

# Municipal Analysts BULLETIN

VOL. 9, NO.3

A NEWSLETTER OF THE NATIONAL FEDERATION OF MUNICIPAL ANALYSTS

OCTOBER 1999

## Letter from the Chairman

*Mary Metastasio*

As we move through the last few months of 1999, the NFMA is hard at work in several important areas. September brought the culmination of several months' work by the Land-Secured Finance Steering Committee, a group consisting of MSRB board members and staff, NFMA members, and other market participants. The result was a series of three regional forums on land-secured finance. The centerpiece of each was the presentation of the NFMA's Best Practices paper. Thanks go to all the NFMA members who participated in the Forums, either as panelists or audience members, with special thanks to road warriors Fritz Goss, Ron Mintz and Tom Walsh, who chaired panels at all three locations. These Forums provided an opportunity for an informed discussion on land-secured finance, and generated publicity for and useful comments on our land-secured disclosure best practices paper.

The Health Care Finance Steering Committee, set up similarly to the Land-Secured Committee, is in an earlier stage of its work. We'll keep you informed of developments as they occur.

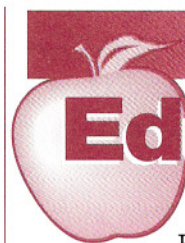
Take a look at the articles in this issue for the details of what we've been up to lately and what we're working on for the future. Check out the progress we've made in disclosure, the educational programs that are planned, our web capabilities, and what's up for our 2000 conference. And if there's something you think we've missed, or an issue we need to take a look at, don't be shy. Let us know.

# 2000

A N N U A L C O N F E R E N C E

Plans are underway for the NFMA's 17th Annual Conference in Miami Beach, Florida, May 17-19, but the Conference Committee will still accept ideas for topics and speakers. Please forward your ideas to Joe Rosenblum and Peter Bianchini, Conference Co-Chairs through Lisa Good at [lgood.nfma@worldnet.att.net](mailto:lgood.nfma@worldnet.att.net).

If you are planning to attend the Annual Conference, you may want to note that the committee is also working on a Pre-conference Issuer's Day on Tuesday, May 16.



## Education

The Introduction to Municipal Bond Credit Analysis will be held October 28 and 29 in Minneapolis, Minnesota. We want to thank the Intro Course Co-Chairs, A.G. Anglum with Harris Trust and Savings Bank and Steve Bocamazo with Loomis Sayles, for all of their hard work in putting this popular course together. We also want to thank all of the Intro Course presenters. The terrific job they do has made the Intro Course one of the best educational experiences available for those looking to gain a better understanding of municipal credit analysis.

Our next offering will be an Advanced Seminar on Hospital Finance on January 20 and 21 at the Ritz-Carlton in Phoenix, Arizona. It will be co-chaired by Tom Weyl with Eaton Vance and Andy Matteis with Putnam Investments. The Advanced Seminar will cover a number of issues critical to hospital analysis, including hospital turn-around and workout case studies, investing in distressed hospitals, and merger and acquisition activity, among others. Registration materials are being mailed to all NFMA members. Mark your calendars now for the Advanced Seminar on Hospital Finance, and return your registration promptly to guarantee your attendance.

*Mike Zaroogian*



# California

## Society of Municipal Analysts

In April, CSMA had its traditional Spring Conference, held in San Francisco. Topics included discussions on derivatives, disclosure, Bay Area transportation, and Puerto Rico. In addition, Barbara Lloyd, CA's Deputy State Treasurer briefed us on the plans of the administration.

In August we had a very successful afternoon "get-together" in San Francisco. It provided an opportunity for about a quarter of our members to meet and get to know each other better in an informal setting. Feedback has been very positive and the Board would like to do more of these in the future to promote our mission of professional development outside the more traditional educational settings of our conferences. Along this line, the Board arranged a Society dinner in Long Beach in conjunction with the Fall Conference.

The Fall Conference was full of valuable events for members, including tours of Long Beach Harbor, the City of Long Beach Economic Development tour and the Long Beach Aquarium of the Pacific on the pre-conference day. Topics discussed during the Conference included land secured bonds, non-traditional financing, Southern California local issuers and California transportation issues. Our Conference Chairs, Board members and other members put a lot of effort into the sessions and I would like to thank them for their effort.

