Mun-Ease News

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Mun-Ease 2008 v. 13.90

As 2009 comes to a close, we'd like to thank you, our customer, for your support. We also wish you the very best during this holiday season and in the upcoming new year.

This newsletter describes new calculations and features for Build America Bonds and other debt instruments. We also provide a class schedule for 2010.

The 13.90 CD accompanying this newsletter is our fourth and last update for the 2008 release of Mun-Ease. It is mailed to our current customers at no charge.

You may be wondering if this update impacts our schedule for the upcoming 2010 release (v. 14.0). The answer is no. We plan to ship that release along with new manuals in late March / early April.

Build America Bonds (BABs)

We have made significant changes to Mun-Ease to facilitate the issuance and reporting of Build America Bonds (BABs). Build America Bonds are taxable bonds that are issued in lieu of tax-exempt bonds. They are the result of provisions in the American Recovery and Reinvestment Act of 2009. The Act provides for two types of BABs: (a) a taxable bond in which the bondholder receives a tax credit, or (b) a taxable bond in which the issuer receives a reimbursement from the U. S. Treasury. The reimbursement or tax credit is equal to 35% unless the bonds are issued for a designated economic recovery zone in which case the reimbursement/tax credit is 45%. Because of sunset provisions enacted by Congress, BABs can currently be issued only through 12/31/2010.

Several Mun-Ease users have already issued Build America Bonds. From our discussions with them, it appears that they are forgoing the option of issuing tax credit BABs and electing instead to receive a subsidy from the U.S. Treasury.

Although BABs are issued as taxable bonds, they are still subject to the arbitrage provisions of the tax code. The arbitrage yield limit is computed net of the interest subsidy received by the issuer.

Mun-Ease Features for Build America Bonds

Mun-Ease allows the issuer to designate a bond issue as a Build America Bond. If designated, the user is prompted for a reimbursement rate (for which we provide a 35% default value). Thereafter, individual true interest cost (TIC) and arbitrage yield limit calculations and reports will incorporate an additional column of information showing the interest subsidy. Debt service on each payment date is reduced by the amount of the subsidy.

As previously noted, the subsidy is treated as a reduction of interest for arbitrage purposes and for the purpose of calculating the true interest cost.

However, the accounting treatment of the interest subsidy is just the opposite[1]. Instead of treating it as a reduction of interest, issuers are recording it as a revenue source (similar to a grant).

As you might imagine, these two opposing treatments have important implications for the design of Mun-Ease. We have chosen to show the subsidy as a reduction of interest in the TIC and arbitrage yield limit calculations. However, we do not show it as a reduction of interest in reports used for accounting and financial statement purposes. These reports are created under the Stand-Alone Reporting menu option.

Issuers obtain the interest subsidy by submitting an 8038-CP tax form to the U. S. Treasury. For fixed-rate bonds, the 8038-CP is submitted no earlier than 90 days from each interest payment date.

Our 2010 release will contain a feature that will generate a completed 8038-CP tax form. As mentioned earlier, we anticipate that we will mail the 2010 release to our current customers in late March / early April.

New Arbitrage Features for Variable Rate Bonds

Our July 2009 newsletter discussed new features in Mun-Ease for the calculation of the arbitrage yield limit of variable rate bonds. Since that release, we have continued to add new features to this calculation. Before describing these enhancements, we'll provide some background information about the calculation.

[1] Based on a consensus of views from our customers.

The issuer of a variable rate bond issue has the option of calculating a separate yield for each computation period. The computation period can be for any bond year up to (or through) the end of the fifth year.

Prior to our July update (v. 13.75), we required the user to create a separate bond issue for each of the computation periods for which a yield calculation was performed. With our July 2009 update, we no longer imposed this burden on the user. Since then, if a user can chooses to compute a separate yield for yearly computation periods, he/she can do so within the same bond issue.

There is one question that confronts the user if he decides to calculate a separate arbitrage yield limit for each yearly computation period: How to allocate the upfront costs (e.g., bond insurance) among the computation periods? Our July release allowed the user to divide upfront costs by the number of computation periods. Mun-Ease would then future-value the allocated portion of costs to the beginning of the computation period.

In this release, we provide a function to annuitize upfront costs over the total number of computation periods. The costs are annuitized at the 5-year arbitrage yield limit. While the prior technique was reasonable and acceptable, the new annuitization method is more accurate from an actuarial standpoint.

New Features for Swap Transactions

We added new input options that allow the user to generate the Swaps Accounting Report with one or more summarization options (daily, monthly, semi-annual or yearly totals). This option is useful when the payment frequency varies for each side of the swap. For example, an issuer could enter into a swap transaction in which he receives semi-annual fixed payments in place of the monthly variable rate payments made to bondholders.

We added a new input option to the Swaps Accounting report to allow the user to specify whether the swap is a "fixed-to-variable" or "variable-to-fixed" swap. This information is used by Mun-Ease to determine which side of the swap is to be displayed as a negative number.

Other Changes

We revised the screen colors in Mun-Ease so that fonts are easily read when the user has chosen "Windows XP Theme" display settings instead of "Windows Classic" display settings. *Background*: Some background colors do not display correctly in flat-panel monitors under the "Window XP Theme" display settings.

We have corrected a bug that occurred when the user chose the File | Fixed Rate Bonds | Merge Bond Issues menu option.

We increased the size of the columns within the Debt Service Allocations grid and changed the order of columns so that the Bond Suffix appears next to the Dated Year

Debt Service Allocations - We modified Mun-Ease to allocate debt service to an allocation coding block of NONE-NONE-NONE-NONE if there are no allocations for a bond issue.

We have added a new option to the OID/OIP amortization report. Users can now choose to perform year-end accruals on a 30/360 or actual/actual day basis.

We have added two new debt service schedules for variable rate bonds. These reports are generated when the user is viewing debt service transactions while in the variable rate grid. After clicking on the report button, choose the "report w/o misc fees" menu option and Mun-Ease will produce the new reports.

We modified the Periodic Resets report (#94) to show the calculation of the interest payment in addition to the interest rate. (Previous versions of this report only showed the calculation of the interest rate.) We added a new feature to correctly calculate interest from the periodic resets in the following situation: When (a) the interest payment is calculated from periodic resets, (b) the interest period spans two different calendar years, (c) one of the calendar years has 365 days and the other has 366 days, and (c) the interest payment is calculated on an actual/actual day count basis. We modified the data grid where the periodic resets are entered so that the data entry process is more consistent with information typically displayed in bank statements. We've added two new calculated fields to the periodic resets grid (the point spread and percentage spread between the index rate and the effective interest rate).

We modified report #23 so that it shows totals by fiscal year. Report #23 is generated when a user chooses to amortize issuances costs on an effective interest basis.