



National Federation of Municipal Analysts

POSITION PAPER ON RECOMMENDED RESPONSES BY MUNICIPALITIES TO DISASTERS

The National Federation of Municipal Analysts (NFMA) recognizes that a municipality's first priority in the event of a natural or manmade disaster is the safety and well-being of its residents. However, if for no other reason than to ensure continued market acceptance of its obligations, an issuer at the appropriate time will want to ensure that holders of its debt have adequate information.

Fortunately, many of our recommendations can be implemented prior to the onset of a disaster. The purpose of this document is to recommend some proposed steps that can be taken: (1) prior to such a disaster; and, (2) as soon as practical in the aftermath of a disaster.

Introduction:

Over the last few years, natural and manmade disasters have affected greater numbers of municipalities, and will inevitably occur again. Municipalities have come to realize that they must develop comprehensive disaster recovery plans that cover as many situations as possible.

Following a disaster, the financial markets in general and the market for a municipality's obligations in particular may be directly affected. Credit rating downgrades, higher borrowing costs, and illiquidity can result if a borrower's information is poor or non-existent.

The NFMA believes state and local governments can largely mitigate these effects by considering communication with investors an integral part of their disaster recovery plans. Although the NFMA's primary role is as an advocate of municipal credit analysts and bondholders, we feel that our interests are especially aligned in this case with an issuer's citizens and/or customers. Provision to investors of timely and reliable financial information helps protect the market for an issuer's debt and maintains issuer access to the capital markets at reasonable rates. This in turn ensures that future capital projects can be completed at the lowest possible cost.

Individual investors are the backbone of the municipal bond market and are the most vulnerable when markets are disrupted or worse, illiquid. The NFMA strongly believes definite steps need to be taken to protect individual investors and prevent unscrupulous dealers from taking advantage of the uninformed. The NFMA hopes this brief paper will spur ideas at the state and local level to aid in the public distribution of accurate municipal disclosure after a disastrous event occurs.

Rationale for Better Financial Reporting:

To reiterate, the NFMA in this paper is not addressing rapid response measures to be enacted by an issuer in the event of a natural or manmade disaster. However, the long-term recovery of an area affected by a disaster will to some extent be determined by its access to the capital markets. Our recommendations are intended to ensure, to the extent possible, that such access will continue. As is the case with disaster planning in general, planning for related financial disruptions will allow local officials, when a disaster occurs, more time to respond to critical human needs.

The genesis of this paper was the increasing frequency of fires, mudslides, earthquakes, hurricanes, and floods experienced in the U.S., predominantly on the Gulf and West Coasts, over the last few years. Issuers affected by these events have ranged in size from small school districts and local water & sewer enterprises to entire counties, metropolitan regions, and states.

NFMA Suggested Steps:

Planning for investor communication should begin well in advance of a disaster, and assumes that a disclosure program is already in place. NFMA has published recommended and specific disclosure guidelines that can be found on our website at www.nfma.org. We also refer you to disclosure guidelines provided by the Government Finance Officers Association (www.gfoa.org).

Our suggested steps are as follows:

- *An in-house contact designated by an issuer's disaster recovery plan (DRP) who is responsible for communicating with bond trustees, banks, credit enhancers, investor representatives, rating agencies, and similar parties.* The NFMA believes a secure off-site website should be established by issuers as a means of two-way communication with investors. The website can also be used to consolidate contact lists, house written debt management disaster procedures and communicate with all parties to an issuer's transactions.
- *A call list or chain of command (including respective seconds) to be established and published in the event the original DRP contact is not available.* Home phone numbers and e-mail addresses of the debt management team should be distributed to involved parties and updated regularly.
- *A mechanism within the DRP for existing audits and recent financial information to be made readily available to interested parties.* A designated third party (such as bond counsel, a financial advisor or bond trustee) located away from the primary site would be advisable. Posting financial documents and situation updates to a web site for easy access by relevant parties will enhance investor confidence. Bond trustees should have a mechanism to access a list of bondholders complete with contact information so that communication, if necessary, can proceed uninterrupted.

- *A contingency plan for cases where disaster recovery may be prolonged, allowing a municipality to show that it has mechanisms that allow it to continue to collect its various types of revenue, make scheduled debt service payments, and confirm that payments have been made.* In the short-term and variable rate debt obligation (VRDO) markets, offsite procedures should be in place to ensure that payments, remarketings, and auctions occur as scheduled. Revenue collection methodology and processes should be explained, demonstrated and illustrated, with regular progress reports published for investors. In addition, on and off-site contact information for all involved parties (including remarketing agents, swap providers, auction agents, credit and liquidity facility providers, and commercial paper dealers) needs to be maintained.
- *A plan to provide updates soon as practical by high ranking officials. These should include regularly scheduled conference calls with rating agencies and investor representatives to address the issuer's progress in managing its financial situation.*
- *Evidence that an issuer is complying with Federal Emergency Management Agency (FEMA) guidelines and regulations on how to apply for disaster relief.* In general, the issuer should indicate steps that have been taken to obtain, as quickly as possible, any funds forthcoming from FEMA and/or the state.

In conclusion, the NFMA urges that public officials' response to disasters includes an understanding of why markets need access to vital financial information. We look forward to working with state and local governments on a process that works efficiently for all.

The National Federation of Municipal Analysts (NFMA) is an organization of nearly 1,000 members, primarily research analysts, who evaluate credit and other risks of municipal securities. These individuals represent, among others, mutual funds, insurance companies, broker/dealers, bond insurers, and rating agencies.

One of the main initiatives of the NFMA is to promote timely and complete disclosure of the financial and operating information needed to assess the credit quality and risk of a municipal debt issue. The NFMA's efforts have ranged from global disclosure-related issues to more detailed, sector-specific work. For further information on the NFMA's continuing work in the area of disclosure, please see the "Disclosure Guidelines" and "Position Statements" on the NFMA's web site at www.nfma.org.