

MADISON COUNTY
TENNESSEE

Amended Debt Management Policy

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INTRODUCTION

This Debt Management Policy (the "Debt Policy") is a written guideline with parameters that affect the amount and type of debt that can be issued by Madison County, Tennessee (the County), the issuance process and the management of the County's debt. The purpose of this Debt Policy is to improve the quality of management and legislative decisions and to provide justification for the structure of debt issuances consistent with the Debt Policy's goals while demonstrating a commitment to long-term capital planning. It is also the intent of the County that this Debt Policy will signal to credit rating agencies, investors and the capital markets that the County is well managed and will always be prepared to meet its obligations in a timely manner.

This Debt Policy provides guidelines for the County to manage its debt and related annual costs within both current and projected available resources while promoting understanding and transparency for our citizens, taxpayers, rate payers, businesses, investors and other interested parties.

The County may, from time to time, review this Debt Policy and make revisions and updates, if warranted.

DEBT MANAGEMENT POLICY

I. INTRODUCTORY STATEMENT

In managing its Debt (defined herein as tax-exempt or taxable bonds, capital outlay notes, other notes, capital leases, interfund loans or notes and loan agreements); it is the County's policy to:

- ▶ Achieve the lowest cost of capital within acceptable risk parameters
- ▶ Maintain or improve credit ratings
- ▶ Assure reasonable cost access to the capital markets
- ▶ Preserve financial and management flexibility
- ▶ Manage interest rate risk exposure within acceptable risk parameters

II. GOALS AND OBJECTIVES

Debt policies and procedures are tools that ensure that financial resources are adequate to meet the County's long-term capital planning objectives. In addition, the Debt management policy (the "Debt Policy") helps to ensure that financings undertaken by the County have certain clear, objective standards which allow the County to protect its financial resources in order to meet its long-term capital needs.

The Debt Policy formally establishes parameters for issuing debt and managing a debt portfolio which considers the County's specific capital improvement needs; ability to repay financial obligations; and, existing legal, economic, and financial market conditions. Specifically, the policies outlined in this document are intended to assist in the following:

- ▶ To guide the County in policy and debt issuance decisions
- ▶ To maintain appropriate capital assets for present and future needs

- ▶ To promote sound financial management
- ▶ To protect the County's credit rating to ensure the County's debt is issued legally under applicable state and federal laws
- ▶ To promote cooperation and coordination with other parties in the financing
- ▶ To evaluate debt issuance options

III. PROCEDURES FOR ISSUANCE OF DEBT

1) Authority

- a) The County will only issue Debt by utilizing the applicable statutory authorities, including those provided by *Tennessee Code Annotated* as supplemented and revised ("TCA").
- b) The County will adhere to any lawfully promulgated rules and regulations of the State and those promulgated under the Code.
- c) All Debt must be formally authorized by resolution of the County's Legislative Body.

2) Transparency

- a) It is recognized that the issuance of Debt must have various approvals and on occasion, written reports provided by the State of Tennessee Comptroller's office either prior to adoption of resolutions authorizing such Debt, prior to issuance and/or following issuance. The County, in conjunction with any professionals (including, but not limited to, financial advisors, underwriters, bond counsel etc. which may individually or collectively be referred to herein as "Financial Professionals") will ensure compliance with TCA, the Code and all federal and State rules and regulations. Such State compliance will include, but not be limited to, compliance with all legal requirements regarding adequate public notice of all meetings of the County related to consideration and approval of Debt. Additionally, the County shall provide the Tennessee Comptroller's office sufficient information on the Debt to not only allow for transparency regarding the issuance, but also assuring that the Comptroller's office has sufficient information to adequately report or approve any formal action related to the sale and issuance of Debt. The County will also make this information available to its legislative body, citizens and other interested parties.
- b) The County will file or cause to be filed, its Audited Financial Statements and any Continuing Disclosure document prepared by the County or Its Dissemination Agent as, if and when required. To promote transparency and understanding, these documents should be made available electronically or by other usual and customary means to its citizens, taxpayers, rate payers, businesses, investors and other interested parties by posting such Information on-line or in other prominent places.

- c) All costs (including interest, issuance, continuing, and one-time) related to Debt shall be disclosed to the Legislative Body and citizens in a timely manner. In order to comply with the requirements of the preceding sentence, an estimate of the costs described above will be presented to the Legislative Body along with any resolution authorizing the debt.

