

# Municipal Analysts

## BULLETIN

VOL.11, NO.2

A NEWSLETTER OF THE NATIONAL FEDERATION OF MUNICIPAL ANALYSTS

JULY 2001

### Letter from the Chairman

*Alan Polsky*

The first half of 2001 has been a particularly productive time for the NFMA. As our education and advocacy efforts continue to expand it's getting harder and harder to thank all the volunteers that make our programming so successful. In the area of education I want to give thanks to Grace Cheng (Franklin Templeton Investments) and Ron Mintz for their work on the education seminar on non-traditional education financings in January. Also, congratulations are due to Peter Bianchini (Charles Schwab and Co.) and Bill Hogan (American Capital Access) and the entire committee for an exceptional annual conference in Las Vegas.

The NFMA has also been busy in our disclosure initiatives. We have released a final paper on recommended best practices in Higher Education. Solid Waste and General Obligation sector papers are in the market in draft form. Long Term Care recommended best practices should be released in draft form soon. We have begun work on disclosure for short-term and variable rate securities as well as tax-increment financings. Again, I think it is important to recognize the tremendous amount of time that our members and other industry participants put into these papers.

A great deal has begun to happen in the area of continuing disclosure. The SEC is undertaking a review of the NRMSIR's created under 15c2-12 and the MSRB is forming a long-range planning committee to discuss disclosure. The increased discussion among and cooperation of various market groups provides an excellent opportunity to move forward on disclosure. Please take some time to read the recommended best practice papers, forward comments and, most importantly, encourage the use of the recommended best practices to promote good disclosure.

A couple of important current issues in the municipal marketplace merit mention. The National Association of Bond Lawyers has undertaken a review of their model bond opinion. At present, the model bond opinion represents a very high standard. The Board of Governors of the NFMA has been fortunate to give NABL input into the importance of maintaining a very high opinion standard. In light of recent developments, such as the enforcement proceedings of the Internal Revenue Service, it is critical to reflect on the importance of the work done by the bond attorneys. Following up on the issue of the IRS and its audit actions, the NFMA continues to support the full disclosure of audits to the marketplace.

Additionally, revisions to Article 9 of the Uniform Commercial Code are effective in many states as of July 1, 2001. Under the new rules, many previously exempt municipal transactions will require the filing of financing statements to perfect a security interest. This change in the Uniform Commercial Code applies to both new and currently outstanding bond issues. While many states are undertaking measures to protect municipal transactions, it is imperative that analysts recognize the exposure. Until any and all revisions are instituted (which must be done by each state) bondholders risk the loss of a fundamental security interest. I strongly encourage you to stay informed about these issues as they develop.

The NFMA has undertaken a survey of its members to learn more about their experiences in the area of disclosure and thoughts on several issues in the market. Please take a moment to complete the survey because, no lie, your opinion really does matter. I'd like to thank Gerry Lian (Morgan Stanley Dean Witter) for his work with MAGNY in creating the survey. Lastly, as is always our hope, please find some time to get involved with the NFMA. Please contact me, Lisa Good, or any of the Board members with your ideas. **Thank you.**

### NOMINATING COMMITTEE

The NFMA's previous newsletter noted the change to the organization's constitution which will increase the size of the Board from 20 to up to 25. This increase is the result of the creation of 4 Officer positions plus up to 6 At-Large members. The goal of increasing the size of the Board was to give voting rights to key committee chairs as well as to have better representation from the organization's general membership.

It is the Nominating Committee's responsibility to review and approve the applicants for the At-Large seats based on a Board-approved criteria. The Nominating Committee consists of at least 5 NFMA members which included the Chair, Vice-Chair, and Secretary, who chairs the Committee. For 2001, the Nominating Committee members are: Alan Polsky (Chair), Peter Bianchini (Vice-Chair), Karen Szerszen (Secretary), Mary Metastasio, and John Goetz.

