

# ARBITRAGE REBATE CONSULTING SERVICES

DEPARTMENT OF FINANCE *62*

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ACTION BY: *Prof. Eric Auditing*

FROM: *Arbitrage Compliance Consultant*

## SUMMARY OF PROFESSIONAL QUALIFICATIONS

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2023

**Causey** 

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**CAUSEY DEMGEN & MOORE P.C.**  
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**INTRODUCTION**

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CAUSEY DEMGEN & MOORE P.C. is a firm of professional accountants and management consultants who are dedicated to providing the finest quality of professional services to our clients and, thereby, our professional careers. We are a national leader in our profession in providing services to the Public Finance Industry.

The purpose of this document is to introduce you to our firm and arbitrage rebate capabilities and our approach to providing the finest professional services to our clients in this industry.

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**OVERVIEW OF THE FIRM**

CAUSEY DEMGEN & MOORE P.C., is a professional accounting and management consulting firm based in Denver, Colorado established to provide a broad range of personalized professional accounting and financial services to our clients and to provide a creative environment and opportunities for growth for our employees.

The firm was formed to provide a workable composite of the best qualities of both national and local CPA firms—experience, expertise, personal attention and quality reputation. Since its formation as a partnership in 1981, the firm has grown from three to over forty professionals. Causey was converted to a corporation in 1995 and currently has eleven shareholders.

Our Public Finance practice is national in scope. Approximately 25% of our total firm volume consists of services for clients on the East and West coasts of the United States. Approximately 90% of our public finance and financial services practice is outside the Rocky Mountain Region.

We have offered arbitrage rebate consulting services continuously since 1989.

Our Public Finance group consists of three principals, one part-time principal, four managers, and five analysts for a total of thirteen professionals. The principals are William Glasso, Heath Borer, and Justin Greaser.

## **PUBLIC FINANCE CAPABILITIES**

Causey is the largest CPA firm in the country that provides independent third-party verification, financial feasibility, escrow monitoring, and arbitrage rebate services to issuers of tax-exempt debt, their financial advisors and underwriters and their bond counsel. We have provided these services on more than 20,000 issues nationally totaling over \$350 billion.

We are the leading firm in our profession in terms of transaction volume. Our reports are accepted by all bond insurers in their credit enhancement evaluations, as well as by the major rating agencies.

Our practice covers the following areas:

### **Arbitrage Rebate Services:**

- Determination of rebatable arbitrage for:
  - Fixed and variable rate issues (including synthetic fixed rate issues)
  - General obligation and revenue bonds
  - Refunding issues
  - Single family mortgage revenue bonds
  - Multifamily mortgage revenue bonds
  - Certificates of participation

### **Verification Services:**

- Verification of escrow cash sufficiency and yield compliance for:
  - Current refunding transactions
  - Advance refunding transactions
  - Yield verifications for bond issues to comply with arbitrage restrictions
  - Escrow restructurings
  - Cash flow of various securitization transactions including, single and multi-family housing issues, HUD 242 health care and tobacco assets
- Verification of escrow sufficiency, spend-down and net income analyses for commercial real estate loan defeasance transactions

### **Investment Advisory Services:**

- Structuring and bidding open market securities and investment contracts for:
  - Project funds

- Reserve funds
- Escrow funds
- Sinking funds
- Debt service deposit agreements

**Financial Feasibility Studies and Other Services:**

- Financial and market feasibility studies for new projects encompassing:
  - Healthcare
  - Parking Facilities
  - Housing
  - Water and Sewer Utilities
  - Healthcare
  
- Assistance to financially troubled projects and governmental entities to assist in:
  - Cost reduction/management reorganization
  - Revenue improvement
  - Evaluation of operations and forecasting the ability to repay debt under various alternatives
  - Evaluating alternatives to sales or other
  - Solutions to problem situations

As evidence of our commitment to provide quality and timely services, we have developed our own in-house computerized systems (1) to independently compute cash flows, yield calculations and security coverage in the case of housing bonds and (2) to determine the amount of rebatable arbitrage associated with a bond issue. We are constantly expanding our service capabilities in order to meet industry needs.

Each of our particular areas of focus as well as our commitment to critical turnaround requirements and a short description of the key people we will use the staff each engagement are described in more detail below.

### **ARBITRAGE REBATE CONSULTING SERVICES**

The federal tax code currently requires all issuers of tax-exempt bonds to monitor the rate of return realized on investments purchased with bond proceeds and to remit "excess earnings" to the U.S. Department of the Treasury. We have determined the amount of rebatable arbitrage for more than 1,000 issues of tax-exempt bonds and certificates of participation including:

- Fixed rate issues
- Variable rate issues (including synthetic fixed rate issues)
- Single family mortgage revenue bonds
- Multifamily housing revenue bonds

We have extensive experience with transactions involving:

- Transferred proceeds
- Investments acquired with commingled funds
- Universal cap applications
- Valuation of bonds and investments
- Swap termination and deemed termination payments
- Spending exemptions

We have well-tested, tailored computer software to analyze an issuer's rebate liability and typically provide two to three weeks turnaround from receipt of information to issuance of the final report.