IV. CREDIT QUALITY AND CREDIT ENHANCEMENT

The County's Debt management activities will be conducted in order to maintain or receive the highest possible credit ratings. The Mayor and Finance Director in conjunction with any Financial Professionals that the County may choose to engage will be responsible for maintaining relationships and communicating with one or more rating agencies.

The County will consider the use of credit enhancements on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when clearly demonstrable savings can be shown shall an enhancement be considered. The County will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancements:

1) Insurance

The County may purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on insured bonds versus uninsured bonds.

2) Letters of Credit

The County may enter into a letter-of-credit ("LOC") agreement when such an agreement is deemed prudent and advantageous. The County or its Financial Professionals, if any, may seek proposals from qualified banks or other qualified financial institutions pursuant to terms and conditions that are acceptable to the County.

V. AFFORDABILITY

The County shall consider the ability to repay Debt as it relates to the total budget resources, the wealth and income of the community and its property tax base and other revenues available to service the Debt. The County may consider debt ratios and other benchmarks compared to its peers when analyzing its Debt including materials published by the nationally recognized credit rating agencies.

VI. DEBT STRUCTURE

The County shall establish all terms and conditions relating to the issuance of Debt and will invest all bond proceeds pursuant to the terms of its investment policy, if any. Unless otherwise authorized by the County, the following shall serve as the Debt Policy for determining structure:

1) Term

All capital improvements financed through the issuance of Debt will be financed for a

period not to exceed the useful economic life of the improvements and in consideration of the ability of the County to absorb such additional debt service expense. The term of Debt shall be determined by, but not limited to, the economic life of the assets financed, conditions in the capital markets, the availability of adequate revenue streams to service the Debt and the existing pattern of Debt payable from such identifiable fund or enterprise activity, but in no event will the term of such Debt exceed forty (40) years, as outlined in TCA.

2) Capitalized Interest

From time to time, certain financings may require the use of capitalized interest from the date of issuance until the County is able to realize beneficial use and/or occupancy of the financed project. Interest may be capitalized through a period permitted by federal law and TCA if it is determined that doing so is beneficial to the financing by the Legislative Body and is appropriately memorialized in the legislative action authorizing the sale and issuance of the Debt.

3) Debt Service Structure

General Obligation debt issuance shall be planned to achieve relatively net level debt service or level principal amortization considering the County's outstanding debt obligations, while matching debt service to the useful economic life of facilities. Absent events or circumstances determined by its Legislative Body, the County shall avoid the use of bullet or balloon maturities (with the exception of sinking fund requirements required by term bonds) except in those instances where such maturities serve to make existing overall debt service level or match specific income streams as shall be determined by the Governing Body. Debt which is supported by project revenues and is intended to be self-supporting should be structured to achieve level proportional coverage to expected available revenues.

4) Call Provisions

In general, the County's Debt should include a call feature no later than ten (10) years from the date of delivery of the bonds. The County will avoid the sale of long-term debt which carries longer redemption features unless a careful evaluation has been conducted by the Mayor and Finance Director and/or Financial Professionals, if any, with respect to the value of the call option.

5) Original Issuance Discount/Premium

Debt with original issuance discount/premium will be permitted.

6) Deep Discount Bonds

Deep discount debt may provide a lower cost of borrowing in certain capital markets. The Mayor and Finance Director and/or Financial Professionals, if any, should carefully consider their value and effect on any future refinancing as a result of the lower-than-market coupon.

7) Tax-Status

Based upon the assumption that tax-exempt interest rates are lower than taxable rates and that the interest savings outweigh the administrative costs, restrictions on use of financed projects, and investment constraints: The County will use its best efforts to sell its debt as federally tax-exempt. However, if the preceding is not the case, then the County may sell debt as federally taxable debt.

VII. DEBT TYPES

When the County determines that Debt is appropriate, the following criteria will be utilized to evaluate the type of debt to be issued.

