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DECEMBER 2001

Letter from the Chairman

Alan Polsky

As the end of the year fast approaches, I am once again proud to report much progress at the NFMA. In the areas of both education and disclosure our members have been busy. In late October we once again hosted an Introduction to Municipal Bond Credit Analysis. Thanks are due to Education Co-chair Nancy Belz (Federated Investors) for her exemplary work in organizing the conference. Education Co-chair Eric Friedland (FSA) is coordinating the January 2002 Advanced Seminar on Project Finance in Orlando, Florida. This promises to be a valuable seminar and members are encouraged to attend.

As you are likely aware, the Board of Governors of the NFMA will expand to include a larger number of at-large members beginning in 2002. The increase should provide more resources for the organization to accomplish its objectives. I am pleased to report that the new Board positions generated strong interest and a strong showing of qualified nominations was received.

The Recommended Best Practices Disclosure for Solid Waste Transactions have been released in final form. Chuck Emrich (Legg Mason) and Janet Martin (Fitch) did a great job staying with the paper through to its completion. The final version of the General Obligation paper will be released prior to the end of the year. We received a lot a great feedback from market participants on the draft. My thanks to Ruth Levine (Vanguard Group) and Stephanie Peterson (Charles Schwab & Co.) and the entire committee for their work on behalf of the sector. The Recommended Best Practices in Long Term Care/Senior Living has just been released in draft form. If you haven't done so already, please take a look at them on the website and help us get some feedback on the paper. We are grateful to Jerry Solomon (Bear Stearns) and Steve Hiatt (Franklin Templeton) for their work on the paper. Currently, groups are working on Recommended Best Practices in Disclosure for Tax Increment Financings as well as a paper on Short Term and Variable Rate Debt. Jeff Wilson (Saybrook Capital) will be stepping down as Disclosure Chair at the end of year. Jeff has worked hard on many of these papers over the years and his efforts are greatly appreciated. In 2002 we welcome Gerry Lian (Morgan Stanley) as Disclosure Chair.

The development of the Recommended Best Practices has never been more critical. As analysts we clearly know a sector by sector approach is the only way to definitively improve disclosure in the municipal marketplace. As you may be aware, many of the industry trade associations, including the NFMA, have begun voluntary discussions as a working group tentatively dubbed the "Muni Council." To be sure, many of the problems with the disclosure system have to do with how and when information is available to market participants and the Muni Council is considering many of these important issues. The efforts of this collective have great potential and, in an ideal system, it would be extremely satisfying to have the NFMA Recommended Best Practices help drive the content of disclosure even more in the future.

As a final note, I would like to take this opportunity to thank the membership for the privilege of serving as Chairman of the NFMA this last year. I have thoroughly enjoyed what has been a challenging and rewarding experience. Thank you for your support.

NFMA TREASURER'S REPORT

DUES TO INCREASE

The National Federation of Municipal Analysts statement of activities for September 30, 2001, indicates that the budgetary pressures that have plagued our organization are continuing. Results from operations for 2001 reveal a deficit of \$25,900 compared to a surplus of about \$9,000 last year. The problem appears to be of a dual nature, as revenues have declined while we experienced increased spending pressures in order to meet the needs of our organization. It has become increasingly evident that a structural imbalance exists in our budget that needs to be addressed.

The NFMA was founded and developed as a federation of our societies whose mission was to focus upon the education and fellowship of its members. However, over the past several years our federation has increasingly expanded its mission. This growth has resulted from not only the activities of our members, but also to meet the demands of our profession and the marketplace. A primary example of these demands would be the extensive work on disclosure in virtually every sector of the tax-exempt securities market conducted by our Disclosure Committee. The increasing need for the NFMA to provide input on national issues that face investors and organizations involved in the municipal bond market is another pursuit requiring additional resources. This increased activity, while providing a significant benefit to the industry, is not a cost-free proposition.

The budgetary pressure created by this new national agenda needs to be viewed in light of the many successes recently achieved by the NFMA. The essential nature of disclosure projects addressed by NFMA committees is tied to the core of our profession. These efforts cannot be completed and disseminated in such a successful manner by an individual firm or group of companies. The NFMA allows our community to speak with one voice and, therefore, be heard whereas we as individuals have been too often ignored. Our Federation has gained a national presence that allows us input on national issues and to be recognized as an equal participant by regulators and other industry groups. NFMA interaction with federal agency and regulatory bodies, as well as other industry groups has been highly beneficial over the last decade. It has given us a voice and it also gives other industry participants a place to come to gain the benefit of our perspective.

