In the $2 trillion U.S. municipal bond market, government advisers and bankers spar over borrowing rates and more than $2 billion in fees. Advisers say they can save taxpayers millions of dollars in unnecessary charges.

By Eddie Baeb

In August 2003, when Morgan Stanley began marketing $500 million in asset-backed bonds for Dallas-based TXU Corp., the largest power company in Texas, someone was watching the investment bank's every move. The Public Utility Commission of Texas had hired a financial adviser, New York–based Saber Partners LLC, at a cost of $942,308 to help negotiate the lowest possible interest rate and assist with selling the bonds to investors. The adviser and the bank didn't exactly agree on every detail.

Saber Chief Executive Officer Joseph Fichera says he wanted New York–based Morgan Stanley to sell more to investors who typically buy corporate bonds rather than asset-backed bonds, such as insurance companies and pension funds. He says these investors were likely to pay higher prices for the bonds, which are backed by a surcharge to Texas electricity ratepayers, and thereby lower the interest cost to the issuer. Saber asked Morgan Stanley to explain why it hadn't generated more orders from the investors it was targeting. Fichera, 51, says Morgan Stanley wouldn't provide detailed responses from the investors. So Saber had New York–based Lehman Brothers Holdings Inc., one of three managers in the sale, promoted to share the lead underwriting position with Morgan Stanley to attract more corporate bond investors. The decision cost Morgan Stanley about $540,000 in banking fees. In addition, Morgan Stanley and the three other underwriters had to pay Saber for its decision. As required earlier by the commission, $276,410 of the adviser's fee came from what the underwriters were paid.

Morgan Stanley spokesman Mark Lake declined to comment on the TXU bond sale.

MUNICIPAL Brawl

PHOTOGRAPH BY JAMES SCHNEPF

Saber and other independent financial advisers not affiliated with investment banks are stepping in to negotiate terms and fees with underwriters in the $2 trillion U.S. municipal bond market, says F. John White, 57, CEO of closely held Public Financial Management Inc., the largest U.S. financial adviser to government agencies planning to sell debt. The Philadelphia-based firm has 370 employees in 26 U.S. offices. A decade ago, the company had 82 employees and 11 offices.

The advisers and underwriters are battling over more than $2 billion in fees each year. Bankers say they know more about how to get the lowest borrowing costs for taxpayers because they have trading desks that can gauge investor demand, according to Hill Feinberg, CEO of Dallas-based First Southwest Co., an investment bank that's also the third-largest U.S. financial adviser. Independent advisers disagree. White says advisers have comparable information about investor demand and argue that banks have an incentive to set the interest rate on bonds higher—against the wishes of issuers—because that makes it easier to sell them, White says.

"I've seen them come to blows," says Catherine Boone, Connecticut's assistant treasurer for debt management, only slightly exaggerating. Advisers and bankers often argue over interest rates and banking fees, she says. Boone, who said the state uses four different advisers for specific bond programs, declined to cite specific examples.

Financial adviser Joseph Fichera negotiates lower interest costs and banking fees for bond issuers.

DOUGLAS LEVERE

If those disputes result in lower borrowing costs to governments, then taxpayers spend less to finance schools, hospitals and roads. Last year, state and local governments in the U.S. issued $360 billion of bonds to finance public projects, according to Thomson Financial data. It was the second-busiest year ever in municipal debt finance, trailing 2003's $382.8 billion.

Underwriting fees range from $5.53 to $6.45 per $1,000 of bonds, according to Thomson. That means banks, in total, were paid about $2.05 billion in fees for underwriting municipal bonds last year.

Today, 81 percent of municipal bonds are sold through negotiated sales, in which an underwriter is hired without public bidding. The rest are sold at competitive auctions, according to data compiled by Bloomberg and Thomson Financial. In 1974, 27 percent of municipal bonds were sold without public bidding.

Advisers, including Fichera and White, say taxpayers would be better served with competitive sales in most cases because such bidding leads to the lowest cost. At the same time, they say, advisers earn more in privately arranged bond sales because there's more work to do, such as researching comparable sales and negotiating with bankers.

The departure from competitive bidding means that in most cases, taxpayers are left in the dark about whether states and local governments paid an appropriate amount for their debt financing, says Mark Robbins, an associate professor of public policy at the University of Connecticut's West Hartford campus. "It's harder to tell if you're getting the best possible deal when you're not using a competitive deal," he says. "In most government purchasing, competitive bids are required. Certainly that's true for commodities, and what could be more of a commodity than a dollar? From the government's perspective, ultimately what they're buying is money."

