Mun-Ease News

New Happenings, Enhancements, & the GFOA e-Store

Release 10.75 is Now Shipping

With this newsletter, we are shipping our third interim update (release 10.75) for Mun-Ease 2000. The 10.75 release contains many new features which are described later in this newsletter. (Our Arbitrage and Refunding users will find them especially valuable.) This interim update is shipped free-of-charge to all of our 10.0 customers.

About our September Classes

During the week of September 17, 2001, we held two back-to-back Mun-Ease classes in Chicago. Each class was restricted to 15 people to ensure an enriching and productive learning experience for the attendees.

Unfortunately, the classes became oversubscribed by early August and we had to turn away many of you who wanted to attend. We tried to add a third class but were unable to do so because of a shortage of hotel rooms in Chicago.

To those who could not attend, we apologize for any inconvenience that it may have caused you. In the future, we'll try to hold classes more frequently. Our goal is to provide enough classes so that we can meet the educational needs of all of our customers.

GFOA e-Store Open For Business

The GFOA is pleased to announce the release of its new e-Store (*www.estoregfoa.org*). You can buy books, software, CD-ROMs, and videos. You can also register for classes and conferences. Try it out!

Please forward this newsletter to other

Mun-Ease users at your site.

In this release ....

<<< release 10.75 features, classes, e-Store, 2001 user group meeting, commingled bond proceeds. >>>

About 2001 Mun-Ease User Group Meeting in Philadelphia

Our 2001 user group meeting was our most successful meeting ever since we first began them in the early 1990s. We allotted a full four hours for the presentations and discussion periods.

Guest speakers included Dave Golley from the IRS and Howard Stevens from the Bureau of Public Debt. All of us felt that the presentations were extremely valuable and educational.

Tips & Tricks: Running Mun-Ease in Novell Network Environment

In the past year, we encountered a few isolated instances where users had problems running Mun-Ease and ReportSmith concurrently. These problems always occurred in a Novell Netware environment. After considerable research, we discovered that there is a bug in earlier versions of the Netware Windows 95/98 client that impacted the Borland Database Engine. These problems went away when the customers installed the latest version of the Netware client.

Features In Depth: Commingled Bond Proceeds

Frequently, municipalities find it advantageous to pool the proceeds of various bond issues when making investment decisions. While these actions may increase the rate of return earned by the investment portfolio and facilitate daily investment decisions, it creates many record-keeping problems when performing rebate calculations.

When bond proceeds are commingled, a municipality is faced with many of the same issues that mutual funds must address when they allocate interest earnings to their customers. In effect, each bond issue has an ownership

interest in your investment pool. That ownership interest changes over time because the rate of drawdowns differs among the bond issues.

For the calculations to be mathematically correct, the municipality must update the pool percentage every time there is a deposit to the pool or a drawdown. They must also mark their portfolio to market every time the ownership interest changes. In practice, it often means marking-to-market on a daily basis.

As you might guess, it is nearly impossible to perform this calculation retroactively in a cost-effective and/or reasonable accurate manner. Thus we almost always recommend that the issuer NOT TRY to perform rebate calculations via nonpurpose investments in this situation. It is our opinion though that performing calculations via purpose expenditures is the lesser of two evils.

Relying on Your In-House Investment System

Some local governments have implemented investment systems that are able to allocate pooled interest earnings among bond issues. In these cases, the investment management system must allocate interest earnings among bond issues in a manner that is either (a) actuarially correct, or (b) meets the safe-harbor test described in section 1.148-6 (e)(2). From our experience, these investment management systems usually require that issuer set up each bond issue as separate fund.

In these cases, it is relatively easy to perform the future-value calculations via purpose expenditures. Recall that this method requires that you enter the value of your unspent proceeds. The value of the unspent proceeds is equal to your beginning bond proceeds less expenditures plus interest earnings.

This situation becomes considerably more complicated and problematic if the issuer did not have in place any system allocate interest earnings. In fact, many of the rebate horror stories relate to this situation.

