



# **Not Concerned about Arbitrage Rebate? Not So Fast...**

**Fall 2011  
Webinar Series  
November 8, 2011  
10:00 AM - 11:15 AM PT**

CDIAC provides information, education and technical assistance on public debt and investments to local public agencies and other public finance professionals.



# **Not Concerned about Arbitrage Rebate? Not So Fast...**

## **Housekeeping**

- **Feedback Button**
- **Questions and Answers**
- **Polling Questions**



# **Not Concerned about Arbitrage Rebate? Not So Fast...**

## **•Introduction of Speakers**

**Anne Pelej**

**Senior Vice President of Compliance, Willdan Financial Services**

**Carol L. Lew**

**Shareholder, Stradling, Yocca, Carlson and Rauth**



## **Anne Pelej**

**Senior Vice President of Compliance, Willdan Financial Services**

- *Over 17 years of experience in Arbitrage Rebate & Continuing Disclosure Compliance*
- *Has an extensive background in Contract Analysis, State and Federal Tax Reporting, and Financial Statement Preparation*

## **Carol L. Lew**

**Shareholder, Stradling, Yocca, Carlson and Rauth**

- *Over 21 years of experience practicing Federal Tax Law in Municipal Finance*
- *Extensive experience in Financial Transactions and Nonprofit Issues*
- *Serves on many Associations, Committees, and Subcommittees*

# **Not Concerned About Arbitrage?**

## **Not so Fast...**

**Tuesday, November 8<sup>th</sup>  
10am – 11:15am**

The logo for the California Debt and Investment Advisory Commission is displayed on a white rectangular background with a slight shadow and reflection. The text is arranged in five lines, with the first line in a lighter blue font and the subsequent four lines in a darker blue font.

CALIFORNIA  
DEBT AND  
INVESTMENT  
ADVISORY  
COMMISSION

# Discussion Topics

- ❑ Arbitrage Math Concepts
- ❑ IRS Audit Hot Buttons
- ❑ Documentation and SEC Disclosure

# ***Primary Math Concepts***

- **Arbitrage Rebate**
- **Yield Reduction Payment**
- **Spending Exceptions**
- **Transferred Proceeds**

# Arbitrage Rebate

Delivery Date	01-Mar-06
Computation Date	01-Mar-11
Arbitrage Yield	4.30054001%
Investment Yield	4.09178432%
Total Earnings	\$ 198.83

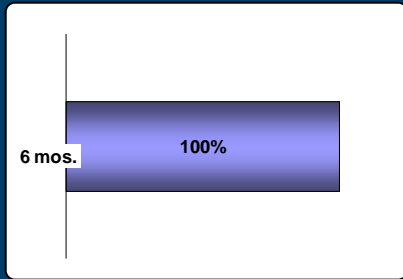
Date	Receipts	Payments	Earnings	Balance	Future Value
01-Mar-06	\$ 177,697.80	\$ 0.00	\$ 0.00	\$ 177,697.80	\$ (219,825.08)
01-Mar-06		(27,500.00)		150,197.80	34,019.50
01-Mar-06		(40,000.00)		110,197.80	49,482.90
01-Mar-06		(16,000.00)		94,197.80	19,793.16
01-Mar-06		(10,250.00)		83,947.80	12,679.99
01-Mar-06		(10,000.00)		73,947.80	12,370.73
01-Mar-06		(1,534.00)		72,413.80	1,897.67
01-Mar-06		(2,750.00)		69,663.80	3,401.95
02-Mar-06		(4,000.00)		65,663.80	4,947.71
03-Mar-06		(35,000.00)		30,663.80	43,287.31
03-Mar-06		(2,400.00)		28,263.80	2,968.27
17-Mar-06		(750.00)		27,513.80	926.05
27-Mar-06		(18,530.22)		8,983.58	22,852.89
04-Apr-06			86.87	9,070.45	
02-May-06			31.45	9,101.90	
02-Jun-06			33.98	9,135.88	
05-Jul-06			33.75	9,169.63	
12-Jul-06		(9,169.63)		0.00	11,169.22
02-Aug-06			12.71	12.71	
05-Sep-06			0.02	12.73	
03-Oct-06			0.03	12.76	
20-Oct-06		(12.76)		0.00	15.36
02-Nov-06			0.02	0.02	
02-Nov-06		(0.02)		0.00	0.02
<b>Total Rebatable Arbitrage</b>					<b>\$ (12.35)</b>



