
Municipal Analysts

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JULY 1999

Letter from the Chairman

Mary Metastasio

We've had a busy first few months in 1999. There are full committee reports available in this issue of the *Bulletin*, but I'll hit a few of the highlights as well.

The year began with an excellent Advanced Seminar on non-essential revenue bonds. Kudos go to Education Co-Chairs Alan Polsky and Mike Zaroogian. This spring brought a very successful Annual Conference in Boston, planned by Conference Co-Chairs Ruth Levine and Joe Rosenblum and their able team. Congratulations to all.

Behind the scenes, our web maven Susan Drake has led the way in the development of the NFMA Email Forum, which offers our group a new way to communicate among ourselves on issues of interest. She has also been working with our constituent societies, helping them develop and refine their web sites, which are linked with the NFMA's. You can take a look at all the new developments on www.nfma.org. Thanks go to Susan and our webmaster Bob Vincent.

Our Industry Practices and Procedures Committee, chaired by Tom Walsh, has been working on two major issues recently. Jennifer Rynne has been leading the way in working to improve communications with trustees. We have also been involved, through our membership on the Governmental Accounting Standards Advisory Council (GASAC), in the development of the new GASB financial reporting model for state and local governments. Of particular interest at this time is finding a way to improve reporting of infrastructure assets. Thanks go to Jennifer and Tom, as well as GASAC representative Rich Ciccarone, for their fine work.

Last, but not least, the Disclosure Committee, led by Dina Kennedy, has been busy and productive. Two weeks after our annual conference, the NFMA released initial drafts of Recommended Best Practices in Disclosure for the housing, hospital, and land secured sectors. These are the result of a lot of hard work by sector-specific subcommittees of the Disclosure Committee. The drafts are posted on our website and are available for market comment. Please take a look at them if you haven't already done so. Our current disclosure efforts are a huge undertaking, and we thank the subcommittees, the other NFMA members who provided their valuable input, and Dina, who coordinated the entire process. Well done!

Also on the subject of disclosure, NFMA members are participating on two steering committees sponsored by the Municipal Securities Rulemaking Board dedicated to improving disclosure in the land secured and hospital financing areas. Farther along in the process is the land secured committee. The MSRB is planning to sponsor a series of regional forums in September on the subject of disclosure in that sector. A major agenda item at each meeting will be the NFMA Recommended Best Practices in Disclosure for Land Secured Debt Transactions. We will have the opportunity to present our draft to the attendees, and to discuss the issues raised with those who provide financial and operating information as well as other interested parties.

One last thing-we want to hear from you. We want your ideas and we'd love to have some of your time. Do you have an idea for an educational program? Do you want to work on the annual conference? Is there a sector you'd like to see some improved disclosure in? Don't be shy. Feel free to contact the appropriate committee chair or Lisa Good.



Awards to Six in Boston



Christopher Taylor



Kurt Van Kuller with Ray Kubiak



William Fish with Ray Kubiak



Sheila Darr



Judith Harvey with Ray Kubiak



Alan Polsky

The New England Aquarium was the site of this year's Awards Reception and Dinner. After a cocktail hour sponsored by MBIA in the Main Exhibit Hall, guests moved outside to a tent for the dinner and awards presentation. Awards Committee Chairman Ray Kubiak made the presentations to six individuals. Christopher Taylor, Executive Director of the MSRB, received the 1999 Industry Contribution Award in recognition of his commitment to improving the municipal bond market. The inscription on his plaque was: "Kit's efforts to shape the market's regulatory framework through his work at the MSRB have been of enormous benefit to the municipal industry."

The 1999 Award of Excellence was bestowed upon Kurt Van Kuller, First Vice President with Merrill Lynch. It was given "In recognition of his contribution to professionalism in bond analysis. Kurt has made a tremendous contribution to the body of knowledge available to industry professionals through his work on prepayment analysis of municipal single family mortgage revenue bonds."

William Fish, Vice President at AIG Global Investment, was given the 1999 Career Achievement Award for a lifetime of achievement in the municipal bond industry. His plaque reads: "During his long career, Bill has set the standard for professionalism and excellence in municipal bond analysis, and has been an important resource for both Wall Street and buy-side analysts."

