

THE BOND BUYER

Vol. 364 No. 32890 N.Y., N.Y.

THE DAILY NEWSPAPER OF PUBLIC FINANCE

Monday, June 2, 2008

MONDAY

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TO SUBMIT YOUR ARS BIDDING PLANS for The Bond Buyer's free listing in print and online, send notices to arsnotice@sourcemedia.com. **16**

REGIONS

MASSACHUSETTS LEGISLATIVE COMMITTEES have until mid-June to complete work on various bond proposals totaling \$9.15 billion for infrastructure upgrades for higher education institutions, public buildings, bridges, and other state capital projects. **5**

INVESTORS & INVESTING

THE START OF ROLLOVER SEASON means should be strong demand for the large new issues scheduled for pricing in the primary as many investors are in need of fresh supply to reinvest their coupon maturity or redemption proceeds. **7**

UNDERWRITERS & DEALERS

ACA CAPITAL HOLDINGS Inc., the parent of beleaguered bond insurer ACA Financial Guaranty Corp., secured a fifth straight forbearance agreement, negotiating Friday with its counterparties to put off delinquency proceedings until June 20. **31**

COMMENTARY

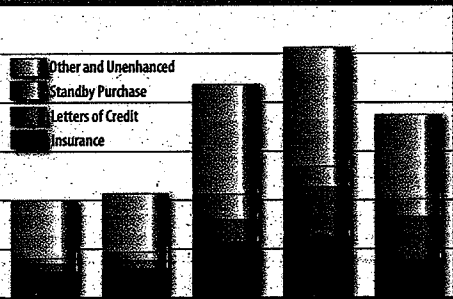
EFFORTS TO FIND THE NEXUS between public finance and environmental sustainability represent a small but rapidly growing opportunity for public finance firms to delve into a virtually uncontested market space. **33**

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Credit Enhancements by month for 2008



Fitch Drops CIGF 11 Notches to CCC

By DAKIN CAMPBELL

Fitch Ratings Friday knocked the insurer financial strength rating for CIGF Assurance NA 11 notches to junk, dropping it to CCC from A-minus. The rating is an evolving watch.

The downgrade comes little more than a week after Moody's Investors Service took similar ac-

tion on the bond insurer, sending its rating to Ba2, also junk status.

In its report, Fitch said the decision results from conversations the agency had with CIGF management, in which the bond insurer said it could fall below the minimum regulatory capital requirements if it must raise loss provisions in the coming months. Fitch estimates losses on the collateral-

Flight From ARS Fuels Market Volume Surge

More Than \$37B in Debt Sold in May

By DAKIN CAMPBELL

Volume in the municipal market for the month of May was the third busiest on record, as issuers continued to leave the auction-rate security market in droves.

More than \$37.2 billion in debt was sold through 933 issues, marking a 13% decrease from last year's record vol-

ume of \$43 billion, according to preliminary data from Thomson Reuters. The total for the month brought year-to-date volume to \$173.4 billion, within 5.8% of the \$184 billion sold between January and May 2007.

The evidence of the disruption in the ARS market was clear in this month's numbers.

Issuers turned to variable-rate bonds in an effort to keep their floating-rate exposure at the same time they were turning their back on the auction-rate

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More Debt Seen for California Schools

By RICH SASKAL

SAN FRANCISCO — The California Department of Finance has developed a strategy to smooth out the state government's cash-flow needs and therefore reduce the amount of cash-flow borrowing it will need over the next year.

But it looks like that plan may increase the amount of cash-flow borrowing school districts need to

do, according to a financial adviser who works with K-12 districts.

When Gov. Arnold Schwarzenegger announced his revised fiscal 2009 budget proposal May 14, it included a plan for "state cash management improvement," which would "smooth out general fund disbursements throughout the fiscal year to better align receipts and disbursements," according to budget documents.

At the time, no details were

available, but the finance department has begun to share them.

One proposal would delay \$2.5 billion in so-called categorical payments to school districts — for specific programs such as elementary class-size reduction — to April 2009 from August 2008, said Jeffrey Small, managing director at Sacramento-based financial advisers Capitol Public Finance Group LLC.

Moving these payments toward the end of the coming school year,

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Jefferson OKs New Forbearance Pact

By SHELLY SIGO

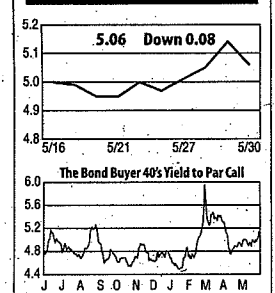
BRADENTON, Fla. — Jefferson County Commissioners on Friday unanimously approved another 60-day forbearance agreement negotiated with insurers, swap counterparties, and banks as they continue to seek to restructure the \$3.2 billion of sewer

debt owed by Alabama's largest county.

