. . .

Mun-Ease News

Inside this Issue

Our New Address:
Prescient Software JRD, Inc.
23732 Hillhurst Ave. Ste. 37
Laguna Niguel, CA 92677
www.mun-ease.com

Mun-Ease 2010

This newsletter is accompanied by a CD containing our new 2010 release. It is shipped to all of our current customers at no charge. Although we originally believed that this release would ship in April, we decided to delay the shipment until we completed some important new features related to Build America Bonds (BABs).

The initial legislation for Build America Bonds contained sunset provisions that disallowed their issuance after December 31, 2010. It is now obvious that there will be follow-on legislation to allow for the continued use of BABs after this year. From news accounts of the various bills before Congress, it appears likely that the follow-on legislation will include changes to the rates for tax credits or reimbursements for BABs issued after 2010.

It is always difficult to develop software in a changing and evolving legal / regulatory environment. We take a calculated risk that new legislation or rulings will not obsolete or invalidate key features or calculations. Thus a key goal for us is to build enough flexibility into the 2010 release to handle the inevitable changes.

Other Features

The 2010 release contains many other important features. We'll describe these enhancements later in the newsletter. Because some of the new features cross module boundaries, we'll initially discuss these topics without regard to module. Later on, where appropriate we will cross-reference these enhancements by module.

A Brief Summary of the Existing BAB Environment

BABs are taxable bonds that 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 / subsidy 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%. Under the current legislation, BABs can be issued only through 12/31/2010.

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.

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. Instead of treating it as a reduction of interest, issuers are recording it as a revenue source (similar to a grant).

The Impact of BABs on Municipal Bond Calculations

Our initial reaction to Build America Bonds was that the changes to Mun-Ease would not be significant. As we delved more deeply into this subject, we realized that we were mistaken. The changes to Mun-Ease are anything but trivial and affect literally every calculation and report. Why?

Let's take a typical sizing calculation as an example. We model debt service of a new bond issue at a gross level (not net of the reimbursements). However, the debt service schedule used to calculate the True Interest Cost (TIC) and the Arbitrage Yield Limit (AYL) is computed net of the reimbursements. Also some of the costs included in the target values for these calculations (e. g., accrued interest and upfront credit enhancements) are computed net of the reimbursement.

Many of the sources and uses of funds for a new bond issue are also sized net of the reimbursement. In the previous paragraph we mentioned upfront credit enhancements or bond insurance. Insurers typically price bond insurance as a percentage of debt service. Thus the insurable portion of the debt service would be the issuer's share of this amount. Bond insurance also is almost always computed net of accrued interest and gross capitalized interest (both of which are computed net of the reimbursements for this computation).

If the issuer chooses to net-fund the capitalized interest account, then Mun-Ease must also take into consideration the BAB subsidies when computing the initial deposit into this fund.

Finally, the calculation for a reasonably required debt service reserve (DSR) fund is affected by BAB subsidies. Under current tax rules, a debt service reserve fund is not yield-restricted if it is sized to be the lesser of (a) 10% of principal, (b) maximum annual debt service, or (c) 125% of average annual debt service. While it is not yet an official position of the IRS, we believe that this test should take into consideration the BAB subsidies.

The end result - Mun-Ease must now maintain two sets of calculations. One set of calculations is based on nominal or gross amount of interest and the other is based on interest net of the Treasury reimbursement.

If you choose the *File | Fixed Rate Bonds | Statistics* menu option for a Build America Bond, you can view the complexities brought on by BABs. Mun-Ease now displays two columns for the various computations that are calculated both on a gross and net basis.

Reports For Accounting Purposes

Earlier in this newsletter, we mentioned that the accounting profession treats the reimbursement of BABs interest as a revenue source and not a reduction of interest. Based on this treatment, we initially assumed that the accounting reports within Mun-Ease could remain unchanged from our prior versions. (These reports are contained primarily in our Stand-Alone Reporting and Allocations modules.)

However, we discussed this issue with our users and discovered that they had a different opinion. Generally our users want the ability to choose at run-time whether a report is to display interest on a gross or net basis.

