

Municipal Analysts

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BULLETIN



LETTER FROM THE CHAIRMAN

I would like to thank all of the NFMA Board members and officers for all of their efforts on behalf of the organization. The hard work, energy and creativity of the Board and the countless others who volunteered to contribute to our efforts have helped establish this organization as a leader in the municipal bond market place of ideas. As my term as Chairman comes to an end, I especially want to thank Lisa Good and Betsy Harkins since they are the main reasons that this organization is successful.

As I write this letter, there are several significant stories in the municipal market of interest to our membership. The first is the recent Supreme Court hearing on *Davis vs. Kentucky*. Initial press reports seem to indicate that a majority of the court do not agree with the Kentucky court decision against the status quo in the market. However, seasoned observers of the court caution that one should not make predictions based on the questions asked by the justices at this stage. You may recall that the NFMA filed an amicus brief in this case. This brief did not advocate a certain side in this dispute (affirming or overturning the Kentucky ruling) but rather attempted to provide information for the court to consider given the expertise of members of this group.

The second story of note is SEC Chairman Cox's direction to the SEC staff to revise SEC Rule 15c2-12 to create a Muni Edgar system. While this development is noteworthy, many market participants continue to feel that this solution is suboptimal. Creating a central repository for all disclosure in the market place is fine. However, the lack of standards for disclosure coupled with the lack of enforcement ability means that the net result may well be marginal at best – Garbage In – Garbage Out! The Board of the NFMA has established a committee to evaluate the current market regulation and disclosure dynamics in light of the various proposals found in SEC Chairman Cox' White Paper on the municipal bond market published this past summer. We hope to have a paper available for comment by year end.

Finally, the real estate market correction and the resulting sub-prime market crisis has created turmoil in the bond market several times over the past few months with much recent anxiety over bond insurer exposure to credit derivatives related to the real estate market. Our White Paper on Disclosure for Financial Guarantors is being released at a point in time where many analysts are struggling to get an exact read on the true nature of bond insurers risk in this market. Please feel free to review the draft paper upon its release and provide comments on this very timely effort from the Disclosure Committee.

The NFMA Board and several committees comprised of volunteers have been busy since the last *Bulletin* working on project of interest to the organization. A brief summary of these projects may be found below:

- **Davis vs. Kentucky Amicus Brief** – Discussed above.
- **Disclosure White Paper** – Draft paper expected by year end.
- **White Paper on Disclosure for Financial Guarantors** – To be released soon.
- **Review and updating of prior Recommended Best Practices in Disclosure(RBPs)** – Committees have been formed to evaluate original papers like the Hospital and Housing papers and determine if updated RBPs should be developed.
- **Securities Law White Paper** – This paper was completed and released for comments since the previous *Bulletin*.
- **GASB Paper** – A committee was formed to review controversy over this accounting standard setting organization and determine the NFMA's position on this organization.
- **Training Project** – Our committee developing a sector specific credit analysis training program is moving forward on a pilot project using CCRC's as a test case.

An additional event was a Strategic Planning Meeting held in Boston and attended by approximately 20 current and former Board members. The feedback from this session was enlightening and has led to the creation of a Strategic Planning Committee chaired by Bill Hogan and me. It is the intention of this committee to follow up on the results of this meeting and report to make specific recommendations to the Board during 2008.

At the recent Board Meeting in Washington DC, the Board elected the following officers:

Chair	Rob Yolland (Franklin Templeton, CSMA)
Vice Chair	Bill Hogan (Assured Guaranty, MAGNY)
Secretary	Chuck Emrich (T. Rowe Price, MAGNY)
Treasurer	Mark Stockwell (PNC Capital Advisors, Affiliated)

Also elected for 2008-2009 terms:

Affiliated	Brian Tournier (A.G. Edwards)
At Large	Greg Clark (HVB Group)
	Alex Fraser (Standard & Poor's)
	Lisa Washburn (Moody's Investors Service)
Alternate	David Belton (Standish Mellon)

I am pleased to announce that Bob Donahue has joined Lisa Washburn to co-chair the Annual Conference Committee. The 25th Annual Conference will be held in Miami on May 6-9. The planning is underway, the agenda looks excellent and Bob will be learning the process this year in order to lead us to Seattle in 2009.