Most of that debt is in troubled auction- and variable-rate debt on which interest rates skyrocketed because of the subprime meltdown. Failed debt remarketings forced banks to hold \$850 million of variable-rate warrants. The

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FRIDAY'S YIELDS



The municipal market was slightly firmer Friday, following Treasuries. Complete market coverage By Michael Scarchilli and Jack Herman appears on page 2.

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Jefferson County Approves Another Forbearance Agreement

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county also had failed auctions on some of its \$2.2 billion of auction-rate securities resulting in higher interest rates.

Because of the market disruption, swap payments went out of synch and underlying rating downgrades on the sewer debt, now well below investment grade, invoked requirements that the county post collateral or insurance to cover those payments. The county said it would not post either.

Under terms of liquidity facilities accelerating repayment of the variable-rate debt, the county is required to make 16 quarterly payments of \$53 million each on the first business day of each quarter.

On Friday, commissioners agreed in the latest forbearance agreements to pay \$11 million on the \$53 million payment due April 1, which was delayed by previous forbearance agreements.

Friday's action delays until Aug. 1 the remaining \$42 million payment due on April 1 and another \$53 million payment due in July as part of the quarterly repayment schedule.

Meanwhile, cash-strapped Jefferson County continues negotiating with banks, bond insurers, and swap counterparties on ways to repay its sewer debt and avert bankruptcy. The county wants to apply excess sales tax revenues to help repay its sewer debt. Those revenues are now pledged to repayment of \$1 billion of school warrants and an act of the Leg-

islature would be required to divert the excess funds.

The county has also rejected proposals made by creditors to raise sewer rates and other fees.

Last Thursday, all five county commissioners signed a statement rejecting a proposal to assess a fee on persons who are not connected to the county sewer system. That proposal, commissioners said, was circulated "by certain of the county's sewer creditors and bond insurers as a means of generating additional revenue for payment of county sewer debt."

"We do not support the placement of a fee on persons who are not connected to and do not use the county's sewer system," the commissioners said in the joint statement.

In some parts of the country, residents and businesses are required to connect to sewer systems either as new homes and businesses are built or when septic systems are phased out. Jefferson County has no such requirement.

Financial Guaranty Assurance Co. and **XL Capital Assurance Inc.**, which both lost their triple-A ratings, insure most of the sewer debt. FGIC now is rated BBB, Baa3, and BB by **Fitch Ratings**, **Moody's Investors Service**, and **Standard & Poor's**, respectively. XLCA is rated BB, A3, and A-minus, respectively. FGIC and XLCA teamed up and hired a group of experts to help negotiate with

Jefferson County.

Financial Security Assurance Inc., which remains triple-A rated, insures \$352 million of Jefferson County's sewer debt and also is negotiating with the county.

The county has 13 separate interest rate

swap transactions with **Bank of America NA**, **Bear Stearns Capital Markets Inc.**, **JPMorgan Chase Bank**, and **Lehman Brothers Special Financing Inc.** covering an aggregate notional amount of approximately \$5.4 billion. □

CIFG Assurance Hit With Fitch Downgrade to Junk-Level CCC

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the CDO exposure.

If that were to happen, Fitch said CIFG would not have sufficient claims-paying resources to meet those obligations. The rating agency views CIFG's current claims-paying resources as consistent with a below-investment-grade ratings level.

CIFG continues to look at possible solutions, but has yet to finalize any of them.

"CIFG is focused on developing and implementing strategic alternatives for its problematic credits which will significantly improve the company's capital position," said **Michael Ballinger**, a spokesman for CIFG.

Fitch said that the severity of the downgrade to CCC is in line with conditions meeting that rating level, including the potential for CIFG to miss payments if its CDS portfolio needs to be terminated at present values. So far, obligations are being paid on a timely basis, according to Fitch.

The rating agency said that any CIFG-insured bonds with ratings lower than A-minus have been downgraded to their underlying ratings. When CIFG was downgraded by Fitch to A-minus, those bonds with lower underlying ratings were knocked down to the level of the insurer, or A-minus.

The downgrades from both rating agencies come despite \$1.5 billion contributed to the bond insurer by its parents early in the current market turmoil. As a result, CIFG had looked well capitalized, until recently, when further deterioration in its insured portfolio occurred. Fitch said it was closely following the performance of CDOs containing a large percentage of residential mortgage-backed securities

written in 2005.

These RMBS were mostly rated BBB at the time, though they are well below that now, Fitch said.

