

Municipal Analysts

BULLETIN

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A NEWSLETTER OF THE NATIONAL FEDERATION OF MUNICIPAL ANALYSTS

NOVEMBER 2002

Letter from the Chairman

Peter Bianchini



It is again my pleasure to update you on the happenings of the Federation. The pace of NFMA activity continues unabated. We now have projects moving full speed forward, year-round. It also seems we are sponsoring or co-sponsoring seminars nearly monthly with our Constituent Societies and groups like the MSRB, TBMA and GASB. We continue our participation with the Muni Council and fulfill frequent requests for speeches or other comments. If you were up early Saturday September 21st watching Bloomberg TV, and didn't blink, you also saw your Chairman getting in a sound-bite on the difference in disclosure between the Corporate and Muni market—specifically the general lack of quarterly disclosure in the Muni world. I hope Andy Warhol's prediction that in the future everyone will be famous for 15 minutes can be broken up into pieces, otherwise much of my time is on a production room floor. Nonetheless, the Bloomberg piece is indicative of the market's focus on Munis—just open a financial news journal if you need further proof. In light of stock market declines, fear from corporate scandals and relatively attractive Muni interest rates, Muni's have been discovered—again. While history reminds us that rising rates or a stock market recovery often can shift people back to their old investments, the merits of diversification, and safe investments, should remain central to people's thoughts for some time. Given this, now may prove a good time to make some inroads with our objectives such as disclosure.

I am pleased that through mutual efforts we have strong relationships with market regulators and other groups integral to the success of our goals. Some may not agree with us, but are willing to listen to our point of view. The thoughtful, well-vetted positions we propose are being heard. While it might not always be visible from the trenches, it is nice to have the strategic perspective of past chairs and other friends of the Federation to remind us how well regarded our Education and Best Practices efforts are, and how well we are doing in general. This year we have proof that we need to continue to do our independent work and speak firmly when we have something to say. The survey undertaken earlier this year by our Disclosure Committee shed light of many of the problems we knew existed in collecting annual financial and operating data. While it was not well-liked by some groups, the survey was well done and required people to take notice and begin to address the problem. Because of our efforts—our Recommended Best Practice papers, the survey and numerous speeches and comments over the last few years—and the hard work of other market participants, there are now numerous organizations promoting Best Practices and improved voluntary disclosure to their own members. We also have several organizations seeking to work with us to promote disclosure and market regulators remain receptive to ways to make improvements. We need to keep up the efforts to move the mark higher. With the enthusiasm I have seen from our Board and membership I'm certain we will.

On to activities. Since our spring Annual Conference we have co-sponsored meetings on GASB 34 with the CSMA in San Francisco and MAGNY and TBMA in New York. A third meeting – co-sponsored with SMFS and the Municipal Advisory Council of Texas will be held in Austin this month. We held an Advanced Seminar of Health Care in Berkeley CA, that had near-record attendance. We also held a Disclosure Forum on Variable Rate and Short-Term Securities in September that preceded the Muni Council Meeting in New York City. The discussions at the forum were outstanding and in part have prompted other groups to undertake projects that should complement disclosure in this area. Several Board members and I have attended meetings with the MSRB and the GFOA Debt Committee in June and had speaking invitations at the California Bond Buyer Conference, a meeting of the National Association of Independent Public Finance Advisors, and an IRS Workshop. Recommended Best Practices activities also move forward, including the Board approved and web site posting of the final version of the Long Term Care paper. The Tax Increment paper and Short-Term paper have recently closed their comment period and Airports is getting underway. (See the Disclosure Committee report for more information.) The Board has also approved a research paper posting site as a resource to our members. We are working through the mechanics of implementing the site and will send out a notice when it is up and running.

Our Intro to Municipal Bond Credit Analysis course took place in early November and our Advanced Seminar on Transportation will be held in January in Salt Lake City. We are planning to co-sponsor a disclosure seminar with the California Debt and Investment Advisory Commission, S&P and the CSMA and have been asked to present a panel on secondary market activities to the National Association of Bond Lawyers in February. The next Muni Council meeting, where we expect to look closely at options to improve the NRMSIR system is also planned for February. After that, we are planning a big gathering for next year's Annual Conference in Chicago on April 30-May 2. 2003 will be our 20th anniversary meeting and we hope to see as many of you there as possible, to hear not only about what is happening now, but also some historic perspective as to where we have come from. Beyond that, a fall Advanced Seminar will be following, and the sites for the Annual Conference in 2004 and 2005 have been set for Kiawah Island, South Carolina and New Orleans, respectively. Please continue to funnel ideas to our conference and education chairs for these and future conferences.

