

CITY OF SPOKANE DEPARTMENT POLICY AND PROCEDURE	DEPT 0860-06-04 LGL 2005-55
TITLE: ARBITRAGE CALCULATION AND PAYMENT EFFECTIVE DATE: OCTOBER 1, 2005 REVISION DATE: October 27, 2006	

1.0 GENERAL

1.1 Tax-exempt obligations provide a less expensive means of financing than other conventional approaches, resulting in a significant interest rate benefit. The federal government has imposed a variety of rules to restrict the use of tax-exempt financing to prevent potential abuse.

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2.0 DEPARTMENTS/DIVISIONS AFFECTED

This policy applies to the Treasurer's Office.

3.0 REFERENCES

- 26 U.S.C. 148
- 26 C.F.R. 1.103, 1.48 - 1.150

4.0 DEFINITIONS

4.1 "Arbitrage" means the purchase and sale of the same or a similar security in order to profit by price discrepancies between markets. For tax-exempt bond purposes, arbitrage is the ability to obtain tax-exempt proceeds and invest those funds in higher yielding taxable securities, resulting in a profit to the issuer. Arbitrage is the

difference (profit) earned from investing low-yielding tax-exempt bond proceeds in higher yielding taxable securities.” [Reference: “Guide to Arbitrage Requirements for Governmental Bond Issues” by Terence P. Burke]

5.0 POLICY

- 5.1 Arbitrage rebate calculations are to be made every five (5) years for each outstanding tax-exempt bond issue, and rebate payments made to the Internal Revenue Service as necessary.

6.0 PROCEDURE

- 6.1 The accountant in the Treasurer’s Office shall maintain Excel spreadsheets reflecting arbitrage rebate calculations for each outstanding tax-exempt bond issue.
- 6.2 The accountant shall consult with bond counsel or other arbitrage expert to aid in the calculation if necessary.
- 6.3 The accountant shall notify the City Treasurer if there is a potential arbitrage rebate issue.
- 6.4 Payments, if any, to the Internal Revenue Service shall be pre-approved by Chief Financial Officer. Any payments shall be made according to rules and regulations of the Internal Revenue Service.

7.0 RESPONSIBILITIES

The City Treasurer shall be responsible for administering this policy.

8.0 APPENDICES

None

APPROVED BY:

W. Dole
Director

10-12-06
Date

B. Buns
City Attorney (Asst)
10-11-06

10-11-06
Date

Note: the only change is the name of the department