Orange County, California, wound up filing the biggest government bankruptcy case in U.S. history in 1994 partly because the county bought privately arranged bonds from New York–based Merrill Lynch & Co. That noncompetitive public financing led to losses of $1.6 billion for the county when interest rates rose.

In a negotiated sale, municipalities often select underwriters after seeking written proposals every few years.

A 2003 study by Robbins and his colleague at the university, William Simonsen, looked at 6,059 state general obligation bond sales in 1999 and showed that the use of a financial adviser increased the probability that a state would sell bonds at competitive auction by 65 percent. The data show that when there was no financial adviser, states conducted 1,568 negotiated sales versus 364 competitive sales, Robbins says. When states had a financial adviser, there were 677 negotiated sales and 3,450 competitive sales. "There's a clear and powerful association between the decision to have a financial adviser and the decision to choose a competitive sale," Robbins says. "If you don't have a financial adviser, you're more likely to be relying upon the underwriter for advice. And underwriters prefer negotiated sales."

Robbins and Simonsen have found in three studies since 1996 that competitive sales were less expensive for taxpayers than negotiated bond sales. In a 2002 review of 148 sales in New Jersey, they found that issuers using the competitive approach saved a total of $1.3 million in interest costs compared with negotiated bond sales. Robbins and Simonsen researched their conclusions by examining comparable bonds that were sold through negotiated and competitively bid sales.

Competitive bond sales are a threat to Wall Street public finance bankers who earn their living by selling negotiated bond transactions, says Patrick Born, Minneapolis's chief financial officer, who was an independent financial adviser for 20 years, until 2001.

Born, 53, chairman of the Government Finance Officers Association's committee on governmental debt management, says investment banks prefer negotiated sales because, unlike competitive auctions, they guarantee the banks will have bonds to sell to investors. In a competitive sale, a bank may fail to get bonds if another bank offers a higher bond price.

On Aug. 18, 2004, Merrill Lynch won $300 million in bond work for Massachusetts through competitive bidding, beating out New York–based JPMorgan Chase & Co. and Zurich-based UBS AG. Merrill was paid $631,600 for handling the transaction, or $2.11 per $1,000 of bonds. That same week, UBS managed a comparable $215 million negotiated bond sale for Tennessee; UBS and three other underwriters were paid $549,145, or $2.55 per $1,000 of bonds, bond sale documents show.

Negotiated sales also permit banks to market bonds before the sale, which reduces a bank's risk of having to buy bonds it can't resell, Born says. "They're threatened by competitive sales," says Born, who issues most Minneapolis bonds by competitive auction. "Underwriters have argued very successfully against competitive sales."

Robert Smartt, 50, a former public finance banker for New York–based Goldman Sachs Group Inc. who now lives in Boulder, Colorado, says advisers are sometimes a first line of defense for taxpayers, as they have power over bankers because they can select underwriters and nix their proposals. "There's a constant one-upmanship between financial advisers and bankers," Smartt says. "There's a competition going on between the bankers and the financial advisers for the hearts of the issuer," he says. As a result, bankers won't publicly say anything negative about advisers, he says. "You can't afford if you're an investment banker to piss them off," he says.

Smartt, who's now retired and volunteers as a high school swim team coach and does some advising on venture capital investing, has lobbied school districts in Colorado to start selling their bonds via competitive sales for several years. He says he's had few takers. Cherry Creek School District in Greenwood Village, Colorado, on May 25, became the first school district in the state this year to sell bonds at a competitive auction, while 18 schools had sold bonds via negotiated sale by that date. "Unless there's a smart financial adviser around who really knows what's going on, these poor little municipal clients are at the complete mercy of the banks," Smartt says.

Public finance bankers devise and pitch proposals about what types of bonds a government should sell and how the bonds will be structured, which means determining how bonds will be repaid, when they will mature and whether they may be redeemed before that time. For instance, New York City issued bonds on May 18 in a negotiated sale managed by Bear Stearns Cos. The sale included $690 million of debt for capital projects, with 26 maturities spanning 2007 to 2035. All of the bonds that mature in 2016 or later, except two maturities in 2027 and 2035, were priced to the first date the bonds are subject to redemption rather than to the final maturity date, so investors would pay a premium and accept a lower yield. As lead manager of the sale, New York–based Bear Stearns helped with the structuring, which led to lower interest costs for taxpayers. Bankers also help prepare sales documents, make presentations to credit rating companies and market the bonds to investors. When the bonds are sold, the bank's sales staff takes orders from investors.