We continue to maintain the Society's web site [<http://www.nfma.org/csma/index.html>] as well as links to the NFMA and other industry web sites. I believe the site will be an increasingly valuable way for us to communicate in the future, especially considering the geographic diversity of the state. Please visit the site to keep abreast of society news and forward material and comments for inclusion.

In closing I'd like to emphasize that the goal of the California Society and the NFMA is to have active participation of all members, so please feel free to volunteer your time. There is always a need for panelists, moderators and committee members at the CSMA and NFMA level and I believe any participation will be well rewarded.

*Peter Bianchini*

# BOSTON

Taking a break from the daily grind, more than 20 members of the BMAF enjoyed themselves at the annual clambake, which was held in August. Scheduling conflicts have delayed our Fall Series of guest speakers, but plans are in the works to have Gary Krellenstein of First Albany address the membership concerning recent changes in the public power industry.

*Steven Bocamazo*

# Minnesota

The Minnesota Society of Municipal Analysts (MSMA) hosted its third meeting of the year on September 23rd. Our guest was Dr. Gordy Alexander, Sr. Vice President and Administrator of Fairview University Medical Center. Dr. Alexander summarized the progress of the 1997 merger between Fairview Hospital and the University of Minnesota Hospital. The talk was a follow-up to a presentation made in 1996 and was particularly timely given the recent downgrade of Fairview and the generally difficult health care environment in the Twin Cities.

In October, MSMA welcomed David Litvack of Fitch/IBCA who presented his recent research into municipal defaults. Our fifth and final meeting of the year will be on December 15th when MSMA will co-sponsor a presentation by DLJ economist Dick Hokenson along with the Twin Cities Society of Security Analysts.

Now in its sixth year, MSMA continues to prosper. Our web site (contained within the NFMA's site) now includes our speaker schedule, direct e-mail links to all board members and an on-line membership application. Thanks to Mike Frederickson for his work on improving our site. In addition, we have nearly completed our transition to paperless meeting notices. Our e-mail response rate to our last meeting was tremendous and we anticipate by the end of the year to move entirely to an e-mail platform.

MSMA Board officers serve two year terms, so the composition of the board will not change next year. The board will continue to be: Darrick Hills, Dain Rauscher, President; Patricia Eitrheim, Delaware Investments, Vice President; Debbie Sit, Sit Investment Assoc., Secretary/Treasurer; Mike Frederickson, USBancorp Piper Jaffray, At-Large; and David Rowland, St. Paul Companies, At-Large.

*Darrick L. Hills*



## Report on the U.S. Comptroller General's Advisory Council on Governmental Auditing Standards

I have served as the NFMA's representative to the U.S. Comptroller General's Advisory Council on Governmental Auditing Standards for the past year as part of a three year term. The U.S. Comptroller General sets the standards governmental auditors must use when preparing an audit. These procedures, summed up in a book commonly referred to as "The Yellow Book", determine the level of care auditors should take when performing an audit and have the force of law in determining whether a financial statement can be considered to be fairly audited in accordance with Generally Accepted Accounting Principles (GAAP). The Advisory Council provides primary input to propose and write changes to these standards.

As the NFMA's representative to the Advisory Council, I have been the sole user of financial statements on the council. The council comprises 19 members, about a third of which are auditors from state and local government, another third auditors in private practice, and the final third professors of accounting. Most of the council's proceedings consist of minor changes in wording to the existing standards. However, the council can recommend whether footnotes should disclose material weaknesses in financial controls. Except for my dissent, the council was unanimous in not expanding disclosure of material weaknesses in accounting systems in the audit footnotes, under the theory that these are private matters between a governmental entity and its auditor. One of the council participants even said that bond portfolio managers were not "sophisticated" enough to understand these type of disclosures. Nevertheless, I think it was valuable for members to hear the perspective of a user of financial documents.