CIFG exposure to some of the most tarnished classes of RMBS and CDOs was the result of the bond insurer's late entry into the market, and its attempts to catch up to its peers in guaranteeing structured finance credits.

"CIFG was one of the newer entrants to the monoline assurance business and, as such, found that its portfolio was concentrated on 2005-2007 vintage products, including mortgage and CDOs," wrote **Guy LeBas**, fixed-income strategist at **Janney Montgomery Scott**, in a recent report.

When Moody's downgraded CIFG last month, a spokesman for the **New York State Insurance Department** said the bond insurer had not breached the statutory capital threshold. In the event that it did, it would be considered insolvent and the department would get involved, the spokesman said.

If CIFG does fall below statutory levels, it would be forced to address the counter parties on the other end of the \$57 billion in CDS contracts. CIFG could secure a forbearance agreement from the counterparties until another solution could be found — as has **ACA Financial Guaranty Corp.** — or try to convince some of the counterparties to void some of the agreements, which would help CIFG free up some capital.

Since being downgraded by **Standard & Poor's** to CCC, ACA has negotiated five forbearance agreements with its counterparties. The bond insurer announced the fifth agreement Friday, valid through June 20. □

More School Borrowing Seen Under California Finance Plan

Continued from page 1

instead of the beginning, would have a clear impact on school districts' cash-flow requirements.

One way to manage those requirements is the issuance of tax and revenue anticipation notes. The deferral of the "categorical" payments could result in Trans being issued by districts that otherwise wouldn't issue them, as well as larger borrowings by districts that normally issue Trans, Small said.

The administration's plan to smooth out the state's cash flows comes amid concerns that the state's liquidity position is weakening amid continued budget deficits and an economy that is running out of gas.

That's exacerbated by concerns that the state's budget may not be in place by the beginning of the fiscal year July 1.

Late budgets are more the rule than exception in California, largely because they must be enacted with two-thirds votes in each house. With a big budget deficit, it may be even harder than usual to bridge the gaps between the GOP and Democrats over spending and taxes.

The administration's cash flow management plan would reduce the state's need for external borrowing to \$10 billion from \$13.6 billion, according to a report published Thursday by the Senate Republican caucus.

The administration is planning \$10 billion in revenue anticipation notes in Sep-

tember, assuming its cash management plan is enacted and the budget is adopted on or close to schedule, the report said.

Those projections can probably be realized if the budget is enacted by Aug. 1, according to the Senate GOP analysis, which found that further delays could be expensive.

"It appears that a budget stalemate that lasts beyond August 1 would create significant pressure for more risky and expensive borrowing (e.g., RAWs)," the report said, referring to revenue anticipation warrants that the State Controllers Office could issue in the absence of a budget.

As the state debate continues in Sacramento, school districts and other governments are beginning to issue the Trans they use to manage their cash flow.

Small said one of his clients, the **Santa Clara Unified School District**, kicked off the note season Thursday by issuing \$13 million in Trans through a competitive sale. He said the result was excellent for his client.

"Our Tran sale drew seven bids and the range was huge," he said.

Bank of America Securities LLC won with a true interest cost of 1.6511%. Bids were as high as 2.23%.

The district carried **Standard & Poor's** top SP1-plus short-term rating, and its long-term bonds have an underlying AA long-term rating with a negative outlook.

"It's going to be a benchmark," Small said. □

Insurer Ratings at a Glance

	Moody's Investors Service	Standard & Poor's	Fitch Ratings
Ambac	Aaa	AAA	AA
Assurance Corp.	negative outlook	negative outlook	negative outlook
Assured	Aaa	AAA	AAA
Guaranty Corp.	stable outlook	stable outlook	stable outlook
CIFG Assurance	Ba2	A-plus	CCC
North America Inc.		negative outlook	evolving
Financial Guaranty	Baa3	BB	BBB
Insurance Co.	on review for possible downgrade	negative outlook	negative outlook
Financial Security	Aaa	AAA	AAA
Assurance Inc.	stable outlook	stable outlook	stable outlook
MBIA	Aaa	AAA	AA
Insurance Corp.	negative outlook	negative outlook	negative outlook
Radian Asset	Aa3	AA	Rating
Assurance Inc.	negative outlook	negative watch	withdrawn
XL Capital	A3	A-minus	BB
Assurance Inc.	on review for possible downgrade	negative watch	negative outlook
ACA Financial	not rated	CCC	not rated
Guaranty Corp.		developing watch	
Berkshire Hathaway	Aaa	AAA	not rated
Assurance Corp.	stable outlook	stable outlook	

As of May 30, 2008