1) **Security Structure**

a) **General Obligation Bonds**

The County may issue Debt supported by its full faith, credit and unlimited ad valorem taxing power ("General Obligation Debt"). General Obligation Debt shall be used to finance capital projects that do not have significant independent creditworthiness or significant on-going revenue streams or as additional credit support for revenue- supported Debt, if such support improves the economics of the Debt and is used in accordance with these guidelines.

b) **Revenue Debt**

The County may issue Debt supported exclusively with revenues generated by a project or enterprise fund ("Revenue Debt"), where repayment of the debt service obligations on such Revenue Debt will be made through revenues generated from specifically designated sources. Typically, Revenue Debt will be issued for capital projects which can be supported from project or enterprise-related revenues.

c) **Capital Leases**

The County may use capital leases to finance projects assuming the Mayor and Finance Director and/or Financial Professionals, if any, determine that such an instrument is economically feasible.

d) **Loans from Public Building Authorities**

The County may enter into loan agreements with one or more public building authorities pursuant to Sections 12-10-101 et seq., Tennessee Code Annotated, in lieu of issuing bonds or notes. The policies set forth herein for bonds and notes shall be equally applicable to loan agreements entered into with a public building authority except that all loan agreements may be entered pursuant to negotiated sale. The County shall not enter into loan agreements with public building authorities in lieu of issuing its own debt unless the Governing Body determines that the County cannot reasonably accomplish its financing objectives through the issuance of its own debt.

2) Duration

a) **Long-Term Debt**

The County *may* issue long-term Debt when it is deemed that capital improvements should not be financed from current revenues or short-term borrowings. Long-term Debt will not be used to finance current operations or normal maintenance. Long-term Debt will be structured such that financial obligations do not exceed the expected useful economic life of the project(s) financed.

- *Serial a11d Term Debt.* Serial and Term Debt may be issued in either fixed or variable rate modes to finance capital infrastructure projects;
- *Capital Outlay Notes ("CONs").* CONs may be issued to finance capital infrastructure projects with an expected life up to twelve years; or
- *Capitalized Leases.* Capitalized Leases may be issued to finance infrastructure projects or equipment with an expected life not greater than its expected useful life.

b) **Short-Term Debt**

Short-term borrowing may be utilized for:

- Financing short economic life assets;
- The construction period of long-term projects;
- For interim financing; or
- For the temporary funding of operational cash flow deficits or anticipated revenues subject to the following policies:
 1. *Bond Anticipation Notes ("BANs").* BANs, including commercial paper notes issued as BANs, may be issued instead of capitalizing interest to reduce the debt service during the construction period of a project or facility. The BANs shall not mature more than 2 years from the date of issuance. BANs can be rolled in accordance with federal and state law. BANs shall mature within 6 months after substantial completion of the financed facility.
 2. *Revenue Anticipation Notes ("RANs") and Tax Anticipation Notes ("TANs").* RANs and TANs shall be issued only to meet cash flow needs consistent with a finding by bond counsel that the sizing of the issue fully conforms to federal IRS and state requirements and limitations.
 3. *Lines of Credit.* Lines of Credit shall be considered as an alternative to other short-term borrowing options. A line of credit shall only be structured to federal and state requirements.

4. *Interfund Loans.* Interfund Loans shall only be used to fund operational deficiencies among accounts or for capital projects to **be paid** from current fiscal year revenues. Such interfund loans shall be approved by the State Comptroller's office and shall only be issued in compliance with state regulations and limitations.
5. *Other Short-Term Debt.* Other Short-Term Debt including commercial paper notes, BANs, Capitalized Leases and CONs may be used when it provides an interest rate advantage or as interim financing until market conditions are more favorable to issue debt in a fixed or variable rate mode. The County will determine and utilize the most advantageous method for short-term borrowing. The County may issue short-term Debt when there is a defined repayment source or amortization of principal.

c) **Balloon Indebtedness**

The County will only consider this type of financing when it meets the following criteria:

- a) The State Comptroller's office has given approval;
- b) The transaction and cost savings are in the best interest of the citizens of Madison County;
- c) The existing annual Debt Service for the short term precludes Madison County from using the normal preferred method of financing.

If the capital project in question meets all three criteria referenced above, the balloon payment shall not exceed an (8) year period and shall not create a total borrowing period exceeding (25) years.

Balloon Indebtedness must be formally authorized by resolution of the County's Legislature Body just as any other debt.

