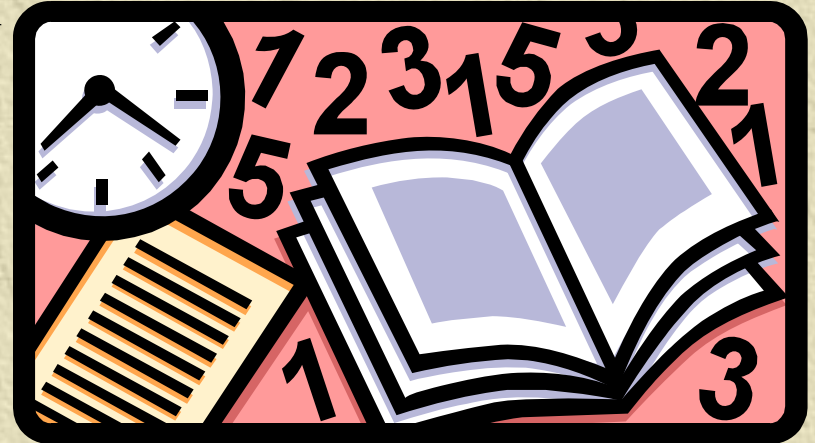


YIELD RESTRICTION

Two separate requirements

- ✦ Rebate – mandates when you must remit arbitrage to IRS
- ✦ Yield restriction – governs when you are legally permitted to earn arbitrage, but if you do, you must still make a payment



Arbitrage Bond defined

✦ Arbitrage – excess profits earned from the investment of tax-exempt bond proceeds in higher yielding investments.

✦ Arbitrage bond – If at the time of issuance of the bonds, the issuer reasonably expects to invest the gross proceeds of the bonds at a materially higher yield than the yield on the bonds.



Implications of Arbitrage Bonds

- ✦ Tax Exempt bonds may lose their tax-exempt status if they are arbitrage bonds.
- ✦ Interest on a bond is not excludable from income for federal income tax purposes



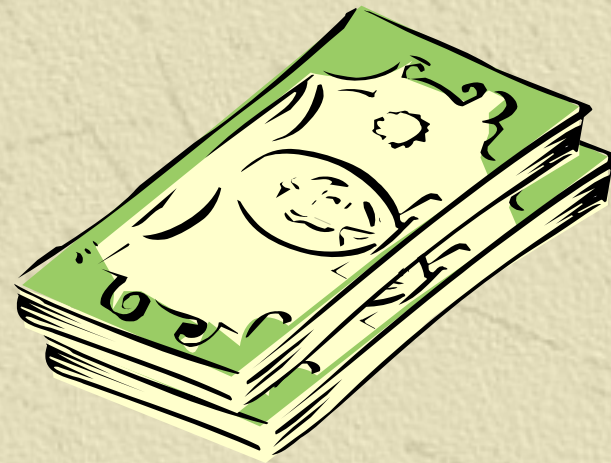
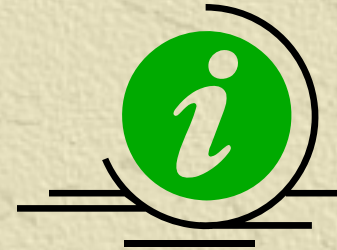
Arbitrage Bonds

- ✦ Gross proceeds
- ✦ Yield on the bonds
- ✦ Classes of investments
- ✦ Materially higher yield on investments



Gross Proceeds of the Bonds

- ✦ Sales proceeds
- ✦ Investment proceeds
- ✦ Transferred proceeds
- ✦ Replacement proceeds



Sales Proceeds

✦ Any amounts actually or constructively received from the sale of an issue.

- *construction fund

- *refunding escrow

- *costs of issuance

Investment Proceeds

✦ Any amounts actually or constructively received from investing proceeds of an issue, such as interest and dividends.

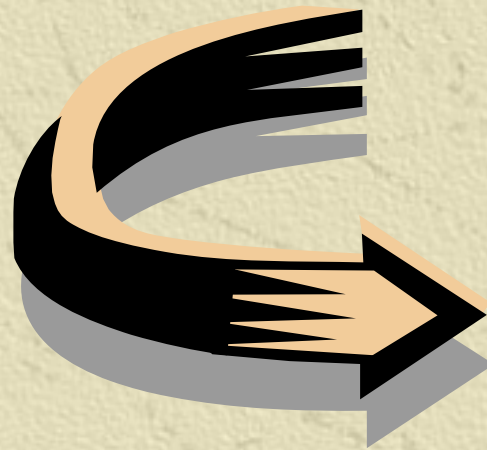
*Reinvested

*Disbursed on expenses



Transferred Proceeds

- ✦ When proceeds of a refunding issue are used to make principal payments on the refunded bonds, any unspent proceeds of the refunded bonds become proceeds of the refunding issue and cease to be proceeds of the prior issue.



Replacement Proceeds

✦ Amounts that have a sufficient direct nexus to:

- ✦ The bond issue OR
- ✦ The governmental purpose of the issue.
- ✦ Governmental purpose includes the expected use of money to be used to pay debt service on the bonds on a particular date.
- ✦ Replacement proceeds include, but are not limited to, sinking funds and pledged funds.

Replacement Proceeds, continued

✦ Sinking Fund

- ✦ Includes a debt service fund, redemption fund, reserve fund, replacement fund, or similar fund, to the extent reasonably required to be used directly or indirectly to pay debt service on the bonds.

Replacement Proceeds, continued

✦ Pledged Fund

- ✦ Any amount that is directly or indirectly pledged to pay principal of or interest on the bonds.
- ✦ Issuer must provide reasonable assurance the money will be available to pay debt service even if the issuer has financial difficulties.