The next educational event will be the Advanced Seminar on Transportation to be held at the Ritz Carlton in Marina del Rey, California on January 17-18, 2008.

It has been my pleasure to serve as your Chairman. Thank you.



On July 18-20, the California Society of Municipal Analysts sponsored a three-day conference in the Napa Valley. The conference focused on hot topics in California including health care reform, the impact of the housing slow down on local governments, what happens behind the scenes in tax delinquencies and foreclosures, the re-evaluation of California's levee system in light of Hurricane Katrina, the State of the State, and the increasing use of variable-rate debt by non-traditional issuers.

The first day of the conference started at Copia: the American Festival Center for Wine, Food and Arts in the city of Napa, where we started with a panel discussing Exotic 501(c)3 financings (including the Copia financing), and enjoyed a wine and food pairing class from a master wine taster. At lunch on Thursday, Phil Fischer of Merrill Lynch gave a keynote presentation on "The Impact of New Entrants into the Municipal Marketplace." The final evening of the conference was celebrated with a dinner served 130 feet underground

in the wine cave at the Pine Ridge Winery.

The venue was lovely, the weather was perfect and the results from our word-of-mouth survey was that the conference left them begging for more! This was the longest and most well-attended CSMA summer conference and the Board plans to host another similarly sized event in the summer of 2009.

Mary Colby

DISCLOSURE COMMITTEE

The final draft of the White Paper on Disclosure for Financial Guarantors will soon be posted on the NFMA's website, with a comment period extending through February. The paper was authored by Greg Aikman of BNY Mellon Private Wealth Management, Sara Kisner of Wachovia Securities, and Terry Trim of Nuveen. We would also like to thank the NFMA members who provided feedback and editorial comment on this White Paper. Other initiatives at this time include revisions of Recommended Best Practices papers for Land-Secured Transactions (chaired by Ron Mintz of Vanguard), Housing (Susan Dushock of Columbia Management), and Swaps (Ruth Levine of Vanguard), and a White Paper on GASB 45 (Kristin Stephens of ACA).

We are always looking for volunteers and ideas; please contact either one of us at any time.

Greg Clark and Greg Aikman, Co-Chairs

BMAF

Boston Municipal Analysts Forum

The BMAF has held several recent meetings spotlighting some key topics of interest to members. In August, the BMAF broke from the traditional summer break with a presentation from Dr. Christopher Thornburg of Beacon Economics, entitled "East Coast Finance, West Coast Risk." Chris's presentation gave BMAF members insight into the California economy and real estate market.

In September, the BMAF hosted a "Bond Insurance Update" with ACA and Radian. Speakers included Alan Roseman, Chief Executive Officer of ACA, Peter Hill, ACA's Head of Public Finance, and John DeLuca, Senior Vice President for Market Development at Radian. In October, BMAF members met with Dr. Joseph Giglio, a leading expert on transportation finance who discussed, "The State of America's Transportation Network." Finally, several events are planned for November including a Bond Insurance Roundtable and a GASB update.

On the social front, the BMAF held a very well attended Summer Outing on August 1 at Tia's on the Waterfront. The BMAF will wrap up its 2007 year with a bowling party at King's Lanes on Wednesday, December 5th from 5:30 to 8 PM.

The Board is grateful to the Bank of New York Mellon, Mintz Levin, Eaton Vance, and Columbia Management for providing space for recent meetings.

Bob Donahue

MAGNY

Municipal Analysts Group of New York

MAGNY membership is close to 400 individuals and growing. MAGNY's exciting first quarter began with a kick-off luncheon featuring George Friedlander, the municipal bond strategist at Citigroup Global Markets and Joe Deane, a portfolio manager at Western Asset Management -- two of our market's leading prognosticators who shared their thoughts with over 100 attendees about the municipal bond market's reaction to the capital market turbulence.

