

Time mail brings us hundreds of sales pieces, reports, papers, magazines, ad nauseam. Weeding out and disposal of this paper and ink volume can be irksome. Lest we join the trash pile, we enjoy you to consider these words of introduction.

We have been very pleased with your positive comments about previous BSI letters. Your reaction to our efforts to inform and educate our clients about municipal bonds and the bond markets has led us to initiate this quarterly report. Our comments in these quarterly reports will be concise, informative, and hopefully, interesting. We hope you will find our efforts worthy of your time. We would not want to be identified with the pile of trash heading for your trash bin.

Recently, a client asked to visit our office for the purpose of reviewing the financial statements of several municipal issues purchased directly from the municipalities. The client, who has extensive market knowledge, believed it important to continue the education process in this area and asked for our ideas and opinions. The meeting which ensued was one of the most thorough and productive municipal credit review sessions I have ever attended. I thought I would touch on this subject matter for this BSI Spring Quarterly Report.

We believe that "not all municipal bonds are created equally." For example, an "A" rated hospital revenue bond, in general, is not an equal credit to an "A" rated general obligation bond; nor is an "A-1" rated general obligation bond maturing in 15 years, necessarily a stronger credit than a four year "Baa-1" rated water revenue bond with significant surplus monies in reserve accounts.

We rely on both the ratings and insurance agencies as guides to our credit analysis. More times than not, however, we analyze a credit on our own. We accomplish this by regularly reviewing current financial statements, speaking with local officials and business people and often personally meeting with these individuals living or working in the community. Factors we consider when conducting our municipal credit reviews include:

A. General Obligation Bonds

1. Assessed Valuation - what is the trend? what is the makeup?
2. Tax Collection Rate - is the ratio good? who is paying? what is the trend?
3. Direct/Overlapping Debt - good ratios? what is the trend? what are \$ used for?
4. Fund Balances - surplus or deficits? what are the trends and will they continue?
5. Diversification of Tax Base - a one industry town?

B. Essential Service Revenue Bonds

1. Coverage Ratio - after operating expenses. what remains to pay debt service? history?
2. Debt Per User - is it low/high? why?
3. Demographics of credit being analyzed.
4. Reserve Accounts - fully funded? how and where are funds invested?

We long have preferred essential service revenue bonds. Give me a good water or sewer revenue bond of an established community with a solid history of payment and I will sleep very well at night. No guarantees in life, of course, but history has proven that people pay their water/sewer bills for the consequences are usually severe and quick of they do not pay.

This report is a very simple overview. If you are interested, I encourage you to call. We would be elated to set a time and give you or your group a thorough and complete review on this topic.

Ronald P. Bernardi,
President