



EHLERS TIMES

THE MOST TRUSTED NAME IN PUBLIC FINANCE NEWS

It's a Recession - Now What? Managing School Finances in a Recession

By JONATHAN NORTH
jnorth@ehlers-inc.com

Over the past several months, the historically "boring" municipal bond market and credit rating agencies have been headline news. That headline news has often pointed its finger at the rating agencies for the credit crunch problems that the markets have experienced. Some of these complaints are deserved; some are not.

There's no perfect way to explain what happened but it boils down to the following: the securitization market is continually seeking new ways to increase returns, reduce risk, and offer products to its customers. One such tactic was to bundle many individual mortgages into packages and sell them into mortgage-backed securities.

At first, bundling sound like a bad idea, but there were unintended consequences. The most blatant was that the people approving the loans no longer held the paper through the life of the loan—they would sell that security to someone else who would bundle it. The impact of this chain of events is that loan approvers had incentive to approve as many deals as they could (they made money per transaction) with no risk exposure to the ability of home buyers

to pay. Now the risk fell squarely on the securitized bundled products, which had no relationship to the original credit assessments.

On a parallel track, the housing market started to experience a bubble for many reasons including: easy credit, low interest rates and a post-9/11 flight to perceived security in real estate investments. With conventional wisdom predicting that housing

the rating agencies' knowledge. The rating agencies approved increased contingent liabilities and lower collateral asset positions and maintained the AAA ratings. Once the market collapsed and mortgage default assumptions changed, the rating agencies reversed course, increased their asset requirements and put most insurance companies in a position of being forced to liquidate their



**Ehlers
School Finance
Seminar**

A One-day Seminar for Superintendents
School Business Officials & School Board Members

Friday, March 27, 2009
Radisson Hotel – Roseville
2540 North Cleveland Avenue
Roseville, MN 55113

happened and that many market participants have had varying degrees of impact on the situation. First, the rating agencies rated many of these structured (bundled) securities Aaa/AAA. They used historic default rates on mortgages, which did not adequately incorporate signs of an impending correction. Second, the bond insurance companies began to insure more mortgage securities, with

several months ago. So what now? The SEC has just announced it may no longer require money market funds to buy AA rated paper, or even rated paper (by a nationally-recognized statistical rating organization). This change would ease the forced liquidation problem that occurred this past year, but would place more responsibility on investors to do internal

The credit agencies will subject to regulatory the federal compared with those same credit on the municip Among the sectors, the rating new scale are e be one note Fitch has als published a strongly indi are consider in a similar d

happening in ce? Beginning 2008, Moody's to recalibrate public finance and migrate them company's global

scale. The process is expected to conclude in January 2009. The transitions will facilitate comparability across Moody's entire rated universe. Moody's has found through preliminary analysis that, on average, state and local government general obligation ratings will likely be two notches higher on the global scale.

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There's no perfect explanation what happened but it boils down to the following: the school market is continuing to seek new ways to increase returns, reduce

to pay. Now the risk fell significantly on the securitized

the rating agencies' knowledge. The rating agencies approved increased liabilities and



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Over the past six months, newspaper headlines have often looked like stories from the 1930s, but with a more modern twist. The recession and related problems in the financial markets are creating serious difficulties for school districts, other governmental units, and virtually every organization in the country. So for this year, the annual Ehlers School Finance Seminar will focus on strategies and tools that may help you to manage your school district's finances through these challenging times.

CHOOSE YOUR STORIES. For most of the sessions, participants will be able to choose between two concurrent sessions. All attendees will also receive a comprehensive book of materials from all of the day's sessions.

SPONSOR:

Ehlers & Associates, Inc. is an independent public finance advisory firm with offices in Roseville, Minnesota; Brookfield, Wisconsin; and Lisle, Illinois. Ehlers assists Minnesota school districts with the issuance of bonds and other financial consulting services.

IN COOPERATION WITH:

- Growth & Justice
- SNG Research Corporation
- Schroeder Communications
- BBE Community Investment Partners
- Malloy, Montague, Karnowski & Radosevich (MMKR)
- Wells Fargo Brokerage Services
- Cronin & Co., Inc.

Seminar Agenda

8:00 a.m.

