

## CATASTROPHIC STORMS IMPACT PUBLIC FINANCE: *No Defaults Expected*

**W**hile the Gulf Coast continues to recover from the human tragedy that hurricanes Katrina and Rita left in their wake, the region is already preparing to face the fiscal impact of the two storms, especially in the area of public finance. The hurricanes hit a region that had already faced significant economic challenges, and while it is clear that massive amounts of federal aid will be needed to help the states effected get back on their feet, officials on both the state and local levels are working to see that some of the money is used to prevent widespread default on outstanding municipal bonds.

According to Thomson Financial, issuers in Louisiana and Mississippi have sold 3,612 separate bond issues totaling \$48.6 billion since 1995. That amount includes bonds sold by the states themselves and their localities and authorities, and includes general obligation and revenue bonds, both insured and uninsured. Municipalities get their bonds insured because it saves them money as investors demand less yield for a bond that's insured. Bond insurance guarantees the timely repayment of principal and interest on a bond if the issuer defaults. Many of the leading bond insurers have significant exposure to losses in the region, and some analysts speculate that a significant reduction in capital could put pressure on the insurers' prized triple-A ratings and affect the cost of bond insurance in the region in the future.

In spite of pressure to meet debt service obligations, analysts remain optimistic that the region will be able to make its payments on time. According to state sources, Louisiana has \$387 million in its "rainy day" fund, another \$3.5 billion in trust funds that can be tapped with the approval of state legislators, and a \$2 billion agreement to borrow against its securities portfolio. In addition, the state has proposed to sell up to \$400 million of bonds and use the proceeds to ensure that local issuers make timely debt service payments. As a consequence, it does not appear that the leading bond insurers will have to dip into their capital reserves to make the required principal and interest payments on the outstanding debt. Representatives from MBIA and AMBAC have stated that the current situation is manageable and that their firms are sufficiently capitalized to meet any foreseeable claims.

*Cont'd on back*

**"Give me golf clubs, fresh air, and a beautiful partner, and you can keep the clubs and the fresh air."**

- Jack Benny

## Nothing Better to Do? Congress Moves to Quash Advance Refundings

**I**n the next few weeks, the US Senate Finance Committee is expected to consider a proposal to eliminate the ability of states, local governments and school districts to advance refund their outstanding debt. The Committee is considering this option as a potential offset to pay for tax cuts during the budget reconciliation process, which should occur in early October. The proposal came out of a report issued earlier this year by the Joint Committee on Taxation, and proposes changes to the IRS Tax Code which would generate new revenues for the Federal government. The report takes issue with the fact that, until the refunded bonds are called and redeemed, two series of bonds are outstanding for the same purpose.

In an advance refunding, a jurisdiction issues refunding bonds to fund the redemption, prior to their stated maturity, of outstanding bonds, typically to generate interest savings. Over the past few years, many jurisdictions across the nation have issued refunding bonds to take advantage of the low interest rate environment thus saving their constituents millions of dollars in interest expense while providing themselves with significant budgetary relief. Groups opposing this proposal have joined together to create the "Built By Bonds Coalition." The Coalition's website, <http://www.builtbybonds.org>, includes arguments against the proposal.

*Cont'd on back*

## Recent Sale Results

Issuer	Issue Type	Par Amount	Sale Date	Term	Rate	Winning Bid(s)
Town of Orangetown	BAN	\$4,155,000	September 29	1 year	3.02%	First Albany Capital
City of North Tonowanda	Bonds	5,679,000	September 27	14 years	3.46	Roosevelt & Cross
Bethpage UFSD	TAN	6,000,000	September 22	1 year	2.79	Commerce, JP Morgan
Hampton Bays UFSD	BAN	4,328,000	September 14	1 year	2.95	Roosevelt & Cross
Rockland County	BAN	8,175,000	September 8	1 year	2.86	Wachovia Bank
Roosevelt UFSD	RAN	9,000,000	August 31	1 year	3.13	CIBC World Markets

## **PASSING GAS: REPORT ON STEEP DIESEL FUEL PRICES RELEASED**

On September 12, 2005, NYSASBO and the New York State Association for Pupil Transportation (NYAPT) issued a report on the educational impact of recent steep increases in diesel fuel costs. The report was based on data provided by 158 school districts in a survey conducted during the three days prior to Labor Day weekend. The results show that if diesel fuel prices remain at current levels, the average estimated budget shortfall per district will be \$54,400 with a cumulative impact statewide of \$36 million, forcing school districts to make difficult economic decisions in the near future to mitigate the unanticipated budget gaps. Similarly, municipalities can expect a budget crunch as diesel fuel costs are built into already settled transportation contracts.

The report was released broadly to the New York State media so school business officials may expect to receive calls from reporters asking about the local district impact.

### *Storms cont'd:*

Indeed, stock prices of the leading bond insurance firms have held up in the post-storms market, reflecting investor confidence that the bond insurance industry has ample capital to pay any claims.

So how can the Gulf Coast, with some of the lowest credit ratings among all states, muster so many resources with tax revenues, including tourist dollars, off-line for the foreseeable future? One solution might be to follow the model of the "Liberty Bond" program the government used in the New York City region after September 11th. The proposed \$45 billion "Hurricane Recovery Bond" program would provide direct grants and make aid available to cover local bond payments until tax revenues recover, set up a program that allows commercial projects to issue tax-free municipal bonds, and relax limits on local issuers refinancing their bonds to lower interest costs.

### *Congress cont'd:*

CMA urges all government and school district officials in New York State to contact U.S. Senator Charles Schumer, a member of the Senate Finance Committee, to voice your opposition to this proposal. Mr. Schumer can be contacted by telephone at 212-486-4430, via fax at 212-486-7693 or at his office at 313 Hart Senate Office Building, Washington, DC 20510.

Questions? Call Richard Tortora at 516-487-9815, Michael Neumeister at 716-662-3910, or Andrew Geiger at 212-946-2854



11 Penn Plaza / 5th Floor  
New York, New York 10001  
[www.capmark.org](http://www.capmark.org)

### **CMA Welcomes New Addition to Team**

CMA is delighted to welcome Roy McMaster as the newest member of our firm. Roy comes to CMA with a long and distinguished record as both an independent Financial Advisor and school business official. Roy will be working out of an Elmira, New York office and focusing primarily on school districts and municipalities located in the Southern Tier of New York State. His duties include preparing budgets for four villages and assisting school districts to maximize their state aid. In addition to being a seasoned public finance professional, Roy is a licensed pilot and a state, national and world record holder in "soaring" gliders. Please join us in welcoming Roy to the CMA team.