



IRS Increases Role in Governmental Bonds

By Gail Robertson, Arbitrage Specialist, and Steve Apfelbacher, President

The IRS is now assigned the responsibility to handle bonds authorized under the “American Recovery and Reinvestment Act” including Build America Bonds (BAB). They will be processing applications, determining if they are valid and ensuring that the payment is received on time.

This is a departure from the IRS’ past role in which they would only handle tax-exempt bonds. As a result of this increased responsibility, the IRS has just hired 57 new staff, increasing their bond office staff to 102 employees.

The IRS is urging governmental issuers to keep a close eye on their post-issuance compliance activities. In January, the IRS sent out 200 questionnaires to governmental issuers of tax-exempt debt obligations in 2005 requesting information about their record retention practices and procedures, as well as compliance efforts. Three Wisconsin cities, one Minnesota city, and one Minnesota school district reported to Ehlers that they had received this survey. The Minnesota city had a population of less than 1,000. Ehlers assisted the communities with responses.

The surveys were due April 26 and about 67 percent of the surveys were returned. This is much lower than the 98 percent response rate of an IRS survey of non-profits last year. The concerning news is that the IRS has reserved the right to audit any of the 200 governmental issuers surveyed.

Gail Robertson, Arbitrage Specialist for Ehlers, urges governmental issuers to beware of the increased resources the IRS now has available to them.

“The low response by governmental issuers to the governmental survey forces the IRS to focus on governmental issuer compliance,” Robertson said. “By doubling the IRS staff, the IRS can spend more time on governmental compliance.”

Governmental issuers are best served by establishing and following a Post-Issuance Compliance Policy. A Post-Issuance Compliance Policy highlights the types of activities governmental issuers need to track and monitor on an ongoing basis.” Ehlers is available to help governmental issuers establish a policy.

One important consideration – completing the arbitrage calculations is one part of a Post-Issuance Compliance Policy. To complete this calculation, there needs to be a clear trail on the investment of issue proceeds, including the interest rate and the period of time.

While it is easiest to invest bond proceeds as part of one investment, it can be very expensive to allocate bond interest earnings within one investment account. Issuers are best served if they invest bond proceeds separately from other investments. This will reduce the cost to complete the arbitrage calculations.



What are Build America Bonds?

The “American Recovery and Reinvestment Act of 2009” passed by Congress introduced several new financing programs that have proven to be viable options for many communities. The most frequently-utilized program thus far is the Build America Bonds program (BAB). Under the BAB program, projects are financed on a taxable (vs. the traditional tax-exempt) basis and the U.S. Treasury subsidizes 35 percent of the annual interest cost. Since the program was introduced in February 2009, Ehlers has presented the BAB program to communities as a financing option to determine if the program results in a lower cost option compared to a tax-exempt financing.

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We value our readers and your feedback and hope that you will continue to find the Advisor a valuable and convenient resource. Thank you!!!

Legislative Update: Distressed TID Legislation

Michael C. Harrigan, Chairman/Senior Financial Advisor

Ehlers, working with other interested parties, has met with key Wisconsin legislators to resolve details and secure support for “Distressed Tax Increment Financing District” legislation that is expected to be introduced in September when the State Legislature reconvenes.

The “Distressed TID” bill could benefit cities and villages that have existing Tax Increment Financing Districts (TIF) experiencing cash flow shortfalls due to the economic downturn. The key benefits to a TID declared to be distressed would be:

The maximum life of a TID would be extended to 40 years. (The current maximum life is limited to 20, 23 or 27 years dependant on type of district and date of creation).

A donor TID sharing increment with a distressed TID would also be allowed to extend its maximum life to 40 years, or

to the closure date of the distressed TID, whichever is sooner; and, Distressed industrial or mixed-use TIDs would become eligible recipients of shared increment. (These types of districts are currently ineligible to receive shared increment).

We encourage all communities to express support for this initiative when speaking with your State senators and State Assembly members. The combination of an extended life and broader increment sharing provisions, will provide communities experiencing shortfalls an ability to consider restructuring those obligations. That restructuring over a longer period of time will help them to better match available cash flow.