A couple of other topics have come up in council meetings that NFMA members might want to be aware of. The first is that computers are removing any paper trail in the auditing process. Auditors talk about how they must consult the same computer screen to find individual receipts (of say, water customers), expenses paid, or accounts payable. When paper receipts are eliminated, all that is left is a lot of trust in how good (and honest) the computer programmer is, because there is no independent paper record. To their credit, auditors themselves are very concerned about this.

The second is that government staff auditors are spending a significant fraction of their time in something called "performance auditing", which consists of benchmarking various non-financial standards for a state legislature or a city council. The thing NFMA analysts need to understand about this process is that it is not as rigorous a process as financial auditing, and may consist only of lists from third parties or other unchecked data.

Spending significant time in a room full of serious and dedicated professional auditors can be interesting. As part of the process, I have been learning how much variation exists between different auditors as to what "reasonable assurance" means when performing a financial audit. This may not surprise all of the NFMA readership, but I have found it useful to keep in mind when spending time as an actual user of financial documents.

*David Hitchcock*



## E-MAIL FORUM

This year we instituted a service for NFMA members that we call the NFMA E-mail Forum. With the advent of the internet and our growing familiarity with it's ease and functionality, we felt the time had come to use the internet as one way to "talk" amongst ourselves about topics we felt were important. To facilitate this "conversation" we developed the Forum.

Over the years, the opportunity to discuss topics within the municipal industry with other municipal professionals was relegated to conferences, seminars and NFMA society meetings. The new E-mail Forum now allows our members to post topics, questions, ideas, and even solutions to the entire Forum in one simple action. In Internet tech-talk, the NFMA E-mail Forum is a list service. Like other similar services on the Internet, this is an electronic discussion among a list of subscribers. Subscribers can join in the discussion or they can just read. This means you can take part in an easy group discussion without leaving your office!

The first thing you will notice is that we said "subscribers". The service is open to any member of the NFMA in good standing [you paid your dues] who "subscribes". The Forum is easy to use and free. To subscribe you simply send an e-mail to the NFMA E-mail subscription address, [majordomo@emuni.com](mailto:majordomo@emuni.com). In the body of the of the message, simply type the words, subscribe nfma. This will start the processing of your subscription. Once your subscription is active, you will receive an e-mail from the list service with a welcome and introductory message. This message will contain the NFMA E-mail Forum's service features and commands. You should save this message for future reference.

Now you are ready to begin to use the Forum. You have very little to do from this point forward but participate. We have endeavored to make your participation as easy as possible. If you want to begin your NFMA E-mail Forum adventure with a question, just e-mail your question to the NFMA E-mail Forum address, [nfma@emuni.com](mailto:nfma@emuni.com) and Forum subscribers will receive your question. By sending e-mails to the NFMA E-mail Forum address, [nfma@emuni.com](mailto:nfma@emuni.com), you are sending the message to all NFMA E-mail Forum subscribers. When you receive your first e-mail from the Forum you can reply either to the individual who posted the e-mail or send a response to all the subscribers by using the [nfma@emuni.com](mailto:nfma@emuni.com) address. To make participation easier, save the NFMA E-mail Forum address, [nfma@emuni.com](mailto:nfma@emuni.com), to your e-mail address book. Easy!

We hope this service will be used by the membership. It represents another way the NFMA is trying to get their membership to participate both on a local and national level. If you have any questions about this service, don't hesitate to e-mail me at [sdrake@ssrm.com](mailto:sdrake@ssrm.com) and I will attempt to answer your question quickly and with a minimum of technical jargon. The success of this service is very much dependent on your participation, so join up and join in the discussion.

*Susan Drake*

## MAGNY

The Municipal Analysts Group of New York (MAGNY) is pleased to announce its new Board of Directors as of September, 1999. These are: Donald K. Cirillo -Chairman, Gerard J. Lian -Treasurer, Robert S. Tucker -General Secretary, Anne G. Ross - Membership Committee Chair, Gregory A. Clark -Program Chair.

Our first luncheon of the new season had a turn-away crowd show up at our new mid-town location. Finally, after all these years, we changed the venue so that we alternate between The Yale Club (midtown) and The Down Town Association. Our first presentation was made by David Litvack of Fitch/IBCA who gave an excellent slide show presentation and speech about "Municipal Bond Defaults through the '90's". Our next luncheon will concern a panel discussion about the pricing of municipal bonds by the various evaluation services.