In closing, I wish to thank those of you that have been supportive of me during my year as Chairman. To our Executive Director, staff, officers and Board members, committee and conference chairs, and other volunteers, you have my thanks. I also want to thank the sponsors who also make our efforts possible. It has been a true honor to work with and represent our members. I look forward to my remaining term as Chair and to returning to the Board next year as Immediate Past Chair. I welcome comments and suggestions. I hope you all have a wonderful holiday season and great finish to the year. Expect to hear from us shortly.

BMAF

Boston Municipal Analyst Forum

The Boston Municipal Analyst Forum held its Summer Party at the Black Rhino on September 17, 2002. Although the party was not as well attended as some of the prior parties, all participants reported good food, good drink and good networking, as usual.

On November 8, 2002 BMAF held a meeting on *Municipal Debt Issued by Indian Tribal Governments: Constitutional and Legal Issues*. The guest speaker was Larry Bragg, Esq. of Ropes & Gray in Boston. Larry is the coordinator of Ropes & Gray's public finance practice group and currently leads the firm's work as disclosure counsel to The Commonwealth of Massachusetts and as bond counsel to the Massachusetts Water Resources Authority and the Massachusetts Port Authority. He regularly represents municipal bond funds and underwriters of tax-exempt debt. He has been active in financings of Indian tribal governments since 1985 and has participated in more than 25 tribal financings in ten states aggregating more than \$2.4 billion.

Tom Weyl

MSMA

Minnesota Society of Municipal Analysts

MSMA is currently finalizing plans for its next meeting in November. The meeting will focus on a recent, high profile redevelopment project in downtown Minneapolis.

Representatives from the Minneapolis Community Development Agency and the developer will present. The meeting will take place in and include a tour of the project at Block E. The meeting will include the election of 2003 officers.

David Rowland

INDUSTRY PRACTICES AND PROCEDURES

The Industry Practices & Procedures Committee is currently working on several initiatives including the following: The proposal by the National Association of Bond Lawyers (NABL) on Penalties in Lieu of Taxation of Municipal Bonds; the IRS Review of Section 150(b) Sanctions; and a proposal to form a new committee to draft a Model Bond Indenture for Hospital Bond transactions.

The first two items are related in that they deal with issues that arise from situations where the IRS has determined that the tax-exempt status of a bond issue has been violated. NABL is proposing that legislation be passed to change the statutory manner in which penalties are levied. The proposed legislation would eliminate the taxation of the bonds as a penalty. Instead, the borrower would be assessed a penalty and would also be granted the right to appeal the penalty (to tax court) if a negotiated solution is not worked out. We are preparing a letter of support for the proposed legislation.

In the second case, some corporations who are conduit borrowers have complained about the use of Section 150(b) Sanctions by the IRS and are seeking to have these sanctions removed as a possible remedy. They are used in situations where the service has determined that there has been a violation of tax law and, the IRS has had difficulty getting these corporate borrowers to discuss a Closing Agreement that would eliminate the risk of bondholder taxation through the levy of a fine against the borrower. Section 150(b) Sanctions allow the IRS to deny the borrower the interest exemption for the debt on the borrower's income tax returns. The IRS states that in the cases where this Sanction has been utilized, there has typically been a situation where there was a clear violation of the tax code by the conduit borrower and a reluctance of the offending party to enter into settlement discussions. The Sanctions have been a useful tool for the IRS to rectify the situations without resorting to declaring the bonds taxable. We will soon begin preparing a statement that provides support for the continued use of these Sanctions.

The final item was developed at the recent Advanced Seminar on Healthcare. There was much discussion after the afternoon panel on workouts concerning the various weaknesses of hospital bond indentures. Rob Yolland and others present decided to propose the formation of a new committee to develop a Model Bond Indenture for Hospital Bonds. The NFMA Board has agreed to create a committee for this purpose while continuing to consider the relative merits of the end product being described as a Model indenture versus a Best Practice. There was a very enthusiastic response by participants of the Advanced Seminar as over 15 people representing a wide cross-section of the Municipal Bond Industry have volunteered for this effort. Please contact Rob Yolland (ryolland@frk.com) or Tom Weyl (tweyl@eatonvance.com) if you are interested in participating.