Arbitrage Bond

✦ To determine whether gross proceeds are invested in materially higher yielding investments, we must introduce:

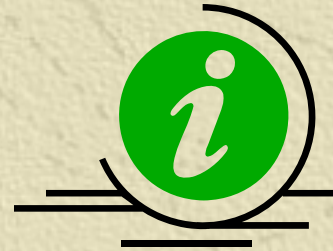
- ◆ Bond yield
- ◆ Classes of investments
- ◆ Definition of materially higher yield

Bond Yield

✦ The yield on a bond is the economic return to the bondholders.

✦ 2 types

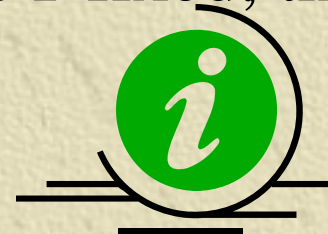
- Fixed Bond Yields
- Variable Bond Yields



Fixed Bond Yields

✦ Is fixed and determinable on the date of issuance

✦ If any portion of the bond issue is NOT fixed, the entire issue is not a fixed yield issue



✦ Typically calculated using yield-to-maturity based on scheduled principal and interest payments from the issue date through the final maturity date

Variable Bond Yield

- ✦ Is NOT fixed and determinable on the date of issuance and is based on a variable market index
- ✦ Variable yield is computed separately for each computation period.
 - ◆ Normally computed on 5 year yield period
 - ◆ Can use one year yield periods
 - ◆ Must consistently apply chosen method after the first installment

Qualified Guarantees

- ✦ Treated as additional interest in computing the yield on a bond
- ✦ Inverse relationship between bond yield and arbitrage



Classes of investments

✦ For purposes of the yield restriction rules, yield is computed separately for each class of investments

Classes:

- *Purpose investments
- *Non-purpose investments
- *Program investments

Purpose Investments

- ✦ An investment that is acquired to carry out the governmental purposes of the bond issue.
- ✦ The arbitrage rules refer to loans generally as purpose investments because the loan carries out the purpose of the bonds
- ✦ Not subject to rebate, but must be yield restricted

Non-Purpose Investment



-
- ✦ Any investment property that is not considered a purpose investment
 - ✦ Investment securities, such as U.S. treasury bonds, bank deposits, or investment agreement contracts
 - ✦ Subject to rebate and yield restriction requirements

Program Investments

- ✦ Defined in Treas. Reg 1.148-1(b) and generally includes student loan bonds, qualified mortgage revenue bonds, and qualified veterans mortgage revenue bonds.
- ✦ Not subject to rebate, but are subject to yield restriction requirements

Materially Higher Yield

- ✦ If an investment purchased with proceeds of tax-exempt bonds produces a yield which is at or above one-eighth of one percent above the bond yield, the yield on the investments is materially higher than the yield on the bonds.
- ✦ The general rule applies for both purpose investments and non-purpose investments.

General Rule

TYPE OF INVESTMENT	MEANING OF MATERIALLY HIGHER
Refunding Escrow	One-thousandth of one percent
Replacement proceeds	One-thousandth of one percent
Program investments, other than student loans	One and one-half percent
Qualified Student Loans that are program investments	Two percent
Tax-exempt obligations that are NOT considered investment property	There is no yield limitation

Yield Restriction Rules

- ✦ IRC 148(a) prohibits use of bond proceeds to acquire “higher yielding investments.”
- ✦ The concern here is that municipal issuers can issue tax-exempt debt, which is generally at lower interest rates than taxable securities having a higher investment return.
- ✦ Yield restriction regulations apply



Yield Restriction Rules

✦ Not arbitrage bonds in the following circumstances:

- ◆ During the temporary period
- ◆ As part of a reasonably required reserve or replacement fund
- ◆ As part of a minor portion

Temporary Period Rule

✦ Unrestricted investments are permitted for proceeds “reasonably expected” to be spent on capital projects within a temporary period

✦ Capital Projects – 3 year temporary period

Qualify by expecting to meet 3 tests:

- ✦ Expenditure test – 85% in 3 years
- ✦ Time test – contract for 5% within 6 months, and
- ✦ Due diligence test – completion of project with diligence



Temporary Periods for Other Proceeds

-
- ✦ 5 years for long term capital projects
 - ✦ 6 months for pooled financings
 - ✦ 13 months for bona fide debt service funds
 - ✦ 30 days for replacement proceeds
 - ✦ 1 year from date of receipt for investment earnings



Reasonably Required Reserve or Replacement Fund

- ✦ Reasonably required reserve or replacement fund – no yield limitation
- ✦ Definition – can not exceed the lesser of:
 - ◆ 10% of par
 - ◆ Maximum annual debt service OR
 - ◆ 125% of average annual debt service

Minor Portion

✦ The minor portion is the lesser of:

- ✦ \$100,000 OR

- ✦ 5% of the proceeds of the issue

Coordination with rebate rules

✦ After temporary period, bond proceeds must be yield restricted

✦ 2 Ways:



- * Investment in securities that do not exceed the permitted yield
- * Investment of proceeds above the permitted yield and making yield reduction payments

Coordination with rebate rules

✦ Rebate and yield reduction payments are recognized in the computation of each



✦ Instances

- ✦ Rebate pmt satisfies yield restriction requirements
- ✦ Rebate pmt doesn't fully satisfy yield restriction requirements
- ✦ No rebate pmt due, but yield reduction in order

Summary of yield restriction concepts

-
- ✦ Arbitrage bonds are not permitted
 - ✦ Exceptions: temporary period, reasonably required reserve and minor portion
 - ✦ Yield reduction payments to reduce the yield on materially higher yielding investments



Designing and Maintaining An Arbitrage Compliance Program

Refresher of basics: Arbitrage defined...

