of Bonds/Notes	-Desire to ensure the participation of DBE and/or regional and retail firms -Desire to make bonds/notes available to regional investors

Methods of Sale

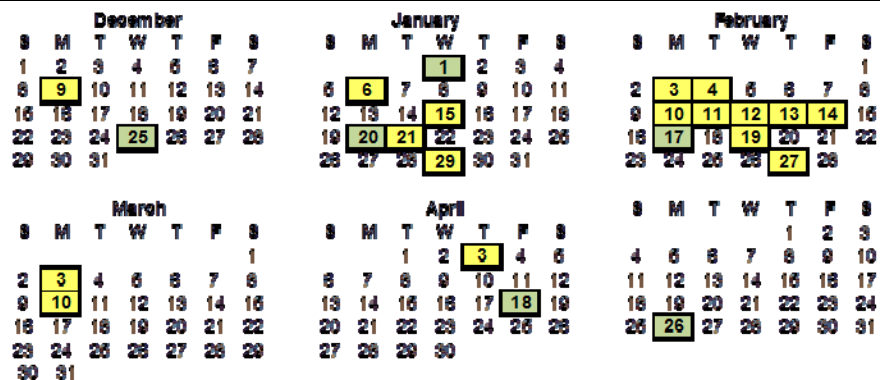
- In the municipal bond market, there are two primary ways in which issuers can sell their bonds—negotiated or competitive. The graphs below show the 2012 distribution by sale type for:



(as a percentage)	Competitive Par	Negotiated Par	Competitive Issues	Negotiated Issues
2012 (GO Bonds)	42.99%	57.01%	57.44%	42.56%
2012 (Revenue Bonds)	9.38%	90.62%	17.61%	82.39%
2011 (GO Bonds)	42.01%	58.24%	65.44%	35.11%
2011 (Revenue Bonds)	8.38%	92.62%	22.00%	78.39%

*Source: Ipreo MuniAnalytics. Calendar Year 2012 sales.

Schedule Option 1



■ Key Dates ■ Holidays
 EVENT

DATE	EVENT
Monday, December 09, 2013	Regular meeting of the City Commission to discuss proposed Timetable of Events for bond sale.
Tuesday, December 10, 2013	FirstSouthwest to begin drafting the Preliminary Official Statement ("POS"), formulating Plan of Finance and Bond Structure, and preparing Rating Agency Presentation.
Monday, January 06, 2014	Distribute First Draft of the POS to working group for comments.
Wednesday, January 15, 2014	Comments on first draft of POS due from working group.
Tuesday, January 21, 2014	Distribute second draft of POS to working group for comments.
Wednesday, January 29, 2014	Comments on second draft of POS due from working group.
Monday, February 03, 2014	Distribute third draft of POS to working group for comments.
Tuesday, February 04, 2014	Send POS and related documents to Standard and Poor's Rating Agency ("S&P") and Fitch Ratings ("Fitch").
Week of February 10th, 2014	Coordinate meetings calls with S&P and Fitch.
Wednesday, February 19, 2014	Comments on third draft of POS due from working group.
Thursday, February 27, 2014	Receive Rating.
Monday, March 03, 2014	POS goes to i-Deal web site for posting.
Monday, March 10, 2014	Bids due.
	Regular meeting to conduct sale of General Obligation Bonds. Consider the adoption of the Ordinance Authorizing Issuance of General Obligation Bonds and approving and authorizing the execution of the Bond Purchase Agreement.
Thursday, April 03, 2014	Closing Date; City delivers the General Obligation Bonds to Purchaser/Underwriter and receives funds.

CITY OF MCALLEN, TEXAS

Schedule Option 2

December							January							February							March						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
1	2	3	4	5	6	7	5	6	7	8	9	10	11	2	3	4	5	6	7	8	2	3	4	5	6	7	8
8	9	10	11	12	13	14	12	13	14	15	16	17	18	9	10	11	12	13	14	15	9	10	11	12	13	14	15
15	16	17	18	19	20	21	19	20	21	22	23	24	25	16	17	18	19	20	21	22	16	17	18	19	20	21	22
22	23	24	25	26	27	28	26	27	28	29	30	31	23	24	25	26	27	28	23	24	25	26	27	28	29		
29	30	31																	30	31							

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Wednesday, January 15, 2014	Comments on first draft of POS due from working group.
Tuesday, January 21, 2014	Distribute second draft of POS to working group for comments.
Monday, January 27, 2014	Comments on second draft of POS due from working group.
Tuesday, January 28, 2014	Distribute third draft of POS to working group for comments.
Wednesday, January 29, 2014	Send POS and related documents to Standard and Poor's Rating Agency ("S&P") and Fitch Ratings ("Fitch").
Week of February 3rd, 2014	Coordinate meetings calls with S&P and Fitch.
Thursday, February 13, 2014	Comments on third draft of POS due from working group. Receive Rating.
Friday, February 14, 2014	POS goes to i-Deal web site for posting.
Monday, February 24, 2014	Bids due.
	Regular meeting to conduct sale of General Obligation Bonds. Consider the adoption of the Ordinance Authorizing Issuance of General Obligation Bonds and approving and authorizing the execution of the Bond Purchase Agreement.
Thursday, March 20, 2014	Closing Date; City delivers the General Obligation Bonds to Purchaser/Underwriter and receives funds.

Summary

- Economist in general believe that interest rates will rise
- We cannot predict interest rates and have no ability to play the market
 - However, the schedule options are only slightly different based on other timing consideration
- Given the historical competitive sale inclinations of the City of McAllen, we believe that given the issue size, credit quality of the City and lack of McAllen paper in the market, we believe that a competitive sale would be appropriate