



### Conference Reminder

Municipal Advisory Council  
Sponsoring the MSRB's  
Education & Outreach Seminar

December 5th, 2013 2:00-5:00pm  
Reception 5:00-6:30pm

Vis Ta Tech Center, Schoolcraft College  
Livonia, Michigan

### Stuff You Should Know ...About Municipal Bonds Did You Know?

- In 1945, less than \$20 billion of municipal debt was outstanding.
- In 1960, there was \$66 billion of municipal debt outstanding.
- In 1981, there was \$361 billion of municipal debt outstanding.
- **Today**, investors hold approximately \$3.7 trillion of municipal debt.

Visit [Page 2](#) to learn more

### ImageMaster LLC Premier Printer For the Muni Bond Industry

Life does not happen in a straight line. There are fits and starts – and if we're fortunate we end up at a great place because somehow we learn how to work through hardship and have enough foresight to recognize an opportunity when it materializes. Marianne Shiff, vice president of operations at ImageMaster LLC is such a person. *Continued on Page 5*

## Data Sharing

### MAC and Munetrix to Work Together

In October 2013, the Municipal Advisory Council of Michigan (MAC) the information and service organization for businesses working in the municipal bond industry, and Munetrix® the leading provider of financial transparency data for municipality and local school districts in the state of Michigan, announced a data sharing agreement.

Through the agreement MAC members gain access to a School & Municipal Edition Investor Report which is under the Munetrix umbrella. It was designed for MAC members and offers a summary of the overall financial situation of a local government or school district. Users get access to revenue, expenses, fund balance, statement of position, pension and other post-employment benefits (OPEB) liability – and the Munetrix fiscal score card. The report was built specifically to serve as a quick reference document and to act as a summary of a community's most recent audited financial information.

"In exchange, the MAC will now offer Munetrix municipal and school district customers a report featuring a summary of direct, overlapping and indirect debt in total and on a per capita and percentage of taxable value," said Jim Bickley, MAC executive director. The information is not available to the general public. Bob Kittle chief executive officer of Munetrix said, "It gives users access to more current information than was otherwise available and it eliminates the need for them to collate data on their own, thus saving time."

Bickley said, "In addition to what's available through Munetrix, MAC members have access through our web portal to the County Debt Summary report which summarizes debt at the county level and provides the ability to drill down to individual municipalities and school districts." And there are other noteworthy improvements like a mapping feature which allows a user to locate an entity with just a click of a button.

Data sharing offers MAC members a summary of current financial information as a supplement to debt information already maintained. In a nutshell, "We offer a view of the debt side of the equation while Munetrix provides income, expense and balance sheet information along with a calculation of a standardized fiscal score," said Bickley. As a package, it helps assess general community fiscal health. Learn more about what's new at **MUNETRIX** on **PAGE 7**.

**A New Muni Book - Just in Time for the Holiday - See Page 9**



Buhl Building 535 Griswold, Suite 1850 Detroit, Michigan 48226

Phone: 313-963-0420 800-337-0696 FAX: 313-963-0943 Email: mac@macmi.com Internet: www.mi-macsite.com

WINTER 2013

### BOND STUFF From Page 1

The bond market as a whole in the United States ranks “bigger” than the total United States stock market in 24 out of the last 25 years – only year 1999 when stocks were priced on the high side upset that run. The bond market has been about 80% larger than the stock market during that same quarter century period. And by the end of 2012, the bond market was 104% larger than the stock market.

