WXPost SEP 8 1973

Bond Sale Fees Go to Agnew Allies

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Millions of dollars in fees earned in connection with the sale of $220 million in public bonds to finance Maryland's two largest highway projects went to firms whose principals are close associates or political supporters of Vice President Spiro T. Agnew.

The two projects are the second bridge across the Chesapeake Bay between Annapolis and the Eastern Shore and the Baltimore outer harbor bridge, which will link the now unconnected ends of the Baltimore beltway across the Baltimore harbor southeast of the present harbor tunnel.

There has been no indication of illegality or impropriety in these transactions, but they do illustrate how political connections frequently accompany the awarding of state contracts.

For instance:

The Maryland National Bank was named trustee of the bond issue and will probably realize over $1 million for maintaining and investing the proceeds of the 40-year bond issue. Tilton H. Dobbin, now assistant U.S. secretary of commerce, was president of the bank at the time. He served as treasurer of Agnew's 1966 gubernatorial campaign and is a long-time Agnew supporter.

The Baltimore bond firm of Alex. Brown & Sons was

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named as the managing underwriter of the bond sales syndicate, which could net the firm over $1 million when all the bonds are sold. Nineteen of the 23 partners in the Brown firm have been substantial contributors to Agnew's Republican political campaigns.

The local law firm named as counsel for the bond underwriters was the Baltimore firm of Buckmaster, White, Mindel & Clarke. George White, a partner in the firm, was Agnew's campaign manager in his 1966 gubernatorial race and his 1968 vice presidential race. There is no record of how much White's firm was paid; lawyers say the payment depends on the man-hours involved and that the work effort from White firm was "massive."

The insurance company handling the largest part of bond insurance (one-third) is Lloyd's of London, whose local broker is the Tidewater Insurance Agency. Tidewater has traditionally been linked to Maryland's Democrats rather than Republicans, but the agency's three powerful directors, Harry W. Rogers III, his brother William A. Rogers and W. Dale Hess have all been consistent Agnew supporters through his state and national career.

The various firms did not bid for the business involved in the bond issue nor were they required to by law.

The initial selection of the bond, broker and insurance firms was made by the head Maryland State Roads Commission at the time, Jerome B. Wolff, according to deputy state treasurer Charles Jones. Wolff, appointed to the position by Agnew, was a fund-raiser for Agnew when he ran for governor and later when he ran for Vice President.

Wolff's list was then passed on to the state Board of Public Works, consisting of Agnew and two Democrats — State Treasurer John A. Luetkemeyer and State Comptroller Louis Goldstein. The board routinely accepted Wolff's suggestions.

Thorpe Staylor, assistant vice president for Maryland National Bank, said that "a number of banks competed for that issue, and I suppose one was as qualified as the next to get it or handle it. It was probably more a question of contacts and knowing the people involved.

"It's peculiar to this sort of thing that a certain amount of politics is involved. You have to talk to somebody to get the business. Since we're all pretty competitive when it comes to fees I suppose it boils down to politics and contracts," said Staylor, who is one of the team of Maryland National officials that obtained and manages the bond trusteeship.

In addition to George White's law firm, the New York firm of Mitchell, Petty & Shetterly was chosen as counsel for the bond's underwriters. The choice of the Mitchell firm was made by Alex. Brown & Sons, the managing underwriter, but sources in the Brown firm say the selection of White's law firm was made by someone from the Mitchell firm in New York.

Lawyers in Baltimore familiar with municipal bond procedures in Maryland said that it is customary when a legal firm outside the state is picked to do bond work that a local firm is picked as cocounsel. The local firm's job is to act as a political contact with the governmental subdivision issuing the bond and to aid the outside firm, say the lawyers.

"The local firm is usually a politically tied-in one," said one attorney. "It's no accident that a firm with George White as partner got this job."

For servicing the bond issue as trustee, Maryland National receives a fee that is pro-rated on the amount of money left in the band's account at six-month intervals during the 40-year life of the issue.

