



BRECKENRIDGE CITY COMMISSION AGENDA SUMMARY FORM

Subject: Discussion regarding the impacts of Arbitrage

Department: Administration

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Title: City Manager

BACKGROUND INFORMATION:

Arbitrage is the profit from buying in one market and selling in another. Because issuers of tax-exempt bonds (The City), borrow in the tax-exempt market and then invest in the taxable market (Logic) we are required to rebate the profit difference (rebate is the profit from taking advantage of the market differentials).

Rebate and yield restriction liabilities must be paid to the Treasury every fifth bond year. Installment payments are due 60 days after either the fifth bond year or the final maturity of the issue.

How does arbitrage work?

- A city borrows money at a low interest rate and is tax-exempt
- The city invests the proceeds in a higher-yield investment (i.e., Logic)
- The city makes a profit from the difference between the interest it paid and the interest it earned
- Profits between the two markets are calculated and they must rebate the market differentials

FINANCIAL IMPACT:

The City will be required to pay the following (amount as of February 2025. This will change because we will continue to accumulate interest earnings until the 5th year.):

CO 2023 - \$151,193.11 (5th bond year will be 9.13.27)

CO 2022 A&B - \$274186.66 (5th bond year will be 10.30.28)

STAFF RECOMMENDATION:

Discussion item only