Tom Weyl

MAGNY

Municipal Analysts Group Of New York

MAGNY hosted its 2002-03-season opening luncheon on September 6th at the Yale Club. George Friedlander of SSB spoke about the 2002 markets and what could be expected for 2003. In lieu of an October luncheon, MAGNY in conjunction with NFMA and The Bond Market Association jointly hosted a daylong conference on GASB 34. Members of the GASB Staff and Board gave the presentation held at TMBA offices on October 18th. Dick Larkin of Fitch Ratings and Anne G. Ross of Roosevelt & Cross assisted in the presentation. Each presentation had strong attendance. MAGNY will host its November 15th luncheon at the Down Town Association. A panel discussion on housing related topics will be presented. Consult the MAGNY website for the Calendar of Events.

Anne Ross

NFMA TREASURER'S REPORT

Well, we finally have some good fiscal news to report! Thanks mainly to a great annual conference in Portland, Oregon – *plus* – the generosity of our corporate sponsors, the first eight months of this year have produced a positive cash flow. This means that the NFMA's finances are now well over last year's deficit that developed during the comparable time period. I'm happy to report that our operating balance sheet (on a cash basis) has gone from red to black. Let us all hope that next year our 20th Anniversary celebration in Chicago is an even bigger success in terms of attendance and sponsors.

It should also be noted, however, that the somewhat painful but still all important increase in the annual dues, currently being implemented at the constituent level, should also help us to fully balance our books by year-end. Barring a precipitous drop in membership, I'm confident it will. Additionally, the Board took some previous steps to save expenses by going almost exclusively to *e-mail* for all of our membership communications — such as this newsletter — thus not wasting paper and postage. By thinking smart, and with your cooperation, we can save a lot of money on everyday costs. The extra dollars we save will help us with our mission in other areas.

Speaking of raising money, at our most recent NFMA Board meeting in Berkeley, I was successful in getting help in performing this effort from both Karen Szersen and Bill Hogan, fellow NFMA Board members, who agreed to join me in making those dreaded (but vital!) fundraising phone calls. So far, we are off to a good start with a few of our corporate sponsors already signing up for 2003 coverage. Watch out, some of you reading this report will be getting called!

Finally, as a last point of good news, the NFMA is now accepting credit cards as a form of payment for all of its seminars and its annual conference. Please use this new service to expedite your processing for attendance at any NFMA sanctioned function. It works and it saves time. Try it.

Donald King Cirillo,

NFMA Treasurer

CMAS

Chicago Municipal Analysts Society

The Chicago Municipal Analyst Society held its annual Board of Director's Seminar on September 26 at Comiskey Park. Featured on the day's agenda was an update on the finances of the Illinois Sports Facilities Authority, presented by Authority Controller Mary Peters; a discussion of the worker shortage facing the healthcare industry led by Chuck Nellans of Northern Trust Global Investments with John Wells of Fitch Ratings and Marcia Maurer, Associate Dean, Loyola School of Nursing; and a panel on the current economic climate and its impact on state and local budgets led by Shun Dyes of the Harris Bank with Kathleen Holt of Moody's Investor Service, Mike Colsch, Deputy Director, Illinois Bureau of the Budget, and William Abolt, Budget Director, City of Chicago. The day concluded with an afternoon of baseball between the Boston Red Sox and the Chicago White Sox. A good time was had by all.

CMAS will finish the year with a discussion on municipal swaps/derivatives at its November meeting, followed by our annual holiday party and annual meeting in early December.

Peter Stettler

CSMA

California Society of Municipal Analysts

On August 1st, the CSMA hosted its summer event at the Palomino Restaurant in San Francisco. Good food and drink were had by all and the turnout was terrific. Look for our announcement later in the year for the CSMA's winter event in San Francisco.

The CSMA Fall Conference was held October 9 & 10 at the Bankers Club of San Francisco. The two-day event included a tour of the University of California, San Francisco Mission Bay project, which is the home of one of the University of California's newest research facilities--Genentech Hall. The all-day conference program included a review of California real estate markets, followed by a panel on alternative student, teacher and military housing and concluded with a discussion of the challenges facing California higher education. We were pleased to have John Russi, Managing Partner at Deloitte & Touche, discuss accounting in the post-Andersen age during a lunchtime presentation.

I would like to thank the CSMA Board, including Tom McLaughlin of MBIA, Molly Butler and Rick Smyth of Franklin Templeton, Robin Rappaport of Payden & Rygel and Lisa Zuckerman of Standard & Poor's for all of their hard work and outstanding dedication toward bringing about an event-filled 2002. Additionally, I would like to highlight the contribution of Gary Davis of MBIA whose efforts have made it possible to offer our programs this year. Thank you Gary!

Good luck in 2003!

