Mun-Ease News

New Calculations, New Reports, New Graphs, and Newly Updated 8038 Tax Forms!

Release 10.50 is Now Shipping

With this newsletter, we are shipping our second interim update (release 10.50) for Mun-Ease 2000. The 10.50 release contains significant enhancements and is sent to all of our 10.0 customers <u>free-of-charge</u>.

In addition to the new tax forms, our new release features five new reports, three new graphs, and new calculations for bonds that contain cascading call options. The new changes are discussed later in this newsletter. We are very excited about our new enhancements and hope that you will be too.

IRS To Speak at 2001 User Group Meeting

The Mun-Ease user group meeting is held every year during the annual GFOA conference. This year, our user group meeting will be held in Philadelphia. We have tentatively scheduled the meeting at 1:00, Tuesday afternoon, June 5, 2001.

A representative from the IRS will also be on hand to answer questions about their arbitrage compliance program. Among the topics that the representative will discuss are:

- Recommendations for the retention of supporting documentation for rebate calculations.
- Common mistakes that issuers make.
- Subject areas that tend to be problematic with regard to compliance.

> *Please forward this newsletter to other*
> *Mun-Ease users at your site.*
>
> << release 10.50 features, classes, 2001 user group meeting, ReportSmith tips, and cascading call options.>>

During the meeting, we will demonstrate the 10.50 release and answer questions from our users. Our user group meetings also provide an important opportunity for users to voice their opinions about needed features. Finally, the meetings allow you to meet and talk to other organizations that use Mun-Ease.

During the week of the conference, you'll find us in the software section of the GFOA booth. Stop by and see us if you have time. We'll be glad to answer your questions or to provide help in any way that we can.

2001 Mun-Ease Class Schedule

The GFOA will offer two back-to-back Mun-Ease classes this year. The classes are 2 $^{1/2}$ days in length. The dates for these classes are:

> September 17-19
> September 19-21

The class beginning on 9/17 starts at 8:30 AM and ends at 12:00 PM on Wednesday, 9/19. The class beginning on Wednesday 9/19 starts at 1:00 PM and ends at 5:00 PM on Friday.

Classes are held at the GFOA headquarters in Chicago. Class size is limited to 15 students and is conducted by having the student solve real-life problems using Mun-Ease on a computer provided by the GFOA. If you are interested in attending class, call the GFOA for availability. Also check the Mun-Ease web site to view the class agenda.

Tips & Tricks: Making ReportSmith Run Faster

Mun-Ease generates all of its reports through the ReportSmith Runtime Viewer. With very few exceptions, the reports generated from Mun-Ease do not draw their data from the primary bond database tables. Instead every time you run a calculation, new values are placed in the report database tables (*Rpthead.db* and *Rptdtl.db*). Data is maintained in these tables for each user's version of the Mun-Ease reports. An important point to remember is that the report data is temporary data and resides on disk solely for the creation of the printed reports. However, the data for a report remains on disk until the user generates a new version of a report. At that point, the old report data is deleted. It is then replaced with the new report data.

Over time the report database tables may become quite large; especially in environments where there are multiple users. Inevitably the performance of ReportSmith will deteriorate in these situations.

Our 10.50 release provides a quick and easy solution if you find that your reports are running slowly. Press the Windows Start button and choose the *Programs | Mun-Ease 2000 | Make My Reports Run Faster* menu option. Mun-Ease will then empty the report database tables of all data. Before emptying the report database tables, Mun-Ease will check to make sure that no other users are active.

Features In Depth: Cascading Call Options

The optional call provisions in many bond issues specify that the call price of a bond will vary depending upon the date of call (e.g., the bonds might be callable at a price of 102 within 10 years, 101.5 within 12 years, and at par within 15 years and beyond. We refer to these provisions as cascading call options. Cascading call options can affect the calculations performed by Mun-Ease when the bonds are offered to the public at a premium (the reoffering price greater than 100). Potentially this situation can impact (a) how the reoffering yield is computed, and (b) how the arbitrage yield limit is computed.