-
- ✦ Excess profits earned from the investment of tax-exempt bond proceeds in higher yielding taxable securities

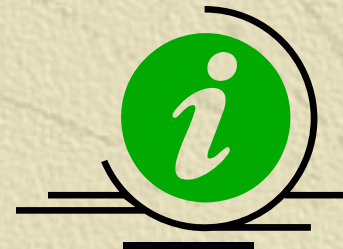
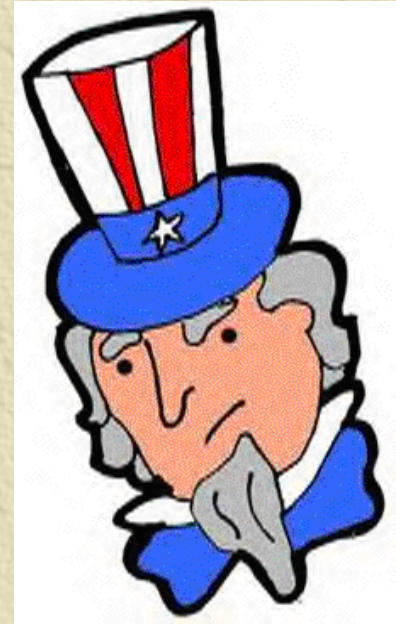


- ✦ For tax exempt bonds, it is the difference between what the proceeds *actually* earn and what the proceeds *could have* earned had they been invested at the bond yield (adjusted for allowable credits)



Refresher of basics: Rebate payments...

- ✦ 100% tax on this excess profit
- ✦ all “net” earnings above bond yield must be remitted to the federal government
- ✦ 90% of liability at year five
- ✦ subsequent payments submitted every five years
- ✦ full amount of liability within 60 days after the final bond is retired

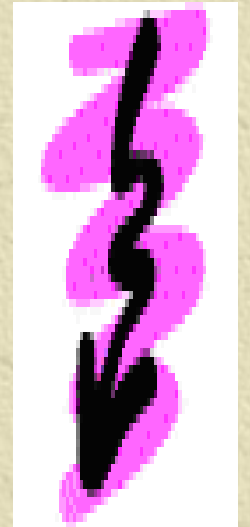


Refresher of basics: Yield Restriction Defined

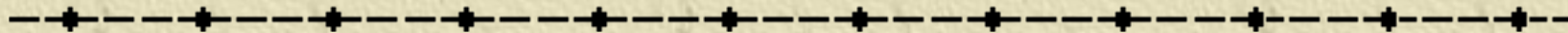
-
- ✦ Rules that limit yield on taxable investments
 - ✦ Construction or acquisition funds exception allow higher yields on investments for a period of up to 3 years
 - ✦ Reserve fund exception allows higher yields for a “reasonably required reserve fund” for the term of the bonds
 - ✦ Minor portion exception for lesser of 5% of total bond proceeds or \$100,000

Refresher of basics: Yield Reduction Payments

- ✦ yield reduction payments can bring proceeds into compliance with yield restriction and are payable in the same manner as arbitrage rebate payments
- ✦ in addition to rebate requirements
- ✦ a yield reduction payment reduces the amount of arbitrage rebate due in the same manner as an arbitrage rebate payment



Arbitrage and Yield Restriction Situations to Avoid



- ✦ Non-compliance – with proper planning, this danger can be averted
- ✦ Negative arbitrage – not always avoidable

Arbitrage Compliance

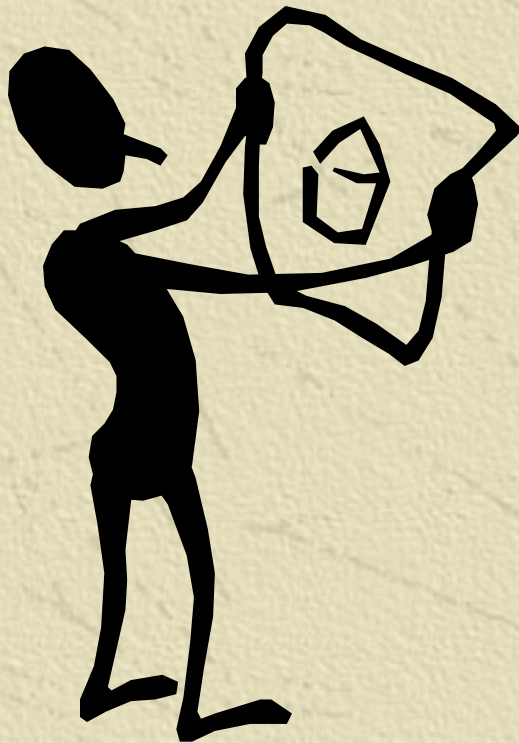
- ✦ Managing tax-exempt bond proceeds can minimize arbitrage rebate payments and minimize the risk of negative arbitrage
- ✦ How do you assure compliance?
- ✦ Design and maintain a program

Designing a Compliance Program

- ✦ Get organized
- ✦ Summarize all bond financings
- ✦ Gather all necessary records



Arbitrage Compliance Matrix and File Info



- ✦ Develop a file and scheduling matrix to capture information relevant to each issue
- ✦ Consider including important dates, relevant documents, contact information, account numbers in an electronic spreadsheet format such as excel

Arbitrage Compliance Matrix and File Info

✦ Issue name - \$15,000,000 Sample City, Florida, Sales Tax Revenue Bonds, Series 2004

✦ Relevant Documents

- a. Non-Arbitrage Certificate
- b. Arbitrage Certificate
- c. Tax Compliance Certificate
- d. IRS Form 8038 or 8038G
- e. Bond resolution
- f. Official statement
- g. Trust Indenture
- h. Other

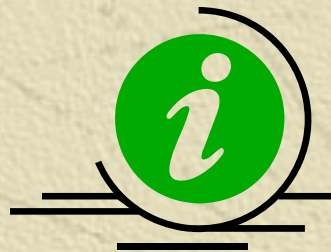
Arbitrage Compliance Matrix and File Info

- ✱ File number – or your own method of tracking where you have placed the assembled documents
- ✱ Issue date
- ✱ Arbitrage yield
- ✱ Fixed or variable rate
- ✱ Purpose – new money, refunding or multi-purpose
- ✱ Issue refunded – include adequate description and transferred proceeds dates