Bond sales are often run by an underwriting syndicate, a group of investment banks that collectively purchases and resells the bonds. The banks are paid an underwriting spread—the difference between what the syndicate paid for the securities and the price at which the bonds are sold to the public. The largest part of the spread, typically about 60 percent, is the sales commission that bankers are paid.

Public agencies hire financial advisers to help them evaluate the underwriters' proposals. An adviser is sometimes involved in selecting bankers and making presentations to credit rating companies and investors, says Frank Hoadley, Wisconsin's director of capital finance. Advisers also help determine how the bonds will be structured and prepare bond sale documents. Hoadley says he keeps two advisers on retainer, Albany, New York–based First Albany Cos. and Public Financial Management, and has them review underwriter proposals and help determine how to structure bonds. The advisers also review comparable bond sales, trading activity and market indexes to estimate how bonds should be priced.

Advisers aren't paid a sales commission for bond sales. Instead, in most cases, they determine a per-transaction fee based on the scope of their services, work on a retainer basis or bill governments at $200–$350 an hour.

'I've seen them come to blows,' Connecticut's assistant treasurer says of bond advisers and bankers.

The financial adviser's job was held mostly by investment banks until the 1980s, says William Cobbs, chairman of New York–based Public Resources Advisory Group, the second-largest government financial adviser by volume of deals in 2004. Fees for municipal underwriters have dropped in the past two decades, partly because advisers have consistently negotiated lower charges, he says. Underwriters were paid about $20 per $1,000 of bonds when he founded his company in 1985—more than three times what banks now make, he says.

Brad Sprague, 53, president of Prism Municipal Advisors LLC, which is based in Powell, Ohio, a Columbus suburb, says he helped negotiate lower underwriting fees in February for the city of Columbus. New York–based JPMorgan Chase & Co. sought a commission of $5 per $1,000 of bonds on seven of the 52 maturities in Columbus's $295 million bond sale that refunded higher interest debt, he says.

Two days before the Feb. 10 sale, Sprague suggested instead that JPMorgan receive $3.75 per $1,000. Sprague, a public finance banker at St. Louis–based A.G. Edwards Inc. before co-founding Prism in 2001, says the JPMorgan bankers weren't happy with his suggestion. He told them that if there weren't enough buyers and the bank had to hold the bonds, the city would pay the $5 commission. He says they agreed. When the bonds were issued, not all were sold to investors, so JPMorgan did earn the $5 commission for part of the bond sale. "Without an independent adviser sitting on an issuer's side, the advantage in the negotiation goes to the underwriter," Sprague says. "It's a healthy friction."

JPMorgan spokesman Michael Dorfsman declined to comment on the Columbus bond sale.

Some issuers want an adviser to create more friction, in the hope that will help get them better interest rates and lower banking fees. Fred Grygiel, chief economist at the New Jersey Board of Public Utilities until he retired in May, says the regulatory board hired Saber's Fichera partly because board members wanted to inject more conflict into a planned $125 million asset-backed-bond sale for Newark, New Jersey–based Public Service Electric & Gas Co. The bonds are to be issued around September. "Some people call it in-your-face," he says of Fichera's style. "It's a much more activist, more interactive approach."

Local government agencies have hired more independent advisers in the past decade because bond sales done without competitive bidding have come to dominate public finance. Illinois sold $285 million of bonds on Sept. 22, 2004, in its first competitive sale since 1999, Bloomberg data show. The fifth-largest U.S. state by population used competitive auction sales for all of its general obligation bonds in 1999. The governor's office, which handles most bond sales, began using competitive sales again last year after Illinois enacted a law requiring 25 percent of general obligation bonds be sold each year by competitive auction. In the Sept. 22 sale, Citigroup won the bidding and was paid fees of $544,175, or $1.90 per $1,000 of bonds. A month later, Illinois sold $275 million of general obligation bonds in a negotiated sale in which the underwriters, led by Morgan Stanley, were paid $694,375, or $2.53 per $1,000 of bonds, bond sale documents show.

There are advantages to both competitively bid bonds and negotiated deals, says Micah Green, president of the New York–based Bond Market Association, which represents banks that underwrite, trade and sell debt securities. Negotiated sales allow investment banks to alter terms as bonds are being sold to take advantage of changing interest rates and investor demand, he says. Green, 47, also says investment banks' access to bond investors and financial resources best equip banks to advise issuers on how and when to sell bonds.