To qualify for distressed TID status, the district must have been created on or before September 30, 2008 (valuation

date of January 1, 2008). In addition, it must be able to demonstrate to the Joint Review Board that a gap between revenues and obligations exists. It also must demonstrate that a designation of the district as distressed will improve the ability of the district to repay its obligations.

Districts declared to be distressed will be prohibited from further amending their project plans to add territory to the district, from adding any expenditures, expending funds outside their boundaries, or becoming a donor to another district. Due to these restrictions, careful thought should be given to whether a distressed designation is needed or appropriate.

If your district is experiencing a cash flow shortfall, we recommend you first consult your financial advisor to explore all possible options for managing the shortfall. If the proposed legislation is passed, and a distressed designation is determined to be appropriate, we can assist you with making the designation and obtaining the necessary approvals from the Joint Review Board.

Be Aware of Important Changes to Continuing Disclosure Regulations

By Greg Johnson, Financial Advisor

New Securities and Exchange Commission continuing disclosure regulations to improve dissemination and transparency of information to municipal bond investors became effective July 1, 2009.

The two primary changes are:

1. The Electronic Municipal Market Access (EMMA) is now available at www.emma.msrb.org. EMMA is a consolidated, free, one-stop source for information on municipal and school bonds. Going forward, the EMMA Web site is the designated site for submitting all continuing disclosure reports.
2. As of July 1, 2009, the “small issuer” exception for providing continuing disclosure only upon request will no longer exist. These issuers will now be required to annually file financial information and operating data that is customarily prepared and publicly available for municipal obligations.

Issuers with less than \$10 million in outstanding municipal obligations were previously considered “small issuers.” Continuing disclosure reporting is generally not required when the par amount of an issue is \$1 million or less.

Beginning January 2010, the SEC will require financials to be filed as searchable .pdf documents.

How Can Ehlers Help?

Ehlers can prepare annual disclosure reports on your behalf. If you choose to file your own report, Ehlers can provide you with instructions for registering and filing the report through EMMA.

Please contact your Ehlers Financial Advisor if you have any questions about the recent continuing disclosure changes or for assistance with preparation of your required annual reports.

Village of Howard Redevelopment Plan Anticipates New 41/29 Interchange

The Village of Howard has created and unanimously approved a redevelopment plan for 311 acres along the proposed new U.S. Highway 41/ Wisconsin Highway 29 Interchange, an area that has been the focus of unsuccessful redevelopment proposals since the mid-90s.

“There were issues in the past when we examined proposals for redevelopment in the U.S. 41 area, including incompatible land uses, relocating existing businesses, and various environmental issues,” said Joshua Smith, Village Administrator. “Due to those issues, none of the proposals ever materialized.”

“When draft plans for the U.S. 41 reconstruction project came from the Wisconsin Department of Transportation (WisDOT), we realized it is a huge opportunity for us,” Smith said. “This amount of this infrastructure investment by the State of Wisconsin is unparalleled in our state’s history. The latest estimate for the entire project will be \$1.8 billion. A substantial portion of that money is being used in the Village of Howard.”

The Village of Howard, population 16,745, is located in Brown County northwest of the City of Green Bay. The intersection of Wis. 29 and U.S. 41 is located within the Village limits.

“We have received significant interest from national retailers for that interchange location. It will be the primary catalyst for future growth in the U.S. 41 and Wis. 29 corridors. We realized we had the opportunity to do something special, so we created

a Tax Increment Financing (TIF) District, which allowed us to create a redevelopment plan for an area encompassing 311 acres and 111 parcels of land,” Smith said.

Ehlers helped the Village create the TIF District in 2007. In November and December of 2008, Ehlers assisted in the creation of the redevelopment



plan, including conducting a survey of parcels to determine the existing conditions of property and their classification related to the statutory blight designation.

The Village’s Community Development Authority initiated an open house process sending letters to property owners and advertising the open houses on their Web site and in newsletters to ensure public participation from impacted land owners.

The Village provided maps and exhibits of the redevelopment plan and the interchange project to 100 of the impacted property owners during six hours of open houses over a two-day period in January 2009. On hand to answer questions and take feedback were Howard Community Development Authority (CDA) members, Village staff, Ehlers staff

and State Assemblyman Karl Van Roy, R-Howard.