The bottom line – Mun-Ease now has new input options that allow the user to choose whether a report displays interest and debt service on a gross basis or net of the BABs reimbursement. The headings on all reports now display how interest and debt service is computed.

New BAB Features

- The 2010 release contains two new tax forms. The 8038-B tax form is submitted to the U. S. Treasury shortly after the date of issuance of the bonds. The issuer submits this form for BABs in place of the 8038-G form.

- The 8038-CP tax form is submitted to the U. S. Treasury by the issuer for the periodic reimbursement of interest for direct payment BABs. Mun-Ease computes the amount of the interest subsidy and inserts this amount into the form after the user enters the interest payment date.

- Mun-Ease now has options to define a bond issue as a Build America Bond. We allow you to define the reimbursement rates for individual maturities. Thus you can create a bifurcated bond issue that includes both BABs and tax-exempt bonds or a BAB bond issue that contains maturities with different reimbursement rates. The Sizing calculations also incorporate features that allow users to input more than one BAB reimbursement rate (see prior section).

- Mun-Ease now includes a report that displays the results of the BAB original issue premium (OIP) de-minimus test (#75b). Mun-Ease generates this report when you calculate the arbitrage yield limit.

- All reports in the Stand-Alone Reporting and Allocations modules allow the user to choose how interest and debt service is to be displayed. Users can display gross interest and debt service or interest and debt service net of the BAB subsidy.

New Holiday Database Table

The 2010 release contains a new database table that allows the user to create custom holiday schedules. The user can select U. S. Bank holidays, LIBOR holidays, and/or state holidays. The user selects the date range (usually 100 years) and creates the schedule of holidays that is identified through a 10-character Holiday schedule ID.

After the holiday schedule is created, the user can incorporate the holiday schedule into various calculations and reports. For example, the user can size a note and request that all debt service payments are to be paid only on business days. If a payment falls on a weekend or holiday, Mun-Ease will forward-date the payment and adjust the amount of interest accordingly.

The Holiday database table allows Mun-Ease to also produce a new report entitled the Paying Agent Advance Notification Report (#04h). The user first defines the paying agent's lead-time requirements (in business days) for payment of debt service for each bond issue in the database. Report #04h will display combined debt service sorted by notification date and paying agent. The advance notification date is calculated by subtracting the number of business days from the debt service payment date. This new report is contained in the Stand-Alone Reporting module.

New Features for Bifurcated Bond Issues

We have added new features in the Sizing and Refunding modules for bifurcated bond issues. A bifurcated bond issue may include a separate set of maturities ("a series or tranche") for different projects or uses of funds. It may also include a separate series for BABs, tax-exempt bonds, and/or taxable bonds.

After you have sized separate bond issues for each series, you then merge the bonds together into a combined bond issue. Mun-Ease can produce a "master" package of reports that displays separate columns of information for the individual series and a column for the combined bond issue.

The master report package usually includes appendices for the report packages generated for the separate bond issues (i. e., series) that were sized before they were merged into a combined bond issue. Because you define the starting page for each of these report packages, the page numbers will flow incrementally when you merge the PDF files for individual bond issues with that of the combined issue.

New Arbitrage Features

- Mun-Ease now generates completed 8038-CP and 8038-B tax forms. We also updated the 8038 and 8038-G tax forms for the May 2010 changes.

- Mun-Ease can now compute the interest and penalties on an over/underpayment of rebate. Interest is calculated on an actual/actual basis and is compounded daily. The input screen for these calculations includes a link to the IRS web page that defines the quarterly interest rates used for this calculation.

- We added a new feature that automatically calculates the inflation-adjusted amount for the annual computation credits. While in the rebate transaction window, you enter the transaction date and press the F11 function key. Mun-Ease pre-fills the transaction with the amount of the computation credit and other identifying information.

- Mun-Ease now includes a Crystal Reports template for mapping external spreadsheet data to the format that we require for importing rebate transactions. This template is included in the *DbImports* folder in the User's personal directory. *Background*: Most bank trustees use investment systems that can export investment transactions to a spreadsheet. Mun-Ease also has capabilities to import spreadsheet transactions from an external source. However, Mun-Ease requires that the spreadsheet be in a specified format. Thus the user had the additional task of reformatting the trustee's spreadsheet so that it was consistent with the format required by Mun-Ease.

