

THE BOND BUYER

Vol. 360 No. 32646 N.Y., N.Y.

THE DAILY NEWSPAPER OF PUBLIC FINANCE

Friday, June 8, 2007

FRIDAY

www.bondbuyer.com

REGIONS

Chicago Mayor Richard M. Daley yesterday tapped his budget director Paul A. Volpe to fill the vacant position of chief financial officer and announced the hiring of financial advisory professional Bennett J. Johnson 3d to replace Volpe. 51

INVESTORS & INVESTING

The Bond Buyer's weekly Yield Index again increased this week, as the municipal and Treasury markets continued to edge. 6

Absolute municipal bond yield levels have been rising for the last month and it is changing the way traditional investors are approaching the market. Next week is likely to see a drop in volume that will pose several new dynamics that haven't been seen in the market place since late last summer. 6

DERIVATIVES INSTITUTE

An elephant-sized issuer is preparing to enter the swaps arena, but it will be tiptoeing slowly. 56

Listings

New Issue Calendar: 10-12, 14, 20, 22, 35-36
 Requests for Proposals: 13
 Notices of Sale: 15-19
 Job Opportunities: 21
 Bond Redemptions: 23-33
 Market Statistics: 52-55

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Rep. Peter DeFazio says P3s can be beneficial, but are no substitute for federal spending.

P3s Divides Continue

Lawmakers, DOT Debate Merits of Projects

By HUMBERTO SANCHEZ

WASHINGTON — The Democratic leader of a congressional panel and a top U.S. Department of Transportation official butted heads yesterday over the merits and pitfalls of public-private partnerships and the extent to which they will play a role in meeting the nation's growing transportation needs.

At a hearing on alleviating traffic congestion, Rep. Peter DeFazio, D-Ore., took issue with DOT's advocacy of P3s, calling it biased and complaining it reflects the conservative views of the administration and think tanks, such as the Heritage Foundation.

"It just seems like one-sided advocacy here, like we are making transportation policy out of the Heritage Foundation and that is not going to be acceptable to a majority of the people in the Congress or the United States of America," said DeFazio, chairman of the House Transportation and Infrastructure Committee's highways and transit subcommittee, which convened hearing.

As chairman of the subcommittee DeFazio, will play a major role in drafting legislation to replace a current law that authorizes funding for the nation's transportation programs and expires at the end of fiscal 2009.

DeFazio said he believes that P3s have a potential for benefits, "small as they are," but warned that they are no substitute for increased federal spending on transportation infrastructure. DeFazio and full committee chairman James L. Oberstar, D-Minn., support increasing the federal gas tax to provide more revenue for transportation. The White House opposes such tax increases.

Jeffrey N. Shane, DOT under secretary for policy, defended the agency's position by pointing out that there is a limit to how much federal funding can be provided for transportation, regardless of what party is in the majority, and that private sector funding therefore must play an integral role in improving the nation's transportation infrastructure.

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S&P Drops Outlook For CIGF

Insurer Changed to Negative From Stable

By MATTHEW HANSON

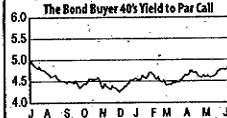
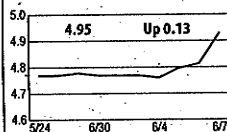
Standard & Poor's yesterday changed its outlook on CIGF NA's financial guaranty subsidiaries to negative from stable, citing concerns with corporate governance, leadership succession plans, and support from CIGF's parent company, Natixis SA.

The outlook change affects CIGF Guaranty, CIGF Europe, and CIGF Assurance North America Inc., one of the municipal market's triple-A rated bond insurers. The rating agency affirmed its AAA rating on the CIGF companies for the time being.

CIGF is rated Aaa by Moody's

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THURSDAY'S YIELDS



Yields in the municipal market leapt seven to nine basis points yesterday, following the eroding Treasury market, which saw the benchmark 10-year note break the 5% threshold overnight, selling off on a rise in global yields. Complete market coverage by Michael Scarchilli and Dakin Campbell appears on Page 2.