### The Bond Market by Debt Type

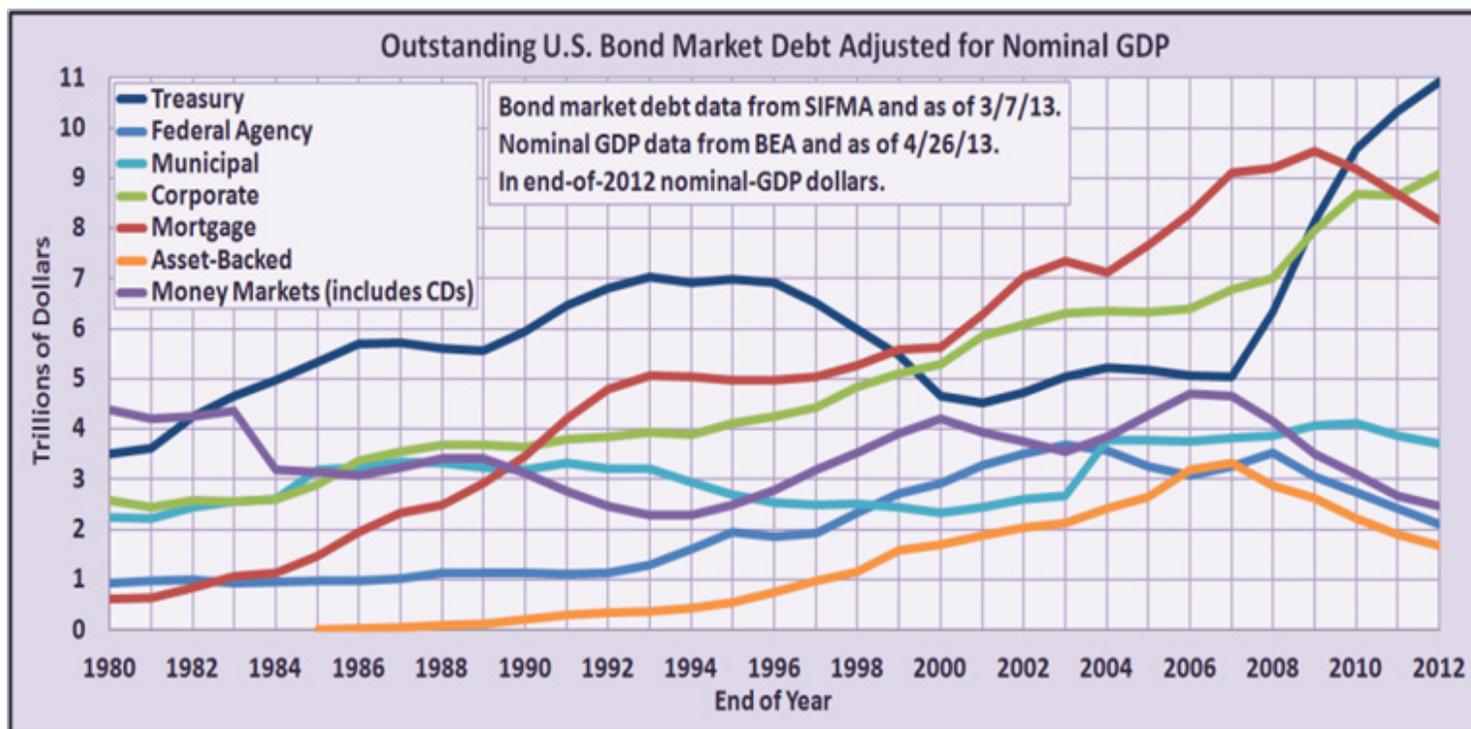
Of the entire bond market, only 10% is municipal debt. The rest according to data obtained from SIFMA for outstand-

ing debt in 2012 is divided between: 29% treasury, 24% corporate, 21% mortgage, and the remainder – federal agency/asset backed/money markets including CDs.

### Municipal Bond Facts

The SIFMA Q1 2013 Municipal Bond Credit Report stated, “Despite the recent entry of a new insurer [Build America Mutual] currently only a quarter of all [non-pre-refunded / derivative] municipal deals outstanding are insured, compared to a third from only two years ago...” By far, most debt is revenue bond debt – not general obligation (GO). And revenue bonds obtain their revenue from the project itself – “think” toll roads and water treatment. SIFMA’s Q1 2013 report data said 63% of outstanding municipal debt is revenue bonds, followed by GO at 28%, prefunded bonds 5% and derivatives a mere 4%.

For a picture of the entire US Bond Market see the picture on the next page, labeled Chart 1.