Jeffrey M Wilson

Disclosure Committee

The NFMA Disclosure Committee is making considerable progress in developing new Recommended Best Practices Disclosure and has also begun to address challenges relating to secondary market reporting practices. Recommended Best Practices in Disclosure have now been completed for seven credit sectors. These documents are accessible at the NFMA web site located at www.nfma.org. Highlights of the concerted effort being undertaken by a dedicated group of municipal analysts to augment the NFMA's collection of Recommended Best Practices documents include:

- (i) a subcommittee co-chaired by Jerry Solomon of Bear, Stearns and Steve Hiatt of Franklin Templeton just last month published in final form our seventh sector release, *Recommended Best Practices in Disclosure for Long-Term Care/Senior Living Debt*, which is now available on our web site;
- (ii) on Sept. 25, 2002, a subcommittee co-chaired by Mary Colby of Charles Schwab and Nancy Belz of Federated moderated a disclosure forum at TBMA's offices in New York City to solicit additional industry comment on an eighth sector release, *Recommended Best Practices in Disclosure for Variable Rate and Short-Term Securities*, which is nearing completion and final publication;
- (iii) a subcommittee co-chaired by David Hitchcock of Standard & Poor's Corporation and Mark Stockwell of PNC Advisors are also preparing to publish a final a release of a ninth sector, *Recommended Best Practices in Disclosure for Tax Increment Bonds*;
- (iv) Eric Friedland of FSA is chairing a subcommittee which has begun drafting a tenth release, *Recommended Best Practices in Disclosure for Airport and Airline Special Facility Debt* that will be distributed for comment in 2003; and
- (v) Kathy Mock Masterson of Standard and Poor's Corporation and Gary Krellenstein of JP Morgan are co-chairing a subcommittee to develop an eleventh release, *Recommended Best Practices in Disclosure for Public Power Bonds*, which is now in start-up mode.

Recommended Best Practices for Water & Sewer Debt and Project Financings remain to be undertaken and volunteers interested in working in these sectors should contact us.

Another top priority for the NFMA Disclosure Committee has been to review and evaluate the adequacy of Rule 15c2-12 reporting practices, particularly with respect to the provision of operating data mandated to be included with annual information filings. Last spring the NFMA Disclosure Committee conducted an informal survey of roughly 100 obligors subject to Rule 15c2-12 reporting requirements to determine: (a) whether the written undertaking provided at the time of issuance was complete; and (b) whether actual information subsequently provided fulfilled the terms of the undertaking. Results from the survey indicated that while annual financial information filed by 59.1% of issuers contained information deemed to be either complete or near complete, 40.9% of the sample filed information was found to be either somewhat or substantially inadequate. The results suggested that an unacceptably high percentage of obligors are failing to meet the regulatory mandate prescribed by Rule 15c2-12. These findings were shared with various industry groups and regulators and prompted the Disclosure Committee to undertake a new initiative described below.

To facilitate better secondary disclosure, particularly with respect to inclusion of operating data, the NFMA Disclosure Committee, working in conjunction with past chairs of the various Recommended Best Practices subcommittees as well as issuer and industry representatives, has begun development of sector-specific lists of key operating data to supplement its Best Practices papers. These schedules are not intended to displace the Best Practices papers but rather to focus increased issuer attention on the importance of including operating data within Rule 15c2-12 annual filings. Judi Harvey of American Express and Elizabeth Hill of FSA, who are serving as Co-Coordinator for Secondary Market Disclosure, are taking lead responsibility to promote development of operating data schedules and to ensure thematic consistency with pre-existing Recommended Best Practices. Initial sectors to be covered include: (a) General Obligation and Tax Supported Debt; (b) Solid Waste Transactions; (c) Private College and University Transactions; (d) Hospital Debt Transactions; (e) Airport and Special Facility Debt; (f) Housing Revenue Bond Issues; (g) Long-Term Care/Senior Living Debt; (h) Public Power Bonds; and (i) Land Secured Transactions.

If you are interested in volunteering to work on disclosure projects, please contact Gerry Lian phone: (212)762-8479 gerard.lian@morganstanley.com or Chuck Emrich phone: (410) 454-5925 ceemrich@leggmason.com. Be sure to keep checking the "Disclosure Guidelines" section on the NFMA's website for updates to the working papers, final releases and other disclosure related items and to give us your feedback and thoughts at any time.