We have been engaged on several occasions to analyze arbitrage rebate computations provided to our clients by other rebate agents and have successfully implemented alternative computational procedures which resulted in a reduced rebate liability or allowed the issuer to obtain a refund.

We have been involved in several transactions which were the focus of an Internal Revenue Service audit. We were able to comply with certain of the Service's requests for data or explanations relating to allocations of commingled funds, etc. and thereby insulate our client from the need to allocate time and resources to address certain of these issues. We routinely prepare all of the forms and other submitted items associated with the filing of either a payment of a rebate liability or a request for a refund. To date, we are unaware of any requests for refund which have not been paid in full.

### **Approach**

Our arbitrage rebate calculation services encompass the following:

- Review of pertinent documentation including the Arbitrage Certificate, Official Statement, Trust Indenture, swap confirms, letter of credit reimbursement agreement, investment contracts, Verification Report, and prior rebate report,
  - Determination of the actual yield on the bonds,
  - If requested, review and if necessary, modify, any prior years calculations,
  - Analysis of transaction reports for each fund and account to allocate deposits, transfers, interest earnings, and cash disbursements between purpose and non-purpose investments,
  - Analysis of any commingled funds, reserve funds, or debt service residual funds,
  - Review of the particular circumstances of the issue to determine which, if any, of the statutory arbitrage rebate exemptions apply (such as the bona fide debt service fund exemption, small issuer exemption, six-month or eighteen-month expenditure exemption and two-year spend-down exemption),
  - Review of the particular circumstances of the issue to determine if any transferred proceeds calculations are required,
  - Coordination with bond counsel on issues requiring a legal opinion or interpretation,
  - Calculation of the required arbitrage rebate amounts, by fund, for the calculation period,
  - Analysis of the various yield restriction rules and calculation of any necessary yield reduction payments due to the Internal Revenue Service,
  - Determination of the interest and any penalties due, if any, associated with late filings as required by the regulations,
  - Completion of Internal Revenue Service Form 8038-T, if necessary,
  - Completion of Internal Revenue Service Form 8038-R (for a refund) and corresponding IRS package, if applicable.
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### **ARBITRAGE REBATE PERSONNEL**

Our ability to consistently provide quality work under tight time frames is a direct function of the quality of our people and how well we work with our clients. The following are brief biographical sketches of our public finance professionals.



**William Glasso, CPA, Principal**, began his career with Causey as a verification agent in 1997. Subsequently, he worked as a deputy treasurer for the City of Rome, New York and as a financial advisor to state and local governments with Evensen Dodge LLC and then Capital Markets Advisors, LLC, both in New York City. He rejoined Causey in 2006 and became a principal in 2008. Bill brings more than two decades of experience in investment advisory services to Causey and has managed more than 1,000 bidding agent transactions in his role as an investment advisor.

He has had partnership responsibility on tax-exempt refunding bond issues totaling over \$120 billion, including more than 50 with transferred proceeds, and has performed or reviewed more than 7,500 arbitrage rebate and verification calculations. His career includes experience in the following areas:

- Verification studies of advance refundings, tobacco bonds, single family and multi-family housing issues, asset release programs, escrow restructurings;
- Arbitrage rebate calculations for general obligation and revenue bonds, single family and multi-family mortgage revenue bonds, refunding issues, variable rate issues;
- Bidding and structuring open market securities and investment contracts for project funds, reserve funds, escrow funds, sinking funds, and debt service deposit agreements;
- Escrow monitoring and calculation agent services for synthetic fixed rate tax-exempt advance refunding issues;
- Commercial loan defeasance verifications.

He earned a Bachelor of Science degree in Accounting with a minor in Mathematics from State University of New York and a Master of Business Administration from the University of Central Florida.

### **Arbitrage Rebate Manager**



**Teow Lim Goh** joined Causey in 2006 as a Consultant and became a Manager in 2020. She has supervised or performed more than 5,000 arbitrage rebate calculations, verification studies, and investment bidding and structuring analyses.

Teow manages our arbitrage rebate practice. She oversees workflow scheduling, insures project completion, performs detailed reviews of the mathematical calculations and formal reports, and manages our monitoring system of upcoming computation dates. She has extensive experience in complexities such as variable rate yield calculations, amortization of upfront guarantee fees, parity bond reserve funds, and multigenerational transferred proceeds.