Sources: www.bea.gov and www.sifma.org



Chart 1: U.S. Bond Market

The Outstanding U.S. Bond Market: Summary (End of 2012 and Q1 2013 Data)			
Treasury	28.6%	Non-Inflation-Indexed (16% Bl, 72% N, 12% Bd)	26.4%
		Inflation-Indexed	2.2%
Federal Agency	5.5%	FHLBs	1.8%
		FNMA/FHLMC	3.1%
		Farm	0.5%
		TVA	0.1%
Municipal (87% IG, 3% HY, 10% NR) (75% T-E, 6% AMT, 19% T) (25% L, 75% UI)	9.7%	Revenue	6.1%
		General Obligation	2.7%
		Prerefunded	0.5%
		Derivatives	0.4%
Corporate (About 85% IG, 15% HY)	23.8%		
Mortgage	21.4%	Agency MBS/CMO	18.1%
		Non-Agency RMBS	1.6%
		Non-Agency CMBS	1.7%
Asset-Backed (50% IG, 41% HY, 9% NR/NA)	4.4%	Home Equity, Student Loans, Automobile, Credit Card...	2.8%
		CDOs	1.6%
		Large CDs	3.9%
Money Market	6.5%	Commercial Paper	2.6%

### Municipal Securities

There are about 1.5 million municipal bonds outstanding, totaling \$3.7 trillion, and 70 percent of which are owned by individual investors. Approximately 12,000 issuances on average are completed each year. Only Treasuries are considered a less risky investment; indeed municipal securities are safe.

### DEFAULTS ARE VERY RARE

Did you know? Between 1970 and 2012, there were 71 rated municipal bond defaults and only five rated city or county governments defaulted during this period. According to research conducted by Moody's, most rated defaulted bonds were issued by hospitals in the not-for-profit sector and for special public housing project financings. When viewed historically, municipals have lower cumulative default rates than global corporates overall and even

## BONDS IN THE UNITED STATES

when compared within their respective categories. The average one-year default rate for all municipals was just 0.01 percent. For corporates it is 1.61 percent. To learn more click <http://www.nasact.org/index.cfm>

### SOME HISTORY

**Before we were US...** Municipal bonds have existed throughout history and on America's soil dating back to colonial times – one recorded was issued by the “province” of North Carolina. Dated 1751, it was for two shillings and six pence payable at the public treasury. Another was issued about 20 years later, at 10 shillings payable upon demand at the public treasury any time after June 10, 1772.

It is believed that Lower Manhattan, what is now the City of New York, was probably the center of the municipal bond industry. And it's believed to be the place where the first municipal bond for a public works project was issued – today it would be considered general obligation debt. Back in 1774, the Common Council, which governed New York at the time, started a construction project and sold bonds to pay for it. The money was used to pay for land and another first, a water system for Lower Manhattan. The Revolutionary War unfortunately interrupted work and the project was abandoned; and after the war the Common Council was no more. Later in 1780 the state of Massachusetts issued some bonds pay-

able in 1786 and it's not clear what the use was for but they bore 5% interest and others were issued by states like Connecticut and Illinois in later years when the U.S. was indeed still young.

U.S. issuers definitely looked across the pond to England when considering the first public financing “innovations” for the new country. And general obligation (GO) bonds were often the funding mechanism of choice but eventually revenue and special district bonds took over. England has records of bonds issued for toll roads bearing dates back to the 1770s.

But even before that time, municipal debt existed, back several centuries, to the early Renaissance Italian city-states which borrowed money from well known “banking” families. So in short, debt is nothing new.

### In The United States

And in the U.S. after our nation's birth, bond issuance picked up more steam especially in the early 1800s – some bonds were issued for example by New York City in 1812 for a canal. They were backed by the city's taxing power and tax revenues. As popularity grew, so did concern with the possibility that debt financing could be overused. And it was.

*Continued on the next page.*



Three of the country's depressions, those from 1837 to 1843, 1873 to 1879 and 1893 to 1899, were blamed in part on the issuance of too much municipal debt, according to The City Mayors Report.

During the 1840s, many U.S. cities were in debt in fact by 1843 cities had about \$25 million outstanding. And debt was used in the ensuing years to finance the country's accelerated growth. It was used for education, which was free for the public, and for special urban improvement projects. Much debt had been issued to fund railroads; these were run by private corporations so the debt was similar in structure to revenue bonds seen today.

In fact, in 1873 construction costs for one of the largest transcontinental railroads were so large (for the Northern Pacific) that any access to new capital was stifled. Then the biggest bank in the U.S. went bust. The stock market dropped and small companies closed shop, and the Panic of 1873 led to years of depression.