Arbitrage Compliance Matrix and File Info

✦ Elections

- a. Penalty in lieu of rebate
- b. Elections regarding inclusion or exclusion of debt service reserve fund earnings from available construction proceeds
- c. Elections to bifurcate an issue
- d. Other



Arbitrage Compliance Matrix and File Info

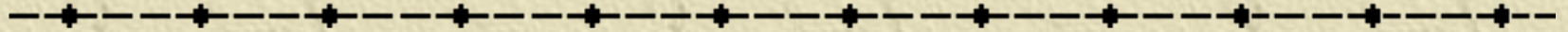
✱ Exception met – more on this later

- a. Small issuer
- b. Six month spending exception
- c. Eighteen month spending exception
- d. Two year governmental construction issue exception

✱ Installment computation date

✱ Annual computation date, if applicable

Arbitrage Compliance Matrix and File Info



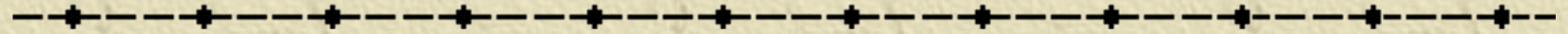
- ✦ Temporary period expiration date – more on this later
- ✦ G/L or trustee account numbers
- ✦ Contact information for:
 - a. Bond Counsel
 - b. Financial Advisor
 - c. Underwriter
 - d. Disclosure Counsel
 - e. Trustee

Stay on track!

-
- ✦ Once you've gathered the documents and information, develop a system for capturing financial information from the issue date forward
 - ✦ Monthly cash and asset statements
 - ✦ Expenditure and earnings detail
 - ✦ Tickler file for deadlines



Determine whether in-house preparation or outsourcing calculations is best in your circumstances



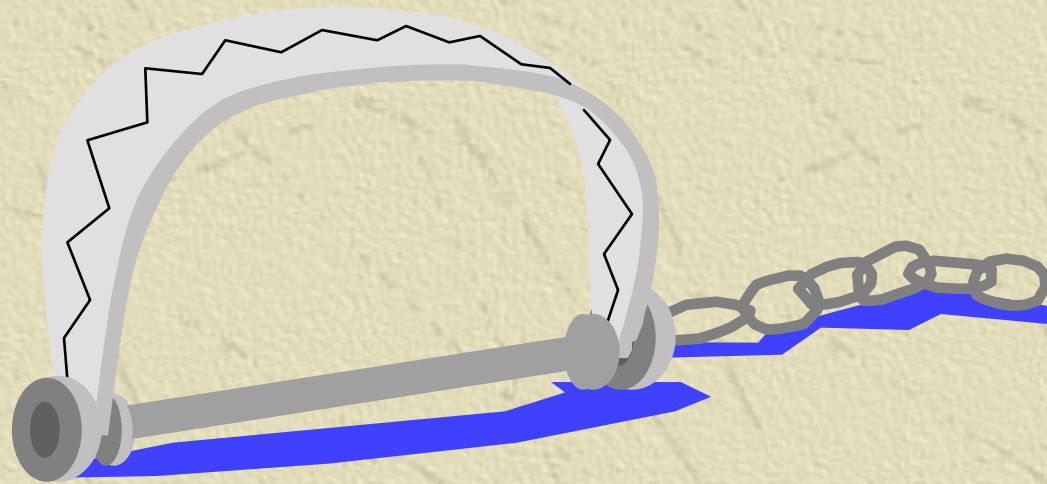
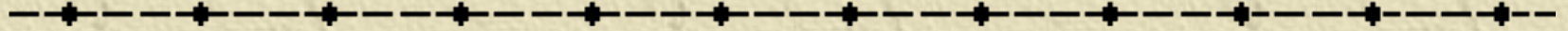
✦ Staffing considerations

- ◆ time commitment
- ◆ turn over
- ◆ education

✦ Law firm or CPA option

✦ Arbitrage rebate consultant without professional credentials

Avoiding traps



Fitness Program

- ✦ Basic training & education
- ✦ Know the situations to avoid
 - ◆ Failure to comply with arbitrage rebate or yield restriction requirements
 - ◆ Negative arbitrage



Basic Training

Education is the best medicine

- ✦ Arm yourself and staff with knowledge
- ✦ Learn difference between yield restriction and rebate requirements... *you must comply with both!*
- ✦ Understand exceptions to requirements – this can save you money!



Beware of deadlines and situations that add complexity

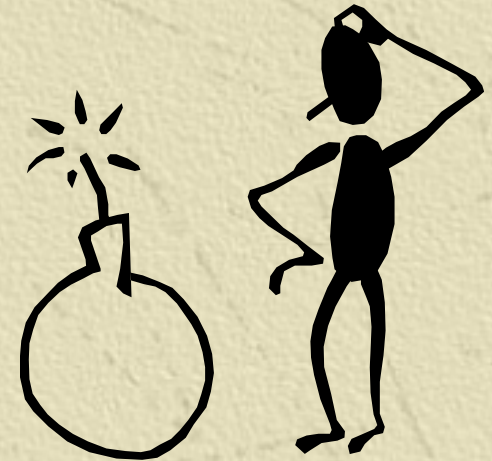
✦ Spending exceptions are a great tool to reduce or eliminate arbitrage rebate payments BUT each threshold must be met!