The public responded positively to the open houses which were instrumental to the success of developing the redevelopment plan. “It was critical to the success of the planning efforts,” said Smith.

“The open house format provided a smooth process of review and approval of the redevelopment plan because it allowed the public to ask questions and get answers in an informal environment,” said Ehlers Financial Advisors Jim Mann and Dawn Gunderson.

The redevelopment plan was approved by the CDA in January and the Village Board in February. “The Village of Howard took the project news and worked proactively with WisDOT, landowners and the public, turning a situation that could have been a real negative for some communities, into a positive,” Mann said.

The Village will coordinate the redevelopment work with construction of the interchange, a multi-year WisDOT reconstruction project slated to begin in 2013.

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How Safe is Your Bank?

By Brian Mann – Municipal Asset Manager,
BBE Community Investment Partners, LLC

During these uncertain times in the financial markets, it is important to regularly monitor the safety of your public funds. From 2000 to 2007, 27 banks failed, one failure every three and a half months. From the beginning of 2008 to July 24, 2009, 90 institutions failed, almost one per week. This alarming increase is a strong argument for assessing the safety and soundness of your banking institutions.

Evaluating a bank can be as detailed or general as the evaluator requires. Banks file a Call Report quarterly, which is then translated into a Uniform Bank Performance Report (UBPR) by the Federal Financial Institution Examination Council (FFIEC). The UBPR provides a bank's current and historical income statements, balance sheets, operating ratios and capital levels. It provides everything needed to perform a detailed analysis of a bank's performance. Following are the options available to you for gathering information to evaluate your bank.

1. Information that is publicly available. At the FFIEC website, <http://www.ffiec.gov/ubpr.htm>, you can search for an institution by name, certificate number, or by browsing all of a city's banks. A simple evaluation can be done in a matter of minutes to determine whether the three major capital ratios are strong. The tier one risk-based capital, the total risk-based capital, and the tier one leverage capital ratios, all have a federal guideline which defines a "well-capitalized" institution, which is 6 percent, 10 percent, and 5 percent, respectively. Find your banks' figures on Page 11A of the UBPR. For more detail on how to use the UBPR, go to our "Uniform Bank Performance Report Measures" article on our Web site at www.cip-llc.com.

2. Free bank evaluation services and Web sites. Bankrate.com and thestreet.com offer easy access to reports for nearly every community bank in the country. They are not overly detailed or customized, but they provide a general idea of the overall position of an institution.

3. Fee-based services. The fees are based on the depth and detail of the reports. Some offer a subscription service for a monthly fee. Because they provide access to every FDIC insured institution, the cost may not make sense for someone interested only in a handful of banks. Some are charged on a bank-by-bank basis, or a flat rate per evaluation. This makes sense when entities are sending out requests for proposals for banking services. It provides an unbiased opinion of each institution's strength.

No matter which of these bank evaluation methods you use, becoming familiar with the financial statements and ratios of a bank will result in more prudent and responsible cash management. If you have questions about evaluating financial institutions, contact Ken Herdeman at kherdeman@bankersbankusa.com or 262-796-6164 or Brian Mann at bmenn@bankersbankusa.com or 651-697-8568.



Ehlers Holds Mini-Seminars to Help Communities Prepare for 2010 Budgeting Process

More than 175 local government officials recently attended four half-day seminars around the State conducted by Ehlers to help communities prepare for their 2010 budgeting process. Topics included:

- a guide to levy limit worksheet completion;
- managing Tax Incremental District closures and their impact on the tax levy & tax rates;
- forecasting levy limit impacts and managing within levy constraints;
- modeling tax base growth or decline and its impacts on tax rates; and,
- investment projections and capital planning.

The free mini-seminars, an extension of Ehlers Public Finance Seminar in February, were designed to help communities prepare for and survive the tough economic challenges they face.

"It's different this budget year than the previous year," said Todd Taves, Executive Vice President/Wisconsin Team Leader, CIPFA. "Municipalities usually lag behind the economy and so the impacts of the downturn are going to be more prevalent in 2010. It's our consensus that communities are going to experience significant changes in revenue streams and property values compared to last year and we want to help them to be prepared."

If you were unable to attend one of the sessions, please contact one of our Financial Advisors to obtain copies of the presentations.



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