The time has now come to support these activities in a more substantial, sustained manner. The NFMA Board has begun to study appropriate fund-raising methods to support our activities in the future. However, closing the current budgetary imbalance requires prompt action to insure the viability of the NFMA in its current form. An increase of dues was proposed and adopted by the Board at the last meeting on October 19th. This will increase annual dues for each member to \$80 for the year beginning January 2002. While the Board would have preferred avoiding another dues increase, the current revenue structure of the NFMA is not adequate to fund our activities at their current level. This new level of dues should alleviate the short-term financial difficulties the NFMA has experienced over the past four years. I hope everyone will be in accordance that the need for this action is justified by the gains achieved as the NFMA continues to prosper.

Robert Reardon

CSMA

The CSMA held its second annual Summer Cocktail Party in August in San Francisco, and it was well attended. In October, the CSMA Board made the difficult decision to cancel the Fall Conference, which was to be held in Santa Monica in early November. The CSMA Board felt that in light of the tragic events of September 11 and the current conflict abroad, many of our members located in the Bay Area would be reluctant to travel to Southern California and would be subject to discretionary travel constraints. In an effort to optimize attendance, we plan to reschedule this conference for the early spring and keep to the agenda which included panels on transportation, workouts, and local issuers. In addition, we hope to be able to include a tour of the Getty Museum and a dinner in Santa Monica. Further details regarding the conference will be announced in January. Any other NFMA members requesting information can e-mail Eric Friedland at efriedland@fsa.com. In place of the Fall Conference, a pre-holiday Cocktail Party will be held at Palominos in San Francisco on December 4 from 4:00-7:00 p.m.

Eric Friedland

Industry Practices and Procedures

The Industry Practices and Procedures Committee has been at work on two projects since our last newsletter. The first was to draft a comment letter in response to the Municipal Securities Rulemaking Board's Revised Notice and Draft Interpretive Guidance on Rule G-17. In our letter, we dealt specifically with the concept of the Sophisticated Municipal Market Professional, or SMMP. In December of last year, the NFMA commented on an earlier version of the Draft Interpretive Guidance. Although the MSRB made substantive changes in its Revised Draft, the central issue, that of the creation of a separate class of "sophisticated" investors, remains. When trading electronically with this group of investors, dealer firms would no longer be required to affirmatively disclose all material facts pertaining to the securities being traded.

In our newest comment letter, we reiterated our fundamental concerns with the SMMP concept. It is our belief that no market participant has enough direct access to information in the secondary market to warrant a reduction in the amount of information required to be disclosed by a dealer. We also expressed our continuing concern as to the implications of a market with two tiers of investors. Retail investors and smaller institutions who do not qualify as SMMPs would not have access to electronic trading as envisioned by this Draft Interpretive Guidance, and therefore be deprived of its efficiencies. In addition, trading between the two classes of investors could be limited.

The MSRB has recently met and reconsidered the amended form of the SMMP concept following the comment period. While it appears certain that it will go forward with SMMP, as of this writing, we do not know the details. To see the NFMA's comment letters, please go to our website at www.nfma.org.

The other project of Industry Practices and Procedures is a joint task force, developed with the Disclosure Committee, on short-term and variable rate securities. This group is developing guidelines for content and dissemination of disclosure information for securities used in tax-free money market funds. SEC rule 2a-7 governs these funds, and that is the relevant rule for these securities, as they are not covered by rule 15c2-12. The members of the task force represent buy-side and sell-side analysts, remarketing agents, bankers, trustees, and bond attorneys. A draft will be available in early 2002.

Mary Metastasio

Disclosure Committee

Progress and Change are the two best words to describe the Federation's efforts in the "Best Practices" arena. This fall, we released one final Recommended Best Practices in Disclosure and the draft of another. In addition, we anticipate a sixth final release before the year is over. And, our eighth sub-committee is up and running. Lastly, the Disclosure Committee will look quite different in 2002.

We are very happy to report that the Solid Waste subcommittee, co-chaired by Janet Martin of Fitch and Chuck Emrich of Legg Mason, released their final paper in mid-November. The release represents the fifth Recommended Best Practices in Disclosure paper since the NFMA initiated this effort in 1999. Hats off to the Solid Waste subcommittee—their diligence and persistence are greatly appreciated.

