

INDEPENDENT SCHOOL DISTRICT 196
Rosemount-Apple Valley-Eagan Public Schools
Educating our students to reach their full potential

Series Number 713.1P Adopted July 2013 Revised _____

Title Post-Issuance Debt Compliance

1. In accordance with Policy 713, Post-Issuance Debt Compliance, the district's responsible authority (director of finance and operations or his or her designee) will perform the following procedures for all of the district's outstanding debt.
2. **General Post-Issuance Compliance**
 - 2.1 Ensure written procedures and/or guidelines have been put in place for individuals to follow when more than one person is responsible for ensuring compliance with post-issuance debt compliance procedures.
 - 2.2 Ensure training and/or educational resources for post-issuance compliance have been approved and obtained.
 - 2.3 The responsible authority understands that there are options for voluntarily correcting failures to comply with post-issuance compliance requirements (such as remedial actions under Section 1.141-12 of the Treasury Regulations and the ability to enter into a closing agreement under the Tax-Exempt Bonds Voluntary Closing Agreement Program described in Notice 2008-31 [the "VCAP Program"]).
3. **General Record Keeping**
 - 3.1 Retain records and documents for the obligation and all obligations issued to refund the obligation for a period of at least seven years following the final payment of the obligation (or if such obligation is refunded, the final payment of the refunding bond) unless otherwise directed by the district's bond counsel.
 - 3.2 Retain both paper and electronic versions of records and documents for the obligation.
 - 3.3 General records and documentation to be assembled and retained:
 - 3.3.1 Description of the purpose of the obligation (referred to as the project) and the state statute authorizing the project;
 - 3.3.2 Record of tax-exempt status or revocation of tax-exempt status, if applicable;
 - 3.3.3 Any correspondence between the district and the IRS;
 - 3.3.4 Audited financial statements;
 - 3.3.5 Bond transcripts, official statements and other offering documents of the obligation;
 - 3.3.6 Minutes and resolutions authorizing the issuance of the obligation;
 - 3.3.7 Certifications of the issue price of the obligation;

- 3.3.8 Any formal elections for the obligation (i.e. election to employ an accounting methodology other than the specific tracing method);
- 3.3.9 Appraisals, demand surveys, or feasibility studies for property financed by the obligation;
- 3.3.10 Documents related to governmental grants, associated with construction, renovation or purchase of property financed with the obligation, and
- 3.3.11 Reports of any prior IRS examinations of the district or the district's obligation.

4. **Arbitrage Yield Restriction and Rebate Record Keeping**

- 4.1 Investment and arbitrage documentation to be assembled and retained:
 - 4.1.1 An accounting of all deposits, expenditures, interest income and asset balances associated with each fund established in connection with the obligation. This includes an accounting of all monies deposited to the Debt Service Account to make debt service payments on the obligation, regardless of the source derived. Accounting for expenditures and assets is described in further detail in Section 5.
 - 4.1.1.1 Statements prepared by trustee or investment provider.
 - 4.1.1.2 Documentation of at least quarterly allocations of investments and investment earnings to each obligation (i.e. un-comingling analysis).
 - 4.1.1.3 Documentation for investments made with obligation proceeds such as:
 - 4.1.1.3.1 Investment contracts (i.e. guaranteed investment contracts).
 - 4.1.1.3.2 Credit enhancement transactions (i.e. bond insurance contracts).
 - 4.1.1.3.3 Financial derivatives (swaps, caps, etc).
 - 4.1.1.3.4 Bidding of financial products.
 - 4.1.1.3.4.1 Investments acquired with obligation proceeds are purchased at fair market value (i.e. three bids for open market securities needed in advance refunding escrows).
- 4.2 Computations of the arbitrage yield.
- 4.3 Computations of yield restriction and rebate amounts including but not limited to:

- 4.3.1 Compliance in meeting the “Temporary Period from Yield Restriction Exception” and limiting the investment of funds after the temporary period expires.
- 4.3.2 Compliance in meeting the “Rebate Exception.”
 - 4.3.2.1 Qualifying for the “Smaller Issuer Exception
 - 4.3.2.2 Qualifying for a “Spending Exception”
 - 4.3.2.2.1 Six-month spending exception
 - 4.3.2.2.2 18-month spending exception
 - 4.3.2.2.3 24-month spending exception
 - 4.3.2.3 Qualifying for the “Bona Fide Debt Service Fund Exception”
 - 4.3.2.4 Quantifying arbitrage on all funds established in connection with the obligation in lieu of satisfying arbitrage exceptions (including Reserve Funds and Debt Service Funds)

4.4 Computations of yield restriction and rebate payments.

4.5 Timely Tax Form 8038-T filing, if applicable.

- 4.5.1 Remit any arbitrage liability associated with the obligation to the IRS at each five-year anniversary date of the obligation, and the date in which the obligation is no longer outstanding (redemption or maturity date), whichever comes sooner, within 60 days of said date.

4.6 Timely Tax Form 8038-R filing, if applicable.

4.7 Procedures or guidelines for monitoring instances where compliance with applicable yield restriction requirements depends on subsequent reinvestment of obligation proceeds in lower yielding investments (for example: reinvestment in zero coupon SLGS).

5. **Expenditure and Asset Documentation to be Assembled and Retained**

5.1 Documentation of allocations of obligation proceeds to expenditures (i.e. allocation of proceeds to expenditures for the construction, renovation or purchase of facilities owned and used in the performance of exempt purposes).

