GLWA
Great Lakes Water Authority

Financial Services
Audit Committee Communication

Date: October 24, 2025

To: Great Lakes Water Authority Audit Committee

From: Nick Fedewa, CPA, Public Finance Manager

Re: Arbitrage Rebate Liability for the Regional System

Background & Analysis: An arbitrage rebate liability is the amount of excess “profit” (arbitrage) that an issuer of a tax-exempt bond must pay to the Internal Revenue Service (IRS) pursuant to 26 U.S. Code § 148(f), This liability arises when the bond issuer, such as the Great Lakes Water Authority (GLWA), invests bond proceeds in higher-yielding investments than the bond's own yield rate assigned at the time of issue, creating a profit that is subject to rebate unless an exemption applies. Inherently, this calculation is performed on a lookback basis in order to compare actual investment yield rate versus the yield rate on the bond issue.

GLWA’s Public Finance team oversees compliance with applicable laws and regulations related to debt management. This encompasses engaging external subject matter experts to ensure the highest level of compliance. For arbitrage compliance GLWA utilizes the services of PFM Asset Management (“PFMAM”). In addition, this work is also performed in consultation with GLWA’s bond counsel, financial advisor, and investment manager.

In September 2025, PFMAM completed an arbitrage rebate and yield restriction compliance analysis (the “Report”) for the period of September 13, 2022 to June 30, 2025 (the “Computation Period”) for eligible water system bonds and the period of September 13, 2022 to August 15, 2025 for eligible sewer system bonds. The summary results for each system are shown below which compare the “Allowable Yield on Investments” as defined by IRS Code with the “Aggregate Internal Rate of Return (IRR) on Investments based on GLWA’s actual investment performance.

Water System: The arbitrage analysis applies to the 2022A and 2022B Water Supply Revenue Bonds. The summary result of the computation from PFMAM for the Water Supply Revenue Bonds is shown in the table below. Despite the Excess Yield noted in that table, the arbitrage rebate due is zero. This is because there is a two-year spending exception pursuant to Treasury Regulations Section 1.148-7 which was applicable to the calculation for the water system for the time period specified above.

As of the Interim Computation Date of June 30, 2025:

ARBITRAGE REBATE LIABILITY	
Allowable Yield on Investments:	3.857049%
Aggregate IRR on Investments:	4.808712%
Excess Yield:	0.951663%
Arbitrage Rebate Due[1]:	**$0.00**

Sewer System: The arbitrage analysis applies to the 2022A, 2022B and 2022C Sewage Disposal System Revenue Bonds. The summary result of the computation from PFMAM for the Sewage Disposal System Revenue Bonds is shown in the table below. In this instance, the gross proceeds of the sewer disposal system bonds have accrued a liability of approximately $3.3 million for the computation period noted above.

As of the Installment Computation Date of August 15, 2025:

ARBITRAGE REBATE LIABILITY	
Allowable Yield on Investments:	3.938113%
Aggregate IRR on Investments:	4.905690%
Excess Yield:	0.967577%
Arbitrage Rebate Liability:	**$3,325,139.85**

Technically, GLWA could have deferred this required payment until mid-November 2027. However, rules distinguish "interest" and "penalties" for late arbitrage payments. The increase is a function of how the rules require the liability to be calculated (on a future value basis as of the calculation date used to make the payment). Based on the calculation rules, the liability would have increased by an estimated $10,000 per month until paid. For this reason, it was determined that making this payment in October 2025 would be the most cost-effective approach.

It should also be noted that this calculation was performed in a timely manner that aligned with the FY 2025 year-end close. The liability noted above was recorded with the offset being a reduction to the investment earnings in the Sewage Disposal Construction Fund.

Proposed Action: Receive and file this report.