Almost three-quarters of all municipal bond sales in 2003 and 2004 had elements that were best handled by negotiated sales, such as using variable-rate bonds—which allow interest rates to rise or fall as benchmark rates change and which became widely used in public finance a decade ago—or serving a municipality with a low credit rating, Green says. One example he cites was California's $10.9 billion of so-called economic recovery bonds issued in 2004 in two negotiated sales managed by Lehman Brothers. The bonds were sold after the credit rating of California, the most populous U.S. state, had been cut to BBB, two steps above junk, from A. Standard & Poor's lowered California's rating because the state had a budget deficit and a cash shortage. To bolster the ratings of the economic recovery bonds, the debt was backed by sales tax revenue as well as a pledge by the state, and the bonds earned an AA– rating from S&P. That allowed the state, which issued $2.97 billion of the bonds as variable-rate debt, to cut its borrowing costs, Green says. California had two independent advisers on the deal, Wayne, New Jersey–based Lamont Financial Services Corp. and Westlake Village, California–based Montague DeRose & Associates LLC.

No-bid deals Citigroup tops all banks in managing municipal bond sales in which issuers choose lead managers privately.

Top managers, negotiated issues, 2005*	Value, in billions	Market share
1 Citigroup	**$14.93**	**13.9%**
2 UBS	**14.84**	**13.8**
3 Lehman Brothers	**8.65**	**8.1**
4 Bear Stearns	**7.57**	**7.1**
5 RBC Dain Rauscher	**5.25**	**4.9**

*Through May 31. Excludes variable-rate issues. Source: Bloomberg

Public bids Merrill Lynch is the biggest underwriter of municipal bond deals in which managers are selected through auctions.

Top managers, competitive issues, 2005*	Value, in billions	Market share
1 Merrill Lynch	**$6.09**	**20.2%**
2 Citigroup	**5.71**	**19.0**
3 Lehman Brothers	**2.34**	**7.8**
4 UBS	**2.33**	**7.7**
5 Morgan Stanley	**1.93**	**6.4**

*Through May 31. Excludes variable-rate issues. Source: Bloomberg


NANCY NEWBERRY

Dallas banker **Hill Feinberg** says having trading desks gives underwriters more information than advisers hold.

California sold $7.9 billion of the economic recovery bonds in May 2004, including $359 million of 10-year bonds whose higher credit rating saved the state about $969,000 a year in interest costs. The 10-year bonds yielded 4.22 percent. That was 22 basis points more than an index of yields paid by top-rated municipalities at the time. (A basis point is 0.01 percentage point.) The bonds were sold without competitive bidding because the new credit might benefit from the coordinated marketing allowed in a negotiated sale, Green says. Two weeks earlier, in a competitive sale, the state had paid 49 basis points more than top-rated municipalities to borrow for 10 years. Those bond sales show how investment banks, using negotiated sales, can save taxpayers money, Green says.

Issuers should trust underwriters for another reason, Green says. Investment banks are regulated by the U.S. Securities and Exchange Commission while independent financial advisers aren't required to be regulated at all. To qualify as an underwriter, banks must register with the SEC and bankers have to pass tests for the NASD. By contrast, anyone can become an independent adviser.

Richard Tilghman, a senior managing director at Public Resources Advisory Group, says the lack of regulation of independent advisers is irrelevant. "Things can go on that are untoward in a regulated environment just as well as they can in an unregulated environment," he says. "There are bad apples on both sides."

Bankers are also barred by the industry's self-regulator, the Alexandria, Virginia–based Municipal Securities Rulemaking Board, from making campaign contributions of more than $250 to any public official who may influence the hiring of underwriters. Independent financial advisers aren't limited in making political donations.

Issuers such as Connecticut's Boone hire independent advisers because bankers wear two hats, she says. They're hired by issuers who want the lowest yield, and at the same time, banks are selling the bonds to investors who want the highest yield. "We just want to have someone on our side that represents only the issuer's viewpoint," she says.

Daniel Keating, chairman of the Bond Market Association's municipal division and head of public finance at Bear Stearns, says that when banks work with issuers, their sole job is to represent those government agencies. He says banks ensure they do everything to get the lowest possible borrowing costs for issuers, knowing that if they don't, government agencies will turn to other banks in the future. "If you price a deal with too high interest rates, your competition is going to kill you," says Keating, 55, who has worked as a municipal underwriter at Bear Stearns for 30 years. "There's always going to be a healthy give and take between an underwriter and a financial adviser. That's how it's supposed to work."