This stopped issuance of municipal debt in its tracks. And yes, there were defaults which gave rise to the idea of passing statutes within individual states to put a stop to overuse of debt, and offer some controlled access to funding. Some states modified their Constitutions. And there were challenges raised, legal challenges, asking whether bonds were constitutional, including those issued for the railroad. Ultimately a new profession rose up from the turmoil: bond counsel for new issues.

With the market collapse and Great Depression of the 1930s economic growth was stymied and municipal debt dropped during World War II as well. Resources were instead focused on the war. In later years, the use of municipal debt rose again and has ever since.

To put it in perspective: looking at The Great Depression reveals 4,770 municipal bond defaults compared to just 79 in the 1940s, 112 in the 1950s and 300 in the 1960s. Later, the restraints placed on the market certainly helped to prevent municipalities and governmental agencies from over-issuing debt.

### Authorities

Another important category of municipal bond issuers includes authorities which are more common today. In 1921 the Port of New York Authority was established; it is now called Port Authority of New York and New Jersey, since 1972. And there's the Triborough Bridge Authority (which now has Tunnel Authority added to its name) formed in 1933. Any debt the authorities issue is exempt from taxation, at the federal, local and state level.

The 1921 Port of New York Authority was actually an idea copied from a Port of London Act written 300 years before. Robert A. Caro in a work about Robert Moses in a book *The Power Broker* discusses it in detail. The new "Authorities" and districts marked a change of direction; interest pointed to funding the development of large "metropolitan" facilities.

### Give Credit Where Credit is Due

Credit rating agencies came from an effort to classify bonds in the late 1800s. In 1890, Poor's Publishing Company published "Poor's Manual." Today the company is known as Standard and Poor's. John Moody began rating bonds in 1909 in "Analysis of Railroad Investments." And most know that today Moody's Investor's Service rates much more than railroad investments.

### Bond Counsel – A Short Primer

State constitutions limit and restrict the ability of states to contract. Limits differ state to state, and were debated in some historic law cases dating back to the 19th century, where the U.S. Supreme Court dismissed cases concerning validity of bonds. In one famous case, *Buchanan v. Litchfield*, a bondholder sued a municipality. Why? He wanted his money back for bonds issued in violation of the Illinois Constitution. The court ruled against him, stating that the municipality had no right to issue the bonds.

In still another case the court said municipal bondholders had no claim to recover on obligations that were void because the Illinois Act of the General Assembly which dated back to 1857 had authorized the bond issue, and had not itself passed as required by Illinois Constitution of 1848. Basically, the court said: if something is not the law, then the municipal bonds issued under it are not "valid" either. And this held



true, even if the person who bought the bonds believed they had been issued lawfully. These events led to the rise of the practice of bond counsel.

Bond counsel has evolved. Today they serve as securities practitioners on matters relating to taxes and are called on for expertise with state law. Typically they are asked to render an opinion and as lawyers are to be objective when rendering a legal opinion as to the validity of bonds – and their tax treatment. They can also assist in bond restructurings too, and ensure bonds are compliant with laws on the books. And sometimes they assist issuers with preparation of official statements and the like.

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### **ImageMaster from Page 1**

She landed a dream job, through grit, determination, and perhaps a just a bit of luck. Shiff raised her kids as a single parent and after working a variety of jobs entered the training field. A chance accident, a slip in a puddle of water, left her with a herniated disk and landed her in physical therapy – with another need: find a sit-down job. So, when an opportunity surfaced at a mortgage company, she took it and then later moved on to a bank eventually becoming the branch manager.

Yes, it offered financial stability, but it left her unfulfilled. Sometimes we make plans and circumstances we have no control over force us to change course. Other times, it's as though we converse with the universe. And that's what happened to Shiff.

While she prepared to parasail on a much needed vacation, the instructor advised that once airborne she should close her eyes and fully open arms to truly capture the experience. She did. In that moment an epiphany happened, and Shiff knew it was time for a job change.

Immediately upon returning from her vacation, she turned on her computer to update her resume – and just then, the phone rang. It was a chance call from a recruiter who wanted to tell her about a new opportunity at a place called ImageMaster. She went for the interview, clicked with the owner of the company, and never looked back.

