

WEST BASIN MUNICIPAL WATER DISTRICT

SEPTEMBER 14, 2005 - Finance

Fernandez, Dear

SEPTEMBER 26, 2005 - Board Meeting

Prepared by: Aileen Hermoso

Submitted by: Margaret Moggia

Approved by: Art Aguilar/Rich Nagel

INFORMATION CALENDAR

ARBITRAGE REBATE CALCULATION

SUMMARY:

Generally, obligations issued by government entities are “tax-exempt”, which means that interest earned by the bond or note holders is exempt from federal and state income taxes. However, under the Tax Reform Act of 1986, these obligations are subject to “Arbitrage Rebate” rules for the issuing agency.

Arbitrage Rebate rules (Rules) apply when earnings on the investment proceeds of a tax-exempt issue are in excess of the yield on such obligations. There are exceptions to these Rules that pertain to obligations issued for construction. In order to determine the arbitrage amount, calculation of the rebate is required at least once every five years. Payment of any arbitrage rebate liability should also be paid at least every five years.

The last formal Arbitrage Rebate Calculation was performed in 1996 covering the period July 24, 1991 through July 24, 1996 for the Certificates of Participation (COP), Series 1991. Several tax-exempt bonds were issued and refunded from that time to the present.

Description	Amount	Purpose of Issue	Status
Arbitrage Rebate Calculation required for the following bonds:			
1992 Revenue Bonds *	54,370,000	Finance water facilities and purchase of admin. bldg	Refunded
1993 Revenue Bonds	113,130,000	To refund the 1991 COP's (construction-related)	Refunded
1993 Auction Rate Revenue Bonds	7,950,000	Finance water reclamation	Refunded
1993 Inverse Rate Revenue Bonds	7,950,000	Finance water reclamation	Refunded
1997 Refunding Revenue COP	26,420,000	Refund the 1992 Revenue	Still Outstanding
1997 Adjustable Rate Revenue COP	77,500,000	Retire commercial paper notes (construction-related)	Refunded
1998 Revenue COP	23,190,747	Finance recycled water	Refunded
1999 Adjustable Rate Revenue COP	69,345,000	Finance recycled water	Refunded
Arbitrage Rebate Calculation not yet required for the bonds listed below:			
2003 Refunding Revenue COP	156,085,000	Refund the 1993 Revenue Bonds (construction-related)	Still Outstanding
2003 Adjustable Rate Revenue COP	137,500,000	Refund the 1997 and 1999 Adjustable Rate Revenue COP's (construction-related)	Still Outstanding
2004 Adjustable Rate Refunding Revenue COP	22,875,000	Refund the 1998 Revenue COP's (construction-related)	Still Outstanding

Staff does not believe that any arbitrage rebate liability is due on the obligations listed above since these are construction-related obligations that fall into the exceptions of the Rules, and market performance over the past few years have resulted in low-return on investments.

Nevertheless, staff recommends that a formal arbitrage rebate calculation for the above obligations and periods be performed to ensure that the District has no liability requiring payment to the Internal Revenue Service.

A "Request for Proposals" (RFP) for Arbitrage Rebate Computation and Compliance Services will be issued. The required services listed in the RFP are as follows:

- Perform complete and accurate arbitrage rebate calculations. The calculations should clearly show the liability and if none, it should indicate that the District is not liable for any amount;
- Certify that all computations are in accordance with Section 148 of the IRS Code;
- Prepare IRS Form 8038-T, if necessary; and
- Provide ongoing advice regarding the impact of any changes in the Arbitrage Rebate Rules.

FISCAL IMPACTS:

Funds are included in the Operating Budget for fiscal year 2005-06.

ENVIRONMENTAL COMPLIANCE:

Not applicable.

COMMITTEE STATUS:

This item was reviewed by the Finance Committee on September 14, 2005 and was agendaized to the September 26, 2005 Board meeting as information for discussion.

RECOMMENDED MOTION:

This item is for information only.