First Southwest's Feinberg says banks that regularly serve as both underwriters and advisers, such as his, believe that independents, because they don't talk with investors every day and trade bonds, can't match banks in providing as much up-to-date information about what bond investors want. The MSRB doesn't allow underwriters to be advisers in their own deals; a bank is permitted to serve as an adviser when it's not underwriting a deal. Banks are better advisers than independents because they know more than independent advisers, Feinberg says. Other banks that serve as financial advisers are Minneapolis-based RBC Dain Rauscher Corp., Bear Stearns and Goldman Sachs. "How can they structure and price deals when they don't have an underwriting desk and know what the investor community wants to buy?" Feinberg says. "To really service our clients, we need to have a desk that is trafficking in the market."

'There a natural conflict of interest between an issuer and an underwriter,' Wisconsin's finance director says.

Public Financial Management's White says that information is now readily available from financial Web sites and data companies and that independents can sometimes get better pricing data because they get opinions from the trading desks of several banks, which he says is better than one bank's relying on just its own desk. Saber's Fichera says he participates in marketing to investors along with the bankers so he can gauge the demand for bond sales with underwriters.

Fichera, who got an undergraduate degree in public affairs from Princeton University in New Jersey and received his master of business administration at Yale University in New Haven, says government issuers should have a healthy skepticism of what bankers tell them. “To make the process transparent, it requires active oversight and involvement by an issuer with access to independent advice,” he says. “Otherwise, it becomes a black box, and the victim is accountability. It’s common sense: trust but verify.”

For taxpayers to get the lowest borrowing costs, Fichera says, independent advisers should help with selecting underwriters, determining how the banks are paid and reviewing marketing plans and sales material to ensure the bonds are accurately described to investors.

Saber has received fees of slightly more than $2 per $1,000 for bonds issued in Texas—five to eight times as much as Bear Stearns charged for advising in New Jersey. Saber was paid a total of $5.8 million for advising on four bond deals in Texas. As required by the Texas utility commission, $1.7 million of Saber’s fees was taken from what the underwriters were paid in the four deals.

Barry Smitherman, one of three commissioners on the Texas utility panel, says the commission spent too much for an adviser. Smitherman, the newest commissioner, was appointed in April 2004 by Texas Governor Rick Perry. Smitherman, 47, is a former public finance banker at Chicago-based Banc One Capital Markets Inc. and JPMorgan. “I come out of the municipal bond world, where $100,000 for a financial adviser is a lot of money,” Smitherman says. “My question is, What have we gotten for our $6 million? We have an obligation as commissioners to make sure that we’re paying an appropriate amount.”

Martha Elvey, director of the commission’s division of finance review until she retired in May, told the commissioners that Saber had saved the commission $26 million in interest costs in 2005 dollars—amounting to almost $5 for every $1 in fees, according to a transcript of a public hearing in January. In a 2004 recommendation letter for Saber, Elvey cited the firm’s help in marketing the bonds—Fichera hosted investor conference calls with the commission—and trying to keep costs low for ratepayers. The financial adviser to the commission, unlike a traditional municipal bond adviser, is a joint decision maker with the utility company, Fichela says.

Smitherman’s banking career ended four days after he teamed up with Houston City Council members Mark Ellis and Michael Berry to write an opinion piece published on April 15, 2002, in the *Houston Chronicle*. The commentary, headlined, “City can upgrade ratings and image at the same time,” told the city what to do to improve its bond ratings and reputation after the Enron Corp. scandal. Four days later, Banc One fired Smitherman, the *Chronicle* reported on April 20, 2002, citing confirmation from Smitherman, who declined to discuss his departure for this article. The bank didn’t say why it fired him. “We felt very strongly that the city of Houston was headed in the wrong direction, and so we spoke out,” Smitherman says. “That sort of action should be rewarded and not punished. Advisers and those with specialized knowledge have an obligation to speak out when they see something wrong.”

The Texas utility commission has taken more than a year to decide on a financial adviser for the next asset-backed-bond sale it will oversee. Smitherman’s background has become an issue in a debate over whether to use an adviser. In June 2004, Executive Director Lane Lanford canceled the search for an adviser one day after the governor’s office learned Smitherman was previously paid as a consultant to one of the firms seeking the job, Bear Stearns. Smitherman, who left Banc One in 2002, was paid $33,750 to help Bear Stearns win municipal bond underwriting assignments in Texas before he joined the commission. Spokesman Terry Hadley says the first search was canceled because at the time, there was no longer an immediate need for an adviser because the sale was being delayed. The decision wasn’t caused by Smitherman’s role with Bear Stearns, Hadley says. Bear Stearns spokesman Russell Sherman says the bank is still vying for the job.

