



\$\$ Money Talk \$\$

The Alabama Journal of Government Finance

Volume IV

Summer

Edition

Government Finance Officers Association of Alabama

From the President.....

On behalf of the Board, I wish to thank George Vick



and his staff for hosting the site visit May 4, 2004, at the Anniston Museum of Natural History. I for one was impressed with the exhibit and pride of the museum staff. I would also like to thank those Board members who took time from their busy schedules to make the site visit and GFOAA Board meeting.

Alabama was represented by about 15 delegates at the national GFOA convention in Milwaukee, Wisconsin (June 13th through 16th). I had not



attended a national conference since Nashville and was impressed with the programs, hospitality of the City and the entertainment venue. As in prior years, GFOAA hosted an Alabama delegate breakfast during the conference. This year's breakfast was held at the Hilton Milwaukee City Center adjacent to the conference center and was attended by 12 delegates. I want to thank all

of those who attended the breakfast. I thought the food and service was great and enjoyed visiting with everyone there.

**2005 GFOA
Conference
June 26-29, 2005**



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Business conducted included approval of the Minutes of February 29, 2004.

Certification Committee – Fran Copeland, Chair
Fran Copeland resigned her chairpersonship for personal reasons. Dr. Judy Kamnikar will fill in until her retirement in 3 years. The Board believes this will finish out a 4-year term.

Education Committee – Mike Wright, Chair
The Certified Governmental Accounting Technician Program (CGAT) was very successful and 24 of 34 slots for the next session have been filled. All teachers are in place. Tracy Croom reported she is working toward getting certified positions in the City of Tuscaloosa a 2-grade pay increase.

2004 Summer Conference:

Steve Boone informed the board that the brochures are ready for the summer conference set for July 25-27, 2004 at the Beau Rivage in Biloxi. The budget was presented and Steve reported confidence in expected sponsorships.

New Business:

Resolution were ratified to change signatories of GFOAA bank account to Tracie Hodge as Treasurer and designate authorized signatories on the conference checking account.

Motions were made and approved to authorize expenditure for the Alabama Delegate breakfast at the national conference.

Motions were made and approved to approve an expenditure for the President's expenses attending the GFOA national conference.

The Fall Forum will be December 8, 2004 and quotes for rates are being sought from various possible locations.

Past President Tracy Croom was recognized.

The meeting was adjourned.

Official minutes can be obtained by contacting Penny Smith at 334-501-7221 or psmith@auburnalabama.org.

I have been busy planning the 2004 Summer Conference at the Beau Rivage Resort & Casino in Biloxi, Mississippi July 26th and 27th. To-date, 52 persons have registered for what I feel will be an excellent conference in terms of programs, fellowship/networking and entertainment (if I do say so myself). While the attendance is somewhat disappointing, the response from our sponsor community has been tremendous. We have 22 sponsors (10 of which will also be manning exhibit booths) who have collectively contributed more than \$12,000 for the conference. For those of you who have been involved in planning any conference, you can understand how much it costs to put one on and can appreciate just how important the sponsor community is in making such a conference possible. Again, I am excited about the program and if you have not registered, there is still time even should you decide to register on site. I look forward to seeing you all in Biloxi at the 2004 Summer Conference.

Steve

**Quarterly Board of Directors Meeting
May 4, 2004
Anniston Museum of Natural History
Anniston, Alabama**

The GFOAA Board of Directors meeting was held May 4, 2004 at the Anniston Museum of Natural History in Anniston.



Welcome New Members

Rosie Anderson
John W. Black, Jr.
Marilee Brown-Wells
Joyce Camic
Glenda Broadnax
Molly Wright
Mac Champion
Patrick Conner
Cheryl Dodson
Janice Duncan
Allison Edge
Faye Elford
Jason Fife
Dana Foster-Allen
Jessica Garrison
Cindy Germek
Terri Gilliland
Murphy Golson
Beverly Gray
Newt Hamner
Valery Harrison
Steve Hicks
Suzanne LaRocca
Russell Lawrence
Troy Merrill
Larry Moody
Russell Moore
Joseph Osenton
Greg Pagans
Janis Prichett
Julius Reid
Kim Roberts
Diane Scott
Douglas A. Sledge
Jessica Smith
Rita Spruiell
Janice Stewart
Cassandra Trammer
Deborah Trowbridge
Melvin Turner
Judy Wallace
Leslie Whiddon
Nancy Wilson

Bank of New York Asset Management

Lift-Off Speed

The ideal economic environment for long-term investors is moderate sustainable growth and low inflation. In our judgment, this combination is exactly what 2004 is likely to deliver. Our forecast is for real GDP growth of 4.0-4.5%, inflation of 1.5-2.0%, a 10%+ increase in corporate profits and an increase in interest rates of 5-75 basis points across the yield curve. For equity markets, we think this will translate into moderately above-trend total returns for the year of 12-13%, driven primarily by earnings gains. For fixed income markets, our forecast suggest moderately below-trend total returns of 3-4% as yields stabilize at a higher equilibrium level late in the year.