An award for Service to the Industry and the Federation was given posthumously to Neill Conkling. Sheila Darr, Neill's sister, traveled from Texas to accept the award on behalf of Neill's family. Ray Kubiak read the inscription: "Neill was a fine analyst, an idea generator, a dedicated volunteer of the Southern Society and the NFMA, and a gentleman. His contribution to our industry and organization will be felt for many years to come."

Two awards for Meritorious Service were given to members of the NFMA. Judith Harvey, Senior Analyst at American Express Financial Corp., received the award in recognition of her leadership role in the municipal analyst community. As her plaque reads: "Judi's efforts to organize the Minnesota Society, as well as her many years of hard work on behalf of the NFMA, have truly helped to shape a group of analysts into a community."

The second Meritorious Service Award went to Alan Polsky, First Vice President at Dougherty Summit Securities in recognition of his leadership role in the NFMA. Alan serves as Education Chairman and Secretary of the Board. The Award Committee noted that "Alan's tireless work in developing and managing educational seminars, as well as carrying out a myriad of duties for the NFMA, have made him an indispensable contributor to our organization."

Congratulations to all 1999 award recipients!

16TH ANNUAL CONFERENCE HELD IN BOSTON



MAGNY

Since my last report on MAGNY there are a host of different activities to report on. Speakers at MAGNY's regularly scheduled lunch meetings have included:

- Thomas Queenan (former Treasurer of the City of Philadelphia) discussing the city's long road from fiscal crisis to stability,
- Fred Parola, Nassau County, New York's Comptroller reporting on the County's current fiscal challenges and their efforts to structure tobacco litigation backed debt,
- Paul Bender, Chief Financial Officer of the District of Columbia Water and Sewer Authority, who spoke about WASA's origination and initial access to the capital markets, and
- Representative Joe Sullivan, Chairman of the Transportation Committee of the Massachusetts House of Representatives who spoke on "the big dig" and other Massachusetts transportation infrastructure projects.

In addition, in April MAGNY created two special ad hoc committees (Membership Expansion and Education) to grapple with our need to revitalize the organization on the eve of its 50th anniversary. The Membership Expansion Committee (chaired by past NFMA® Chairman Jeff Baker) has already reported back to the MAGNY Executive Board and the officers have voted to implement many of the Committee's recommendations. A report out from the Education Committee (chaired by Anne Ross) is expected shortly. MAGNY® members can expect to see a variety of new and creative programming and membership recruitment efforts coming out of the work of these two committees in the coming months. In particular, look for a membership survey sometime this summer. By letting us know what you want out of MAGNY we can build programming to match your interests.

MAGNY is also beginning to plan some unique programming in honor of the organization's 50th anniversary. Anyone interested in helping out with the 50th celebration or with creative ideas on how to celebrate should contact Michael Johnston **212-312-3261** or Don Cirillo at **212-816-6061**.

Finally, after months of hard work (thank you Gerry Lian and Susan Drake), the MAGNY web site is finally up and running. The site contains such useful information as a schedule of events, the MAGNY by-laws and membership application, and a member directory including email addresses. The MAGNY web site can be found at www.magny.org and can be reached directly or through the NFMA web site. There is also a change of address form which will help both MAGNY and the NFMA maintain accurate membership lists. Keep an eye on the site in the coming months as additional information and features are added to improve MAGNY's electronic connectivity.

On a final note, many of MAGNY's messages to the membership are now being sent out by email. If you do not now receive MAGNY event invitations or other information via email, please contact Ms. Julia Lee at **212-312-3276** with your email address.

Mike Johnston



Education

The next offering from the NFMA Education Committee will be annual Introduction to Municipal Bond Credit Analysis later on October 28-29. This year's venue will be Minneapolis, MN. The Intro Course is designed to teach basic credit and analytical skills to municipal market participants. Although the course serves as an appropriate introductory course for full time credit analysts, it has been designed to help any municipal market participant better understand basic credit issues, even if that person's job assignment is in sales, management, or support service. The Intro Course has a classroom setting, and is usually limited as to the number of participants.

The Education Committee is also planning on offering an Advanced Seminar on Health Care, scheduled for sometime in January 2000.