3) Interest Rate Modes

a) **Fixed Rate Debt**

To maintain a predictable debt service schedule, the County may give preference to debt that carries a fixed interest rate.

b) **Variable Rate Debt**

The targeted percentage of net variable rate debt outstanding (excluding (1) debt which has been converted to synthetic fixed rate debt and (2) an amount of debt considered to be naturally hedged to short-term assets in the Unreserved General and/or Debt Service Fund Balance) shall not exceed 25% of the County's total outstanding debt and will take into consideration the amount and investment strategy of the County's operating cash.

The following circumstances may result in the consideration of issuing variable rate debt:

- *Asset-Liability Matching;*

- *Construction Period Funding;*
- *High Fixed Interest Rates.* Interest rates are above historic averages;
- *Diversification of Debt Portfolio;*
- *Variable Revenue Stream.* The revenue stream for repayment is variable and is anticipated to move in the same direction as market-generated variable interest rates or the dedication of revenues allows capacity for variability; and
- *Adequate Safeguard Against Risk.* Financing structure and budgetary safeguards are in place to prevent adverse impacts from interest rate shifts such structures could include, but are not limited to, interest rate caps and short-term cash investments in the County's General Fund.

An analysis by the Mayor and Finance Director and/or Financial Professionals, if any, shall be conducted to evaluate and quantify the risks and returns associated with the variable rate Debt including, but not limited to, a recommendation regarding the use of variable rate debt.

4) Zero Coupon Debt

Zero Coupon Debt may be used if an analysis has been conducted by the Mayor and Finance Director and/or Financial Professionals, if any, and the risks and returns associated with the Zero Coupon Debt have been made. The analysis shall include, but not be limited to a recommendation regarding the use of Zero Coupon Debt as the most feasible instrument considering available revenues streams, the need for the project and other factors determined by the Legislative Body.

5) Synthetic Debt

The County will not enter any new Interest rate swaps or other derivative instruments unless it adopts a Debt Derivative Policy consistent with the requirements of TCA and only after approval of the State Comptroller's office and affirmative action of the Legislative Body. To the extent the County has any current existing interest rate swaps or other derivative instruments, the County will monitor these agreements and any amendments consistent with the compliance report issued by the State Comptroller's Office at the time the agreements were previously authorized.

VIII. REFINANCING OUTSTANDING DEBT

The Mayor and Finance Director, in conjunction with Financial Professionals, if any, shall have the responsibility to analyze outstanding Debt for refunding opportunities. The Mayor and Finance Director will consider the following Issues when analyzing possible refunding opportunities:

1) Debt Service Savings

Absent other compelling considerations such as the opportunity to eliminate onerous or restrictive covenants contained in existing Debt documents, the County has established a minimum net present value savings threshold of at least 3.0 percent of the advance refunded Debt principal amount. Current refunding opportunities may be considered by the County using any savings threshold if the refunding generates positive net

present value savings. The decision to take less than 3.0 percent net present value savings for an advance refunding or to take the savings in any manner other than a traditional year-to-year level savings pattern must be approved by the Legislative Body or delegated to the County's Chief Executive.

2) Restructuring for economic purposes

The County may also refund Debt when it is in its best financial interest to do so. Such a refunding will be limited to restructuring to meet unanticipated revenue expectations, achieve cost savings, mitigate irregular debt service payments, release reserve funds or remove unduly restrictive bond covenants or any other reason approved by the Legislative Body in its discretion.

3) Term of Refunding Issues

Normally, the County will refund Debt equal to or within its existing term. However, the Mayor and Finance Director may consider maturity extension, when necessary to achieve desired outcomes, provided that such extension is legally permissible, and it is approved by the Legislative Body. The Mayor and Finance Director may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful economic life of the financed facility and the concept of inter-generational equity should guide these decisions.

4) Escrow Structuring:

The County shall utilize the least costly securities available in structuring refunding escrows. In the case of open market securities, a certificate will be provided by a third party agent, who is not a broker-dealer stating that the securities were procured through an arms-length, competitive bid process, that such securities were more cost effective than State and Local Government Obligations (SLGS), and that the price paid for the securities was reasonable within Federal guidelines. In cases where taxable Debt is involved, the Mayor and Finance Director, with the approval of bond counsel, may make a direct purchase as long as such purchase is the most efficient and least costly. Under no circumstances shall an underwriter, agent or any Financial Professionals sell escrow securities involving tax-exempt Debt to the County from its own account.

5) Arbitrage

The County shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refunding. Any positive arbitrage will be rebated as necessary according to Federal guidelines.

