Mun-Ease News

Prescient Software jrd, Inc.

Mun-Ease 2003 (Vsn. 11.75) - New Escrow Restructuring & Pooled Financing Features

11.75 Version Overview

With this newsletter, we are shipping our second interim update for Mun-Ease 2003. The 11.75 CD ROM is sent to all of our 11.0 customers <u>free of charge</u>.

The 11.75 release contains significant new enhancements. We have included a new feature that allows users to determine if it is economically feasible to restructure an existing escrow. We also have added a feature to assist issuers with pooled financings. There are many new features in the Sizing module. Finally, we've included a new version of our Crystal Reporting engine, and we have revamped the formats of many of our reports. All of the new features are described in detail later in this newsletter.

New Escrow Restructuring Features

In recent years, issuers have discovered that they can realize significant gains if they restructure investments in existing refunding escrows. The only escrows that are eligible for restructuring are those that have negative arbitrage. The theory behind restructuring is that the issuer can minimize (or even eliminate) the negative arbitrage by selling the original investments at a gain and replacing them with comparable investments at current market rates. Note

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that the issuer (and escrow verification agent) must determine that the internal rates of return for the new (<u>and the blended old and new escrows</u>) be within the arbitrage yield limit. The calculation must also take into account gains on the sale of the old escrow.

The trend toward restructuring escrows has been greatly facilitated by the SLGSafe program and the current SLGS regulations. The SLGSafe program allows issuers to buy and redeem SLGS over the Internet. The Bureau will buy back SLGS investments issued on or after 10/28/1996 at the current market yield plus 5 basis points. While issuers cannot cancel redemptions once they are submitted to the Bureau of Public Debt, there are, <u>at present</u>, no restrictions or penalties for the cancellation of new subscriptions of SLGS (see related article about new proposed changes). In effect, the issuer has a zero-cost option of deciding to purchase (or cancel and repurchase) SLGS within the Bureau's established 60-day time frame.

Assuming that there is an upward sloping yield curve and that the escrow has been in place for some time before it is restructured, issuers will almost always incur gains on the early redemption of SLGS investments. What's more, the issuer can often pull a significant amount of cash out of the escrow after he has purchased replacement securities for the investments that it has sold.

The 11.75 release of Mun-Ease contains new features and reports to allow you to determine if it is economically feasible to restructure an existing refunding escrow. These features are described later in the newsletter. We also include detailed documentation and examples of how to restructure an escrow in the *Installation Notes*. Thus you can learn the steps to evaluate an escrow restructuring by switching to the *Examples* database and working through the documentation provided with this release.

Escrow verification agents will find these new features to be especially useful. The 11.75 release will allow them to easily determine the rates of return on new, old, and blended escrows; thereby ensuring that the issuer is in complete compliance with the arbitrage rules.

New Mun-Ease Features for Pooled Financings

In a pooled financing, a bonding authority issues debt for the purpose of making loans to other entities. The basic rationale behind a pooled financing is that the bonding authority can borrow funds on more advantageous terms than the sub-entities could obtain on their own. The issuing authority may also have skills or expertise that the sub-entity may lack.

The issuing authority typically recoups its costs by charging periodic and one-time fees to the sub-entities who are borrowing money from the issuing entity. The sub-entities can borrow funds all at once (an up-front loan) or they can draw down funds over time on an as-needed basis.

A important concern to a bonding authority is asset / liability management. This concern is critical when the master bond issue is a variable rate issue. The financing entity must ensure that there is an adequate match between its loan receipts and the debt service of the master bond issue. There must also be a mechanism to ensure that the fees collected from the sub-entities cover the bonding authority's costs. All of the above activities must be considered in the context of the arbitrage regulations.

The new pooled financing features of Mun-Ease are designed to help with asset / liability management. We have a new *debt service and fees matching* report (# 89, #89b) and an *indebtedness matching* report (#07). We've also created a new database table and *a pooled financing summary (parity report #88)* to record historical information about each loan pool's investments, expenses, fee reimbursements, debt service receipts and obligations. Additionally, we have enhanced the Variable Rate module to display (and calculate) five separate periodic fees. Fees can be calculated as a percentage of outstanding debt on an actual/actual, actual/360 or 30/360 day basis. Finally, we have completely revamped the variable rate sizing

routines. These routines now offer the same input options as the fixed rate sizing module.

Loans made to the sub-entities are linked to the master bond issue through a new Loan Pool look-up code.