Shiff, at ImageMaster for 13 years now, called it home. She said, "Every day my job is different. No two days are ever the same." As she recounted the history of the organization since joining, she praised the firm's owner, a self-taught computer programmer and entrepreneur, who changed the way official statements for municipal bonds, are produced. "ImageMaster has always been on the cutting edge of technology," she said.

ImageMaster is the nation's largest printer and distributor of official

statements. Shiff oversees customer service and pre-press, the people who work with attorneys to prepare documents for printing and electronic dissemination.

A lot of detail goes into official statement preparation. "We coordinate with working group members at firms and bring their deals to market," she explained. Projects get complicated because of short deadlines and the high demand for accuracy. ImageMaster navigates multiple file formats and user formatting issues, working with clients in the US, Guam and Puerto Rico.

Annette Jones, vice president at Stifel, Nicolaus & Company Incorporated said their firm uses ImageMaster to "handle the document set up for posting and printing of issuer offering documents referred to as preliminary official statements and official statements."

While it sounds simple enough, the devil, as they say, is in the details. "We check everything, from the table of contents, bond captions, par amounts, CUSIP numbers right down to the widows and orphans," said Shiff, who added, "And we have a 62 point check system to look for the common errors and oversights within the official statement." Jones lauded ImageMaster. She said, "They have a very talented and well trained group that assists in layout of the respective documents and are able to review the document in the near final form and assist in catch-



ing errors prior to finalizing the work.”

Imagemaster software was developed in-house. The beauty of in-house development is control and the ability to make necessary changes quickly. Software is easily updated to meet shifting client and regulatory demands. And through MuniOS, where deals are posted online, bond issuers can glean information about potential investors. Shiff said, “Every time a user downloads a statement we can track it. And when an issuer or an underwriter wants to know if investors are looking at their deal, we can provide customized reports.”

Over time, Imagemaster has refined their proprietary official statement tool to keep it state-of-the-art, and they work regularly with the Electronic Municipal Market Access portal (EMMA) and the Municipal Securities Rulemaking Board (MSRB) to keep firms compliant with G32 requirements and continuing disclosure.

ImageComply, another software tool developed in-house, pulls the maturity schedule and CUSIP numbers from the official statement and validates them against the EMMA system. “We are the checks and balances,” said Shiff who added, “We compare the maturity schedules that counsel supplies us with what the underwriters put up on EMMA, and make any necessary corrections prior to filing.”

ImageMaster will also file the of-

ficial statement directly with EMMA on behalf of underwriters that have designated them as an agent. She said, “We are the only firm doing this. We will transmit your deal to EMMA within 30 minutes of working group clearance, and then it is disseminated electronically to the distribution lists that underwriters have provided. Hard copies follow for next-day delivery.”

ImageMaster has developed a tickler system for issuers, which helps them with their annual continuing disclosures. “In addition to sending reminders, we will file their continuing disclosures automatically when they’re due,” said Shiff. Though ImageMaster has plenty of large clients, smaller issuers experience more staff turnover and tend to be more technologically challenged. With those firms, ImageMaster can step in and lend a hand, to file the disclosures and keep them compliant.

Jones said decisions to use an outside printer can come from the financial advisor and at times the issuer. She said, “The offering documents that are needed to market an issuer’s bond issue prior to bond pricing are best handled externally.” And she added that for example, a publishing program might not be one found in-house, so a firm like ImageMaster is often a good fit. “Various formats are used in preparing the pieces that make up the finished offering document and outside publishing companies have the correct programs to work with various formats.”

Done right it makes the final document cohesive and formal, a thing of beauty: something that can be used on the street to market the issuer’s bonds.

ImageMaster can tackle any printing job related to municipal bonds, whether it is reports or special filings but “official statements are the bread and butter of the organization,” said Shiff in closing.

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## OFFICIAL STATEMENTS

### Did You Know?

The OS details the bond terms, whether bonds can be redeemed and under what circumstances what has been pledged to repay the bonds...and a whole lot more.

At minimum most official statements include:

1. Interest Rate
2. Timing to payment of interest on and principal of the bonds.
3. Minimum denomination in which bonds can be sold.
4. Whether and when bonds can be redeemed by the issuer before maturity.
5. Whether bond insurance, letter of credit or other guarantees have been provided for repayment.
6. What follows when there is a non-payment default by the issuer.