Stephanie Peterson of Charles Schwab & Co. and Ruth Levine of The Vanguard Group continue to undertake the large task of bringing the Recommended Best Practices in Disclosure for General Obligation and Tax-Supported Debt to closure. That group ran a public comment period through the summer. We expect the subcommittee to release its final paper to the market in early December 2001.

We are enthused to report that the Board of Governors, at its fall meeting, approved the release of the Long Term Care subcommittee's white paper to the marketplace for comment. The Draft Recommended Best Practices in Disclosure for Long-Term Care/Senior Living Sector is available on the NFMA's website and is subject to a public review and comment period until February 2002. Steve Hiatt of Franklin Templeton and Jerry Solomon of Bear Stearns led this effort and are recognized by the Board for all of their hard work in delivering the subcommittee's white paper. The paper will be available for public comment through the winter and should be released in final form by Spring 2002.

The NFMA's latest best practices effort was the initiation of a subcommittee to look at the tax increment/tax allocation sector. David Hitchcock from Standard and Poor's and Mark Stockwell from The Vanguard Group co-chair this subcommittee. Their paper is in the formative stages and we expect it to be released for public comment in Spring 2002.

In addition to all the activity in Best Practices, the Disclosure and Industry Practices and Procedures committees have advanced the effort to establish the Task Force on Variable Rate and Short Term Securities. For more detail, please refer to Mary Metastasio's discussion of the Task Force in the Industry Practices and Procedures column of this newsletter.

The Disclosure Committee has experienced significant change over the last several months. As many of you know, Fritz Goss, co-chair of the Disclosure Committee, left the municipal bond business to travel abroad. Fritz was responsible for helping the Private College and University paper come to closure, for getting the General Obligation group to the public comment period and, as a member of the subcommittee, Fritz played a pivotal role in bringing the Land Secured paper to final release. Please join me in extending the NFMA's appreciation for all of the hard work Fritz put forth in discharging his disclosure-related duties. I also intend to step away from the role of Disclosure Committee Chair. I would like to express my gratitude for all of the volunteers who commit their valuable time toward the NFMA's best practices undertaking. Gerry Lian of Morgan Stanley will come on board next year to lead the Federation's efforts in this important area.

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 or jwilson@saybrook.net) or Lisa Good (412-341-4898 or lgoodnfma@adelphia.net). Also 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 give your feedback and thoughts at any time.

Jeff Wilson

Education

On November 1-2, the Education Committee sponsored its annual Introduction to Municipal Bond Credit Analysis in Philadelphia. We were very pleased with the response (55 attendees) given the events of September 11. We want to thank all of the speakers for their very informative and well-focused presentations.

Our next seminar will be an Advanced Seminar on Project Finance to be held on January 17-18, 2002 in Orlando. Eric Friedland and Natalie Cohen are seminar co-chairs and have put together a great program consisting of 8 panels. Please check the NFMA website for the agenda and registration information.

We are in the beginning stages of planning an advanced seminar scheduled for the Fall of 2002 to be held in San Francisco. Preliminary topics under considerations include transportation or health care. More details will be provided in the spring.

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 or Nancy Belz at nbelz@federatedinv.com.

Nancy Belz

ELECTION RESULTS

Pursuant to an amendment to the NFMA constitution passed earlier this year, the NFMA's Board membership was increased to allow for six At-Large members, effective January 1, 2002. Half of these At-Large seats expire in alternating years, so three of the new At-Large seats will serve for two years, 2002 and 2003, while the remaining three seats will serve a one-year term. Shown below are the officers for 2002, as well as the At-Large and Affiliated Governors elected to the Board:

Officers:

Chairman: Peter Bianchini (CSMA)

Vice Chairman: Karen Szerszen (CMAS)

Secretary: Gerry Lian (MAGNY)

Treasurer: Don Cirillo (MAGNY)

At-Large Seats:

Judi Harvey (MSMA)—2 years

Bill Hogan (MAGNY)—2 years

Rob Yolland (CSMA)—2 years

Howard Mischel (MAGNY)—1 year

Joe Rosenblum (MAGNY)—1 year

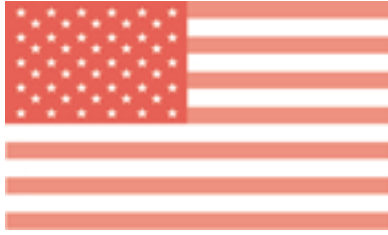
Anne Ross (MAGNY)—1 year

Affiliated Seats: Nancy Belz

Doug Nelson

Karen Szerszen

MAGNY



MAGNY's opening luncheon for the 2001-2002 calendar year focused on The Impact of the California Energy Crisis on the State and Local Government Units of California. The featured speakers were Claire Cohen, Fitch IBCA, Renee Boicourt, Moody's and David Hitchcock, Standard & Poor's. This

auspicious start to the autumn season, however, was suddenly altered by the startling events of Sept. 11th, 2001. The terrorist attacks on the World Trade Center and the Pentagon were diabolical acts that are permanently etched into our nation's consciousness and continue to occupy our daily thoughts.