IX. METHODS OF ISSUANCE

The Mayor and Finance Director may consult with a Financial Professional regarding the method of sale of Debt. Subject to approval by the Legislative Body, the Mayor and Finance Director will determine the method of issuance of Debt on a case-by-case basis consistent with the options provided by prevailing State law.

1) Competitive Sale

In a competitive sale, the County's Debt will be offered in a public sale to any and all eligible bidders. Unless bids are rejected, the Debt shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale.

Whether in a competitive or negotiated sale, the financial advisor shall not be permitted to bid on, privately place or underwrite an issue for which it is providing financial advisory services for the issuance.

2) Negotiated Sale

The County recognizes that some securities are best sold through a negotiated sale with an underwriter or group of underwriters. The County shall **assess** the following circumstances in determining whether a negotiated **sale is** the best method of sale:

- a) State requirements on negotiated sales;
- b) Debt structure which may require a strong pre-marketing effort such as those associated with a complex transaction generally referred to as a "story" bond;
- c) Size or structure of the issue which may limit the number of potential bidders;
- d) Market conditions including volatility wherein the County would be better served by the flexibility afforded by careful timing and marketing such as is the case for Debt issued to refinance or refund existing Debt;
- e) Whether the Debt is to be issued as variable rate obligations or perhaps as Zero Coupon Debt;
- f) Whether an idea or financing structure is a proprietary product of a single firm;
- g) In a publicly offered or privately placed, negotiated sale, a financial advisor, if any, shall not be permitted to resign as the financial advisor in order to underwrite or privately place an issue for which they are or have been providing advisory services;
- h) The underwriter shall clearly identify itself in writing (in response to a request for proposals or in promotional materials provided to the county) as underwriter and not a financial advisor from the earliest stages of its relationship with the County with respect to the negotiated issue. The underwriter must clarify its primary role as a purchaser of securities in an arm's length commercial transaction and that it has financial and other interest that differ from those of the County. The underwriter in a publicly offered, negotiated sale shall be required to provide pricing information both as to interest rates and to takedown per maturity to the Legislative Body (or its designated official) in advance of the pricing of the debt.

3) Private Placement

From time to time, the County may elect to privately place its Debt. Such placement shall only be considered if this method is demonstrated to be advantageous to the County.

X. PROFESSIONALS

1) Financial Professionals

As needed, the County may select Financial Professionals to assist in its Debt issuance and administration processes. In selecting Financial Professionals, consideration should be given with respect to;

- a) relevant experience with municipal government issuers and the public sector;
- b) indication that the firm has a broadly-based background and is therefore capable of balancing the County's overall needs for continuity and innovation in capital planning and Debt financing;
- c) experience and demonstrated success as indicated by its experience;
- d) the firm's professional reputation;
- e) professional qualifications and experience of principal employees; and
- f) the estimated costs, but price should not be the sole determining factor.

2) Miscellaneous

a) Written Agreements

- i. Any Financial Professionals engaged by the County shall enter into written agreements including, but not limited to, a description of services provided and fees and expenses to be charged for the engagement.
- ii. The County shall enter into an engagement letter agreement with each lawyer or law firm representing the County in a debt transaction. No engagement letter is required for any lawyer who is an employee of the County or lawyer or law firm which is under a general appointment or contract to serve as counsel to the County. The County does not need an engagement letter with counsel not representing the County, such as underwriters' counsel.
- iii. The County shall require all Financial Professionals engaged in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by both the County and the lender or conduit issuer, if any. This includes the "soft" costs or compensations in lieu of direct payments.

b) Conflict of Interest

- i. Financial Professionals involved in a debt transaction hired or compensated by the County shall be required to disclose to the County existing client and business relationships between and among the professionals to a transaction

(including but not limited to financial advisors, swap advisors, bond counsel, swap counsel, trustee, paying agent, underwriter, counterparty, and remarketing agent), as well as conduit issuers, sponsoring organizations and program administrators. This disclosure shall include that information reasonably sufficient to allow the County to appreciate the significance of the relationships.

- ii. Financial Professionals who become involved in the debt transaction as a result of a bid submitted in a widely and publicly advertised competitive sale conducted using an industry standard, electronic bidding platform are not subject to this disclosure. No disclosure is required that would violate any rule or regulation of professional conduct.