This 1999/2000 season is also the 50th Anniversary of MAGNY!! We are planning an appropriate celebration in the late Spring and will be providing specific details as they become available. We are looking for some sponsors to help out and the action is being handled by Frank Trumbour (973) - 802-8987 and Tom Swartz (908)-903-3768. We're looking forward to a great event!

*Donald K. Cirillo*

## REMINDER!

**YOUR COMMENTS ON THE THREE RECOMMENDED BEST PRACTICES IN DISCLOSURE PAPERS CURRENTLY IN THEIR INDUSTRY COMMENT PERIOD ARE DUE NOW!** The three papers: (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, can be found on the web site. Comments are to be submitted in writing to Lisa Good at [lgood.nfma@worldnet.att.net](mailto:lgood.nfma@worldnet.att.net).

## The Southern Municipal Finance Society is planning two meetings this fall:

On November 17, there will be a Texas Regional Meeting in San Antonio on the Lower Colorado River Authority. The meeting will take place at USAA Headquarters. The topic will be "Deregulation of the Electric Industry in Texas." For details contact Bill Foley (210) 498-0093 or Mark Clayton (210) 498-3766.

A second meeting is tentatively planned for an as yet to be determined date in November. The Florida Regional Meeting will take place in St. Petersburg and will address the Florida Hurricane Catastrophic Fund. For details contact: Edward Evanouskas (727) 573-8364 or Carolyn Nees (727) 573-2800.

*Chuck Grob*



## Disclosure Committee

We continue to have a great deal of activity within the subcommittees of the Disclosure Committee. There are five subcommittees now up and running: Health Care, co-chaired by Emmeline Rocha-Sinha and Tom Weyl; Housing, chaired by Bill deSante; Higher Education, co-chaired by Judi Harvey and Patrick Early; Land Secured Finance, co-chaired by Ron Mintz and Fritz Goss; and Solid Waste, co-chaired by Janet Martin and Chuck Emrich. If there is another sector you feel needs disclosure related attention, please give me a call or drop me an e-mail about it; we'd love to get some more subcommittees underway.

As you know, 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. It is the hope of the Disclosure Committee, the Disclosure Subcommittees, and the NFMA Board of Governors that all of you will take the time to look at and comment on the papers. Please get your comments in, in writing, as soon as possible. The official deadline for comments is November 15. Comments should be submitted to Lisa Good at [lgood.nfma@worldnet.att.net](mailto:lgood.nfma@worldnet.att.net). We are taking all comments in writing so that we can keep an accurate comment log.

Since the May release, members of the related subcommittees have made about 20 presentations regarding the papers and seeking industry comment. Reaction to both the discussions and the papers themselves has been generally favorable and comments have been constructive. Those in the industry who are taking the time to comment clearly understand that the recommended levels and types of disclosure outlined in the papers are likely to become industry norms, which means compliance will become expected over time, and perhaps enforceable by the SEC (certain disclosure related actions taken by the SEC are based upon failure by industry participants to provide disclosure at a level of which mirrors the industry norm; see the SEC website at [www.SEC.gov](http://www.SEC.gov) for more information).

Both the SEC and the MSRB have demonstrated public support of the paper. Various SEC representatives, in speeches around the country in front of a variety of audiences, have made it clear that they support the NFMA's recommended best practices efforts, and hope to see the recommended practices become industry standards. The MSRB orchestrated well attended and well publicized industry forums for discussion of the Land Secured paper in September, and has stated that it will be assuming a greater role in promoting good disclosure practices in general. These are positive events, which demonstrate that we are indeed following a value added path with our current disclosure efforts.

In closing, I would like to welcome Jeff Wilson of Franklin to the Disclosure Committee. Jeff has agreed to assume the chairmanship of the NFMA Disclosure Committee, effective immediately. Jeff has a lot of great ideas, and I look forward to seeing where the subcommittees go from here, as the Recommended Best Practices in Disclosure move from design to implementation.

*Dina W. Kennedy, 212-339-3519, [dina\\_kennedy@fsa.com](mailto:dina_kennedy@fsa.com)*