- 6, 18 and 24 month require immediate monitoring

✦ Commingled funds

✦ End of 5th bond year signals deadline

✦ All proceeds spent may indicate that it may be fiscally responsible to pay any arbitrage rebate due

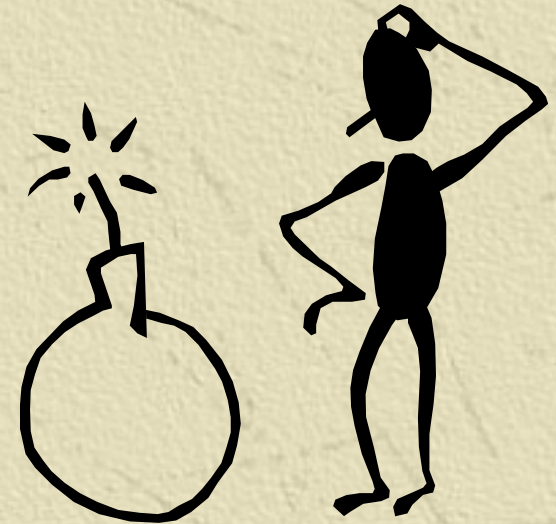


Beware of deadlines and situations that add complexity

✦ Advance refundings may trigger transferred proceeds which add complexity and may require additional research and added time to complete calculations

- ◆ **HINT - With proper planning, gains on investments may be timed to be allocable to the refunded issue which bears a higher yield, allowing the issuer to minimize arbitrage rebate on that investment**

✦ Application of 1992 vs. 1993 Regulations



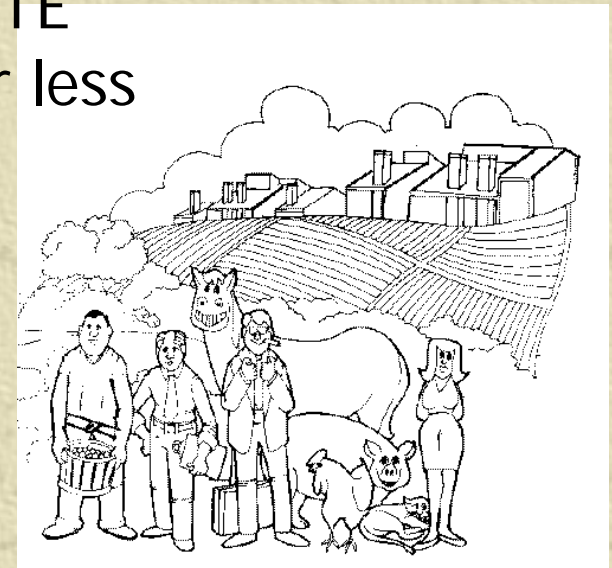
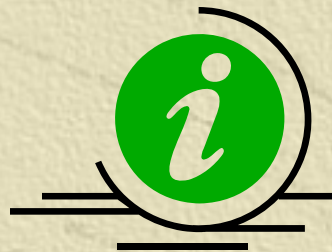
More about exceptions to rebate and computation date credits

-
- ✦ Small issuer
 - ✦ Debt service funds
 - ✦ Tax-exempt investments
 - ✦ Spending exceptions
 - ◆ 6 month
 - ◆ 18 month
 - ◆ 24 month
 - ✦ Computation date credit helps cover cost of performing calculations - \$1,000/\$3,000



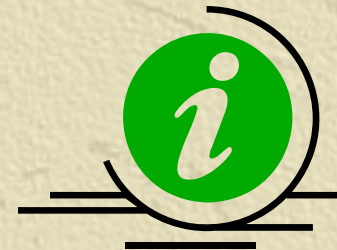
Small Issuer

- ✦ Only for governmental entity with general taxing power - NOT available for private activity bonds!!
- ✦ Total tax-exempt debt issuance for the entity, INCLUDING SUBORDINATE ENTITIES, must be \$5 million or less during a calendar year



Small Issuer Warning!!

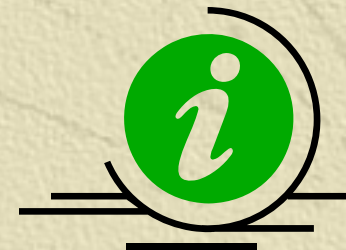
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- ✦ Exception applies to arbitrage rebate, but NOT YIELD RESTRICTION! In rare circumstances, you may owe a yield reduction payment when you have qualified for the small issuer exception from rebate.
 - ✦ EXAMPLE – Unspent money in construction fund after expiration of temporary period is earning more than the arbitrage yield plus .125%. A yield reduction payment will be necessary even though the issue is exempt from arbitrage rebate under the small issuer exemption.



Debt Service Funds

✦ To qualify as a bona fide debt service fund, the following must be achieved:

- ✦ Must be depleted at least once a year except for a reasonable carryover equal to:
 - Earnings on fund for preceding bond year; or
 - $1/12^{\text{th}}$ of principal and interest payments for preceding bond year



Bona Fide Debt Service Funds

✦ Earnings Limitation

- ◆ Long-term, fixed rate issues, no bond of which is a private activity bond, have NO EARNINGS LIMITATION
- ◆ Short-term, fixed rate (average maturity less than 5 years) issues, variable rate issues and private activity bonds cannot exclude bona fide debt service fund if more than \$100,000 is earned in any bond year.
- ◆ Limitation treated as satisfied if average annual debt service is not in excess of \$2,500,000



Tax Exempt Investments

- ☀ Proceeds invested in tax exempt investments are exempt from arbitrage rebate requirements
 - ◆ Remember arbitrage is profit created by investing tax exempt proceeds in taxable securities, capitalizing on the rate spread
 - ◆ Generally not utilized because of low yields and cash flow restrictions



Spending exceptions

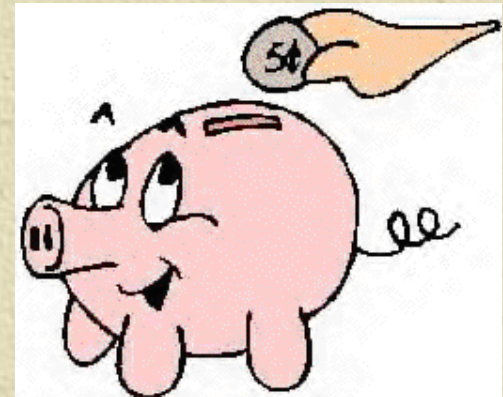
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- ✦ Exceptions based on length of time it takes to spend proceeds (“spend down exceptions”)
 - ◆ All issues eligible for the 6 month spend down exception
 - ◆ All issues for capital expenditures eligible for the 18 month spend down exception
 - ◆ Construction issues (other than certain private activity bonds) eligible for 2 year spend down exception



