Texas Higher Education
COORDINATING BOARD

Series 2013A Arbitrage Liability & IRS Payment

Presentation to Agency Operations Committee

April 26, 2023

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Background

Tax-Exempt bonds issued after 1986 are subject to arbitrage rebate requirements imposed by Section 148 (f) of the Internal Revenue Code of 1986.

The Coordinating Board accrues an arbitrage liability each fiscal year reflecting the estimated payments due to the federal government for any potential excess earnings.

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In January 2013, the THECB Agency Operations Committee approved a resolution to authorize refunding of outstanding balances of one Fixed Rate Bond (Series 1999) and several Variable Rate Bonds (Series 2003, 2004, and 2006).

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Refunding Benefits

- Locking in historically low interest rates.
- Eliminating the risks of variable rate bonds from our portfolio.
- Allowed our funds to be invested in the CPA Treasury Pool to generate greater earnings than before.

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Refunding analyses projected a potential savings of about $12.9 million.

Student loan interest rates associated with these bonds were now significantly more than the bond yield.

A significant portion of savings would need to be held back for an arbitrage payment.

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Series 2013A Arbitrage Liability

As of August 2022, the excess earnings liability for this issue was $5.575 million.

Shown as a Current Liability since the payment is required to be made in fiscal year 2023.

Actual amount owed to the Treasury will be finalized before the payment is due in August.

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Summary

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Summary

- Minimal financial statement impact
- Annual arbitrage analysis updates these liabilities
- System upgrades help minimize future impacts
- Unique circumstances of this series
  - 2013 interest rate environment
  - Refunding from variable rate to fixed rate bonds
- Next potential payment- 2027
  - Liability for this payment as of August 31, 2022- $130,372
  - Subject to ongoing review and revisions

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