The October luncheon discussed Municipal Disclosure: Legal Responsibility vs. Analysts' Expectations by examining Rule 10b-5 of the Securities Exchange Act of 1934 and alleged misrepresentations in official statements and other documents used in connection with municipal bond financings.

And, on November 29 a special half day program presented by the Municipal Analyst Group of New York (MAGNY) and the Securities Industry and Financial Markets Association (SIFMA) will focus on the Subprime Crisis, "How has the Subprime Crisis Impacted the Municipal Bond Market?" The invitation has been e-mailed to all NFMA members.

Linda Hird

Industry Practices and Procedures Committee

The Industry Practices and Procedures Committee acts as an advocate, representing the interests of the NFMA membership within the municipal finance industry. This Committee oversees preparation of all position papers published by the NFMA. In addition, on behalf of the NFMA, the Committee responds to requests from and positions taken by other participants in the municipal market. Traditionally, the Industry Practices and Procedures Committee is co-chaired by the Immediate Past Chair of the NFMA and one other member of the Board. Erik Kimball and Eric Friedland co-chair this Committee.

The "Draft White Paper on Federal Securities Law Relating to Municipal Securities" is available on the NFMA web site, www.nfma.org, for public comment through November 30, 2007. The goals of this paper are to provide (a) information regarding the applicability of federal securities laws to municipal bonds, both at issuance and in the secondary market, (b) a glossary of common securities law terms relating to municipal securities, and (c) answers to frequently asked questions that analysts may use as a resource in their day to day work. If you have any comments or questions, please direct them to Lisa Good at lgood@nfma.org.

As previously reported, the NFMA filed a brief with the United States Supreme Court as amicus curiae in connection with the Kentucky v. Davis matter. The Supreme Court heard arguments on November 5, 2007. Although no decision has been issued, some believe that questions from the Justices during oral argument suggest the Court will side with the State of Kentucky in maintaining existing state tax exemptions for municipal securities.

Earlier this year, the Industry Practices and Procedures Committee formed a sub-committee to consider recent developments relating to GASB. The sub-committee included Natalie Cohen, Richard Larkin, Ruth Levine, Anne Ross, Tom Weyl, Eric Friedland and Erik Kimball. The sub-committee drafted a "Position Paper on GASB and its Importance to Municipal Credit Analysis" which was approved by the NFMA Board for release. We expect to post the paper on the NFMA web site shortly.

To a great extent, we rely on NFMA members to bring matters of import to our attention, and we rely on our members to assist in developing projects that result from such membership concerns. If you have concerns which you would like to bring to our attention, please contact Lisa Good at lgood@nfma.org.

*Erik Kimball and Eric Friedland
Co-Chairs*

Treasurer's Report

The NFMA continues to be on firm financial footing, based on unaudited figures for the first half of 2007. This is largely due to the generous support of our many sponsors' and our staff's efforts to maintain budgetary control. The sponsor's financial and event contributions helps the NFMA defray many costs as well as providing important networking opportunities.

We would like to thank all of our sponsors for their support!

Chuck Emrich

MSMA

Minnesota Society of Municipal Analysts

After a quiet summer, we are looking forward to several interesting presentations in the coming weeks. For our next program, we will have a presentation by David Lawless, CFO and Director of the Office of Budget & Finance of Hennepin County. Mr. Lawless will make a presentation on the new Minnesota Twins baseball stadium, which is currently under construction in Hennepin County in downtown Minneapolis.

In early December, we expect to have a presentation from John DeLuca from Radian Asset Assurance regarding Radian's recent financial challenges and changes in spreads on Radian-backed bonds in recent months. Programming for the first part of next year has not been finalized, but we anticipate having speakers on local transportation and infrastructure issues, especially after the tragic bridge collapse in Minneapolis this summer, as well as perhaps discussing St. Paul's preparations for the Republican National Convention in 2008. We may also put together a panel on legal issues to highlight some of the expertise of some of our new members. In addition, we will try to host one winter and one summer social function during the next year.