XI. COMPLIANCE

1) Continuing Annual Disclosure

Normally at the time Debt is delivered, the County will execute a Continuing Disclosure Certificate in which it will covenant for the benefit of holders and beneficial owners of the publicly traded Debt to provide certain financial information relating to the County by not later than twelve months after each of the County's fiscal years, (the "Annual Report" and provide notice of the occurrence of certain enumerated events, The Annual Report (and audited financial statements, if filed separately) will be filed with the MSRB through the operation of the Electronic Municipal Market Access system ("EMMA") and any State Information Depository established in the State of Tennessee (the "SID"), If the County is unable to provide the Annual Report to the MSRB and SID by the date require, notice of each failure will be sent to the MSRB and any SID on or before such date. The notices of certain enumerated events will be filed by the County with the MSRB through EMMA and any SID. The specific nature of the information to be contained in the Annual Report or the notices or the notices of significant events is provided in each Continuing Disclosure Certificate. These covenants are made in order to assist underwriters in complying with SEC Rule 15c2.12 (b) (the "Rule").

2) Arbitrage Rebate

The County will also maintain a system of record keeping and reporting which complies with the arbitrage rebate compliance requirements of the Internal Revenue Code (the "code").

3) Records

The County will also maintain records required by the Code including, but not limited to, all records related to the issuance of the debt including detailed receipts and expenditures for a period up to six (6) years following the final maturity date of the Debt or as required by the Code.

XII. DEBT POLICY REVIEW

1) General Guidance

The guidelines outlined herein are only intended to provide general direction regarding the future issuance of Debt. The County maintains the right to modify this Debt Policy and may make exceptions to any of its guidelines at any time to the extent that the execution of such Debt achieves the goals of the County as long as such exceptions or changes are consistent with TCA and any rules and regulations promulgated by the State.

This Debt Policy should be reviewed from time to time as circumstances, rules and regulations warrant.

2) Designated Official

The Mayor and Finance Director are responsible for ensuring substantial compliance with this Debt Policy.

EXHIBITS

**MADISON COUNTY, TENNESSEE
Federal Tax Compliance Policies and Procedures**

Purpose

In order to issue tax-exempt debt obligations (Tax-Exempt Obligations), the interest on which is excluded from gross income of the holders of such debt obligations, Madison County, Tennessee (the "County") must comply with federal tax rules regarding expenditure of proceeds, use of financed property, investment of proceeds in compliance with arbitrage rules, retention of records and filings with the Internal Revenue Service pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). This Tax Compliance Policy sets forth the County's policies for compliance with Sections 141- 150 of the Code and related rules and regulations.

1) Expenditure of Proceeds

Expenditure of proceeds as set forth below will be reviewed and managed by the Finance Director (the "Finance Director") as needed to ensure compliance with the requirements with each tax certificate executed in connection with Tax-Exempt Obligations. In connection with such review and management, the Finance Director, will undertake the following with respect to the expenditure of proceeds of Tax- Exempt Obligations:

- Establish forms and procedures for documenting expenditures of the proceeds, including for new money issues a description of the property financed with each expenditure and for refunding issues a description of the refunded obligations and the property financed with the refunded obligations.
- Only permit proceeds to be expended for capital expenditures, working capital if accompanied by an opinion of nationally recognized bond counsel, refunding of Tax-exempt Obligations and other debt obligations used for the foregoing purposes, and costs of issuance of Tax-Exempt Obligations.
- Not permit amounts to be expended to pay capitalized interest on Tax-Exempt Obligations except during the actual construction period of financed property unless accompanied by an opinion of nationally

recognized bond counsel.

- Restrict reimbursement of costs that were paid prior to the Issuance of the Tax-Exempt Obligations to costs paid subsequent to, or not more than 60 days prior to, the date a "declaration of intent" to reimburse the costs was adopted by the County or as is otherwise approved by bond counsel.
- Prepare a "final allocation" of proceeds to uses, which will be made and retained with the records of the Tax-Exempt Obligations, not later than 18 months after the placed-in-service date of the financed property (and in any event not later than 5 years and 60 days after the issuance of the Issue).
- Monitor the expenditure of proceeds of new-money Tax-Exempt Obligations against the tax certificate expectation to (i) spend or commit 5% of net sale proceeds within 6 months, (ii) spend 85% of net sale proceeds within 3 years, and (iii) proceed with due diligence to complete the project and fully spend the net sale proceeds.
- Monitor the expenditure of proceeds of the Tax-Exempt Obligations against the schedule for any arbitrage rebate exception or exceptions identified in the tax certificate related to such issue of Tax-Exempt Obligations.