The bank receives fee payments ever six months and will continue to do so as long as the bond lasts. Assistant vice president Staylor said the bank has received payments running between $40,000 and $50,000 every six months since 1968. The payments will dwindle in size as the amount of money the bank handles drops, he said.

While Staylor would not say how much the bank will make for its task of managing the bond, another senior bank official estimated the sum to be in excess of $1.3 million over the 40-year period.

Staylor said the bank has had long experience in handling bond issues and is the biggest bank in the state. Maryland National was also given the trusteeship of the bond for the first bay bridge in 1954 and obtained the trusteeship on the state's $74 million 1962 bond issue for the construction of the Kennedy Highway.

Staylor acknowledged that the money level of the bond funds in the bank—and the bank's fees—would probably go up again when additional bonds are sold to pay for massive cost overruns that are expected on the projects. The amount of additional money that will be needed to cover the overruns is estimated at anywhere from $20 million to $50 million.

As for the job of selling the bonds, the actual sales were made by a syndicate of more than 300 bond sales firms, with Brown as the managing underwriter. The syndicate sold most of the bonds to blue-chip buyers like banks and insurance companies.

The Brown company, which has grown rapidly in recent years, has handled other bond issues both inside and outside Maryland.

The state awarded the contract for underwriting the 1967 issue to Brown on a noncompetitives basis. In this way Brown's own salesmen were able to determine how much they could sell and at what price and then negotiate the fee with the state.

James T. Cavanaugh III, a partner in the firm who handled th's bond issue, declined to reveal what Brown's profit was. Bond experts in New York and Washington, however, said that such negotiated deals are extremely lucrative since the underwriter already knows his risk and can then bargain for the best profit.

"There are big bucks for the underwriter in this kind of a deal," said one bond expert for a Washington bank.

The "big bucks" in this case, he calculated, might have amounted to a profit of between $5 and $7 on every $1,000 in bonds sold, according to standard rates at that time for municipal bonds of this sort. Such a profit, if all the bonds were sold, would net Alex. Brown & Sons at least $1.1 million.

Brown officials called the estimate high and said that not all the bonds were sold. They again refused to give the actual figure but said the issue was a profitable one for the company.

Just why Brown got the sales contract for the bonds is unclear. The company points to its experience in the field as the reason, although there are numerous other companies with similar experience.

In addition to its experience, however, is the documented generosity of the firm's partners toward Agnew's campaigns. In 1972, for example, 19 of the 23 partners donated $11,270 to a variety of Nixon-Agnew committees including $5,680 to the ill-fated Salute to Ted Agnew Night party.

The Salute committee, including several Alex Brown partners, was indicted by an Anne Arundel County grand jury on election fraud charges Aug. 21. No individual members were indicted. Agnew campaign donation lists for earlier years are under federal subpoena and not available.

Concerning the insurance, Lloyd's of London, through its broker, the Tidewater Insurance Agency, was given one-third of the insurance at a rate 25 per cent above that paid to the other U.S. insurance companies.

The rate of the premium paid by the state on its toll facilities increases as the number and value of those bridges, roads and tunnels increases. As more facilities opened more money has been paid to Tidewater.

During the three-year period between 1968 and 1971 Tidewater received $105,184 in premiums as mandated by the bond issue. From 1971 to 1974 that figure has risen to $135,897 and following that Tidewater will get $94,300 in premiums each year until 1976.

According to Morris Marston, an insurance specialist with the Maryland Transportation Department's toll facilities department, the Tidewater firm would probably get 15 per cent of the premium as its commission if the broker's fee is handled in the normal commercial fashion. The remainder goes to Lloyd's, he said.

Wolff also picked the J. E. Greiner Company to handle the consulting engineering chore on both projects in the bond issue. The big Maryland consulting firm, which was granted $11.2 million in fees for the job, tapped Wolff in 1971 to head its subsidiary, Greiner Environmental Service Inc.

Wolff has played a key part in the federal investigation into alleged kickbacks involving Baltimore County officials and Agnew, and is reported to have been granted limited immunity in return for telling the federal probers what he knows about the money allegedly paid.