Fichera, who says Saber is also seeking the job, says his efforts to sell Texas bonds to corporations showed how his firm helped lower borrowing costs. In the 2003 TXU sale led by Lehman Brothers and Morgan Stanley, 40 percent of the bonds were bought by corporate bond buyers, which hadn’t bought many

Texas utilities commissioner **Barry Smitherman** urged fellow panel members to save money by not hiring a bond sale adviser.

BRENT HUMPHREYS/REDUX

of those bonds in the past, according to underwriter reports to the commission. A June 2003 sale of bonds issued by New York–based Citigroup Inc. and backed by credit card receivables prompted Fichera to analyze whether corporate bond buyers would be willing to pay a higher price for the TXU bonds, issued for the company's transmission unit then known as Oncor.

Morgan Stanley marketed the bonds to corporate bond investors for several weeks, Fichera says, and then told him those buyers would take 10–15 percent of the bonds. Fichera says he asked to see the responses from the target list of corporate investors to understand why they weren't buying more, and when Morgan Stanley refused to provide them, he approached TXU about promoting Lehman Brothers to share the lead underwriter position. TXU didn't make the decision to demote Morgan Stanley by itself, spokesman Christopher Schein says, declining to elaborate. "Those were intended to be private discussions, and we'll leave them that way," he says. "The state regulator of the company oversees these bond sales, and they leaned upon an adviser to help guide them through the process."

As co–lead manager, Morgan Stanley wound up being paid 30 percent of the $2.4 million of underwriting fees culled from bond proceeds, or $720,000. In the previous Texas sale of comparable bonds, Goldman Sachs was paid 65 percent of the fees as lead underwriter, says Fichera, who was also the adviser in that transaction. Had Morgan Stanley made 65 percent of underwriting fees in the 2003 TXU sale, the firm would have reaped $1.56 million. Morgan Stanley's loss was mitigated because TXU agreed to pay the bank $300,000 for putting the deal together, according to bond sale documents. Morgan Stanley was paid $1.02 million for the sale.

Ratepayers benefited because bonds with an average 10-year maturity had lower yields than all previous transition bond sales did, about $3.4 billion of comparable maturities, according to Bloomberg data. "As a financial adviser, I'm there to advocate for and negotiate for whoever's paying the bill," Fichera says.

Also, the difference, or spread, between the rates and a benchmark of interest rate swaps was narrower than that of a previous comparable sale, a $440 million transaction in December 2002 for Pepco Holdings Inc.'s Atlantic City Electric Co. An interest rate swap occurs when two parties exchange variable- and fixed-rate interest payments. The narrowing spread indicates improved pricing in the 2003 TXU sale, Fichera says. Bonds in the TXU sale with a weighted average maturity of 10.83 years yielded 19 basis points higher than the benchmark swaps rate. In the Atlantic City Electric sale, bonds with an average 10.5-year life had yields that were 44 basis points above the benchmark, according to underwriter reports to the Texas commission.

Wisconsin's Hoadley says he wants an adviser because he sees an inherent conflict between municipalities and bankers. "You're negotiating with someone who economically has a different interest than you," Hoadley, 60, says. Banks want higher yields because they're buying the bonds, he says. "There's a natural conflict of interest between an issuer and an underwriter," he says. "We're the seller, and the underwriter is the buyer."

The New Jersey Board of Public Utilities' Grygiel says that before hiring an independent adviser, his board was never involved in picking an underwriter. Public Service had proposed using Citigroup, which asked for a commission of $500,000—80 percent of total syndicate fees—and another $500,000 for putting the deal together. Instead, Saber, Grygiel and the utility interviewed five other banks and chose Credit Suisse Group's Credit Suisse First Boston unit.

BILL CRAMER

Public Financial Management CEO **F. John White** says bankers favor higher interest rates to help them sell bonds.

During the selection process, Saber pressed CSFB to lower its proposed commission to $270,000 from $500,000 and agreed to pay the bank $100,000 for putting the deal together. Tension was obvious in New Jersey between the CSFB bankers and Fichera, Grygiel says, as the adviser said that more of the pot could go to the other banks in the syndicate, London-based Barclays Plc and New York–based M.R. Beal & Co. The three banks will compete for $375,000, which is 60 percent of the commission, instead of CSFB's proposal that 20 percent be awarded to the syndicate members. Each bank's share of the $375,000 will be determined by which ones sell more bonds at lower rates.