The At-Large Board member criteria was approved at the Board meeting held in May in Las Vegas. The requirements are purposely broad to allow for the largest possible pool of candidates. The criteria is as follows:

- Has been a member of the NFMA for at least 3 years
- Has provided meaningful service to the NFMA and/or its affiliated local chapters
- Has notified his/her employer of the candidate's desire to serve on the Board and obtained their employer's support. The employer should be made aware that Board membership requires a commitment on the part of the employer of the individual's time and some expense (primarily for travel)

The Nominating Committee is currently finalizing the application form for the At-Large members. The form will be fairly simple asking basic personal information such as name, address, employer, phone #, and e-mail address.

We encourage our membership to get involved and to apply as soon as possible. The Board for 2002 will be elected at the next Board meeting which will be held in the fall, currently estimated to be mid-October. The application is be available on the NFMA website ([www.nfma.org](http://www.nfma.org)) or from Lisa Good (415-341-4898). Any questions can be directed to Lisa or Karen Szerszen at 847-402-8147 or [kszersze@allstate.com](mailto:kszersze@allstate.com).

*Karen Szerszen*



## Awards to Six in Las Vegas



(Left to right) Karen Szerszen, Awards Committee Chairman, Paul Maco, John Hallacy, Jerry Solomon, John Clark, Kurt Larson, Alan Polsky, NFMA Chairman. (Missing: John Goetz)

Six individuals were presented with awards at a dinner held on May 10<sup>th</sup> at the NFMA's 18th Annual Conference at the Four Seasons Las Vegas.

**John Clark**, Senior Vice President with Samuel Ramirez & Co., received the Industry Contribution Award. John was recognized for organizing an annual conference on New York City and State issuers.

**John Goetz**, Vice President with MFS, was awarded the Meritorious Service Award, for his contributions to NFMA educational programs and conferences over the years.

**John Hallacy**, Managing Director at Merrill Lynch, and **Jerry Solomon**, Managing Director at Bear, Stearns, were each

recognized with Awards of Excellence for their particular analytical and communication skills.

**Paul Maco**, Partner, Vinson & Elkins, and former Director of the SEC's Office Municipal Securities, was given the Industry Contribution Award. Paul, during his tenure at the SEC, was cited as instrumental in supporting municipal analysts in the area of disclosure.

Receiving a standing ovation was **Kurt Larson**, recently retired Vice President and Senior Portfolio

Manager with IDS/American Express, who was honored with the Career Achievement Award.

Members of the Awards Committee were: Karen Szerszen (chairman), Allstate Insurance; A.G. Anglum, Harris Trust; Bill Foley, USAA; Judi Harvey, American Express; Dave Hitchcock, Standard & Poor's; Kathleen King, Employers Reinsurance; Rick Smyth, Franklin Templeton; and Beth Ware, Liberty Funds.

### Las Vegas Conference Recap

Approximately 200 NFMA members and other participants met in Las Vegas on May 9-11, 2001 for the 18th Annual Conference. The Conference included traditional and new activities kicking off with a welcome reception Tuesday evening. Wednesday began the formal agenda and informal gatherings where the state of the municipal market was covered in great detail. General sessions included an industry roundtable, current legal and tax issues and a discussion of the Nevada gaming industry, economic and sector updates and wrapped up on Friday with 2 panels focusing on electronic bond trading and developments in the high yield market. Our breakout and disclosure sessions covered many areas, including sessions that focused on professional

development as well as topical sessions. Once again, nearly all sessions ran long, with heavy audience participation, reflecting the interest and intensity of our members. On Thursday we unveiled an Issuers Breakfast Forum that allowed conference attendees to have informal interaction with 6 local issuers. The conference also included our annual business meeting, a hard-hat tour of the Hoover Dam and the traditional Awards Dinner.

As conference co-chairs, we would like to thank the Conference Committee members, other NFMA members and Lisa Good for their assistance in putting this together. We'd also like to thank the speakers and our hosts from the State in welcoming us to their community. Finally we'd like to thank the

attendees for participating and making the meeting a place for us to get together to know each other better and promote the high standards of the municipal analytical community.