In recognition of the far-reaching impact of the terrorist attacks on all forms of commerce, including municipal finance, on October 18, 2001 MAGNY held a Special Half-Day Seminar entitled "The Implications of Terrorist Attacks on Municipal Governments". This well-attended program was comprised of four components: (i) National and Regional Economic Issues, with Suzanne Finnegan of FSA as Moderator, followed by William Fish, AIG; John Lonski, Moody's; and Jason Bran, Federal Reserve Bank of New York; (ii) The Impact on the Municipal Marketplace, with Robert Muller of JP Morgan Chase as Moderator, followed by Philip Fischer, Merrill Lynch; and Richard Lynes, Prudential; (iii) The Impact on Airport and Special Facility Revenue Bonds, with Jerry Solomon of Bear, Stearns & Co. as Moderator, followed by Kenneth Gibbs, First Albany; and Eric Richards, Esq., O'Melveny & Meyers. The luncheon speaker featured Adam Barsky, Director of the NYC Office of Management and Budget.

Gerry Lian

CMAS

The Chicago Municipal Analysts Society will conclude a busy 2001 with a holiday party and annual meeting on Dec. 7 at Chicago's Marche Restaurant. The annual meeting will include the election of officers for 2002, with the proposed slate consisting of Peter Stettler, Fitch, President; Shun Dyes, Harris Bank, Vice-President; Brian Winters, Van Kampen Investments, Secretary; and John Miller, John Nuveen Co, Treasurer. Jane McCart, The Northern Trust Co., Susan Knutson, Standard and Poor's, and Mike Ross, Dain Rausher, have been nominated for the board of trustees.

Earlier this fall the society was addressed by Kenneth Gotsch, Chief Financial Officer of the Chicago Public Schools, who provided an update on their finances and educational initiatives under new Board President Michael Scott and Chief Executive Officer Arne Duncan. The society also had an informative presentation on the role of a construction monitor from John Zum Brunnen of Zum Brunnen, Inc.

Peter Stettler

MSMA

The Minnesota Society of Municipal Analysts' third quarter meeting on e-trading was canceled, we plan to reschedule a meeting on this topic in the near future.

For our fourth quarter meeting we will host a consultant from the Larson Allen

Health Care Group. The presentation will focus on the turning around distressed hospitals and senior care facilities.

During our fourth quarter meeting we will also have the election for our 2002 Board members.

Patricia Eitrheim

BMAF

On October 24, 2001, the Boston Municipal Analysts Forum was pleased to have Ann-Ellen Hornidge, Esq., and Paul Ricotta, Esq., of Mintz Levin present the topic of "Recent Revisions to Article of the Uniform Commercial Code: What are They and How Can They Affect the Value of Your Bonds?". The program was very informative and well-attended. The annual BMAF Holiday Party will be held on December 12.

Carol Flynn

SMFS

The Southern Municipal Finance Society expects to meet in St. Louis in January. The luncheon meeting was originally scheduled for the fall, but was cancelled due to the terrorist attacks. Jerry Widman, former CFO of Ascension Health and currently a healthcare consultant, will address the current state of healthcare and hospitals. For additional details, please contact Mark Clayton at **210-498-3766** or mark.clayton@usaa.com.

Bill Foley

NFMA ON THE WEB
<http://www.nfma.org>

CHECK IT FOR THE LATEST INFORMATION!

NFMA Calendar

2001

December 4 – CSMA Pre-Holiday Cocktail Party, San Francisco

December 7 – CMAS Annual Meeting and Holiday Party

December 12 – BMAF Holiday Party, Boston

December 13 – MAGNY Holiday Party

2002

January 16– NFMA Board of Governors Meeting, Hard Rock Hotel, Orlando

January 17 – 18 – NFMA Advanced Seminar on Project Finance, Hard Rock Hotel, Orlando

May 7 – NFMA Board of Governors Meeting, Portland Hilton, Portland, OR

May 8-10 – NFMA 19th Annual Conference, Portland Hilton, Portland, OR

2003

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

NFMA

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