Fichera also told the bankers that Saber may be involved in all presentations by the company and underwriters to investors and credit rating companies. In addition, Saber requires a written certification from the bank saying it got the lowest possible borrowing rates. The certification prompts underwriters to take more care and diligence in their efforts because they're putting something in writing, Fichera says, comparing it with the federal law requiring executives to certify that their company's financial statements are accurate. Saber also provides its own certificate.

Saber also has a performance incentive in the deal. The adviser may be paid more if the New Jersey sale achieves lower borrowing costs, Grygiel says. CSFB spokesman Pen Pendelton declined to comment.

While the Bond Market Association's Green says it might be wrong if advisers made contributions to officials who can award bond deals, campaign records in the 10 most-populous states show the largest advisers haven't done so, with two exceptions. Public Financial Management made a $2,500 donation in September to California Treasurer Phil Angelides's committee for his bid to become governor, called Angelides 2006. The firm also gave $4,000 to New York Governor George Pataki in 2001. White says that those contributions were mistakes and that the donation to Angelides is being returned to the firm.

Fichera personally has donated $72,250 since 1999 to federal candidates and committees such as the Democratic National Committee, the Republican National Committee and the nonpartisan Women's Campaign Fund, according to U.S. Federal Election Commission records. He hasn't contributed to any local officials who may award bond deals.

State and local debt officials say what they care about in hiring a financial adviser isn't campaign contributions; it's determining whether the adviser will reduce borrowing costs or supplement their staff. Grygiel, like other government officials, says he thinks an independent adviser will save his board money.

Robert Lamb, formerly a banker at L.F. Rothschild in New York and now an independent financial adviser who founded Lamont Financial, says that opinion bothers Wall Street bankers. When he was a banker, he says, he thought advisers were a pain in the neck. The pain is likely to persist as long as governments find it necessary to hire advisers to check up on the Wall Street bankers who underwrite taxpayer debt.

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BLOOMBERG TOOLS

Tracking New Municipal Debt Issuance

To track the amount of municipal debt that each state has sold for the year through the latest week for which data is available, type YTDM <Go> for the Bloomberg Municipal Issuance YTD function. As shown below, the screen divides the issuance data by whether the debt was sold by competitive bidding or by a negotiated arrangement. In the year through June 3, California sold $15.81 billion of municipal debt, the most of any U.S. state. Out of that total, $3.583 billion was sold through a competitive process and $12.23 billion was sold through a negotiated arrangement.

Click on United States at the bottom of the screen to analyze total year-to-date issuance from all states. For the year through June 3, municipalities sold a total of $140.21 billion in debt, up from $119.76 billion in the same period in 2004.