If bonds are used for a specific revenue generating project, the OS often includes specific financial and operating data to help investors make informed decisions.



## About Munetrix

Munetrix is an open government cloud-based web service loaded with six years of historical financial records for all 2,700 + governmental units in Michigan who report yearly fiscal information to the State of Michigan. Through the system local governments (municipalities and schools districts) can enter data – current and future, and benchmark themselves amongst peers and vetted KPIs, (key performance indicators). The system offers visitors access to detailed analytical reports, presented in the most simplistic manner, for free.

Local government administrators can upgrade to subscription levels that provide more functionality including the ability to quickly build future multi-year budgets and test assumptions. Additionally they can manage their debt and compliance through transparency reporting. It offers a way for local governments to identify where operational problems may exist, using data to test potential solutions – best of all, it delivers results superfast.

### Munetrix Software Enhancements

In 2012 Munetrix launched the school edition after modifying the Fiscal Scoring system originally designed by the state of Michigan, and in early 2013 modified the Municipal scoring metrics to be more current with the realities of what municipalities were facing after the

great recession. Now Munetrix has a standardized set of metrics for all local governments, and the data is far more complete than what can be found on a single website elsewhere.

“A completely new module was recently added,” said Kittle, who added, “It’s a ‘virtual’ auditor work paper set to provide a dynamic alternative for managing debt detail for local units. Now local units have the ability to manage all of this information in one place.”

Munetrix has been able to build data-relationships with other key sources as well, thus allowing locals access to the lowest maintenance dashboard alternative, and providing them the ability to start measuring fiscal performance against service quality.

Buzz Brown chief operating officer at Munetrix said “At the end of the day, if a community is spending more on a per-capita basis for public safety, and their crime rates and traffic crashes are lower, maybe that is a good investment and one the citizens support.” He added, “Using empirical data to tell or sell a story is a great way to make sure your residents know exactly what and why you are doing something.

### The “Collaboratorium”

A collaboration forum which is part of the system also continues to grow, with almost 600 collaborations and ideas added by users into a searchable database. “Now, local leaders who are fresh out of ideas

have another place to look for cost savings and efficiencies, and can learn from others in the process,” said Brown. Though not Facebook, the system includes a social networking element, “you won’t find elsewhere,” said Kittle who added, “And it has a distinct purpose.”

Another tool recently built into Munetrix is the BudgetBuilder® which allows premium users the ability to create up to five budget scenarios per year for multiple years, while creating a fiscal road-map. The methodology drives budgets from the top down, which simplifies the process. Many administrators are apprehensive to start multi-year planning using traditional methods, said Kittle.

“Who cares how many tires your DPW department needs to buy three years from now? If I were running the store, I would only want to know how much money my DPW director is going to have to spend in year three. I’ll leave it up to him or her whether to buy tires or paint a truck. I would only want to see us live within the budget the revenues allow while not lowering service levels. Quite frankly, I believe most managers would appreciate the autonomy this method would promote,” said Kittle.

Also in the works is a Consultant Edition which will enable certified public accountants to use Munetrix with their clients in general practice. With all the system capability this release could afford CPAs the ability



to run more efficient, and the potential to offer their clients another service if they want to help with EVIP or transparency certification services.

Going forward users will see more functionality made available within Munetrix as well. “We built Munetrix for local units to use to help themselves,” said Kittle. He said, “We built administrators the equivalent of a Swiss Army knife for their toolbox. If an administrator is a do-it-yourselfer they will probably like what Munetrix offers.” Though perhaps not everyone will embrace it, Kittle said user feedback indicates, “We are hitting the mark with what we offer.”

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### About Munetrix

**Munetrix** is a Michigan Limited Liability Company headquartered in Auburn Hills, Michigan. Bob Kittle and Richard “Buzz” Brown founded Munetrix (name derived from “municipal metrics”) in early 2010 to address the need for municipalities to forecast, anticipate, and study financial trends as part of their daily business activities. Data in today’s [Munetrix.com](http://Munetrix.com) cloud-based transparency tool is available to all stakeholders in the community – free to citizens for accessing basic information, and on a tiered subscription basis to municipalities and school systems.