Paul Jungquist

GASAC Meeting

OCTOBER 8 & 9, 2007 • PITTSBURGH, PA

The Governmental Accounting Advisory Standards Advisory Council opened with approval of its minutes of the July 12 & 13, 2007 meeting. A report on the meetings and activities of the Financial Accounting Foundation (FAF) followed during which the challenge of finding long-term funding for the GASB was discussed. The GASB Chairman provided a summary of his report acknowledging that after the Advisory Council's review of the GASB's Strategic Plan and the GASB Board meeting in August, two new research projects were added to the Technical Plan. One will consider incorporating into the GASB literature accounting and financial guidance in the AICPA Statements on Auditing Standards. The second project is primarily focused on issues raised by preparers and auditors related to Statement #31 Accounting and Financial Reporting for Certain Investments and for External Investment Pools. GASAC provided feedback on the GASB Strategic Plan and on the Fund Balance Reporting and Government Type Definitions Project. Previously, public hearings and roundtable discussions were held in conjunction with the Invitation to Comment on Fund Balance Reporting. This project encompasses definitions of governmental fund types, the classification of fund balance and how it is to be reported. Spending and non-spending groups were established with spending categories to be reported in declining order as to limit on use. The only area of unassigned funds would be in the general fund. The rainy day fund has been determined not to be a fund type and will not have its own column for reporting but rather be placed under an expanded definition of the term "limited". Pre and post standard, the numbers will no longer be comparable. Board deliberations will continue to consider Advisory Council input. An Exposure Draft (ED) is planned for this November. The Service Efforts and Accomplishments Reporting Project (SEA) proceeds. Five sections within Concepts Statement #2 will undergo revision integrating and reflecting continuing research and feedback on SEA. Staff will return the document for additional Board consideration. Despite the October 26, 2007 deadline, you may still provide GASB with your comments on the revised ED regarding Derivatives and Hedge Accounting. Supporting documents, including a plain language discussion and instructions on making comments can be found at www.GASB.org. Changes to the document have been made since the ED as a result of feedback received to date. The GASB hosted a Public Hearing and Preliminary Views User Roundtable in NYC on 11/1/07 soliciting comments on the Derivatives ED. NFMA will be providing a response to the ED.

Respectfully Submitted,

Anne G. Ross

NFMA GASB Advisory Council Representative

CMAS

Chicago Municipal Analysts Society

CMAS held a boat trip and lunch at Riva's on Navy Pier on September 27th, and the good weather held out long enough for smooth sailing that afternoon! We'd like to again thank Assured Guaranty for sponsoring the event, which was very well attended.

Soon afterward, CMAS held a cocktail party on October 18th at Harry Caray's restaurant. Bob Mann, SVP in the Structured Municipal Finance department at LaSalle Bank, presented a primer on tender option bond programs. His presentation was very well received and we'd like to thank him for all his efforts, as well.

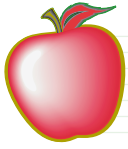
The CMAS board is currently busy planning our next event, our annual holiday party, which will be held on December 6th at Carnivale restaurant.

Helen Samuelson

TRAINING COMMITTEE

Our first group of on-line training sessions, for CCRCs, is scheduled to be available in early 2008. That effort is co-chaired by Marie Pisecki of BB&T Capital Markets and Ed Merrigan of BC Ziegler, who are working with their own committee on this project. Please let us know if you have any ideas for other credit sectors or topics that might be suitable for on-line training.

*Greg Clark and Howard Mischel,
Co-Chairs*



EDUCATION COMMITTEE

As approved by the NFMA Board of Governors earlier this year, the Education Committee has been restructured to focus on NFMA education policy issues and to facilitate the coordination of various NFMA educational events. The Education Committee members include the chairs of the advanced seminars and the annual conference. The Seminar Subcommittee now handles the organization of the advanced seminars, formerly the responsibility of the Education Committee. The Annual Conference Committee is now a subcommittee of the Education Committee and is still responsible for the organization of the Annual Conference.