# Yield Reduction Payment

		Arbitrage Earned		
Period		Example 1	Example 2	Example 3
Year 1 - 3	Unrestricted	10,000	(9,000)	8,000
Year 4 - 5	Restricted	5,000	7,000	(2,000)
Rebate Payment		10,000	0	6,000
Yield Reduction Payment		5,000	7,000	0

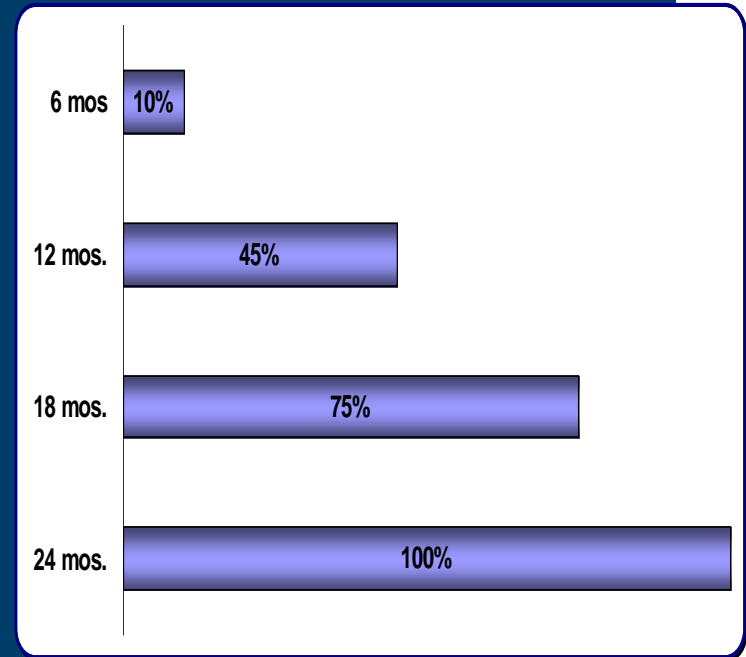
# Spending Exceptions



6 mos 15%

12 mos 60%

18 mos 100%



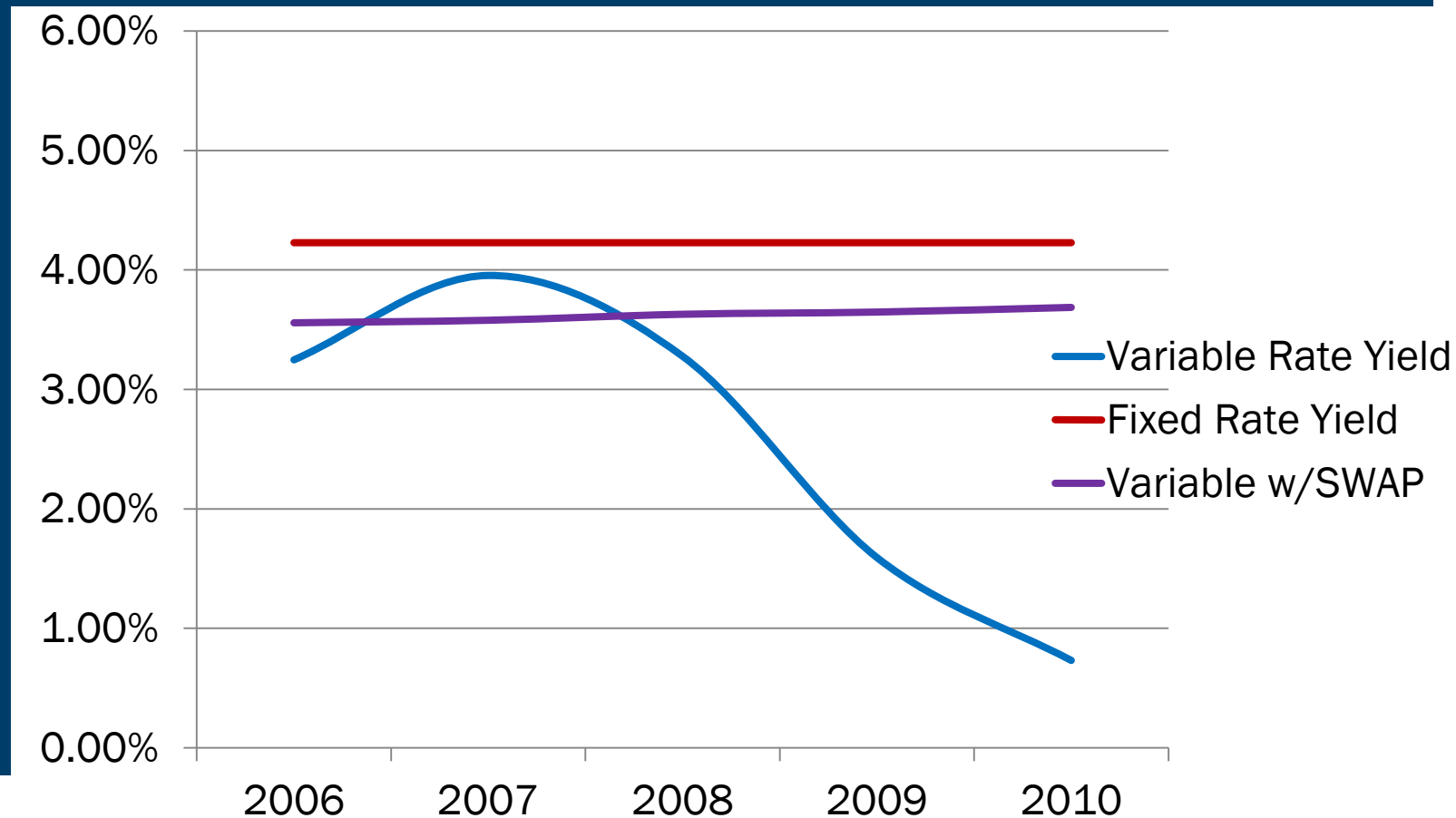
# Spending Analysis

Period	Period End Date	Cumulative Percentage Required	Cumulative Amount Required	Cumulative Amount Actually Spent	Amount Exceeding / (Below) Requirement
Six Month	23-Aug-06	10%	\$ 10,702,878.95	\$ 31,144,712.06	\$ 20,441,833.11
Twelve Month	23-Feb-07	45%	48,162,955.27	53,018,920.06	4,855,964.79
Eighteen Month	23-Aug-07	75%	80,271,592.12	69,184,284.06	(11,087,308.06)
Twenty-Four Month	23-Feb-08	100%	107,028,789.49	106,253,656.73	(775,132.76)
Final	23-Feb-09	100%	107,028,789.49	106,253,656.73	(775,132.76)

# Transferred Proceeds

Call/ Transfer Dates	Called Principal	Principal Outstanding Prior to Call	Transfer Percentage	Cumulative Transferred Proceeds Ratio	Cumulative Non-Transferred Proceeds Ratio
02/01/2008	\$ 545,000.00	\$ 25,990,000.00	2.0970%	2.0970%	97.9030%
02/01/2009	565,000.00	25,445,000.00	2.1739%	4.2709%	95.7291%
02/01/2010	590,000.00	24,880,000.00	2.2701%	6.5410%	93.4590%
02/01/2011	24,290,000.00	24,290,000.00	93.4590%	100.0000%	0.0000%
<b>Totals</b>	<b>\$ 25,990,000.00</b>	<b>\$ -</b>	<b>100.0000%</b>		