Spending exceptions, continued

✦ 6 month
100% within six months

✦ 18 month
6 months; 15%
12 months; 60%
18 months; 100%



Spending exceptions, continued

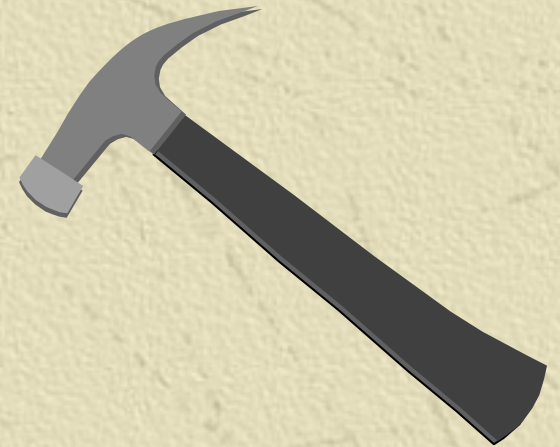
✚ 2 year - Construction issues (other than certain private activity bonds)

6 month; 10%

12 month; 40%

18 month; 75%

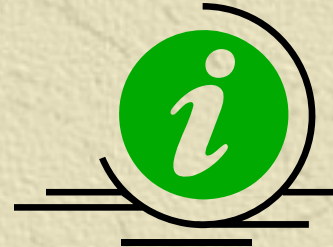
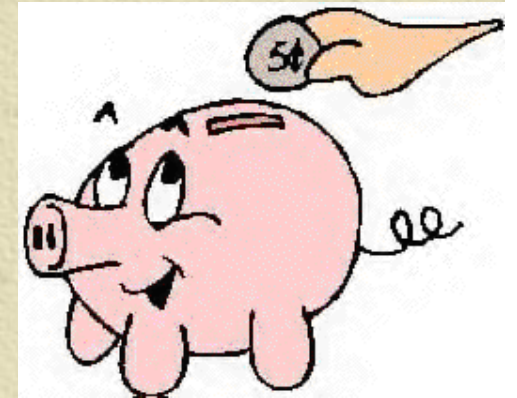
24 month; 100%



Spending exceptions, continued

✚ Reserve and debt service funds

- Excluded from proceeds that must be spent
- 24 month exception - earnings on reserves included as proceeds that must be spent unless issuer elects to exclude them on or before the issue date
- If any spending exception is met, *bona fide debt service funds* may be excluded for the life of the issue



Commingled Funds

- ✚ Adds complexity to calculation
- ✚ Must allocate commingled funds between bond issues and/or non-bond proceeds for purposes of calculating arbitrage rebate
- ✚ Increases time necessary to calculate arbitrage rebate

HINT – When feasible, keep bond proceeds separate from non-bond proceeds.



End of the 5th bond year – arbitrage rebate

✦ First arbitrage rebate payment due within sixty days past end of 5th bond year



✦ End of the bond year can be any day selected by the issuer



✦ Bond documents may use a bond year end that coincides with debt service payment dates; this does not mean that you are locked into that bond year for rebate purposes.

HINT – Bond year end choice may affect amount of payment, especially for variable rate issues!

Bond year end choices

✦ EXAMPLE: A variable issue has expended most of its bond proceeds within two years after the issue date. The yield on investments during that period was slightly less than the arbitrage yield, therefore no arbitrage rebate has been generated.

✦ The arbitrage yield on the variable issue drops in years three through five. If a five year yield calculation period is used, the effect of the drop in yield during years three through five results in the investment yield during years one and two to exceed the arbitrage yield. However, if a two year/three year yield period is used for the five year arbitrage rebate computation period, arbitrage rebate can be avoided.



Bond year end choices

✚ EXAMPLE: Bond documents state that 9/30 is the bond year end. This results in a short first "bond year" since bonds were issued 4/1/1999. You discover on May 1, 2004 that no payment has been made for arbitrage rebate calculated as of 9/30/03. Since the bonds were issued 4/1/1999, you have sixty days past April 1, 2004 to make a payment. Update your arbitrage rebate calculation through 4/1/2004 and submit payment by May 30, 2004. No penalties or interest are applicable.



End of the 5th bond year - YRP

- ✦ First yield reduction payment due within sixty days past end of 5th bond year

HINT - Yield restricted funds may generate a yield reduction payment even if overall arbitrage is negative! Restricted funds and unrestricted funds are separate "classes" and cannot be offset.

- ✦ **EXAMPLE:** Project fund has a 3 year temporary period and has funds still on deposit after expiration of the temporary period. During the temporary period, negative arbitrage was earned. After expiration of the temporary period, the yield exceeded the allowable yield (Arbitrage yield plus .125%). The yield on the funds subsequent to the expiration of the temporary period must be "bought down" to the allowable yield level.



Advance and current refundings

- ✦ May result in transferred proceeds
- ✦ Accelerates the date on which the last bond is outstanding, which will also accelerate the final rebate payment

HINT – Be sure to update your arbitrage rebate scheduling matrix when bonds are refunded!



All proceeds spent

- ⚠ Does not trigger a payment
- ⚠ No opportunity to arbitrage exists when all proceeds are spent
- ⚠ Issuer may wish to pay arbitrage amount at this time - it is a fiscal decision

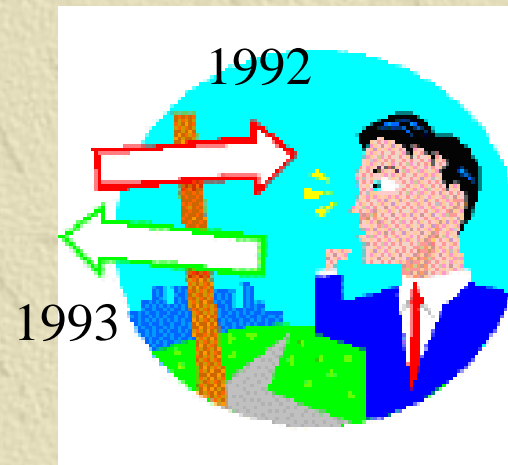


HINT - If you can earn more than the bond yield on investing the rebate amount that is due, it may be wise to wait.