Registration materials for the Advanced Seminar and the Introduction to Municipal Bond Credit Analysis will be sent to all NFMA members as soon as they become available.

Mike Zaroogian

BOSTON

The Boston Municipal Analysts Forum has had a full slate of informative monthly meetings thus far in 1999. Our goal has been to present our membership with a variety of educational forums covering up-to-date public finance issues and problems. The BMAF typically starts the year with a meeting focussing on market expectations and trends and we had George Friedlander, Salomon Smith Barney's municipal strategist, address the group in January. Market volume, sector expectations, and the role of bond insurance were key areas covered by George. Our February meeting changed focus to health care with a large contingent from Moody's health care group discussing the credit pitfalls associated with the corporate parent/restricted affiliate structure that more and more tax-exempt health care systems seem to be adopting. The discussion was particularly pertinent in light of the AHERF bankruptcy. In March, we switched gears yet again and focussed on Y2K. Val Asbedian from the Commonwealth of Massachusetts' and Jim Noga from Mass General gave a very helpful nuts and bolts presentation that highlighted both the very specific problems faced by state government and major health care providers as well as the progress made thus far. Our April meeting highlighted an issue that has received a great deal of attention in the last few months: tobacco settlement litigation. Kevin Taylor of Prudential and John Hallacy of Merrill discussed their respective views on the creditworthiness of upcoming debt to be securitized by tobacco settlement monies. In addition, they both commented on the difficult role a sell-side analyst plays as their respective firms try to pitch business to the vast number of issuers who will try and come to market with tobacco settlement bonds. The May meeting featured David Litvack and Frank Rizzo from Fitch talking about municipal defaults within the context of a study they have recently completed. Other plans for the summer include our annual clambake and meetings for June, July, and August, with topics still to be determined.

Eric Shapiro

Disclosure Committee

Great News! On May 20, 1999, the Disclosure Committee released three draft disclosure position papers for industry comment: (1) Recommended Best Practices in Disclosure for Hospital Transactions; (2) Recommended Best Practices in Disclosure for Housing Transactions; and (3) Recommended Best Practices in Disclosure for Land Secured Debt Transactions. The content of these papers should be of value to you in both primary and secondary markets analyses, and can provide guidance for drafting continuing disclosure requirements in your new issues as they come to market. Please make the time to give them a read. The papers are all available on our website, www.NFMA.org. Please provide any comments you may have in writing to Lisa Good at LGOOD.NFMA@worldnet.att.net. We are taking all comments in writing so that we can keep an accurate comment log.

The papers are the work of three of our five sector specific Disclosure Subcommittees. Each subcommittee, which consists of NFMA members from buy and sell side firms, insurance companies, and rating agencies as well as issuer representatives or financial advisors and bankers, spent many hours drafting and discussing their respective papers. Once the Subcommittees were comfortable with the drafts, their respective drafts were presented at sector specific workshops at our annual conference in Boston. The turnout for the working sessions was terrific, with many points of view represented, and with many senior members of our community fully involved. After changes were made to incorporate certain of the suggestions from the various workshops, the NFMA's outside counsel reviewed the drafts to ensure that we, the NFMA, were consistent in presentation and reasoning with our broader position paper on 15c2-12 released last year, and to make sure our legal positions were properly laid out.

One of the goals of the NFMA's disclosure effort is to counter claims by issuers and counsel that providing information to analysts is insider trading. Another is to persuade issuers and advisors to the understanding that 15c2-12 established a disclosure floor, not a ceiling. You will see that the language on these issues is consistent among all of the papers and in last year's position paper. The belief is that if we as a community begin to say the same thing to counter these arguments to all players in all of our sectors, we can begin to change these mindsets.

I am very proud of the papers which I believe present soundly reasoned, legally supportable recommended best practices in disclosure. Special thanks go to all members of the three subcommittees, to all of you who attended the workshops in Boston, and to the Disclosure Subcommittee Co-chairs, Emmeline Rocha-Sinha and Tom Weyl, Healthcare; Nick Combs and Bill deSante, Housing; and Fritz Goss and Ron Mintz, Land Secured. Well done!