Treasury to Consider Changes in the SLGS Program

As mentioned earlier, there are presently no penalties for the cancellation of a new subscription of SLGS investments. The Bureau is considering the imposition of a 5 basis point penalty in cases where an issuer cancels a subscription of SLGS securities. This penalty would cover the administrative costs incurred by Treasury when the subscriptions are canceled. (It also would cut down abuses of the subscription process.) The Bureau would distinguish among the reasons for canceling subscriptions. In some instances, there would be no penalty and in other instances the issuer would be granted one free cancellation.

Mun-Ease Class Schedule For Second Half of 2004

Prescient Software has scheduled two classes for the second half of 2004. Classes will be held at CompUSA training facilities.

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 CompUSA. Our classes are $2^{1/2}$ days in length and cost $995. We limit each class to 12 students to ensure a productive learning experience.

2004 Class Locations & Dates

Mission Viejo, (Orange County) CA August 16-August 18, 2004. (Mission Viejo CompUSA located at 25262 El Paseo, Mission Viejo, CA. Hotel Accommodation - Holiday Inn, 25202 E. La Paz Rd, Laguna Hills, $99.00 plus 10% tax).

Orlando, FL October 11-October 13, 2004. (Orlando CompUSA located at 7802 South Orange Blossom Trail, Orlando, FL - Hotel Accommodation - Adams Mark Hotel, 1500 Sand Lake Rd, Orlando, FL $90.00 plus 11.5% tax).

The Classes page of the Mun-Ease site contains additional information including: (a) class syllabus, (b) directions to the class locations and hotels, (c) a downloadable class registration form in Word and PDF format, and (d) additional hotel information. You can register for a class by faxing or mailing the attached registration form to Prescient Software at 949-248-5789. You can e-mail us at *classes@mun-ease.com.* The registration form can be downloaded from:

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

Tips: Exporting Reports to Excel

One great strength of Crystal Reports is its exporting capabilities. Crystal provides 16 different export formats including an *Excel 97-2000* format and an *Excel 97-2000 (data only)* format. We recommend that the users choose the *Excel 97-2000 (data only)* option. The *(data only)* option is somewhat of a misnomer since data will still be exported with the fonts, column headings, and footers in tact. If you choose the other export option, then Crystal tries to create variable length columns in Excel which sometimes results in a column's data being merged into other columns.

New Features in the 11.75 release

All Modules

We now allow you to create a bond issue or a note that pays interest on a 35-day basis. When Mun-Ease performs future-value or present-value calculations on a 35-day note, it will assume that there are 10.42857142857 periods in a year.

New Database Tables

Name Lookup Table – (StdCodes.db replaces Namelkup.db) -The new *Stdcodes.db* table increases the size of the description field to 60 characters and adds new fields so that we can store report formatting attributes for various reports. We also added new lookup codes for pooled financings and a third rating agency code.

Variable Rate Debt Service Schedule (Vdebtsvc.db replaces DebtSvc.db) – The new *Vdebtsvc.db* table adds fields for periodic fees and the calculation methods for those fees. (Examples of fees include administrative fees, auction agent fees, or remarketing fees.) Mun-Ease can automatically calculate up to 5 separate fees based on the amount of

outstanding debt over the life of the bond issue. Fees can be calculated on an actual/actual, 30/360, or actual/360 day basis.

Poolstat.db – This new database table maintains monthly summary information for each investment pool maintained on the database. The monthly summary includes information about fees collected and paid, loan payments received and debt service payments paid, reserve balances, and investments.

Important! Mun-Ease automatically converts your existing data after you install the 11.75 version.

Reporting Changes – (All Modules of Mun-Ease)

New version of Crystal Reports Engine – We upgraded to the 9.2.2.2 version of the Crystal Report Engine. This new version contains enhancements necessitated by the recent Windows security patches. We've also implemented changes to the report engine toolbar to allow users to change printers or printer options as reports are being viewed on the screen.

We've increased the margins on all of our report specifications so that there is at least ½ inch white space on all sides of the report.

We've enabled the Crystal speed button on the Mun-Ease main menu. This button will allow you to regenerate reports that you previously created.

Base Module (new variable rate / note features)

(All of the enhancements to the Base module relate to variable rate bonds or notes.)

Mun-Ease now allows users to track up to 5 different fees that are paid along with debt service on a variable rate bond or note. Fees are shown in separate columns. These fees are in addition to a separate field (column) for letter-of-credit fees. Mun-Ease is completely flexible with regard to how the fees are calculated. They can be calculated as a percentage of outstanding principal using actual/actual, 30/360, or actual/360 day counts.