If not, you may wish to pay early because the arbitrage amount compounds at the bond yield until paid.

1992 vs 1993 regulations

- ✱ Certain requirements vary
- ✱ Be sure that you apply the correct regulations to your outstanding issues




How can arbitrage planning save you money?

- ✦ Spending exceptions
- ✦ Capitalized interest
- ✦ Temporary periods
- ✦ Expenditure of bond proceeds instead of reimbursement of non-bond proceeds

Spending exception saving techniques

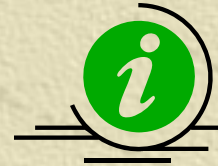
✦ Spending exceptions

- Even if you earn arbitrage, if you meet a spending exception no payment is required 
- Bond interest payments can be included as expenditures for purposes of meeting a spending exception
- Important to track expenditure dates closely –

HINT: If using your own funds and being reimbursed by bond proceeds, this practice may hinder your efforts.

Spending exception saving techniques

✦ Spending exceptions are not mandatory



HINT – If you meet a spending exception on your project fund, but have earned negative arbitrage and have an ongoing reserve account that may earn positive arbitrage, you may want to include the project fund for arbitrage rebate purposes and not avail yourself of the exception.

- Also if you have a multi-purpose issue that includes a current refunding portion that meets the six month spending exception, it may be to your benefit to include that current refunding portion and not exercise the right to the exception.

Capitalized interest saving techniques

✦ Capitalized interest

- Bond proceeds being used to pay bond interest

HINT: Prior to issuance of bonds, discuss this topic with bond counsel. If documents provide for less capitalized interest than is allowed, you may lose the benefit of counting bond interest payments as expenditures of bond proceeds.

Temporary period saving techniques

✦ Temporary periods

- Generally for acquisition or construction funds, the temporary period is three years

HINT: For certain projects, this can be extended to five years. The longer the temporary period, the less your chance of having unspent bond proceeds after the expiration of the temporary period that would then be subject to yield restriction.

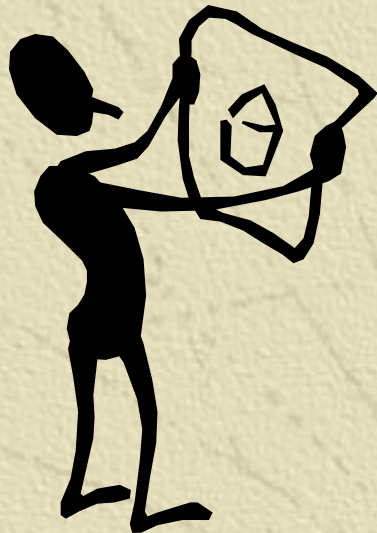
Expenditure tracking saving techniques

✦ Expenditure tracking

- Whether meeting an exception or not, it is generally advantageous to expend bond proceeds as soon as possible

HINT: Many governmental entities make expenditures from their own resources and then get reimbursed from bond proceeds. Expenditures should be made directly from the bond proceeds accounts or be reimbursed to the governmental entity from bond proceeds on the same day.

TEGE



- ✦ The office of Tax Exempt Bonds (TEB), of the Internal Revenue Service (IRS), Tax Exempt and Government Entities division, offers specialized information and services to the municipal finance community – Find information about the kinder, gentler tax exempt arm of the IRS at:

<http://www.irs.gov/pub/irs-pdf/p3608.pdf>

TEB Market Segmentation

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- ✦ The following website provides a link to the IRS training information modules

<http://www.irs.gov/pub/irs-tege/ph1moda.pdf>

- ✦ There are several modules – By changing “moda” in the address to “modb” etc, you will get different subjects.

Tax Exempt Issuer Resources

✦ IRS Publication 4079, Tax-Exempt Governmental Bonds, provides an overview of the key rules under the federal tax law. Info at:



<http://www.irs.gov/pub/irs-pdf/p4079.pdf>

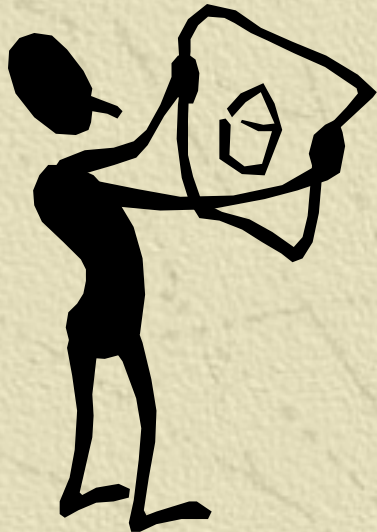
Tax Exempt Issuer Resources

✦ Tax exempt bonds tax kit

<http://www.irs.gov/govt/content/0,,id=96290,00.html>

✦ Includes information regarding:

- Returns; IRS policies; Treasury regulations; court cases; revenue procedures; notices; announcements; news releases