After an extended take-off on a runway that at times did not appear that it would be long enough, we think the economy is finally achieving lift-off speed. The stimulus-driven recovery of the past several quarters that was propelled by interest rate reductions and tax cuts is now becoming a self-sustaining expansion powered by the engine of new job creation. A meaningful pick-up in hiring will be the confirmation that this transition is on course and gaining altitude. While recent readings on this front have been somewhat disappointing, we are confident that reports over the next few months will reflect a solid upturn in payrolls. In fact, the greater strength being signaled by the household employment survey relative to the more widely followed establishment survey suggests the potential for one of these upcoming reports to show a surprisingly large number of new workers on the job. Confidence among small and medium size business owners has improved much more dramatically than sentiment among corporate executives, and the household survey traditionally does a much better job of picking up new jobs created by small and medium size businesses at an earlier date. Given all the media attention being focused on the economy's "jobless recovery", an outsized new job number would likely prompt a very significant shift in the current consensus relating to Federal Reserve policy and the outlook for interest rates. The jolt this would provide to the markets would be only temporary. On any spike

upward in bond yields or downdraft in stock prices caused by a strong jobs report, we would be buyers.

We are looking for moderately above-trend growth in the overall economy and a solid upturn in employment levels in 2004, but we are not anticipating a boom by any stretch. Continuing strong productivity gains and continuing subdued wage and salary increases are the primary factors we believe will keep the economy from accelerating toward a growth rate that would threaten to rekindle inflationary pressures. Trends in both of these areas are a function of the extraordinary intensity of global competition. The outsourcing of increasingly higher skilled service sector jobs to countries such as China and India is only the latest manifestation of this competitive environment. In our estimation, the greater risk to our 4.0-4.5% GDP forecast is that growth falls short of this mark. On this basis, we are modestly less optimistic on the outlook for inflation, however, we are much more optimistic that inflation will stay low. Booms lead to busts. Sustainable growth leads to higher confidence in the future and an accompanying extension of investment time horizons. We think that our scenario is one that investors will come to appreciate as the year unfolds.

Our conviction that economic growth will be moderate is based on the fact that the tremendous boosts that tax cuts and mortgage refinancings provided to consumers' spendable income over the past year are now winding down. After a record year for home sales and a very strong year for auto sales in 2003, consumer debt levels are high. From this point forward, therefore, we see consumer spending tracking more closely with pre-tax income growth. Intense global competition is exerting significant downward pressure on wages and salaries. Wage rates rose last year by only about 2%, the slowest growth rate in almost 20 years. With ample slack in U. S. labor markets and job security becoming a more important consideration for workers than wage increases, we do not expect wage gains to accelerate much, even in an improving economy. If the job creation engine can rev back up to its 1990s' run-rate of generating 2 million new jobs per year – admittedly not an easy achievement – this would increase the total number of workers on payrolls by approximately 1.5%. The combination of 2.5-3.0% higher pay and 1.0-1.5% more workers translates into 3.5-4.5% growth in

consumers' earned income. No boom or fuel for inflation here.

Commodity prices are up sharply, but, in our judgment, do not present a threat to our low inflation forecast. Most companies are simply not in a position to be able to pass through higher raw material input prices to their customers. More importantly, most companies are not in a position where they need to do so. Labor is by far most businesses' largest input cost. With productivity surging well above its long-term trend of 2% and outstripping the increase in wage rates, unit labor costs are actually declining. Net-net, the implications this dynamic holds for profit margins are positive. The implications are particularly favorable for many raw material producers who now enjoy a measure of pricing power in the U. S. based on the strong demand for their products from the manufacturing boom in Asia.

Real interest rates – the difference between the 10-year Treasury yield and the rate of inflation – have historically averaged 2.5-3.0%. Based on our inflation outlook, we project that equilibrium for the 10-year Treasury yield should be somewhat closer to the 5.0% level than to the current 4.0% level. Very heavy buying of Treasury securities by foreign central banks is one of the temporary factors we believe is currently keeping yields low. Our interest rate forecast assumes that by mid-year the Federal Reserve will feel confident enough that the economy is advancing comfortably under its own power to begin removing the excess stimulus it provided over the past 2 years, increasing the fed funds rate gradually toward what we believe will be a neutral target rate of 2.0%.

Our twelve month price target for the S&P 500 is 1225. This represents a P/E of 18.5x on our estimate for S&P 500 operating earnings in 2005 of \$66.00, which is up 6.5% from a projected \$62.00 this year. In our stock market valuation framework, our 5.0% year-end 10-year Treasury yield equates to a justifiable P/E ratio for stocks of more than 20.0x. The discount we are applying to this target multiple to arrive at our stock market forecast recognizes the fact that, in the wake of 9/11, investor confidence concerning the future, no matter how bright projects may appear, is not likely to return to its earlier levels.