We've added an *Import* button to the variable rate grid. This button allows you to load debt service data from a spreadsheet or from another bond issue on the database *(file | variable rate bonds | create/edit/delete).*

We've added a new *Recalculate* button to the variable rate grid. When you click on this button, Mun-Ease displays a pop-up window that allows you to recalculate debt service and/or fees for all transactions with a keeper flag set to 'N'. (*Background*: The Keeper flag is used to distinguish between actual payments and future estimates of debt service payments. Thus you can change the rates on various fees or effective interest rates over time and Mun-Ease will

automatically recalculate the interest and fees amounts based on the new projections.) *(file / variable rate bonds / create/edit/delete)*

We've added two new reports of variable rate transactions. These reports display periodic fees along with debt service payments. Report # 01L is in a landscape format while report #01K is in portrait format.

We've added new function keys to the variable rate grid to assist with data entry. The new function keys are:

<F1>   Help
<F2>   Copy contents of transaction to memory
<F3>   Paste description to new transaction
<F4>   Set the "Keeper" flag to true for ALL transactions
<F5>   Set the "Keeper" flag to false for ALL transactions
<F6>   Call the Financial Calculator
<F7>   Call the Windows Calculator
<F8>   Update the interest rate field for all remaining transactions. (Mun-Ease displays a pop-up window to enter the projected interest rate.)
<F9>   Zero out the interest disbursement field for all transactions with the keeper flag set to 'N'.

Sizing Module

New note sizing features – Mun-Ease now includes all of the same input options for sizing a note as it does for a fixed rate bond issue. Additionally when sizing a note, you can input letter of credit fees and up to 5 separate periodic fees (e. g., administrative fees, remarketing fees, auction agent fees, etc.).

New recalculation features - Mun-Ease will now recalculate the various components of a fixed rate sizing calculation after you have manually modified a bond issue that it previously sized. (*Background*: Often users will need to manually modify some aspect of a bond's debt service schedule. If you choose to regenerate the sizing reports after you have made to the changes the bond, Mun-Ease will now recalculate various components of the sizing calculation to reflect the modifications made by you *(sizing / regenerate sizing reports)*.

Arbitrage Module

New escrow restructuring features – Mun-Ease now contains features to allow you to determine if it is economically feasible to restructure an existing refunding escrow. These new features are contained in the *Arbitrage / Investment View / Optimize/Restructure* Escrow menu option. You can view a detailed example of how to restructure an escrow by choosing the *Help / Changes to Documentation* menu option.

New Sales Statistics - We maintain additional information to the *Investmnt.db* database table about investments that you

have sold. Additional data fields include the gain/loss on sale, the sales price, extended sales price, yield-to-buyer, and accrued interest on the sale. We corrected a bug in a previous version that occasionally affected the calculation of sale proceeds of an investment. We added two new reports (#29a, #29b) that display investment information along with sale statistics. Report #29a is sorted by investment ID and report #29b is sorted by fund ID.

Allocations Module

New pooled financing features - The 11.75 release of Mun-Ease contains new pooled financing features. Because asset / liability management is a key requirement for managing a pooled financing, we've included three new reports that assist in this endeavor. These reports include the *debt service and fees matching* reports (#89, #89b), the *indebtedness matching* report (#07) and the pooled statistics summary report (#88). The *pooled statistics summary* report is derived from information contained in the new *Poolstat.db* database table. Loans to pool participants are linked to the bond issue financing these loans through the new Loan Pool code that is maintained in the *Stdcodes.db* database table.

Stand-Alone Reporting

The *combined debt service on an accrual basis* report (#76) now includes an input option for a day count rule. You can calculate debt service accruals on a 30/360 or actual/actual day count basis.

The *combined debt service capacity/coverage* report (#69) now displays a column for shortfalls or surpluses.

Calculator Module

(Note: These features are also included in the *investment view* menu option in the arbitrage module and the *open market investments* menu option in the refunding module).

While performing a price / yield calculation on a SLGS note or SLGS certificate, Mun-Ease will display a combo box of available SLGS rate tables. Based on the rate table that you select and the maturity date that you have entered, Mun-Ease will automatically enter the coupon rate for the SLGS investment.

If you sell a SLGS note or SLGS certificate, Mun-Ease will display a combo box of available SLGS rate tables. Based on the rate table that you select and the maturity date that you have entered, Mun-Ease will automatically enter the reoffering yield for the SLGS investment that you are selling. The yield is 5 basis points MORE than the SLGS rate specified in the rate table.