Mark your calendars. Next year's Annual Conference will be held on May 8th to 10th in Portland, Oregon. Please provide input on topics of interest and feedback on how to make these meetings better in the future by contacting us, or any Board member. We look forward to seeing you all soon.

*Peter Bianchini*, Tel 415-667-3524, email: [peter.bianchini@schwab.com](mailto:peter.bianchini@schwab.com)

*Bill Hogan*, Tel 212-375-2044, email: [bhogan@aca-insurance.com](mailto:bhogan@aca-insurance.com)

2001 Board of Governors



2001 Officers



(Left to right) Karen Szersen, Secretary, Alan Polsky, Chairman, Peter Bianchini, Vice Chairman, Robert Reardon, Treasurer.

Awards Dinner – Las Vegas



**MAGNY**

Municipal Analysts Group of New York

The second half of our 2000 to 2001 program year has featured a series of luncheons on several interesting topics. The January luncheon consisted of a panel discussion on *IRS Tax Audits* and included Mark Scott, Esq., National Director of Tax-Exempt Bonds for IRS, Richard Chirls, Esq., a Tax Partner with Orrick, Herrington & Sutcliffe, LLP, Alan Anders, Director of the City of New York Office of Management and Budget, and Dina Kennedy, a Director with FSA. Our February luncheon presented a panel discussion on *The California Energy Crisis* featuring Robert Solomon, Esq., Legal Advisor to Curt Hebert, Chairman of the Federal Energy Regulatory Commission, Allan Brilliant, Esq., a bankruptcy specialist with Milbank, Tweed, Hadley & McCloy, Gary Krellenstein with JP Morgan and Richard Cortright with Standard & Poor's Corp. The March luncheon centered upon a panel discussion of *The Globalization of Municipal Credit Analysis* with Bill Oliver of Alliance Capital, Chris Mauro, Merrill Lynch & Co., Catherine Fleischmann, Moody's Investors, and Franklin Minerva, MBIA. In April MAGNY co-sponsored a Wine Tasting with The Municipal Bond Women's Club at the Union Square Wine Emporium. Ann-Ellen Hornidge, Esq., of Mintz, Levin, Cohn, Ferris, Glovsky & Popeo, PC and Martha M. Haines, SEC Director of the Office of Municipal Securities, addressed our members at a luncheon the following day on *Trends in Municipal Disclosure*. This luncheon also marked the launch of the MAGNY Analyst Survey to solicit member sentiment on a number of vital issues facing the municipal market. *An Analysis of GASB Statement No. 34* formed the basis of the May luncheon and featured Cynthia B. Green, GASB Board, Kenneth R. Schermann, GASB Project Manager and Warren Ruppel, NYC Assistant Comptroller for Accounting. Our luncheon program ends in June with a presentation on June 15<sup>th</sup> by William DeCote, Aviation Director for the NY/NJ Port Authority, on The Future of the New York Metropolitan Airports.

The MAGNY Board invites all interested parties to participate in two summer events. On June 6<sup>th</sup> we hosted MAGNY's 2<sup>nd</sup> Annual Golf Outing at the NJ National Golf Club in Bernardsville, NJ. On July 26<sup>th</sup> the MAGNY Board plans to co-sponsor a cocktail reception with The Municipal Bond Womens Club of NY at Naples 45.

*Gerry Lian*

**CSMA**

California Society of Municipal Analysts

The CSMA Spring Conference was held on April 26 in San Francisco. The conference was well attended, with several analysts from other parts of the country joining us for the event. Panel topics included California electric power, Bay Area airports, health care, and the state of the economy. Of particular interest was the electric panel which included representatives from the banking community, the municipal power agencies, the independent power producers, and the power marketers, along with an expert on bankruptcy to discuss the PGE Chapter 11 filing.

