Working Cash Fund Calculations and Current Bond Market Conditions

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Why Working Cash Fund Bonds?

- Delays in property tax collections
- Delays in distribution of State funds
- Interest Earnings can supplement revenues of other funds
Tax Status of WCF Bonds

- Most Issues will be taxable bonds
- Can be exempt if two IRS tests met
  1) Can show deficit within 13 months
  2) Pay Bonds back within short time period
     1) Within 2 years - no investment restriction
     2) Within 5 years - investment restricted to munis
Working Cash Fund Bonds Calculation

- Two pronged test
  - Maximum Bonds Outstanding Test
  - Maximum Working Cash Fund Balance Test
Maximum WCF Bonds Outstanding Test

- 75% of the District’s maximum Education and O&M Fund Tax Extension (calculated on EAV including TIF and EPZ)

- Plus 75% of CPPRT (lesser of past FY actual or current FY estimate)
## WCF Bonds Outstanding Example

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current EAV (include TIF and EPZ)</td>
<td>$1,500,000,000</td>
</tr>
<tr>
<td>Times Max Ed and O&amp;M rates</td>
<td>22.50¢</td>
</tr>
<tr>
<td>Equals</td>
<td>$3,375,000</td>
</tr>
<tr>
<td>Plus CPPRT</td>
<td>$500,000</td>
</tr>
<tr>
<td>Equals</td>
<td>$3,875,000</td>
</tr>
<tr>
<td>Times 75% Equals Max WCF Bonds</td>
<td>$2,906,250</td>
</tr>
</tbody>
</table>
Maximum Working Cash Fund Balance Test

- Balance cannot exceed 90% of:
  - the District’s maximum Education and O&M Fund Tax Extension
  - The amount of moneys to be received in the current FY for the Education and O&M funds from the State (excluding CPPRT) or Federal Government or **“Other Sources”**
## Maximum WCF Balance Example

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum Ed and O&amp;M Fund Tax Ext.</td>
<td>$3,875,000</td>
</tr>
<tr>
<td>State (excluding CPPRT), Federal and “Other” Funds expected for Ed &amp; O&amp;M</td>
<td>$4,781,405</td>
</tr>
<tr>
<td>Funds (including tuition $)</td>
<td></td>
</tr>
<tr>
<td>Equals</td>
<td>$8,656,405</td>
</tr>
<tr>
<td>Times 90% Equals Max WCF Balance</td>
<td>$7,790,765</td>
</tr>
</tbody>
</table>
Maximum WCF Bonds

- Lesser of Maximum Bond Calculation
  - $2,906,250

- Or the Maximum Working Cash Fund Balance
  - $7,790,765
Current Municipal Bond Market

- Increased Volatility
- Credit Issues
- Institutional Factors
Increased Volatility
AA Bond Yields

- 2 year
- 5 year
- 10 year
- 20 year

Jan-06 Mar-06 May-06 Jul-06 Sep-06 Nov-06 Jan-07 Mar-07 May-07 Jul-07 Sep-07 Nov-07 Jan-08 Mar-08

2.5 3.5 4.5 5.5
Factors Contributing to Volatility

- Economic Conditions
  - Housing
  - Recession
  - Stock Market
Factors Contributing to Volatility

- Credit Issues
  - Concerns surrounding major AAA insurers
    - Subprime losses
    - FGIC downgraded to A3 and BB
    - MBIA and AMBAC on negative outlook
  - Failures of Auction Rate Securities
  - Possible Bankruptcy of Jefferson Co. AL
  - Global Ratings Movement
Volatility and Risk Concerns Lead to Munis Yielding More than Treasuries
Factors Contributing to Volatility

• Institutional Issues
  – Aa Rating Requirements
    • Large blocks of bonds being forced out of portfolios now
    • Sales ahead of downgrades
  – Hedge Fund losses
  – Market more sensitive to underlying ratings
Questions