Reoffering Prices/Yields

The SIA and the MSRB require that broker/dealers use the lower of the yield-to-maturity or yield-to-call when quoting reoffering yields to the public. This comparison is referred to as the "yield-to-worst" calculation. The yield-to-call will often be lower than the yield-to-maturity if bonds are resold to the public at a substantial premium. Traditionally broker/dealers performed this calculation only for the earliest call date. More recently though, many broker/dealers have decided to test all of the call scenarios in their search for the lower of the yield-to-maturity and yield-to-call calculation.

Arbitrage Yield-to-Call Requirements

The Treasury has its own rules regarding when bonds are to be valued at their call date (see Section 1.148-4b3iii in the Internal Revenue Code and page 213 in the Mun-Ease user guide). This section requires that all call scenarios be tested. If a maturity in a bond issue meets one of the three yield-to-call tests, then the issuer must compute the arbitrage yield limit assuming that the yield-to-call maturities were called on the date that results in the lowest arbitrage yield limit.

Mun-Ease Features For Cascading Call Options

Mun-Ease provides an easy way to enter cascading call options and to calculate the "yield-to-worst" and the arbitrage "yield-to-call" calculations. Click on the *Edit* speed button and choose the *cascading call options* menu option. Mun-Ease then displays an empty cascading call options data grid. From there, click on the *add a new call scenario* button and enter the call scenario in the pop-up dialog box. Mun-Ease populates the grid based on the data that you enter. When you have finished entering each of the call scenarios, click on the *yield-to-worst calculation* button to determine which call options provide the lowest reoffering yield Mun-Ease will also print a Pricing Summary report (#70) at the conclusion of this calculation. Click on the *arbitrage yield-to-call calcs* button to determine which call scenarios provide the lowest arbitrage yield limit.

Mun-Ease will also print the Arbitrage Yield-to-Call report (#57a) at the conclusion of the calculation.

About the 10.50 Release

Base Module

- We've added a new tabbed window (historical info) to initial screen that is displayed to the user when he creates or edits a bond issue. The new tabbed window allows the user to maintain a record of dates and amounts of rebate payments that he has made on the bond issue. The user also has the option to automatically update these fields from the arbitrage module whenever he completes a rebate calculation. Periodically the user can run a report that shows these payments for all or selected bond issues on the database (see the Stand-Alone Reporting section).
- We've added a new program to empty the report database tables of temporary report data. Choosing this option will enable ReportSmith to run faster (see prior discussion). To use this option click *Start | Programs | Mun-Ease 2000 | Make My Reports Run Faster.*
- We've added a new report called a Pricing Summary (#70). Within the base module, it is generated when you perform a TIC calculation.
- We've modified the Bond Production report (#1b) so that it displays cusip numbers.
- We now perform the yield-to-worst calculations when there are cascading call options. Mun-Ease will evaluate all call scenarios to determine the lowest reoffering yield *(File | Fixed Rate Bonds | Cascading Call Options)*.
- We've changed the NIC calculation so that lump-sum credit enhancements are not included in the calculation. Most underwriters now are not including it their NIC calculation. While we don't necessarily agree with this trend, we are changing this calculation for the convenience of our users who are reconciling their calculations to those of underwriters.

Arbitrage Module

- We've updated tax forms 8038, 8038G, and 8038GC to reflect the changes made by the IRS in December 2000.
- We now review all call scenarios when computing the arbitrage yield limit. In prior releases, you were required to individually review each call scenario to determine whether any maturity qualified as a yield-to-call maturity. Mun-Ease automatically determines which call scenario will provide the lowest arbitrage yield (see prior discussion) *(Arbitrage | Yield Tests | Yield-to-Call Calculations)*.
- We've added a new option under the *Arbitrage | Utilities* menu. This option calculates the maximum allowable reserve fund for a bond issue. *Note*: We have always performed this calculation within sizing and refunding