She earned a Bachelor of Science degree in Mathematics from the University of Michigan.

### **Arbitrage Rebate Staff**

**Nicole L. Oravec** joined Causey in 2014 as a Consultant and became a Manager in 2022. She has performed more than 650 arbitrage rebate calculations and verification studies. She earned a Bachelor of Arts degree in Mathematics from Syracuse University.

**Diana Bedolla** joined Causey in 2020 as a Consultant and became a Senior Consultant in 2022. She has performed more than 350 arbitrage rebate calculations, verification studies, and investment bidding and structuring analyses. She earned a Bachelor of Science degree in Finance from Mississippi State University.

**Brie Hopping-Merlino** joined Causey in 2021 as a Consultant. She has performed more than 200 arbitrage rebate calculations, verification studies, and investment bidding and structuring analyses. She earned a Bachelor of Science degree in Business Administration with an emphasis in Finance from the University of Colorado at Denver.

**Alison Holmstrom** joined Causey in 2022 as a Consultant. She has performed more than 50 arbitrage rebate calculations, verification studies, and investment bidding and

structuring analyses. She earned a Bachelor of Business Administration with an emphasis in Finance from the University of Wisconsin-Eau Claire.

#### **Other Public Finance Professionals**

**Heath Borer, CPA, Principal** joined Causey in 2006 as a Consultant and became a Principal in 2021. He has supervised or performed more than 4,500 feasibility studies, verifications and arbitrage rebate calculations, totaling more than \$100 billion. He earned a Bachelor of Arts degree in Marketing and Public Relations from Colorado State University and a Master of Business Administration degree from the University of Colorado at Denver.

**Justin Greaser, Principal** joined Causey in 2012 as a Consultant and became a Principal in 2021. He is a registered Municipal Advisor and has worked closely with Bill Glasso in providing investment advisory services over the past 10 years. Justin has been the lead advisor on more than 1,000 transactions for Causey. He earned a Bachelor of Science degree in Business Administration from the University of Pittsburgh.

**Katelyn E. Baker** began her career with Causey as a consultant in 2005, subsequently moved into a managing role at the Colorado Housing and Finance Authority, and rejoined Causey in 2022 as a Senior Manager. She has performed more than 5,000 arbitrage rebate calculations, verification studies, and investment bidding and structuring analyses. She earned a Bachelor of Science degree in Economics from the Colorado School of Mines.

**Andy Mathes** joined Causey in 2021 as a Senior Manager after nine years leading the municipal advisory and fixed income investment operations of RIAs in Washington, D.C. and Nashville. He is a graduate of Texas Christian University in Fort Worth, Texas and serves as a Trustee for St. Mary's Episcopal School and the Episcopal Diocese of West Tennessee Endowment Corporation.

**Dino Zepcan** joined Causey in 2016 as a Consultant and became a Manager in 2021. He has performed more than 800 arbitrage rebate calculations, verification studies, and investment bidding and structuring analyses. He earned a Bachelor of Science degree in Biology and an International Master of Business Administration degree, both from the University of Denver.

**F. Hunter Short** joined Causey in 2019 as a Consultant and became a Senior Consultant in 2021. He has performed more than 450 arbitrage rebate calculations, verification studies, and investment bidding and structuring analyses. He earned a Bachelor of Science degree in Finance from the University of Colorado at Denver.

**Alexander Albert** joined Causey in 2020 as a Consultant and became a Senior Consultant in 2022. He has performed more than 350 arbitrage rebate calculations,

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verification studies, and investment bidding and structuring analyses. He earned a Bachelor of Science degree in Business Administration with an emphasis in Finance from the University of Colorado at Boulder.

**ARBITRAGE REBATE REFERENCES**

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### **REPRESENTATIVE DEAL LIST**

Our professionals have provided arbitrage rebate services for more than 100 issuers throughout the United States. In the past three years alone, we have provided the full scope of arbitrage rebate services on approximately 400 bond issues, including those listed below:

#### **Pennsylvania Turnpike Commission**

Location: Middletown, Pennsylvania  
Duration of Assignment: 2019 – Present  
Role in Project: Annual arbitrage rebate computations as of April 30

The Pennsylvania Turnpike Commission was created in 1937 to construct, finance, maintain, and operate the Pennsylvania Turnpike. As of 2023, the Commission had about \$11 billion of outstanding debt and 54 bond issues that were subject to rebate. These computations include variable rate bond yields, including integrated swaps and amortization of deemed swap termination payments; transferred proceeds analyses, including cascading transferred proceeds and refunding of taxable issues requiring mark-to-market analysis, and parity bond reserve funds analyses.