Registration and Continental Breakfast

8:30 a.m.

Welcome - Joel Sutter

8:45 a.m.

GENERAL SESSION ONE

Smart InvestmentsSM in Minnesota's Students: Dividends not Debt

To better position Minnesota to have an educated workforce, Smart InvestmentsSM in Minnesota's Students sets a strategic goal of increasing post-secondary attainment in Minnesota.

Growth & Justice Research & Policy Director Angie Eilers will discuss how the proposal emphasizes cost-effective interventions along the birth-through-college pathway that give Minnesota the best bang for its education buck and how increasing post-secondary attainment in Minnesota will provide the educated workforce needed to sustain economic growth and economic justice for individuals and the state.

— *Presenter: Angie Eilers, Growth & Justice*

9:45 a.m.

Break

10:00 a.m.

BREAKOUT SESSION 1

(Choose One)

Investing of Public Funds

The events in the credit markets over the past six months have keenly sharpened everyone's awareness of risk in investments. Local governments have lost millions due to fraud and bankruptcy. Rating agencies and elected officials are scrutinizing investment policies and portfolios because they are concerned about investment options as well as the financial health of the banks holding your investments. Ehlers President Steve Apfelbacher will discuss lessons learned from experiences of other local governments. Investment advisor Brian Mann will explain how to evaluate your local or national bank's financial health, learn about the risks associated with CDs that are not held individually by a municipality, understand the important components of an investment policy and improve your yield on investments by using a cash flow model.

— *Presenters: Brian Mann, BBE Community Investment Partners; Steve Apfelbacher, Ehlers*

Stakeholder Input: Is It Worth the Investment?

What is the community's perception of your school district? What barriers, if any, exist in getting voters to approve your upcoming referendum? What dollar amount are voters likely to approve? These are just some of the questions that can be answered by doing a reliable community survey. In this session, we'll review the process for conducting a community survey, the approximate cost involved in doing so and the benefits you, as a district, will gain by going through the process. In addition, Holly will share some general insights she's gained from doing surveys for many districts over the past ten years.

— *Presenter: Holly Hess, SNG Research Corporation*

11:00 a.m.

BREAKOUT SESSION 2

(Choose One)

Hot Topics in Public Finance

The political and economic landscapes at both the federal and state levels have changed dramatically in the last year. This session will provide a brief overview of several "hot topics" that will help districts navigate through these uncharted waters, including:

- cash flow borrowing to address expected shifts in state aid payments;
- the Federal stimulus plan and how school districts might access these funds;
- recent initiatives and inquiries undertaken by the IRS to ensure post-issuance compliance with tax-exempt bond regulations;
- the new legislation on Other Post Employment Benefits (OPEB) and how districts are funding their liabilities, including the issuance of bonds to reduce general fund costs;
- other topics in response to the fast-changing political and economic environments.

— *Presenters: Kristin Hanson and Carolyn Drude, Ehlers*

Financial Reporting Options in Implementing GASB #45

This session will focus on the requirements for Minnesota school districts in implementing GASB Statement #45 - Other Post Employment Benefits. This presentation will also include a discussion of the options available for funding and financial reporting these obligations. The presentation will include a number of example financial reports from Minnesota school districts that have already implemented this standard including a discussion of the key components of the disclosure requirements.

— *Presenters: Jim Eichten, MMKR*

12:00 p.m.

Lunch - Pool Deck

1:00 p.m.

BREAKOUT SESSION 3

(Choose One)

Tools for Financing Capital Projects

School districts have many options or tools that can be used to finance capital projects. In these challenging times, districts need to be more creative than ever in finding the tools that will allow them to fund critical capital needs. Betsy and Gary will discuss several specific tools; for each tool, they will explain the permitted uses of funds, procedures, advantages, and disadvantages and report on one or more examples of districts that have used the tool effectively.

— *Presenters: Gary Olsen and Betsy Knoche, Ehlers*

Community Task Forces: Pros and Cons, Pitfalls and Payoffs

In these difficult financial times, public understanding and support are more critical—and likely more challenging—than ever. A community task force can be a powerful approach to educating the public, seeking community buy-in, or creating grass-roots levy, facility or budget recommendations for school board consideration. Without significant upfront preparation, however, a task force can be a waste of time, or even a frustrating disaster. Learn about the basics of planning, strategizing and timing an effective task force (or school board) process, including pitfalls to avoid and critical questions to ask—and answer—before you even consider getting started.