Mun-Ease to the Rescue

Mun-Ease provides a feature that allows an issuer to determine the amount of interest earnings attributable to a bond issue in a commingled investment pool. This feature requires that the issuer know (a) the historical rate-of-return earned in the investment pool over the life of the bond issue and (b) the purpose expenditures attributable to the bond issue. Given these inputs, Mun-Ease can impute the interest earnings that have occurred over the life of the

bond issue through the *arbitrage|utilities|commingled bond proceeds* menu option.

This option provides a data entry grid that summarizes the purpose expenditures by day and computes the number of days between each expenditure. You then enter the rate-of-return (ROR) that you are earning during the timeframe between each expenditure. After you've entered all of the RORs, you press the calculate button. Mun-Ease then computes the balance of your unspent proceeds by imputing interest earnings on your unspent proceeds over time. The unspent proceeds as of the final expenditure is then input into the rebate calculation via purpose expenditures. The Tutorials volume has an example of this calculation. This technique works extremely well as long as you know historical rates-of-return over the life of the bond issue.

Summary of Recommendations

It is quite common for issuers to commingle their bond proceeds. In this situation, the person responsible for the calculations may find the rebate experience to be frustrating as well as time-consuming. While we've offered some solutions which will hopefully reduce this frustration, we'll offer the following recommendations to issuers:

> ? Do not commingle your bond proceeds unless you have an investment management system that can accurately allocate interest earnings among bond issues.

> ? If you commingle your proceeds and do not have an investment system in place, try to do your calculations by future-valuing outflows or purpose expenditures. Note that you'll need to know the periodic rates of return on your investment portfolio so that you can impute the balance of your unspent proceeds.

New 10.75 Features
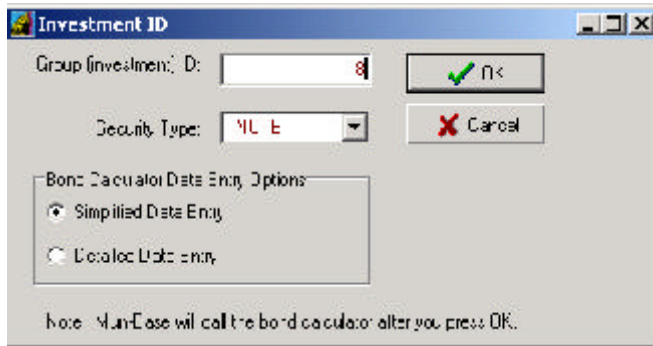
#1 Input Window to Define Type of Security / Data Entry Mode
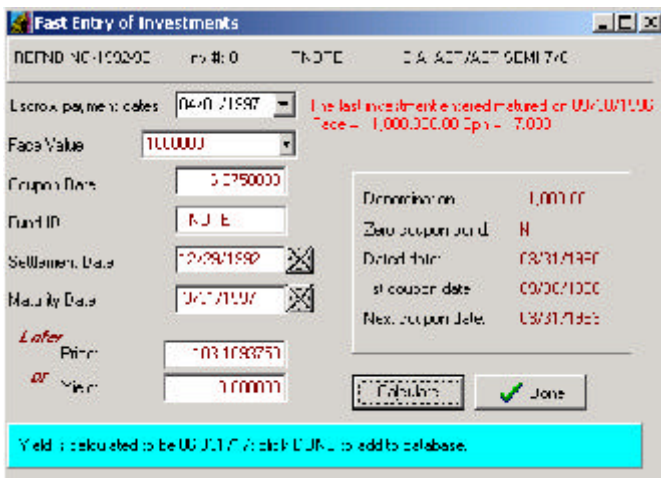
#2 Bond Calculator Simplified Data Entry

The Bond Calculator Simplified Data Entry Mode

The bond calculator is a very powerful and flexible utility within Mun-Ease. It performs price/yield calculations on a wide variety of financial instruments and can handle unique situations and anomalies that often occur in real-life. The bond calculator is used not just on a stand-alone basis. Its functions are imbedded in many modules within Mun-Ease. For example, the bond calculator is used by Mun-Ease when it performs price/yield calculations in the maturity grid. It can be used to create nonpurpose cash flows in the Arbitrage module *(arbitrage | investment view | create/edit/delete)*. Mun-Ease also initiates the bond calculator when a user creates an open market escrow in

the refunding module *(refunding | open market escrow | create/edit/delete)*. Finally, the bond calculator is used to create an optimized investment portfolio that meets the draw requirements of a construction draw schedule.

