

**School Board Meeting:**

February 27, 2012

**Subject:**

First Reading of Policy #705.2  
Post-Issuance Debt Compliance

**Presenter:**

Gary Kawlewski, Dir. of Finance & Operations

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**SUGGESTED SCHOOL BOARD ACTION:**

Board action is not required for the first reading of policies

**DESCRIPTION:**

The district's financial advisor is recommending that the school district adopt a policy to take necessary steps to help ensure that all debt service obligations will be in compliance with all applicable federal regulations. Municipal debt issuers (cities, counties, states, school districts) have become more heavily scrutinized as a result of the recent federal stimulus packages that have provided federal funds to local debt issuers. Local government debt issuers, including schools, are subject to arbitrage rules and regulations.

Simply put, arbitrage is making money on the issuance of public debt. The IRS has rules and regulations that limit the amount of money that a public debt issuer can make on a debt issuance. Any amount earned above the threshold from the issuance by the issuer is restricted by a complicated set of rules. If the earnings exceed the threshold, the district pays a tax (penalty) back to the IRS. The regulations also spell out detailed recordkeeping procedures as well.

Many of the procedures referenced in the policy are already in place here. This policy simply formalizes the outline of the recommended procedures and provides additional direction to district staff through an accompanying formalized procedures document to take steps to ensure that we are in compliance with the IRS. Additionally, all issuers of tax-exempt bonds are required to file IRS Form 8038-G upon issuance of debt. Late last September, the IRS revised this form, requiring additional compliance statements. Having this policy in place allows us to mark those compliance test boxes positively. Failure to be able to check the boxes positively may trigger an IRS examination.

**First Reading of a New Policy (No Board Action Required)**

The following new policy is being presented to the School Board for first reading:

- Policy 705.2 - Post-Issuance Debt Compliance Policy