2) Use of Property Financed with Tax-Exempt Obligations

Use of property financed with Tax-Exempt Obligations, when completed and placed in service, will be reviewed by the Finance Director, on at least an annual basis.

The County will not do any of the following with respect to the financed property without prior discussion with bond counsel regarding potential effect of such action on the tax exemption of the Tax-Exempt Obligations that financed or refinanced such property:

- Enter Into a management service or incentive payment contract with any non-governmental person or entity (including the federal government) (a "Non-Governmental Person").
- Enter a lease with any Non-Governmental Person.
- Sell or otherwise transfer such property to any Non-Governmental Person.
- Grant special legal entitlements with respect to such property to any Non-Governmental Person.

If any action occurs, notwithstanding the foregoing, that causes Tax-Exempt Obligations to become private activity bonds as a result of private use of financed projects and/or private payments for parties utilizing financed projects, the County will promptly consult with bond counsel as to the steps to be taken in order to remediate such change in use in accordance with the regulations under the Code, including the remediation of nonqualified bonds.

3) Investment of Proceeds

Investment of proceeds of Tax-Exempt Obligations in compliance with the arbitrage bond rules and rebate of arbitrage will be supervised by the Finance Director.

All proceeds of each Tax-Exempt Obligation will be deposited and maintained in a separate account or accounts. The Investment of the proceeds of Tax-Exempt Obligations shall comply with the following:

- Investments will be purchased only in market transactions at fair market value.
- Calculations of rebate liability will be performed periodically as set forth in the tax certificate by outside consultants unless the County is eligible for an exception to rebate liability with respect to the Tax-Exempt Obligations.
- Rebate payments, if required, will be made with Form 8038-T no later than 60 days after (a) each fifth anniversary of the date of issuance and (b) the final retirement of the Tax- Exempt Obligations. Compliance with rebate requirements will be reported to the bond trustee, if any and the Issuer.
- The County will identify the date for first rebate payment at the time of issuance if rebate payments are expected.

4) Records

Management and retention of records related to Tax-Exempt Obligations will be supervised by the Finance Director:

- Records will be retained for the life of the Tax-Exempt Obligations plus any refunding bonds plus three (3) years. Records may be in the form of documents or electronic copies of documents, appropriately indexed to specific bond issues and compliance functions.
- Retainable records pertaining to Issuance of Tax-Exempt Obligations include the transcript of documents executed in connection with the issuance of the Tax-Exempt Obligations and any amendments, and copies of rebate calculations and records of payments including Form 8038-T.
- Retainable records pertaining to expenditures of proceeds of Tax-Exempt Obligations include requisitions, trustee statements (if any) and final allocation of proceeds.
- Retainable records pertaining to use of property include all agreements reviewed for nonexempt use and any reviewed documents relating to unrelated business activity.
- Retainable records pertaining to investments include GIC and hedge documents under the Treasury regulations, records of purchase and sale of other investments, and records of investment activity sufficient to permit calculation of arbitrage rebate or demonstration that no rebate is due.

5) Miscellaneous Post-Issuance Changes

The Finance Director will consult with bond counsel prior to engaging in any post-issuance

credit enhancement transactions (e.g., letter of credit or bond insurance) or hedging transactions (e.g., interest rate swaps). The Finance Director will consult with bond counsel prior to the making of any significant modifications to the bond documents that might cause a "reissuance" of the Tax-Exempt Obligations as described in Section 1.1001-3 of the Treasury regulations such as (i) changes in the yield of a Tax-Exempt Obligation, (ii) changes in the timing of payments on a Tax-Exempt Obligation or (iii) changes in the obligation of or security for a Tax-Exempt Obligation.

6) Overall Responsibility

Overall administration and coordination of this policy is the responsibility of the Finance Director. The Finance Director shall be responsible for identifying any violations of federal tax requirements relating to any Tax-Exempt Obligations and shall consult with bond counsel as to best method for the timely correction of any identified violations either through available remedial actions or through the IRS's Voluntary Closing Agreement Program. The Recorder shall be responsible for obtaining and providing for the training and education necessary to administer these policies and procedures.