Bob Kittle, CEO of Munetrix

For the most recent GFOA Training Schedule visit: [GFOA Updated Training Schedules](#)

**THE MAC IS SOLICITING INPUT FROM MEMBERS!**

**WE VALUE YOUR OPINIONS.**

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**HAVE A TOPIC IN MIND FOR US TO RESEARCH?**

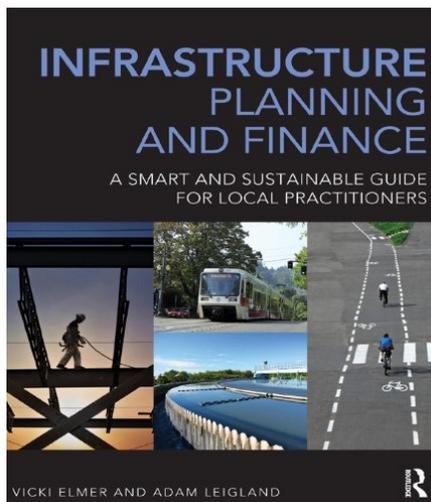
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Buhl Building 535 Griswold, Suite 1850 Detroit, Michigan 48226

Phone: 313-963-0420 800-337-0696 FAX: 313-963-0943 Email: mac@macmi.com Internet: www.mi-macsite.com

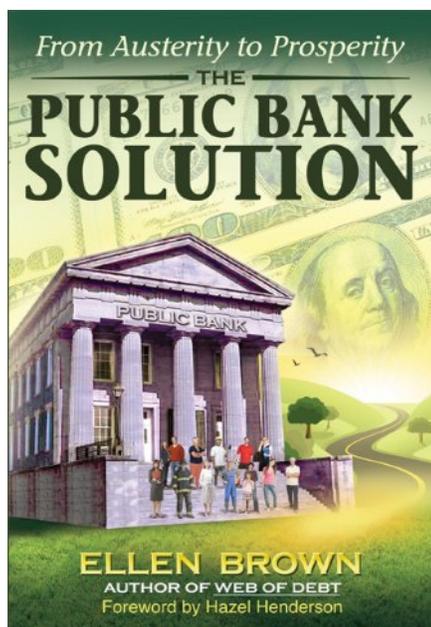
WINTER 2013



**Infrastructure Planning and Finance** was written by Vicki Elmer and Adam Leigland. It is a real Stocking-Stuffer, for the municipal leader or reader in your home. Meant to be non-technical, it is a roadmap for how to finance and plan engineered infrastructure improvement projects in the U.S.

Are you a local planner? The book's authors have worked on public works projects and within and for city governments. They consider everything from municipal regulations to how to create a full plan, and most important of all, how to fund it, with ample time dedicated to explaining the applicability of bonds, user fees and other finance options. One topic they cover in detail is the importance of sustainability in today's urban planning designs. They discuss wastewater treatment, street projects, schools, parks and more.

If you have an empty slot on your bookshelf, consider picking up the book. It's available at Amazon.



Ellen Brown's book **The Public Bank Solution** talks up public banking, and why it is important in today's society. Brown will explain how money is "created" and chronicle money's history. She starts before money existed, back with ancient cultures, then moves through gold...to paper money as a medium of exchange. She goes a bit further and also explains the twining together of interest and debt through history.

Want to know how the economy works? Want it with plain factual terminology? This is the book for you. And as a bonus, you will get a bit of a history lesson, from the ancients, through Abraham Lincoln, and how he brought the union back together, and much more...Can a public budget benefit by creating a revenue stream? Yes. Can it possibly sustain itself on interest? Brown's book holds the answer.

The book is available at Amazon.

# Mac Quarterly Newsletter

## Municipal Advisory Council of Michigan

Buhl Building 535 Griswold, Suite 1850 Detroit, Michigan 48226

Phone: 313-963-0420 800-337-0696 FAX: 313-963-0943 Email: [mac@macmi.com](mailto:mac@macmi.com) Internet: [www.mi-macsite.com](http://www.mi-macsite.com)



WINTER 2013

*“MAC Quarterly” is a newsletter written for Municipal Advisory Council of Michigan members and business associates. If you have questions you would like discussed in the newsletter, please contact the MAC office. We will answer your questions or find an expert to address the topic and share the information with you in a future issue.*

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