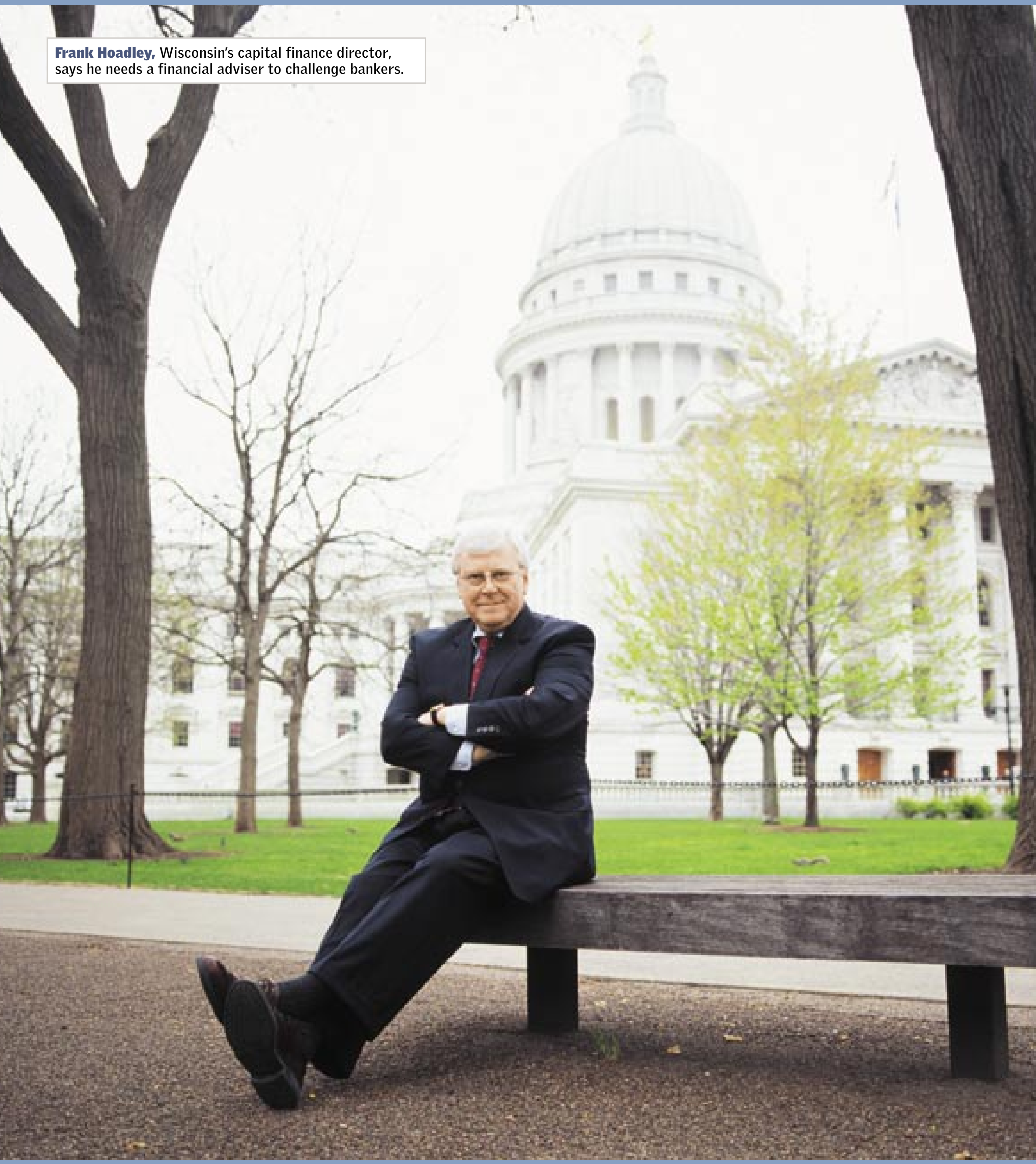
Type SPLY <Go> for the Bloomberg Municipal 30 Day Visible Supply function, to analyze the amounts of municipal debt by state scheduled to be sold in the next 30 days. The amounts on the screen don't include short-term notes. Type CNDM <Go> for the Bloomberg Municipal 14 Day Note Supply Function to see the amounts of notes that municipalities by state are scheduled to issue within the next 14 days.

To list individual bonds that municipalities will bring to market in the near future through competitive bidding, type CDRC <Go> for the Bloomberg Municipal Competitive Calendar function, which lists the scheduled date and time of each sale and the names of the public agency involved and the lead underwriter. Type CDRN <Go> for the Bloomberg Municipal negotiated Calendar function to list similar information for municipal debt that will be sold through negotiated sales.

JOHN DIXON

Bloomberg Municipal Issuance YTD

	Competitive YTD Issuance(Mlns)	Negotiated YTD Issuance(Mlns)	Total YTD Issuance(Mlns)
1) Northeast			
6) New York	2545 06/03	11043 06/03	13589 06/03
7) New Jersey	997 06/03	6892 06/03	7888 06/03
8) Massachusetts	681 06/03	3165 06/03	3846 06/03
2) Midwest			
9) Illinois	654 06/03	3013 06/03	3666 06/03
10) Ohio	208 06/03	4023 06/03	4231 06/03
11) Michigan	341 06/03	6078 06/03	6419 06/03
3) South			
12) Texas	1543 06/03	12393 06/03	13937 06/03
13) Florida	2946 06/03	4220 06/03	7167 06/03
14) Virginia	1597 06/03	1859 06/03	3456 06/03
4) West			
15) California	3583 06/03	12231 06/03	15814 06/03
16) Washington	1410 06/03	2545 06/03	3955 06/03
17) Oregon	154 06/03	1345 06/03	1499 06/03
5) United States			
18) Taxable	966 06/03	4353 06/03	5319 06/03
19) Bank Qualified	3087 06/03	5295 06/03	8382 06/03
20) US Issuance	31564 06/03	108641 06/03	140205 06/03



Frank Hoadley, Wisconsin's capital finance director, says he needs a financial adviser to challenge bankers.