The outlook for the economy is becoming clearer. In our view, this is good news for financial markets in general, for stocks in particular, and for growth-oriented stocks most of all. The outlook, however, is unfortunately never riskless. If the job creation engine should sputter and fail or if concerns about terrorism should escalate, deflation fears, which have been receding recently, could quickly reemerge. For this reason among others, despite the unexciting returns we are projecting over the next few quarters, we believe that bonds continue to have an important role in balanced portfolios. Our bottom line: we expect financial markets to enable investors to earn total returns in balanced portfolios of 7-10% this year, and to sustain annualized returns in this range over a planning horizon of 3-5 years. This is less than markets provided through the 1980s and 1990s, but it is a substantial improvement over what the '00s have provided to investors so far.

Kevin J. Bannon
Chief Investment Officer

The World of Fund Accounting Comes to Tuscaloosa

Thirty-five students attended the Certified Governmental Accounting Technician (CGAT) Fund Accounting course that was held on June 9th at the Bryant Conference Center in Tuscaloosa. Dr. Judith Kamnikar, Accounting Professor at Auburn University at Montgomery taught this required core course that familiarized the candidates with the process of recording financial information that groups resources into funds.



Joslyn Wilson
Pam Bantner



An Attentive
Class!!

Five seats are still available for the Purchasing/Accounts Payable course that will be taught by Ms. Andrea Jackson, Finance Director for the City of Auburn, Alabama. The class will be held on August 18th at the University of Alabama in Tuscaloosa.

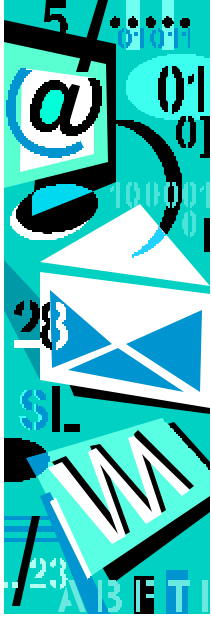


Dr. Judy
Kamnikar

You can contact (205) 348-3000 or register online at: www.pmdp.ccs.ua.edu (Select Accounting, Finance & Taxation).

For more information about the GFOAA CGAT certification program, please visit www.gfoaa.org





GFOAA Office Administration

Please notify Lisa Kamnikar to change your address, or other pertinent information, at the following address:

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December 8, 2004

Governmental Accounting and Auditing Forum
8:00 a.m. – 4:30 p.m. – 16 hours CPE
Registration Fee: \$175 (members)
\$200 (non-members)

Birmingham Marriott Hotel
3590 Grandview Parkway
Birmingham, AL 35243

Upcoming Events

August 18, 2004

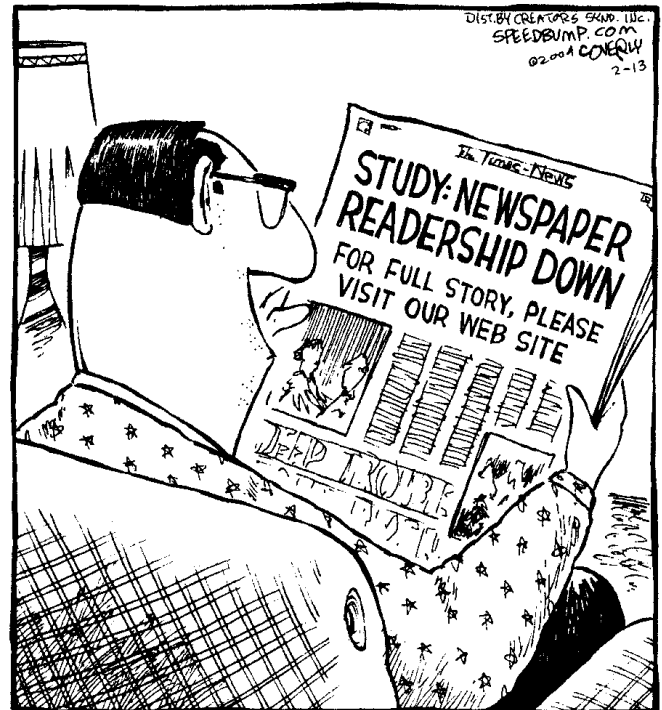
CGAT Program – Accounts Payable
Ms. Andrea Jackson, Instructor
9:00 a.m. – 4:00 a.m.
Martha Parham West, Room 112
University of Alabama
Tuscaloosa, AL

November 10, 2004

CGAT Program – Billings/Accounts Receivable
Instructor - TBA
9:00 a.m. – 4:00 a.m.
Martha Parham West, Room 112
University of Alabama
Tuscaloosa, AL

December 8, 2004

GFOAA Quarterly Board Meeting
5:30 – 7 :30 p.m.
Details – TBA



Thought for the Day.....

Don't wait for a light to appear at the end of the tunnel. Stride down there—and light the thing yourself.

Sara Henderson

**Government Finance Officers
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(GFOAA)**

April 1 – March 31, 2005

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