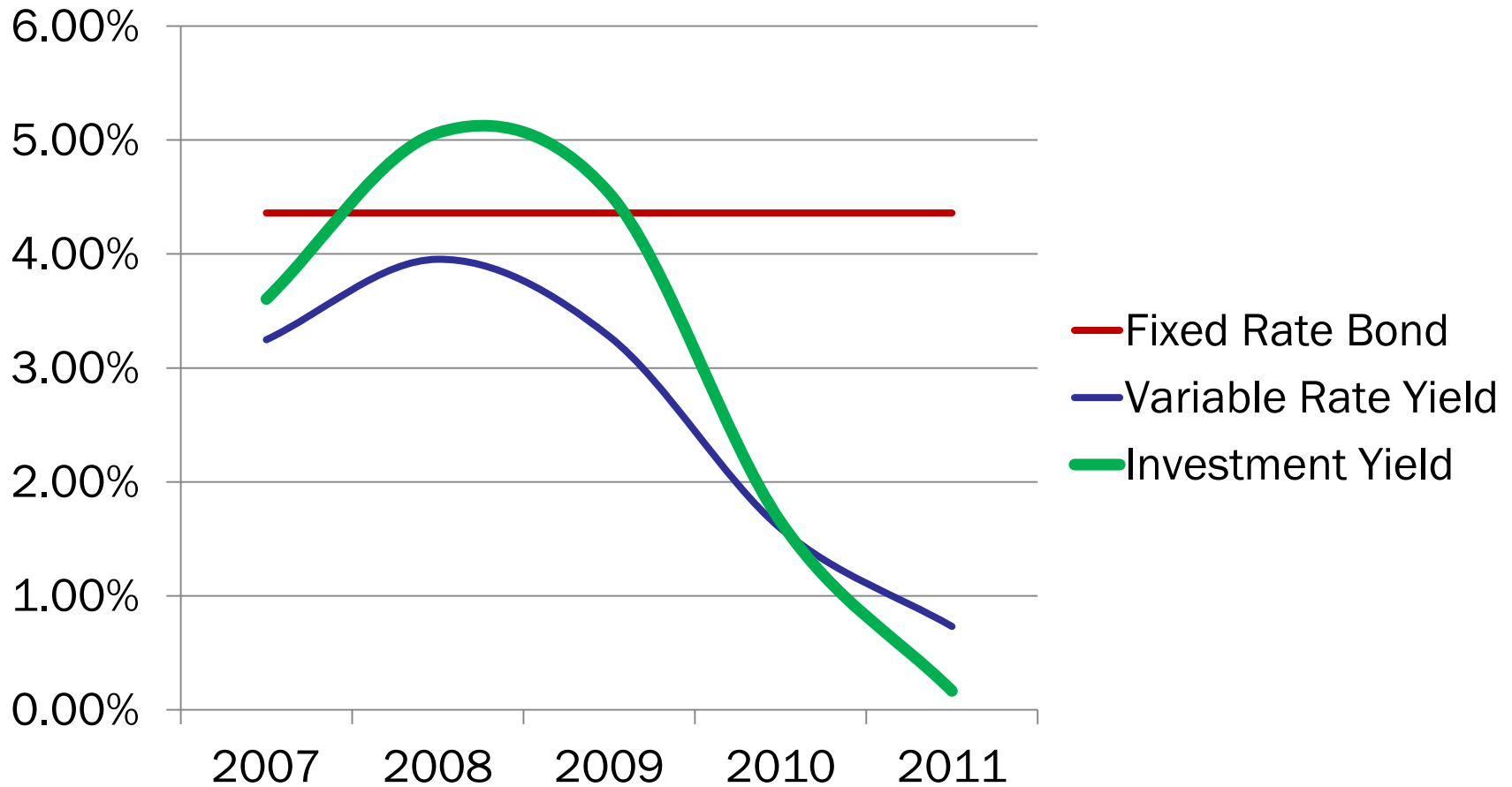
# Bond Yield Comparison



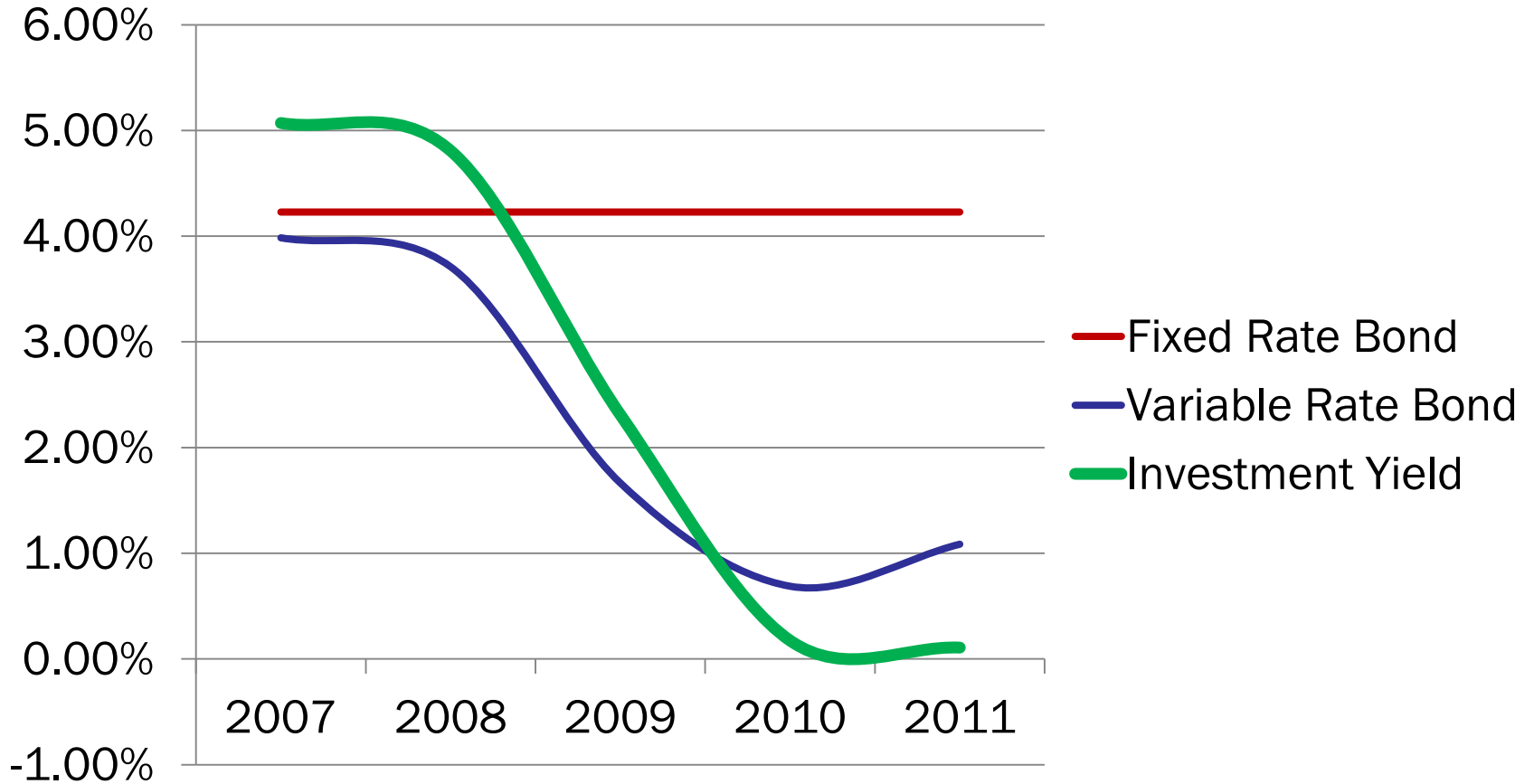
# ***Use of Proceeds Scenarios***

- A. Spent quickly but missed Spending Exception**
- B. Project stalled after three years**
- C. Didn't spend proceeds**