Gerry Lian and

Chuck Emrich

Co-Chairs, Disclosure Committee

Judi Harvey and

Elizabeth Hill

Co-Coordiators, Secondary Market Disclosure

Advanced Seminar on Transportation

January 16-17, 2003 • Little America • Salt Lake City, Utah

PROGRAM

Thursday, January 16

7:45-8:15 a.m.	Registration and Continental Breakfast
8:15-8:30 a.m.	Opening Remarks
8:30-9:45 a.m.	Financing Toll Roads – What Should Investors Expect?
9:45-11:00 a.m.	The Leveraging of Federal Funds for Transportation Projects
11:00-11:15 a.m.	Break
11:15-12:30 p.m.	Strategies to Mitigate Transportation Congestion in High Growth Areas (Three Case Studies)
12:30-2:00 p.m.	Luncheon
2:00-3:15 p.m.	Risk Mitigation: Breaking down the Credit Elements of a Transportation Financing
3:15-3:30 p.m.	Break
3:30-4:45 p.m.	Non-traditional Airport Debt – How is it performing in the current environment?
5:00-6:00 p.m.	Cocktail Reception

Friday, January 17

8:00-8:30 a.m.	Continental Breakfast
8:30-9:45 a.m.	Alleviating Congestion in Major Freight Corridors: Freight Movement Forecasts as a Base for Credit Evaluations
9:45-11:00 a.m.	Impact of Airline Performance on Airports Post-9/11
11:00-11:15 a.m.	Break
11:15-12:30 p.m.	Airport Special Facility Debt: A Profile of Security Structures and Related Risks.
12:30 p.m.	Seminar Adjourns

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REGISTRATION: To register, visit our website, www.nfma.org, and download the full program.

HOTEL:

The Little America Hotel, 500 South Main Street, Salt Lake City, Utah, has been selected as the site of the Advanced Seminar. *The room block will be closed on **December 15**. Reservations received after the cut-off date will be accepted on a space availability basis.*

SMFS

Southern Municipal Finance Society

On November 15, 2002, the Southern Municipal Society (SMFS), in conjunction with the NFMA and the Municipal Advisory Council of Texas, sponsored a seminar covering the new GASB Statement 34 financial reporting model standards. David Bean, Director of Research for GASB, provided a full presentation on the implementation of GASB 34. This is the same presentation that was made to other NFMA constituent societies in other cities throughout the country.

Bill Foley



The NFMA's 20th Annual Conference

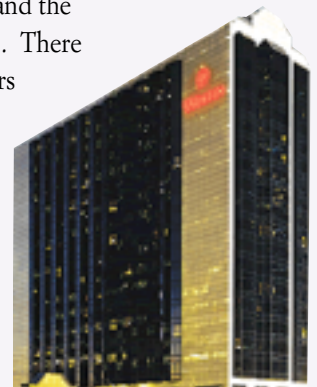
The NFMA's 20th Annual Conference will be held April 30 - May 2 at the beautiful Westin River North Hotel in downtown Chicago. We are expecting a large turnout for this milestone in our organization's history. The Conference Committee has lined up an exciting group of panels covering such timely topics as municipal derivatives, the bond insurers and their non-municipal exposure, and the State of the States in a time of fiscal and economic stress. Some of the other forums will discuss the latest trends in K-12 Education financing, the healthcare revenue cycle, portfolio management, and the increased use of Federal backing for municipal bonds. There will also be opportunities to meet with industry leaders and regulators, as well as learn about the practical effects of the new GASB 34 accounting regulations. See you in Chicago!

Don Lipkin

Peter Stettler

Conference Co-Chairs

THE WESTIN CHICAGO
RIVER NORTH



NFMA
ON THE WEB

<http://www.nfma.org>

CHECK IT FOR THE LATEST INFORMATION!

ONLINE DIRECTORY

Recent enhancements to the NFMA Online Directory include a printable version of the directory. Members are now able to print out an updated version of the directory for each society, or the full NFMA. While you are looking at the directory, check your listing - if it needs to be updated, please take a few moments to make the changes. The printable version will reflect your changes right after they are made! If you experience difficulty opening the Online Directory, it may be that the email and phone you are entering do not match the data we have on file for you. In that event, contact Lisa Good, who will provide you with the entry data.

NFMA

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NFMA CALENDAR

January 15, 2003 – Board of Governors Meeting, Little America, Salt Lake City, UT

January 16-17, 2003 – Advanced Seminar on Transportation, Little America, Salt Lake City, UT

April 30 – May 2, 2003 – NFMA 20th Annual Conference, Westin River North, Chicago, IL

May 4-7, 2004 – NFMA 21st Annual Conference, Kiawah Island Resort, SC

April 27-29, 2005 – NFMA 22nd Annual Conference, Wyndham Canal Place, New Orleans, LA