5.1.1 Such allocation will be done not later than the earlier of:

5.1.1.1 Eighteen (18) months after the later of the date the expenditure is paid, or

5.1.1.2 The date the project, if any, that is financed by the tax-exempt bond issue is placed in service, or

5.1.1.3 The date sixty (60) days after the earlier of the fifth anniversary of the issue date of the tax-exempt bond issue, or

5.1.1.4 The date sixty (60) days after the retirement of the tax-exempt bond issue.

5.2 Documentation of allocations of obligation proceeds to issuance costs.

- 5.3 Copies of requisitions, draw schedules, draw requests, invoices, bills and cancelled checks related to obligation proceed expenditures during the construction period.
- 5.4 Copies of all contracts entered into for the construction, renovation or purchase of facilities financed with obligation proceeds.
- 5.5 Records of expenditure reimbursements incurred prior to issuing bonds for facilities financed with obligation proceeds (Declaration of Official Intent/Reimbursement Resolutions including all modifications).
- 5.6 List of all facilities and equipment financed with obligation proceeds.
- 5.7 Depreciation schedules for depreciable property financed with obligation proceeds.
- 5.8 Documentation that tracks the purchase and sale of assets financed with obligation proceeds.
- 5.9 Documentation of timely payment of principal and interest payments on the obligation.
- 5.10 Tracking of all issue proceeds and the transfer of proceeds into the debt service fund as appropriate.
- 5.11 Documentation that excess earnings from a Reserve Fund are transferred to the Debt Service Fund on an annual basis. Excess earnings are balances in a Reserve Fund that exceed the Reserve Fund requirement.

6. Miscellaneous Documentation to be Assembled and Retained

- 6.1 Ensure that the project, while the obligation is outstanding, will avoid Internal Revenue Service private activity concerns.
 - 6.1.1 The responsible authority shall monitor the use of all obligation-financed facilities in order to determine whether private business uses of obligation-financed facilities have exceeded the *de minimus* limits set forth in Section 141(b) of the Code as a result of sale of the facilities (including sale of capacity rights, leases and subleases of facilities (including easements or use arrangements for areas outside the four walls, e.g., hosting of cell phone towers), leasehold improvement contracts, licenses, management contracts (in which the district authorizes a third party to operate a facility, e.g. cafeteria), research contracts, preference arrangements (in which the district permits a third party preference, such as parking in a public parking lot), joint ventures, limited liability companies or partnership arrangements, output contracts or other contracts for use of utility facilities (including contracts with large utility users), development agreements which provide for guaranteed payments or property values from a developer, grants or loans made to private entities (including special assessment agreements), naming rights agreements, or other arrangements that provide special legal entitlements to nongovernmental persons; and determine whether private security or payments that exceed the *de minimus* limits set forth in Section

141(b) of the Code have been provided by nongovernmental persons with respect to such obligation-financed facilities.

6.1.2 The responsible authority shall provide training and educational resources to any district staff that have the primary responsibility for the operation, maintenance, or inspection of obligation-financed facilities with regard to the limitations on the private business use of obligation-financed facilities and as to the limitations on the private security or payments with respect to obligation-financed facilities.

6.2 The responsible authority shall undertake the following with respect to the obligations:

6.2.1 An annual review of the books and records maintained by the district with respect to such obligations, and

6.2.2 An annual physical inspection of the facilities financed with the proceeds of such obligations, conducted by the responsible authority with the assistance of any district staff who have the primary responsibility for the operation, maintenance or inspection of such obligation-financed facilities.

6.3 Ensure that changes in the project that impact the terms or commitments of the obligation are properly documented and necessary certificates or opinions are on file.

7. Additional Undertakings and Activities that Support this Procedure –

7.1 The responsible authority will notify the district's bond counsel, financial advisor and arbitrage provider of any survey or inquiry by the IRS immediately upon receipt. (Usually responses to IRS inquiries are due within 21 days of receipt. Such IRS responses require the review of the above-mentioned data and must be in writing. As much time as possible is helpful in preparing the response.)

7.2 The responsible authority will consult with the district's bond counsel, financial advisor and arbitrage provider before engaging in post-issuance credit enhancement transactions (i.e. bond insurance, letter of credit, or hedging transactions (i.e. interest rate swap, cap).

7.3 The responsible authority will monitor all "qualified tax-exempt debt obligations" within the first calendar year to determine if the limit is exceeded, and if exceeded, will address accordingly. The limit for tax-exempt debt obligations is \$10 million (unless changed by Congress). From 2011 on, the limit also applies to pooled financings of the governing body and provides a separate \$30 million for each 503(c)(3) conduit borrower.

7.4 Comply with continuing disclosure requirements:

7.4.1 If applicable, the timely filing of annual information agreed to in the Continuing Disclosure Certificate.

7.4.2 Give notice of any Material Event.

- 7.5 Identify any post-issuance change to terms of bonds which could be treated as a current refunding of “old” bonds by “new” bonds, often referred to as a “reissuance.”

Procedure 713.1P

Page 6

- 7.6 The responsible authority will consult with the district’s bond counsel prior to any sale, transfer, change in use or change in users of obligation-financed property which may require “remedial action” under applicable Treasury Regulations or resolution pursuant to the VCAP Program. A remedial action has the effect of curing a deliberate action taken by the district which results in satisfaction of the private business test or private loan test. Remedial actions under Section 1.141-12(d)(e) and (f) include the redemption of non-qualified bonds and alternative uses of proceeds or the facility (i.e. use for a qualified purpose instead).
- 7.7 The responsible authority will ensure that the appropriate tax form for federal subsidy payments is prepared and filed in a timely fashion for applicable obligations (i.e. Build America Bonds).

8. **Compliance with Future Requirements**

- 8.1 Take measures to comply with any future requirements issued beyond the date of this procedure which are essential to ensuring compliance with the applicable state and federal regulations.
9. This procedure will be reviewed and amended to ensure compliance with state and federal regulations.

References: - Internal Revenue Service Code sections 141-150, Series 8038 Tax Exempt Bonds