The conference was preceded the day before by a tour provided by the San Francisco Redevelopment Agency and a chilly evening at Pacific Bell Park to watch a San Francisco Giants game. The CSMA plans on holding its second annual Summer Cocktail Party in August in San Francisco. Plans for the CSMA Fall Conference are being formulated, with the intention of locating the event in southern California. The event will probably be held in October, with further details to be announced in several months. CSMA members will receive e-mails regarding the conference. Any other NMFAs members requesting information can e-mail Eric Friedland at [efriedland@fsa.com](mailto:efriedland@fsa.com).

*Eric Friedland*

**MSMA**

Minnesota Society of Municipal Analysts

The MSMA was very proud to see our own Kurt Larson honored with a lifetime achievement award at the 2001 annual conference in Las Vegas. Kurt is a very respected and highly regarded member of our local investment community. We congratulate him on his retirement; and, we will miss working with him.

The MSMA kicked off 2001 with a trip to St. Paul to see the home of the Minnesota Wild NFL hockey team. Bob Guers from the City of St. Paul, opened the meeting with a discussion of how tax-exempt bonds had assisted St. Paul in meeting economic development goals. Martha Fuller CFO of the Wild, followed up with a discussion of the sensitive negotiations and complex financing that were required to build the arena. The meeting then adjourned and we toured the Xcel Energy Center and the attached Touchstone Energy Place exhibition space. With a north woods style of interior decoration, great sight lines and a high tech score board, whether you are a hockey fan or not, the Xcel Energy Center is a great place to go!

The newly created IRS tax-exempt bond audit division has been very much in the news with their increased focus on our industry. Jack Davis – Manager, Tax Exempt Bonds from the IRS was our speaker for the May meeting. His comments focused on the audit process as it pertains to a bond financing under investigation. He also listed several areas of our industry the IRS plans to look at in the near future. The stepped up enforcement activities have captured the entire industry's attention. A better understanding of what to expect during an audit will help everyone involved.

I'm also pleased to report that after member retirements, resignations, and job changes the MSMA membership continues to hold in the low 50's.

*Patricia Eitrbheim*

## Disclosure Committee

Most of the news since our last missive has been in the "Best Practices" arena. In the past few weeks, we released one final Best Practices in Disclosure and the draft of another. In addition, significant progress has been made on drafting by two other subcommittees *and* we are ready to announce that a new sector subcommittee has been formed.

The big news is the release on May 17, 2001 of the final Recommended Best Practices in Disclosure for Private Colleges and University Transactions. Judi Harvey from American Express and Patrick Early from A.G. Edwards & Co deserve kudos for seeing this one through to the final product.

Equally as big was the much anticipated release on May 23, 2001 of the Draft Recommended Best Practices in Disclosure for General Obligation and Tax Supported Debt, accompanied by some good press coverage (did you see Alan's picture in the Bond Buyer). The compilation of this paper was a great cooperative effort by a large subcommittee headed by Stephanie Peterson of Charles Schwab & Co. and Ruth Levine of The Vanguard Group. Next we will be working to solicit comments from the public, which will be gathered through October 15, 2001, with the first stop being on June 2, 2001 at the GFOA Annual Conference in Philadelphia before the Committee on Government Debt and Fiscal Policy. If you have any ideas of other forums to present this draft paper, please let us know.

The Long Term Care subcommittee continues to march toward release of its Draft Recommended Best Practices in Disclosure for Long-Term Care/Senior Living Sector. Steve Hiatt of Franklin Templeton and Jerry Solomon of Bear Stearns coordinate this effort and are expected to release draft guidelines to the marketplace this summer. The paper will be available for public comment through the summer and should be released in final form by the end of the year.

The Solid Waste subcommittee, co-chaired by Janet Martin of Fitch and Chuck Emrich of Legg Mason, are putting the finishing touches on the final paper, which should be released in Fall 2001. After having concluded the public comment period on the Draft Recommended Best Practices for Solid Waste Transactions, this group is targeting selected industry participants to refine their efforts before final release.