A downside to the bond calculator's flexibility is that the user is confronted with many options and choices when he is performing a price/yield calculation. To assist with data entry, we assign default values to many of the input parameters. Still, users have told us that it is time-consuming to review each of these options. In response to these concerns, we now provide two different modes of using the bond calculator: the *simplified data entry mode* and the *detailed data entry mode* (see graphic #1). In most cases, you can use the simplified data entry mode to perform price/yield calculations.

When you initiate the bond calculator, Mun-Ease asks you to enter the type of security and the data entry mode. In both data entry modes, Mun-Ease will assign values to the interest calculation options and the denomination field based on the type of financial instrument that you are entering. After you enter the settlement date and maturity date, Mun-Ease will also assign values to the first coupon and next coupon date fields. All of these assignments can be overridden in the detailed data entry mode <u>but NOT in the simplified mode of data entry.</u>

Features of the Simplified Data Entry Mode

Graphic #2 displays an example of using the simplified data entry mode used to enter open market investments in the Refunding module. There are several features that facilitate data entry:

? Mun-Ease provides details about the prior investment that you entered. (Because open market investments that comprise a refunding escrow are similar in nature, it is easy to loose track of where you are in the data entry process.)

? We provide a combo box listing all of the escrow payment dates of the refunded bonds. The values in this combo box are stored in a text file located in your personal directory. The name of this file is *<bond ID>-CallDts.Tmp* (e. g., **CHICAGO-2000-A-CALLDTS.TMP**). The file is created every time you perform a refunding analysis. We also create a similar file if you are sizing a new bond issue and you have entered a draw schedule. In this case, we create file called *<bond ID>-Draws.Tmp* (e. g., **CHICAGO-2000-A-DRAWS.TMP**). The combo box

is hidden from view if neither of the two text files exist.

? When you choose an escrow payment from the combo box, Mun-Ease will assign a maturity date to the financial instrument that you have chosen. We assign a value to the maturity date that is on or just prior to the escrow payment date and that is consistent with the type of security entered.

? Mun-Ease also defaults the settlement date to the delivery date of the refunding bond issue.

Summary

We believe that the dual mode of data entry is the best solution to conflicting user needs. The simplified data entry mode is a quick and easy way to input most financial instruments while the detailed data entry mode provides added flexibility that is occasionally needed for unique situations.

Other 10.75 Features

? We've included instructional material with the 10.75 CD-ROM to demonstrate the new features for cascading call options and the entry of open market escrows.

? We rewrote the DOS utility to reprogram the hardware keys so that it is now a native Windows application.

? We've enhanced the *File | Note (create only)* and the *Sizing | Size a Note* menu options. After we create debt service schedule for the note, we'll add all of the principal payments to the maturity database table. Thus you'll be able to generate a debt service schedule either through the fixed or variable rate menu option.

? We fixed bugs in the *combined debt service coverage* and *combined debt service by issue type code* graphs. Previously, the series within the coverage graph were not aligning correctly. Also Mun-Ease was not checking the correct name of the interface file for the combined debt service report. We fixed a bug in the *allocations private use* report (#65). The private use totals were not computing correctly if any data exceptions were encountered during processing.   We corrected a bug in the gross debt service allocations indebtedness report that affected the yearly interest column.

? Mun-Ease now allows you to structure an optimal open market escrow while you are sizing a crossover refunding. Previously, we required that you structure the crossover escrow in a step separate of the sizing process. This new procedure is now consistent with the manner in which we size the escrow for advance refundings.

? We've enhanced the format of several of the reports generated through the refunding process.

? We have enhanced the *scan for/rank refunding candidates* menu option. Mun-Ease now provides an option to display only those refunding candidates that meet certain savings criteria defined by you. You can define the savings criteria as a percent of refunding or refunded par.