Finally, if you are interested in chairing or co-chairing the NFMA disclosure effort in a specific sector, please give me a call at 212-339-3519, or drop me an email at dina_kennedy@fsa.com

Dina Kennedy

THE INDUSTRY PRACTICES & PROCEDURES COMMITTEE

The Industry Practices & Procedures Committee has been working on a number of membership inquiries including defaulted bonds, disclosure, trustee issues and financial reporting. The two most active projects include solidifying our support for the GASB new financial reporting model and our ongoing outreach program to trustees with the goal of improving the service bondholders expect from trustees. For some time, Governmental Accounting Standards Board (GASB) has been working on improving financial reporting culminating in the release of their financial reporting model due out in June. The purpose of the financial reporting model project is to make the financial statements of government more understandable and useful to people who study and analyze public sector finances as well as the citizenry. For example, for the first time, reports will show information about the full cost of providing government services as well as information about a government's infrastructure like bridges and roads. The rules also will require a government to present in narrative form an analysis of the government's financial activities during the

year. For an explanation of the many improvements the GASB will include in the model look at their web site at <http://raw.rutgers.edu/raw/gasb/index.html>. The GASB is advised on issues like financial reporting by The Governmental Accounting Standards Advisory Council (GASAC). The NFMA maintains a position on the GASAC and the position is currently held by Rich Ciccarone of Van Kampen. The NFMA board recently adopted a letter in support of the Governmental Accounting Standards Board (GASB) efforts to improve financial statement reporting. You can view the letter on our NFMA web site under "what's new".

The Committee has also been working to improve bondholder protections, through stronger indentures and through improved trustee responsiveness. The National Association of Bond Lawyers has been drafting a form indenture that they are planning to distribute to their members as a template for revenue bond trust indentures. We are very concerned that the language in many sections of this document is both issuer and trustee-friendly and that there has not been any

buyside representation in the drafting process. We believe that this document could be damaging to bondholder security over time if it is implemented in its current form. A subcommittee was formed to gather input from various NFMA members. Tom Weyl and Dina Kennedy attended the conference at which the form indenture was formally released and used this member feedback to make the case for buyside involvement in the final drafting process. Another avenue we are taking to improve bondholder protection is to establish a dialogue with the Corporate Trust Network Advisory Board, the trade association for corporate trustees. Our objective is to improve trustee responsiveness and to stem the trend towards trustee indemnification. We met with the Corporate Trust Network Advisory Board in June to take the first steps towards establishing a working group with them. If anyone is interested in helping with this effort, please contact Jennifer Rynne or Tom Walsh.

Jennifer Rynne

Tom Walsh

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In Memorium.

R. Neill Conkling Jr.
NFMA Board, Treasurer,
Conference Committee,
SMFS Board Member,
Past Chairman.

Minnesota

The Minnesota Society of Municipal Analysts hosted a Senior Housing Panel during their first meeting of the year on May 13th. Daniel Lindh, Chief Executive Officer of Presbyterian Homes, Inc. and Mark Landreville, Executive Vice President of Dougherty Summit Securities addressed 40 members of our group. Mr. Lindh discussed some of the demographic trends that get factored into choosing senior housing sites. Mr. Landreville's presentation focused on the evolution of senior housing deal structures.

Their next meeting was on June 24th with Steve Craemer of the Minneapolis Community Development Agency and Chuck Ballentine of the Minneapolis Planning Department. Future meeting plans include an update on the merger between the University of Minnesota Hospital System and the Fairview Hospitals.

Darrick L. Hills

NFMA ON THE WEB
<http://www.nfma.org>
CHECK IT FOR THE LATEST INFORMATION!

NFMA Calendar

October 28-29 - Introduction to Municipal Bond Credit Analysis, Minneapolis Marriott City Center, Minneapolis, MN

January/February, 2000 - NFMA Advanced Seminar on Healthcare, Phoenix, AZ

May 17-19, 2000 - NFMA 17th Annual Conference, Loews Miami Beach Hotel, Miami Beach, FL

May 2001 - NFMA 18th Annual Conference, Las Vegas, NV

NFMA

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NFMA

P.O. Box 14893
Pittsburgh, PA 15234

Lisa S. Good, Executive Director

Phone: **412-341-4898**

Fax: **412-341-4894**

E-mail: lgood.nfma@worldnet.att.net

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