Finally, we are ready to announce the formation of a new Best Practices subcommittee to look at the tax increment/tax allocation sector. David Hitchcock from Standard and Poor's and Mark Stockwell from The Vanguard Group have agreed to co-chair this subcommittee. They will be looking for volunteers to help out with the creation of these Best Practices in Disclosure. Please contact us if you have an interest or if you have any ideas of topics and issues that should be covered by this subcommittee.

In addition to all the activity in "Best Practices", the Disclosure and Industry Practices Committees have helped get the Task Force on Variable Rate and Short Term Securities off and running. As we previously reported, this Task Force is looking at some issues that have been raised about disclosure and dissemination of information in the market for short-term and variable rate securities. You should be looking for a draft paper sometime later in the year.

Some of you may have already seen the Analyst Survey that was distributed to MAGNY members. Gerry Lian presented the survey to the Board in Las Vegas, and we decided it would be a good idea to send it out to the entire NFMA membership, so be on the lookout for an e-mail or notice. There are many questions in the survey that will really help us hone our positions on Disclosure matters and other issues, so please respond as soon as possible.

As always, if you have any ideas for other sectors that should be explored or would like to volunteer some time, please telephone or e-mail either Jeff Wilson (650-632-4522 / jwilson@saybrook.net) or Fritz Goss (909-699-3990/ fritzg@muni.com). Also be sure to keep checking out the "Disclosure Guidelines" section on the NFMA's website for updates to the working papers, final releases and other disclosure related items and give your feedback and thoughts at any time.

*Jeff Wilson and Fritz Goss*

Co-chairs, Disclosure Committee

### BMAF

Boston Municipal Analysts Forum

In January 2001, members of the Boston Municipal Analysts Forum lost a friend and colleague upon the passing of Susan MacNeil Varney. Susan was an analyst at Scudder, Stevens and Clark for more than ten years. In memory of Susan, the BMAF and the NFMA made a contribution to Bates College.

The BMAF hosted two successful, well-attended presentations during the spring. In April, representatives from Standard & Poor's J.J. Kenny and FT Interactive Data led an educational discussion on pricing municipal high yield securities. In May, the BMAF was honored to have the Governor of New Hampshire, Jeanne Shaheen, and the State's Treasurer, Georgie Thomas, present the economic and financial outlooks for the state and discuss the state's school funding issue. Planning is currently underway for the BMAF's annual summer party which will be held in late July.

**Have a wonderful summer.**

*Carol Flynn*

### CMAS

Chicago Municipal Analysts Society

The Chicago Municipal Analysts Society's April meeting featured a discussion of two Midwest stadium financings. Chicago Chief Financial Officer Walter Knorr described the financing plans for the renovation of Soldier Field, home of the Chicago Bears, while Tom Coverick of Robert W. Baird, outlined the renovation of Lambeau Field, home of the Green Bay Packers. Our annual Board of Directors' Seminar, to be held June 15, promises to be an interesting day with panels on innovative transportation financing, tobacco securitizations, IRS and regulatory issues, and airport capital plans. Our fall schedule includes a program on project finance and mitigating construction risk.

*Peter Stettler*

## Southern Municipal Finance Society (SMFS)

SMFS recently selected new Executive Committee members whose names and responsibilities are listed below. Due to the wide geographical dispersion of our membership and ubiquitous budget constraints on travel expenditures, SMFS is developing regional forums and programs to facilitate local participation. To that end, we plan to hold two regional meetings in Texas and Florida later this fall. Details will follow shortly. If interested, please contact Bill Foley at USAA or Carolyn Nees at Raymond James.