The Seminar Subcommittee organized the Advanced Seminar on Legal, Regulatory and Tax Issues which was held in Arlington, VA, across the Potomac River from Washington D.C., on October 11-12. Discussion topics included SEC, IRS, and GASB initiatives, the outlook for federal income tax and state law changes potentially impacting Munis, legal issues affecting Muni bond workouts and the pricing impacts on Munis from legal disclosure and tax impacts. The seminar provided analysts with a more comprehensive approach to issues impacting Munis. We would like to thank the moderators and their panelists for their hard work and for the support of the education objectives of the NFMA.

The Seminar Subcommittee is in the process of organizing the program for the next advanced seminar scheduled to be held on Thursday, January 17 and Friday, January 18, 2008 in Marina del Rey, near Los Angeles. The advanced seminar will focus on transportation debt, and the transportation facilities in the vicinity of the seminar venue should provide an excellent laboratory for panels covering airports, mass transit, ports and toll roads as well as tax-backed bonds used for transit projects.

The Introduction to Municipal Bond Credit Analysis was held in Philadelphia on November 16-17 in Philadelphia. Anne Ross continues to chair the Intro Course, and has worked with the Seminar Subcommittee to update the agenda to provide more in-depth coverage for analysts attending the seminar.

Our thanks also go to Bob Donahue who has served as co-chair of the subcommittee this year until moving over to provide assistance to the Annual Conference Subcommittee as co-chair. Bob's spot on the subcommittee has been filled by Alex Fraser, a NFMA board member, who has stepped up to provide the leadership for the organization of future seminars.

Mark Stockwell and Alex Fraser
Co-chairs

SMFS

Southern Municipal Finance Society

It's been an interesting time to be in the municipal market! With SIV's, asset-backed CP and other taxable products affecting our investments, we've all been working overtime. In the middle of all the confusion, the SMFS has stayed the course.

On Friday, August 31, 2007, Alex Fraser (S&P) co-sponsored a presentation in Dallas for SMFS/NFMA members and finance directors that covered the change from Unit Credit actuarial method to Projected Unit Credit for all TMRS cities. About 50 members and finance directors were in attendance along with a few who joined in via conference call.

On Friday, November 9, 2007, Rich Raphael and Doug Offerman from FITCHRATINGS visited us in Charlotte to discuss credit and other issues affecting state and local government finance. As an added attraction, Tom Abruzzo, head of financial guaranties, joined us by phone to talk about their current and proposed rating methodology for monoline insurance companies. We had about 20 in attendance and a number of others who joined us by phone. The discussion was lively, to say the least.

Dyer Greer is working with his committee members on revising, modernizing and simplifying our by-laws. He's well on his way to presenting our members with a final draft for approval.

Finally, this will be my last newsletter report as Chair of the SMFS. The past two years have truly been a joy. I've made a host of new friends and learned so much about what leadership entails. Julie Egan, Evergreen Investments, will take the reigns in January. Congratulations, Julie! You have a great group working with you.

Susan Dushock

The NFMA Wishes Everyone a Safe and Happy Holliday Season.



NFMA CALENDAR

November 29

MAGNY Meeting – How has the Subprime Crisis impacted the Municipal Bond Market?

December 5, 2007

BMAF Bowling Party

January 17-18, 2008

Advanced Seminar on
Transportation Debt
Ritz Carlton
Marina del Rey, California

May 6-9, 2008

Twenty-fifth Annual Conference
Loews Miami Beach Hotel
Miami Beach, Florida

May 5-8, 2009

Twenty-sixth Annual Conference
Grand Hyatt Seattle
Seattle, Washington

May 4-7, 2010

Twenty-seventh Annual Conference
Hyatt Regency Tamaya Resort
Santa Ana Pueblo, New Mexico

NFMA

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