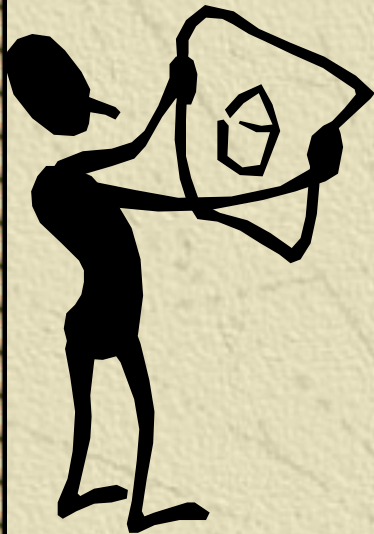


Tax Exempt Issuer Resources

✦ Tax exempt bonds filing requirements

<http://www.irs.gov/pub/irs-pdf/p3755.pdf>

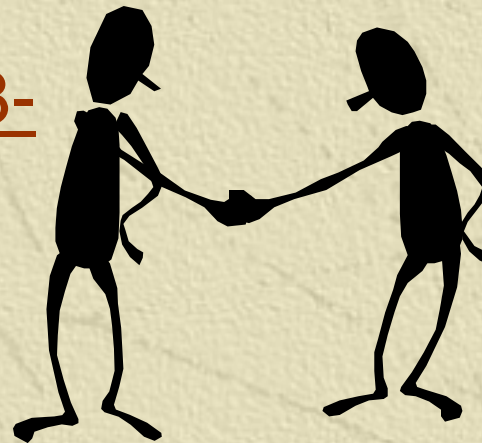
Includes information regarding:
Filing deadlines; tax exempt bond
leadership contact information at IRS



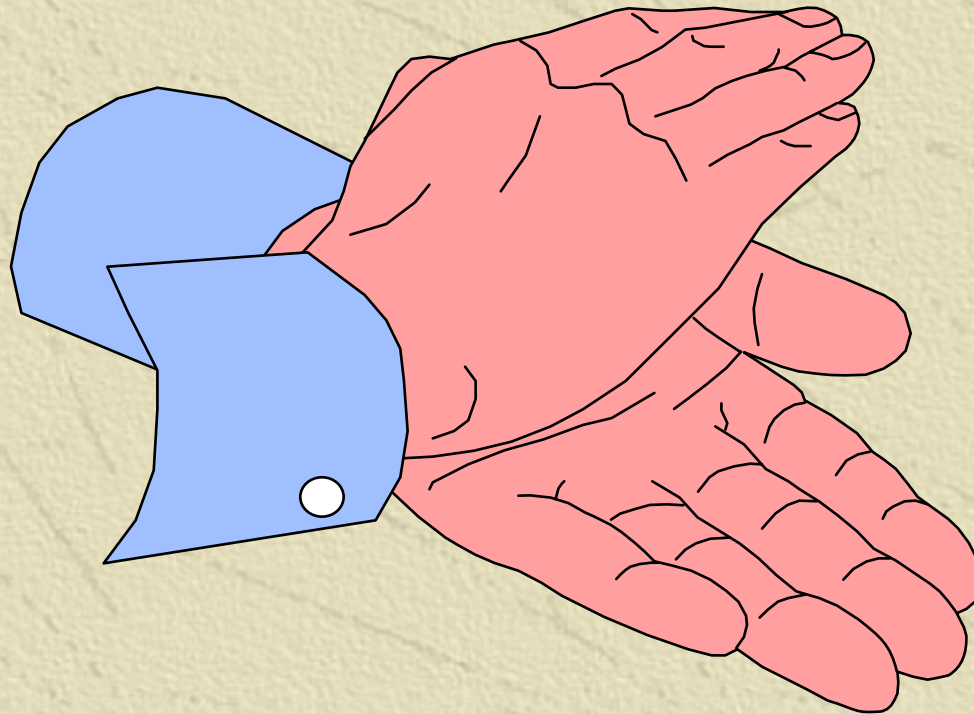
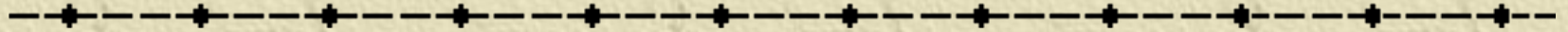
Tax Exempt Issuer Resources

✦ New Tax Exempt Bond Pilot Program to Mediate and Speed Up Resolution Disputes

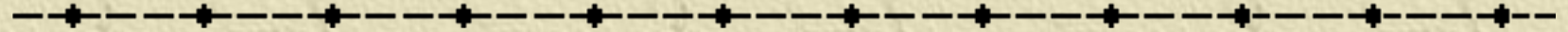
✦ IRS [Announcement 2003-36](#), issued June 3, 2003



Congratulations and Thank You!



QUIZ SHOW



✦ Good Luck and have fun!!!

Question 5

Investment securities, such as U.S. treasury bonds, bank deposits, or investment agreement contracts purchased with tax-exempt bond proceeds are:

- ◆ Purpose investments
- ◆ Non-purpose investments
- ◆ Program investments

Question 6

If the yield on non-purpose investments of bond proceeds exceeds the permitted yield

- During the temporary period
- As part of a reasonably required reserve or replacement fund; or
- As part of a minor portion

such activity may cause the bonds to be:

A – arbitrage bonds; or

B – non-arbitrage bonds

Question 7

Temporary periods for capital projects are generally 3 years, but may be 5 years for long term capital projects.

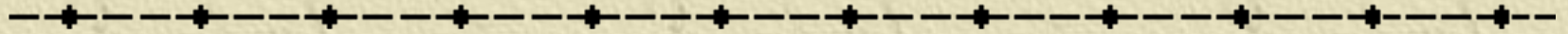
True or False

Question 8

Compliance with yield restriction requirements may be achieved by using bond proceeds to purchase non-purpose investments that do not exceed the permitted yield OR purchasing non-purpose investments using bond proceeds above the permitted yield and making yield reduction payments

True or False

Question 9



When calculating arbitrage rebate payments, yield reduction payments made or being made simultaneously with an arbitrage rebate payment with respect to an issue may:

A - Reduce the amount of arbitrage rebate due to the US Treasury

B – Increase the amount of arbitrage rebate due to the US Treasury

Question 15

If a spending exception is met, this fund can be excluded from rebate for the life of the issue

- ◆ Bona fide debt service fund
- ◆ Construction fund
- ◆ Reasonably required reserve fund

Question 18

If your bond issue meets a spending exception but earns arbitrage, no payment is required

True or False