modules. However, we are now adding this feature to the arbitrage module.
- We now provide a new calculation option under the *Arbitrage | Utilities | Commingled bond proceeds* menu option. The option allows the user to compute the amount of unspent proceeds either on an exponential or straight-line basis. We recommend that the user choose the exponential option.
- We have added new options within the *Arbitrage | Rebate/penalty* menu option. The user can now define the description that accompanies the beginning and ending amount of bond proceeds shown in the rebate/penalty reports. We also provide the user with an option to save the value of the unspent proceeds and the results of the rebate calculation to the bond master file when the calculation is complete. By saving the results to the bond master file, the user can generate historical reports showing the amount and dates of rebate/penalty payments for bond issues on the database.

Stand-alone Reporting Module

- We've added a report that shows the amount and dates of rebate payments made on all or selected bond issues on your database (#68).
- We've added another version of the combined debt service by issue code report. The sort sequence of this report corresponds to the new stacked bar chart graph of combined debt by issue type code (#50c).
- We've added new report that compares combined debt service over time to debt service capacity constraints defined by the user. The debt service capacity constraints are maintained Project Master and Project Flows database tables (#69).

Graphics Module

- We've added a new graph that displays the impact of a new issue on an issuer's combined debt service. The graph is created as a byproduct of the new issue impact report.
- We've added a new stacked bar chart graph that displays the combined debt service by issue type code. The graph is generated as a byproduct of the combined debt service by issue type code report (#50c).
- We've added a new graph that compares the issuer's combined debt service over time to a debt service capacity constraint. The graph is generated as a byproduct of the combined debt service capacity/coverage report (#69).

Sizing / Refunding Modules

- We've added an option to generate Pricing Summary report (#70) as part of these calculations.

- Mun-Ease now performs a price-to-worst/yield-to-worst calculation when you enter reoffering prices or yields.

Maturity- by-Maturity Allocations Module

- We added an option to generate a multi-year allocations debt service schedule for a specific bond issue.

- We added a new multi-year allocations debt service schedule (report #64c) that is sorted by allocation coding block, bond ID, and debt service payment date. *Background*: Mun-Ease currently provides detail and summary multi-year debt service allocations reports. The existing detail report is sorted by allocation coding block, debt service payment date, and bond ID.

- We've created several new options within the *maturity-by-maturity allocations* module to assist organizations when they partially refund a maturity within a bond issue. (Organizations often partially refund a maturity to comply with private-use rules. Often times if a maturity within a bond issue were completely refunded, then the remaining outstanding debt might have a higher percentage of private uses, thereby jeopardizing the tax-exempt status of the bonds.)

These new features include:

- We've added a new column to the allocations data grid and allocations database table that allows the users to mark individual allocations for refunding. (This option is available for both the single and multiple bond issue choices within the *allocate | by individual maturities | edit/view delete* menu. The new column is shown as a check box. We added new radio buttons above the grid to allow the user to mark or unmark a selected range of allocations for refunding.

- We added a new *Refunding Candidates Report* (#66) that displays all allocations marked for refunding. The report has a format that is similar to the allocations variance report.

- We've created a new menu option *(Allocate | By individual maturities | Edit/view/delete | Move allocations to another maturity* to move allocations from one maturity to another.   *Background*: When a maturity is partially refunded, the issuer splits the maturity into two maturities (one portion that is refunded and the other portion that is not refunded). The issuer then chooses the menu option to move all marked allocations for a bond issue to the new maturity that has been refunded (the call switch for the new maturity is set to true). Because the issuer will often be merging several allocations into one refunded maturity, the system checks for the existence of an existing allocation before it creates a new one. If an existing allocation exists, Mun-Ease adds the allocation to be moved to the new allocation. Otherwise it creates a new allocation for the maturity specified by the user. (This logic prevents a duplicate entry which would result in a key violation.)

Gross Debt Service Allocations

- We added a new Remaining Debt Service by Bond ID (report #67) that shows by allocation coding block, the remaining debt service for each bond issue on the database.