— *Presenter: Linda Schroeder, Schroeder Communications*

2:00 p.m.

GENERAL SESSION TWO

The Changing Financial Markets and How They Affect Schools

The past year has been a time of unprecedented turmoil in the U.S. and global financial markets. Even the normally boring world of municipal bonds has gone through major changes. Our panel of experts will discuss a variety of changes that can affect school districts seeking to borrow money. Topics will include changes in who is buying bonds, the demise of the bond insurance business, the changing importance of bond ratings, changes in interest rates for bonds of varying types and maturities, access to funds through alternative forms of borrowing, and other topics.

— *Presenters: Pam Lang, Wells Fargo Brokerage Services; Jay Hiniker, Cronin & Co., Inc.; Jon North and Joel Sutter, Ehlers*

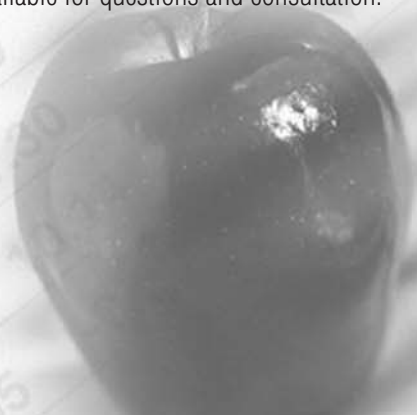
3:00 p.m.

FINAL EDITION: Seminar Evaluation and Closing

Join us for coffee and cookies. Speakers will be available for questions and consultation.

**Registration Deadline:
Friday, March 20, 2009**

**For more information,
please contact Lorraine Swenson
at 651-697-8500 or
lswenson@ehlers-inc.com**



Ehlers 2009 School Finance Seminar Registration Information

Registration Fee: \$95 – includes continental breakfast, lunch, breaks and seminar materials. Please make checks payable to Ehlers.

Registration Options: Complete card below or register online at: www.ehlers-inc.com

Registration Deadline: Friday, March 20, 2009

Seminar Location: Radisson Hotel Roseville
2540 North Cleveland Avenue
Roseville, MN 55113

Continuing Education Credits: Request for pre-approval of continuing education credits (clock hours) has been made with the Minnesota Board of School Administrators.

Cancellation Policy: Registration fee is fully refundable for cancellations made prior to 4:00 p.m. on Friday, March 20, 2009. A refund of 50% will be given for any cancellation made between 4:00 p.m. on March 20, 2009 and 4:00 p.m. on March 24, 2009. There will be no refund for a cancellation made after March 24th. The seminar may be cancelled at the sponsor's discretion. Full refunds will be made should the seminar be cancelled.

For more information, please contact Lorraine Swenson at 651-697-8500 or lsvenson@ehlers-inc.com

Please complete the registration information below, and send to:

2009 Ehlers School Finance Seminar

c/o Ehlers, 3060 Centre Pointe Drive, Roseville, MN 55113

NAME: _____

TITLE: _____

ORGANIZATION: _____

ADDRESS: _____

CITY/STATE: _____ ZIP: _____

PHONE: () _____ FAX: () _____

E-MAIL ADDRESS: _____

Special accommodations needed? If yes, please specify: _____

Please indicate below, which session you are interested in attending. You may only select one topic per session:

- | | | |
|---------------------------|---|---|
| Breakout Session 1 | <input type="checkbox"/> Investing of Public Funds | <input type="checkbox"/> Stakeholder Input: Is It Worth the Investment? |
| Breakout Session 2 | <input type="checkbox"/> Hot Topics in Public Finance | <input type="checkbox"/> Financial Reporting Options in Implementing GASB #45 |
| Breakout Session 3 | <input type="checkbox"/> Tools for Financing Capital Projects | <input type="checkbox"/> Community Task Forces: Pros and Cons, Pitfalls and Payoffs |



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The Ehlers 2009 School Finance Seminar
COMING: March 27, at the Radisson Hotel, Roseville — Don't miss it!