# Spent Quickly Missed Spending Exception

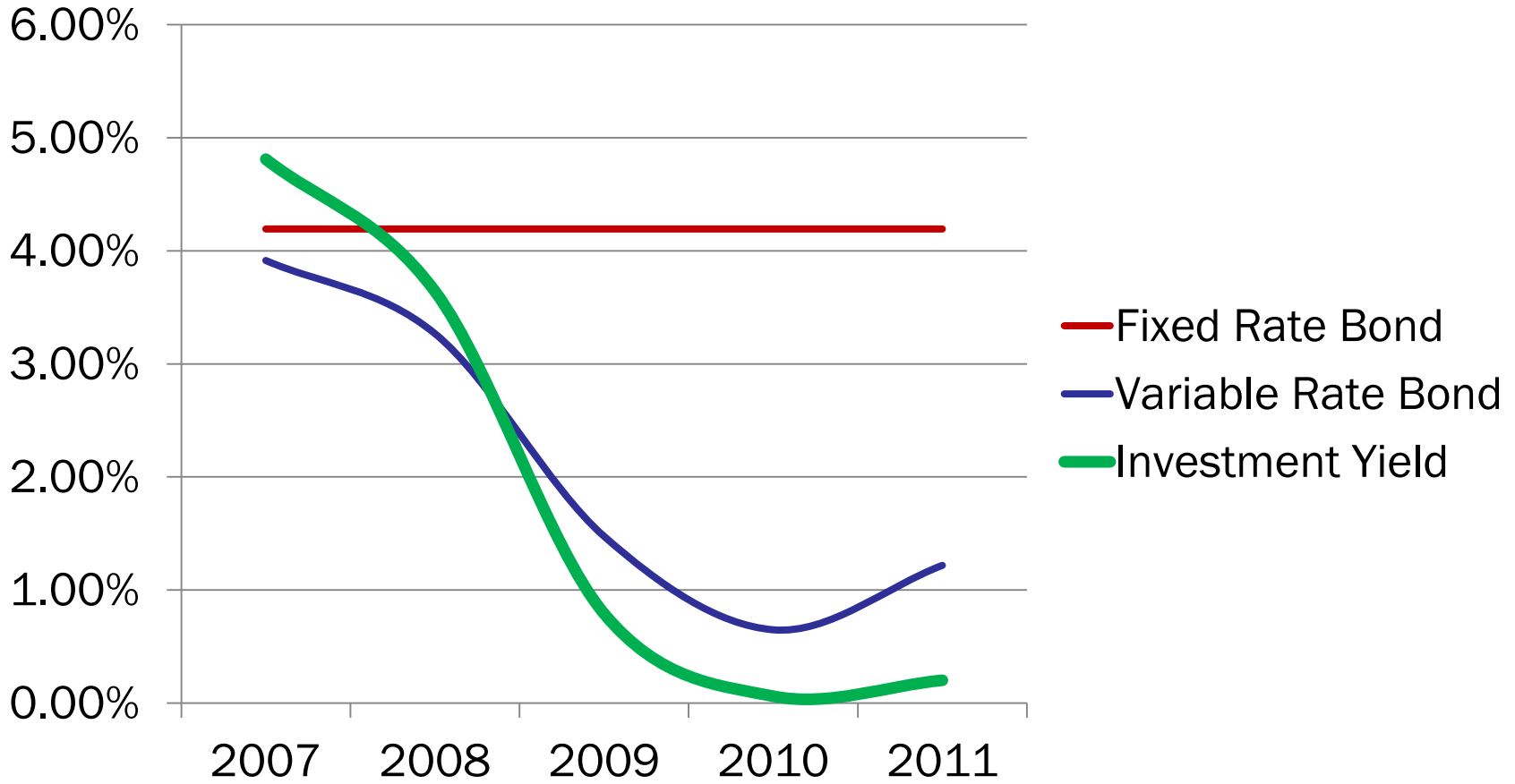


# Project Stalled after 3 years





# Minimal Proceeds Spent



# ***IRS Audit Hot Topics***

- A. Actual Drawdown Schedule of Bond Proceeds (Have You Spent Bond Proceeds Within Three Years?)
- B. Have you Made your Rebate Payments in a Timely Manner?
- C. Are Bond Proceeds Yield Restricted after Three Years?
- D. Do the Rebate Report Schedules match the Issuer's Bond Allocation for Other Purposes?
- E. Have You Complied with the IRS Safe-harbors for Guaranteed Investment Contracts or for bidding open market securities for a Refunding Escrow?

# ***Documentation and SEC Disclosure***

- A. Once there is a Tax Issue must you Disclose It?
- B. What Disclosure Trends are There for Tax Matters Sections?
- C. Post Issuance Compliance - What Type of Written Procedures Do I need?



# **Thank You for Participating**

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