IRS Forms New Team to Oversee Derivatives

By ALISON L. MCCONNELL

LOS ANGELES — The Internal Revenue Service's tax-exempt bond office has formed a team to oversee its soon-to-be-expanded enforcement efforts on swaps and other derivatives, an agency official said yesterday.

The team will coordinate all of the TEB office's examination work that relates to derivatives, track trends, identify factual variances, and coordinate audit settlements. Down the road, it may also develop voluntary compliance

agreement program standards for issuers or swap providers, Steven A. Chamberlin, manager of TEB's office of compliance and program management, told those attending The Bond Buyer's National Municipal Derivatives Institute here.

Speaking at the conference, Chamberlin said the cross-TEB coordination will aid officials later this year as they ramp up the IRS' existing swaps initiative.

TEB officials will decide in late August or September how many more audits to open, he said, declining to provide further details.

Currently, the IRS is examining about 50 municipal bond deals involving derivatives for compliance with tax law requirements for the proper treatment of interest rate hedges.

"I can tell you that in our next fiscal year we will be expanding our audit coverage in this area," Chamberlin said.

The additional audits will come as the U.S. Justice Department and Securities and Exchange Commission continue their criminal and civil investigations into pricing practices for muni bond-related

Turn to IRS page 5

California Note Season Starts Rolling

By RICH SASKAL

SAN FRANCISCO — It's note season in California.

Local governments and school districts are in the process of issuing billions of dollars in short-term debt, which they will use as a tool to smooth their month-to-month balance sheets over the course of the year. The tax

and revenue anticipation notes typically carry maturities of just under one year.

"It actually is one of the more complicated transactions," said Jeffrey Small, managing director of Capitol Public Finance Group LLC in Sacramento, a financial advisory firm.

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California's Big Note Season Begins; Los Angeles Readies \$916 Million

Continued from page 1

The issuer and the team preparing a Tran sale must take into account Internal Revenue Service rules governing arbitrage to be sure that the issue is appropriately sized to meet the IRS' spend-down requirements, Small said.

In California, the issues come big and small, from single issuers and giant pools. And they are eagerly awaited by short-term paper investors.

One large issuer is Los Angeles, which plans to price a \$916 million Trans issue June 27. Most of the proceeds, \$666 million, will be used to make early payments on the city government's annual obligations to the pension plans of its public safety and civilian employees, said Natalie Brill, the city's debt management chief.

The pension board offers the city a discount for making its contribution early, she said. That's because when the board receives the money sooner, it can start investing it sooner.

The other \$250 million of the Los Angeles Trans will be used to smooth out the city's cash flow needs.

The city government's need for such smoothing has increased since California voters approved a \$15 billion deficit bond measure in 2004, of which \$11 billion has been issued.

The same ballot measure authorized the dedication of a quarter-cent sales tax to back the deficit bonds.

To do so, local government's share of sales tax revenues was reduced by the same quarter-cent. To make up for local governments' sales-tax losses, they were compensated by increasing the amount of property tax revenue they receive by

same amount. The triangle was closed by increasing state general fund payments to schools, to make up for their property tax losses.

The whole convoluted scenario is known as the "triple-flip." It has significant financial planning consequences for cities like Los Angeles.

The city receives less money from sales taxes, which are generated consistently throughout the year, and more from property taxes, which arrive in two giant lump sums when those tax bills are due.

"It's really affected us greatly," Brill said. "Most of our cash now comes in the second half of the year."

The Los Angeles deal will be competitive, with bidders allowed to bid in one million dollar increments, meaning it's not an all-or-nothing proposition for

the bidders.

"I assume we'll have several underwriters," she said.

Gardner, Underwood and Bacon LLC is financial adviser; Quateman LLC is bond counsel; disclosure counsel is the law office of Elizabeth C. Green; and special tax counsel is Kutak Rock LLC.