Our goal was to compute the arbitrage rebate liability as of April 30 of each year for each outstanding bond issues and to advise and assist the Commission with the payment of any amounts owed to the IRS.

Prior to our engagement, the previous arbitrage rebate consulting firm had provided these services to the Commission for 15 years. As part of our engagement, we reviewed the previous firm's arbitrage rebate reports and we found that the firm did not account for about \$60 million on deposit in three debt service reserve accounts associated with bond issues that had already reached their final maturity dates.

We reached out to the Commission, who put us in touch with the previous firm as well as Bond Counsel. After much deliberation, Bond Counsel opined that because these monies in the reserve funds were not expressly released, they were still subject to rebate and allocable to a particular universe of the Commission's bond issues. The previous firm, incorrectly, did not include these reserve funds in their prior calculations. We discussed this oversight with the Commission and rectified the calculations going forward.

#### **City of Colorado Springs Utilities System**

Location: Colorado Springs, Colorado  
Duration of Assignment: Three-year contract initiated more than 15 years ago and extended annually  
Role in Project: Annual arbitrage rebate computations as of December 31

Colorado Springs Utilities is an arm of the City of Colorado Springs and exists to provide electric power to the greater Colorado Springs area. Their facilities include coal fired and nuclear power generators and they maintain and operate their own coal delivery train system. As of 2023, CSU had about \$2.2 billion of outstanding debt and 26 bond issues that were subject to rebate.

Our goal has to compute the arbitrage rebate liability as of December 31 of each year for each outstanding issues and to advise and assist CSU with the payment of any amounts owed to the IRS.

**State of Florida**  
**Turnpike Common Reserve Analysis**

Location: Tallahassee, Florida  
Duration of Assignment: August to October 2022  
Role in Project: Commingled reserve funds analysis

The State of Florida performs its arbitrage rebate calculations in-house. We were hired to calculate the allocation percentages for the common reserve funds pledged to the Department of Transportation Turnpike Revenue Bonds that they can use in their arbitrage rebate calculations.

Prior to 2008, the State had purchased surety policies for their Turnpike Revenue Bonds. Due to a credit downgrade of the surety provider around 2008, the State had to contribute cash to establish a common debt service reserve fund that was pledged to their parity bonds. For the 16 subsequent issuances of their Turnpike Revenue Bonds, the State contributed either bond proceeds or equity to the common debt service reserve fund. Until June 2020, the State maintained these monies in 16 separate accounts.

In June 2020, the State collapsed these 16 separate accounts into an aggregate debt service reserve account. There were new bond issuances after June 2020.

We reviewed the Official Statements, Tax Certificates, Forms 8038-G, Final Pricing Numbers, and Verification Reports (if any) to establish the issuance, maturity, and refunding histories for 38 issues of the State's Turnpike Revenue Bonds.

We allocated original proceeds to its bond issue, computed transferred proceeds percentages for each of the refunding transactions, and allocated the equity portions (including cash contributions from the State as well as portions of the reserve "orphaned" due to debt service or debt service reserve funds contributed to refunding escrows) on an original par basis.

With this information, we built a matrix of allocation percentages by bond issue and event date for each of the 17 accounts (the 16 individual accounts plus the aggregate account).

**Anne Arundel County, Maryland**  
**IRS Audit and Incomplete Investment and Expenditure Information**

Location: Annapolis, Maryland  
Duration of Assignment: May 2023  
Role in Project: Assistance with IRS audit

A portion of the Anne Arundel County's bond issues were under IRS audit. McKennon Shelton and Henn LLP, as Bond Counsel to the County, hired us to perform the arbitrage rebate calculations for one of the bond issues under audit.

The County was not able to provide us with complete investment and expenditure data for the bond issue under audit. The only information available were detail transaction reports of the purchases, interest earnings and amortization, and maturities of the investments in the funds under consideration. We were advised that the expenditure data would not be available in a timely manner in order to meet the IRS audit deadline.

We made a list of the County's investments in the funds under consideration (excluding the investments in tax-exempt bonds, which are not subject to rebate) and computed the initial yield on each of the securities. For all except two securities, we found that the yield on the securities did not exceed the bond yield. For the funds with the two securities whose yields exceeded the bond yield, we computed the blended yield on all the securities in those funds and found that each such blended yield did not exceed the bond yield.

We also compared the published rates on the Maryland Governmental Investment Pool for the period for which bond proceeds were outstanding (such periods were provided by Bond Counsel) to the bond yield and found that such investment rates did not exceed the bond yield.

As a result, we were able to conclude that all the taxable investments in the funds under consideration were invested at yields below the bond yields and issued a "no rebate concern" report detailing our findings that supported our conclusion that such investments did not generate any positive rebate liability.