### Executive Committee Members

<b>Chair:</b>	Bill Foley USAA Investment Management Co. Phone: 210-498-0093 Email: William.foley@usaa.com	<b>Immediate Past Chair:</b>	Chuck Grob AIM Capital Management, Inc. Phone: 713-214-1450 Email: Chuck_grob@aimfunds.com
<b>Administrative Chair:</b>	Tony Blalock Carolinas Municipal Council, Inc. Phone: 919-661-9477 Email: Ncmuni@mindspring.com	<b>At large:</b>	Edward Evanouskas Raymond James & Associates, Inc. Phone: 727-573-8364 Email: Eevanouskas@fi.rjf.com
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## Industry Practices and Procedures

The Industry Practices and Procedures Committee, along with the Disclosure Committee, is currently working on a project to improve disclosure in the short-term tax-exempt market. For variable-rate securities, notes, and synthetic securities, we will be looking at issues concerning the content of information needed by analysts and the methods for disseminating that information. We have assembled a task force made up of various municipal market professionals—buy-side and sell-side analysts, remarketing agents, bankers, trustees and bond attorneys—and will be working with issuer representatives as well. Our plan is to develop a rough draft, similar to those papers developed by the sector-specific disclosure subcommittees, and to seek comment by market participants before finalizing our comments and recommendations.

This is a new twist on a familiar topic for the NFMA. Whereas all of our recent disclosure efforts have focused on the best way to make the amendments to SEC rule 15c2-12 work in the municipal marketplace, this new venture goes boldly where we have not gone before—into the world of SEC rule 2a-7. This is a world where even the minimum requirements of 15c2-12 do not exist, as short-term securities are exempt from those requirements. The task force is in its early stages at this time. We can expect a draft later this year.

As usual, if there are issues you think the Industry Practices and Procedures Committee should be looking into, please contact me at (206) 545-5736 or [marmet@safeco.com](mailto:marmet@safeco.com).

Mary Metastasio

## GASB Update

On June 28, 2001, the Governmental Accounting Standards Board issued two standards: Statement No. 37, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus", and Statement No. 38, "Certain Financial Statement Note Disclosures". These standards clarify and modify certain provisions of Statement 34, and are to be implemented simultaneously with the new reporting model.

More information on Statements 37 and 38 can be obtained online at [www.gasb.org](http://www.gasb.org), and copies of the standards can be ordered there as well.



## Education

In January, the Education Committee sponsored an Advanced Seminar on Non-Traditional Education Transactions in Santa Monica Beach, California. We want to thank the co-chairs, Ron Mintz and Grace Cheng, for all their hard work in putting together this well-received seminar.

The Education Committee currently includes Eric Friedland of FSA and Nancy Belz of Federated Investors, both appointed in 2001.

Nancy is currently planning the NFMA's annual offering of the Introduction to Municipal Bond Credit Analysis to be held on Thursday and Friday, November 1st and 2nd in Philadelphia. More details will be provided later this summer.

Eric is at the beginning stages of planning the next advanced seminar scheduled for January 2002 in Orlando. The seminar will be focused on project financing. Please contact Eric if you are interested in working on this seminar or leading a panel.

Members with ideas for future advanced seminars or who are interested in working with the Education Committee are encouraged to contact Eric Friedland at [efriedland@fsa.com](mailto:efriedland@fsa.com) or Nancy Belz at [nbelz@federatedinv.com](mailto:nbelz@federatedinv.com).

## NFMA CALENDAR

- October 10** – Board of Governors Meeting, Washington, D.C. (*Date to be confirmed*)
- November 1 & 2** – Introduction to Municipal Bond Credit Analysis, Loews Philadelphia Hotel, Philadelphia,
- July 26** – Informal Cocktail Get-Together Co-sponsored by MAGNY and The Municipal Bond Women's Club of NY, Naples 45, New York
- August 16** – CSMA Cocktail Party at Palominos in San Francisco
- August 23** – SMFS Meeting, The Grille at Feather Sound, St. Petersburg, FL
- January 16, 2002** – Board of Governors Meeting, Hard Rock Hotel, Orlando
- January 17-18, 2002** – Advanced Seminar, Hard Rock Hotel, Orlando
- May 7, 2002** – Board of Governors Meeting, Portland Hilton, Portland, OR
- May 8-10, 2002** – NFMA 19th Annual Conference, Portland Hilton, Portland, OR
- May, 2003** – NFMA 20th Annual Conference, Chicago

## NFMA

The Municipal Analysts Bulletin is published by the National Federation of Municipal Analysts.

### NFMA

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