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## **NFMA SUBMITS AMICUS BRIEF IN CITY OF VALLEJO CASE**

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The National Federation of Municipal Analysts (“NFMA”) announced today that it has submitted an *amicus curiae* brief with the United States Bankruptcy Court for the Eastern District of California (Sacramento Division), In re City of Vallejo, California. The brief can be found at [www.nfma.org](http://www.nfma.org).

The NFMA rarely files amicus briefs, and almost never at the trial court stage. However, the NFMA Board felt strongly that an exception should be made in this case given that the matter before the bankruptcy court has such far reaching ramifications for the municipal bond market generally; and given that the issues to be considered by the court have never before been considered in a chapter 9 bankruptcy proceeding and therefore could create a strong national precedent.

The dispute in the bankruptcy proceeding which is the subject of the NFMA’s Amicus Brief involves the enforceability of a state aid intercept program -- known as the Vehicle Licensing Fee (VLF) Enhancement Program -- in light of the bankruptcy filed by the City of Vallejo. Vallejo has taken the position that the intercept mechanism is not enforceable given its chapter 9 bankruptcy filing even though it has defaulted on its debt service payments. There are 34 similar intercept programs in 24 states, pursuant to which billions of dollars in debt securities have been issued by municipalities across the country, all of which are potentially at risk of a significant ratings down-grade and a future finding of unenforceability in the event of an adverse ruling in the Vallejo case. These programs are designed to provide municipalities with lower cost access to capital, and are based on the long held understanding that the state aid intercept provides a secure and secondary source of debt payments to holders if the municipality defaults. The NFMA argues in its amicus brief that an adverse ruling by the court would frustrate the

intention of these programs, would run counter to the long held understanding in the municipal marketplace regarding the validity of these intercept mechanisms, and would be inconsistent with the great weight of bankruptcy law jurisprudence.

“With the concurrent decreased availability of traditional monoline insurance and letters of credit and the well-documented increase in the financial struggles of municipalities across the country, this case comes at a time when the state intercept programs are more important than ever to municipalities needing to access the capital market,” said Mark Stockwell, NFMA Chairman. “The NFMA Board believes that it is important for the bankruptcy court to understand the far-reaching significance of this issue, and the ways in which an adverse ruling will both challenge the right of bond investors to rely upon the intercept mechanism and jeopardize already cash-strapped municipalities across the country.”

Established in 1983, the NFMA is an organization of over 1,000 members, primarily research analysts, who evaluate credit and other associated risks in the municipal market. These individuals represent, among others, mutual funds, insurance companies, broker/dealers, bond insurers, rating agencies, and financial advisory firms.