The new Crystal Reports specification demonstrates how you can use Crystal Reports to map external data into a spreadsheet that can be read by Mun-Ease, thereby eliminating the task of reformatting the trustee's spreadsheet.

New Loan Pool Features

Mun-Ease now includes features that allow the master bond issuer to e-mail invoices to borrowers of funds from the loan pool. The e-mailed invoices preserve all of the formatting characteristics of the printed invoice and are in a rich text edit (RTF) format.

If invoices are e-mailed, Mun Ease will automatically add the invoice to the *Munidocs* database table that is indexed by issuer. By using the Internet Add-On module, the loan pool issuer can create a history of generated invoices for participants in the loan pool. That history is available to each borrower via his web browser.

Internet Add-On Module Features

- We now include a security feature that can optionally be implemented by the user. If implemented, the Internet Add-On Module restricts access to the Mun-Ease database to authorized users that enter a correct password. The authorized users can only view data pertaining to their organization. This security feature was made necessary because e-mailed invoices are now posted to the *Munidocs* database table (see prior section).

New Features in the Allocations Module

- We added a new report to amortize the original issue premium/discount on an effective interest basis using the methodology prescribed by GASB 34. (In previous versions of Mun-Ease, this feature was available only in the Stand-Alone Reporting module.)

- We added new input options to all the reports that allow the user to display interest and debt service for BABs on a gross basis or net of the Treasury reimbursements (see discussion in previous sections).

- We added a new report that displays by allocation and bond issue the yearly interest, principal payments, and debt service for the next five years. The report displays this information horizontally across the page.

User Manuals

We plan to distribute updated manuals later this year. The Tutorials manual will be a printed copy while the User Guide and Report Samples manual will be distributed on a CD in PDF format. We made this decision because the User

Guide is now over 1,000 pages and is difficult to ship in a hard-copy format.

When you install the 2010 release, Mun-Ease will provide an option to print a Quick Start Guide. The Quick Start Guide contains tutorials that demonstrate how to use the new features mentioned in this newsletter.

Mun-Ease Fall Class

We plan to hold our final 2010 class at the New Horizons training center in Durham, N.C. from October 11-13, 2010 **(sign-up deadline September 1, 2010)**. The registration form can be downloaded from:

http://www.mun-ease.com/class.html

Mun-Ease classes are comprehensive in nature; covering all aspects of debt management in the public sector. The classes are conducted by having the student solve real-life problems using Mun-Ease on a computer provided by the computer lab that we have hired. Our classes are 21/2 days in length and cost $995. We limit each class to 12 students to ensure a productive learning experience. Our classes will be conducted using the SQL Server version of Mun-Ease.

Installation Tips for Mun-Ease 2010

Because the 2010 release contains a new database table for holiday schedules, the user who installs the SQL Server version must have additional permissions.

The changes to the SQL Server database are made when the first user initiates Mun-Ease subsequent to the installation of the 14.00 release. Upon start-up, Mun-Ease asks the <u>first</u> user to verify that he has sufficient rights (*db_owner*

and/or *db_creator*) before attempting to make these changes. Thus the first user must have *db_owner* or *db_creator* permissions or the changes cannot be made. After the database changes have been made by the first user, Mun-Ease will no longer inquire about permissions nor will users need them.

Note that the above discussion of permissions applies only to the SQL Server version of Mun-Ease. The BDE version of Mun-Ease can make database changes for any user regardless of their access rights.

Hardware Key

The 2010 release (v. 14) requires that the user call us to reprogram the hardware key. Call us between 8AM-5PM Pacific Time, M-F. The key can usually be reprogrammed in 1-2 minutes.

Quick Start Guide

As mentioned previously, the installation routines provide an option to print a Quick Start Guide. The Quick Start Guide contains tutorials that demonstrate how to use the new features mentioned in this newsletter.

New Address For Prescient Software

*** Effective August 1, 2010 ***

Prescient Software JRD, Inc.
23732 Hillhurst Ave., Ste. 37
Laguna Niguel, CA 92677
Ph. 949-248-5788 Fax 949-248-5789
www.mun-ease.com