

This document establishes the general operating procedures for arbitrage rebate liability and payments for bonds issued by the Capital Investment Section (CIS) on behalf of the State and its agencies. This guidance helps assure continuing compliance with Internal Revenue Code and GASB Statements as well as conformity with generally accepted accounting principles.

The Capital Investment Section (CIS) shall annually calculate the arbitrage rebate liability for each bond issue. The State Agency for which CIS has issued bonds will be notified of the calculation of a rebate liability for each issue of bonds outstanding.

| Responsible Party | Action | Time Frame |
|--|--|-----------------------------|
| Bond Counsel | Prepare Form 8038-G/Tax Certificate for CIS approval. | Date of bond sale |
| Underwriter/FA | Prepare Bond Summary Statistics/Cash Flows. | Date of bond sale |
| CIS Staff | Review/Approve Form 8038-G/Tax Certificate/Bond Summary Statistics/Cash Flows. | Date of bond sale |
| CIS Staff / Trustee / Disbursement Agent | Trustee/Disbursement Agent or Banking Division at State Treasurer to establish separate accounts by bond series and agency. | Date of bond sale |
| CIS Staff | Record future payment due dates in Issuance Register, a CIS internal permanent file and control document. Post Outlook calendar reminders. | Within 2 weeks of bond sale |
| | See Attachment A: Issuance Register | |
| | Note: Payments will be due to the U. S. Treasury Department for each series within 60 days of the series computation date. Initial computation dates are established in the Tax Certificate and recur every five years on the anniversary thereof. | |
| CIS Staff / Bond Counsel | For partial refunding or defeasances allocate reserve investments and related earnings between new and original issues. | Within 4 weeks of bond sale |

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|-------------------|--|---|
| CIS Staff | When a bond series is refunded, determine whether arbitrage liability due date has been accelerated and prepare final calculation and payment, if required. | Within 4 weeks of bond sale |
| CIS Staff | Prepare Inter-agency agreements or grant agreements detailing IRC compliance requirements, including: <ul style="list-style-type: none"> ➤ Allowable use of proceeds, generally capital assets; ➤ Spend plan requirements (per IRC Section 1.148-2(e)(2)); and ➤ Record maintenance and retention requirements. | Before proceeds are released to User Agency |
| CIS Staff | To assist with the calculations for positive arbitrage rebate, record expenditure and investment earning transactions, including transaction date, by agency and bond series using software applications. Agree totals to Trustee/Disbursement Agent bank statements or State Treasury banking reports. | Semi-annually by end of January/July |
| CIS Staff | Create arbitrage files in Mun-ease for each series issued during the current fiscal year. Input bond statistics data from Bond Summary Statistics/Cash Flows prepared by Underwriter or Financial Adviser and filed by CIS in a central library as well as electronically in the sale folder. After coupon rates, yields, and other required information has been input, agree software computed arbitrage yield to Tax Certificate. | Annually by August 5 th |
| CIS Staff | Record new series information, including rebate liability payment due date, on Issuance Register. | Annually by August 5 th |
| CIS Staff | Input transaction data into Mun-Ease arbitrage calculation software application. Document accrued Mun-ease estimated arbitrage liability results in Issuance Register. | Annually by August 5 th |
| CIS Staff | Lottery Revenue Bonds have a required reserve account; other bonds may have a reserve account. Review requirements by agency for cash necessary to fund arbitrage liability payments, as follows: <ul style="list-style-type: none"> ➤ If there are earnings on the Reserve Account and a rebate is due, determine if the rebate can be funded | Annually by August 5 th |

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| | <p>by the Rebate Payable account.</p> <ul style="list-style-type: none"> ➤ If the rebate is funded by the Rebate Payable account, earnings are recorded in the Debt Service Fund. ➤ If the rebate is not funded by the Rebate Payable account, earnings are recorded in the Rebate Payable account. ➤ If there are earnings on the Reserve Account and no rebate is due, accounting transactions are recorded in the Debt Service Fund only. | |
| CIS Staff | Notify agencies of required cash transfers to book in accordance with generally accepted accounting principles and the Oregon Accounting Manual. | Annually by August 5 th |
| CIS Staff | Review Mun-ease arbitrage software instructions on http://mun-ease.com/download.html or on the CD-ROM mailed directly from Mun-ease. Ensure updates from Prescient Software have been received and installed. | Annually between August and October |
| State Agencies / SARS | Record arbitrage liability for State Comprehensive Annual Financial Report (CAFR) with CIS input. | Annually by October 31 st |
| State Agency / Grantee | Record transactions, report on activities in accordance with interagency/grant agreement and the State Accounting Manual. | Ongoing |
| CIS Staff | Document any instances of potential non-compliance with IRC regulations in “tax compliance” section of bond sale permanent files (by series). Work with State Agency/Grantee and Bond Counsel as appropriate to correct deficiencies. | Ongoing |
| CIS Staff | <p>Positive Arbitrage Submission:</p> <p>Calculate annual estimate arbitrage liability for CAFR disclosure. At computation date, calculate amount due and prepare Form 8038-T for review by Bond Counsel. Submit Form 8038-T to Bond Counsel.</p> | Two weeks prior to arbitrage payment due date |
| Bond Counsel | Review/approve arbitrage liability calculations for Form 8038-T. | Within 7 days of receipt |

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| CIS Staff | Request check for appropriate amount. Sign Form 8038-T. Mail the check by certified mail to U.S. Treasury Department. Record payment on Issuance Register. | 7 days before due date |
| CIS Staff | Negative Arbitrage Submission: Work with counsel to complete and file Form 8038-R, <i>Request for Recovery of Overpayments Under Arbitrage Rebate Provisions</i> if the following conditions are met: <ul style="list-style-type: none">a) Investment earnings are lower than the arbitrage yield (“negative” arbitrage liability);b) Rebate liability payments on the series have been made in the past;c) The amount of “negative” arbitrage liability would result in a refund of \$5,000 or more of previous yield reduction payments; andd) The current period corresponds to the arbitrage liability due date on the Issuance Register. | At Bond Maturity |

ATTACHMENT A

Issuance Register

| # | Biennium | Series | Issue Date | Agency Number | Agency Name | Project or Purpose | PAR refunding amount of bonds | Amount | Interest Rate | Term | Final Maturity | Reserves | Financing Type | Amount of other Financing | Description | Rebate Estimate Required | Next Arbitrage Rebate Payment Date | Arbitrage Yield Limit (from Tax Certificate) |
|---|----------|--------|------------|---------------|-------------|--------------------|-------------------------------|--------------|---------------|--------|----------------|----------|----------------|---------------------------|-------------|--------------------------|------------------------------------|--|
| 1 | 09-11 | 2011 J | May-26-11 | 1xx00 | XYZ Agency | XYZ Building | | \$75,000,000 | 4.00% | 25 yrs | 5/1/2036 | | | | | | 5/1/2012 | 3.000000 |