



July 30, 2009

Leslie Carey
Associate General Counsel
MSRB
1900 Duke Street, Suite 600
Alexandria, VA 22314

RE: MSRB Notice 2009-35 (June 22, 2009)

Dear Ms. Carey:

In response to the MSRB's request for comment regarding bond ballot campaign committee contributions, George K. Baum & Company has prepared a thorough review of the areas of greatest interest to the MSRB. Our summary highlights the extensive contribution-related reporting that our firm already is responsible for meeting, the reality of when we make a contribution to a bond ballot campaign committee relative to when we typically are retained by the issuer, and the growing importance of the contributions from broker-dealers—both monetary and in-kind—with regard to a campaign committee's ability to adequately present its arguments for voter approval for bond measures and other tax-related referenda. Now, more than ever, municipalities, school districts, special districts and other public entities—and their respective citizen-led campaign committees—are in need of the public policy and campaign expertise of experienced regional investment banking firms.

George K. Baum & Company provides the following comments in response to MSRB Notice 2009-35:

- **The prevalence of dealer contributions to bond ballot campaign committees**

Our firm occasionally provides monetary and/or in-kind assistance to bond ballot campaign committees in California, Colorado, Kansas, New Mexico and Wyoming. These contributions are made to a lesser degree in the other states where we operate (Illinois, Utah, etc.). We believe that a number of regional firms provide similar assistance to clients.

- **Whether there is a nexus between contributions to bond ballot campaign committees for new bond issuances by specific dealers and the securing of roles by those dealers in the related bond underwriting**

We are typically contractually hired by a municipal issuer months before an election is called, before a campaign committee is formed and before a contribution, if any, is discussed and paid.

Issuers typically know prior to retaining us that we are experts in the areas of investment banking, public policy development as related to voter approved related matters and voter approved tax

campaigns. Our demonstrated knowledge and expertise in all three of these areas is why we are often retained. We do not believe that issuers retain us as their investment banker because of any specific monetary contribution that we provide and we do not include such in our proposals.

- **The circumstances under which such contributions have been made by dealers having roles in the related bond underwriting, including, but not limited to, the timing of such contributions in relation to key milestones in the bond authorization and underwriting processes**

George K. Baum & Company offers an extensive number of services with regard to investment banking, public policy development and campaigns. We require that a contract be in place prior to providing such services to an issuer. (Often these contracts are in place 4 to 10 months in advance of a board calling an election).

- **Whether there are certain types of bond ballot measures that receive contributions from dealers more frequently than others**

A majority of the ballot measures with which we are involved include a general obligation issue. There have been a few sales and use tax measures with which we have been involved, particularly in Colorado and Wyoming.

- **Whether there are certain municipal finance market segments that have more contribution activity than others**

We provide investment banking and public policy services to many types of issuer clients: school districts, municipalities, counties, special districts, community colleges and others. We also provide, if appropriate, campaign-related services to their respective citizen-led campaign committees. A majority of the citizen-led campaign committees that we have served have been associated with school district bond measures.

- **How such contributions are used by campaign committees**

If we make a monetary contribution to a citizen-led campaign committee it is typically used to pay for out-of-pocket items such as printing costs for a direct mail piece, yard signs or related campaign items.

- **Whether in-kind contributions are typically used and, if so, whether they should be treated differently from cash contributions**

In-kind contributions are common when it comes to assistance to citizen-led campaign committees. Examples of common in-kind contributions include consultation on public policy, review of polling data and election strategy. Measurement of in-kind contributions may represent a real challenge in the proposed amendment to G-37. Our professional staff (both bankers and election specialists) spends countless hours assisting our clients in the various elements of a bond election. Accounting for and reporting these efforts is not currently done, and would be very difficult. So, our recommendation is that such in-kind services be treated differently from cash contributions.

- **Whether dealers are solicited to make contributions by campaign committees or by issuers and, if so, how they are solicited (e.g., specifically requested in a request for proposals, etc.)**

To the best of our knowledge, we have received only two or three RFPs/RFQs over the past 20 years that have requested information about a proposed monetary contribution in connection with a campaign. In each instance, we have refused to commit to any monetary contribution. We “do” provide a detailed summary of the value-added public policy and election-related services that we provide, but we “do not” commit to any monetary contribution.

During interviews we have been asked on occasion whether we would make a monetary contribution to a campaign committee. Again, we do not commit to a contribution. We stress the knowledge and expertise that we deliver as well as our menu of value-added services (timelines, budget, etc.).

Current situation in terms of public entities meeting their capital improvement and operating needs

It is becoming increasingly difficult for local issuers to obtain resources for an effective campaign, especially given the current economy. Home builders, architects and other businesses are no longer financially able to participate with regard to contributions to citizen-led campaign committees. Many campaign committees also are facing the challenges associated with an aging electorate that is becoming increasingly tax sensitive and skeptical. There also are a growing number of entities competing for tax dollars. It's not uncommon for a school district, special district and municipality to concurrently be on the ballot requesting voter approval for a tax increase. Consequently, it is becoming increasingly difficult for a campaign to get the voters attention. This fact is further compounded by a dwindling volunteer base and the need to reach voters through direct mail. Successful campaigns therefore have become increasingly expensive. A historical examination of voter approved debt well illustrates the challenges public entities presently face. Prior to 2008, school district bond issues experienced overwhelming success during Presidential election cycles. For instance, the percentage of successful school bond issues in Colorado had topped 80%. However in the 2008 election, that figure dropped to about 50%. And this occurred before unemployment rates had reached 10%.

Comment Regarding Municipal Finance Services

The business of Municipal Finance has evolved differently in different parts of the nation. The roles of investment banking firms, and the services that they provide, have similarly evolved accordingly to satisfy the needs of different markets. Regional municipal investment banking firms across the nation have endeavored to provide municipal issuers a variety of services that they have requested and value, including certain services relating to bond elections. We are concerned that the impetus to change Rule G-37 seems to come exclusively from firms who are not in the same service oriented business that many regional firms are committed to, and the clients they seek are large and have significant resources of their own. Smaller school districts throughout the country are attempting to advance their financing/construction agendas. In these extraordinarily difficult times, the regional bond dealers are providing a valuable, legal service in assisting them.

In Notice 2009-35 you have additionally asked:

“Whether a dealer should also be required to disclose whether a specific item of municipal securities business it undertakes is related to a prior contribution to a bond ballot campaign” Yes, we believe that

this may be indicative of "pay to play" and that a record of this may be helpful in formulating further regulation.

"Whether a dealer should be required to identify the person from whom they received a contribution (to a bond ballot campaign committee) request and the solicitation is not pursuant to a request for proposals or related documents." We are unclear as to the meaning of this question.

Summary

1. We have not participated in, nor are we aware of situations where campaign contributions have been solicited as a condition of participation in an underwriting.
2. We believe that the services which our Firm and other regional firms offer are wholly appropriate to successfully presenting local election campaigns in many states. Further, as a heavily regulated business, we must at all times comply with applicable laws, including state and local, and regulations, and we do in this case.
3. The many regional firms which engage in a full service banking practice, including election assistance, know and comply with the campaign finance regulations in their respective states. Further, we each therefore are familiar with the resulting data which is available. Another layer of reporting would not necessarily provide more transparency; rather it would merely list expenditures produced under different state laws. It would not provide an "apples to apples" comparison.
4. We recommend you reject the suggested amendment to G-37.

Thank you for your consideration.

Sincerely,

GEORGE K. BAUM & COMPANY



Robert K. Dalton
Vice Chairman