Los Angeles is one of the big issuers in the Trans market this month.

This week saw negotiated sales of \$700.2 million from the California Communities Tax and Revenue Anticipation Note Program, a major pool issue with Lehman Brothers as lead underwriter, and a \$500 million Los Angeles County Trans run by Morgan Stanley.

Another note season fixture is a regular Trans pool from the California School Boards Association Finance Corp.

Small said he tries to have his firm's

clients, typically smaller school districts, avoid the big issuers.

"The idea is either to go just before or after the other issues have gone," he said. One of his firm's clients, Santa Clara Unified School District, kicked off the note season by pricing \$14.7 million in Trans in a competitive sale May 30.

Banc of America Securities LLC won the deal, carrying the top Standard & Poor's SP1-plus rating, with a true interest cost of 3.575754%. The same firm won the 2006 Santa Clara USD Trans a year earlier with a 3.5059% bid.

The Trans find a ready market, Small said.

"There are a lot of short term money markets out there; frankly they need the product," Small said. "They have lists and wait every year for certain names to come out."

While the Trans season kicks off in earnest in June, issuance will continue through the summer and into the fall.

The state of California itself typically waits until later in the year to issue its revenue anticipation notes.

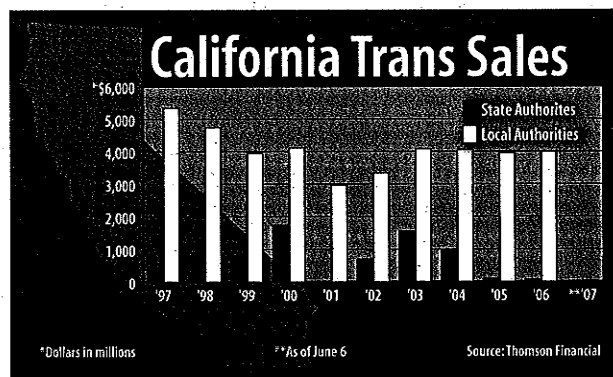
Last year, it issued \$1.5 billion in Rans in late September; they mature at the end of this month.

"The timing of the issuance of Rans is pegged to enactment of the state budget," said Tom Dresslar, spokesman for state Treasurer Bill Lockyer.

The budget must be adopted to get a final read on the state's cash-flow needs for the coming years.

At the moment, without a finished state budget, the treasurer's office expects to issue about \$5 billion in Rans this year.

"The cash flows will be updated after the budget's adopted," Dresslar said. □



Issuer and purpose	Amount*	Approval status	Underwriter choice	Expected sale date
CALIFORNIA				
State GOs	\$2,500	A	Citigroup	June
State gambling securitization	\$850	P	JPMorgan	2007-08
State pension bonds	\$760	P	UBS	2007-08
Univ. of Calif. rev. bonds	\$600	A	Merrill	June
San Diego wastewater rev. bonds	\$500	P		2007
LAUSD GOs	\$500	A		summer
San Diego pension obligation bonds	\$374	P	Citigroup, Lehman	2007
DWR rev. bonds	\$200	A	Goldman	2007
El Camino Hospital rev. bonds	\$130	A		2008

IDAHO

IHFA Garvees	\$250	A	Citigroup	fall
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*Dollars in millions. A = approved, P = pending

Issuer and purpose	Amount*	Approval status	Underwriter choice	Expected sale date
NEVADA				
State fuel-tax GOs	\$135	P		2007-08
OREGON				
DOT rev. bonds	\$300	A		2008
Portland sewer revs	\$240	P		'07-08
Portland limited tax revs refunding	\$105	P	competitive	July
WASHINGTON				
State motor vehicle fuel tax GOs	\$530	A	competitive	2008
State motor vehicle fuel tax GOs	\$530	A	competitive	summer
State GOs	\$530	A	competitive	2008
State GOs	\$510	A	competitive	summer