

CITY OF MONT BELVIEU
CITY COUNCIL POLICY

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Approved By
City Council:

Reviewed By : Bryan Easum

TITLE : Arbitrage Compliance and Post Issuance Policy & Procedures

COMPLIANCE OFFICER:

PURPOSE:

The purpose of this post-issuance compliance policy and procedure manual is to adopt policies and procedures to guide the City of Mont Belvieu in meeting the requirements of the Internal Revenue Code of 1986, as amended, and Treasury Regulations (the “Tax Code”) concerning tax-exempt and tax-advantaged debt (“debt issuances”). Non-compliance with the Tax Code may result in fines and/or loss of the preferential status of the debt issuances.

COMPLIANCE OFFICER:

The Compliance Officer shall be the person primarily responsible for ensuring that the City of Mont Belvieu successfully carries out its post-issuance compliance requirements under applicable provisions of the Tax Code with regard to all debt issuances of the City of Mont Belvieu. The Compliance Officer shall be assisted by other City of Mont Belvieu staff and officials when appropriate. The Compliance Officer will also be assisted in carrying out post-issuance compliance requirements by contracted entities including Bond Counsel, Financial Advisor, Paying Agent, Trustee, Arbitrage Consultant, and/or other consultants deemed necessary.

The Compliance Officer shall be responsible for assigning post-issuance compliance responsibilities to other City of Mont Belvieu staff, Bond Counsel, the Financial Advisor, the Paying Agent, the Trustee and the Arbitrage Consultant. The Compliance Officer shall utilize such other professional service organizations as are necessary to ensure compliance with the post-issuance compliance requirements of the City of Mont Belvieu.

I. GENERAL OVERVIEW OF ARBITRAGE, YIELD RESTRICTION AND REBATE REQUIREMENTS

A. Overview

The purpose of this section is to introduce the concept of arbitrage and its requirements. There are exceptions to many of the arbitrage rules. Advice from the City of Mont Belvieu’s Arbitrage Consultant and/or Bond Counsel is strongly recommended before any action is taken.

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B. Definition

Arbitrage is the price differential, or profit made, from investing inherently lower yielding debt issuance proceeds in higher yielding taxable investments. In other words, arbitrage is the difference between the yield on an issuer's debt issuance and the investment income earned on the proceeds invested in taxable instruments. Arbitrage rebate refers to the positive or negative amount that must be paid (rebated) to the federal government.

<i>Debt Yield</i>	<i>Overall Investment Yield for Gross Proceeds</i>	<i>Result</i>
4.0%	5.0%	<i>Positive Arbitrage</i>
5.0%	5.0%	<i>No Arbitrage</i>
6.0%	5.0%	<i>Negative Arbitrage</i>

C. Areas of arbitrage compliance that must be addressed:

1. The arbitrage rebate requirements identify what must be done with any arbitrage (profits or earnings) above the debt issuance's yield earned on the investment of the gross proceeds of the debt issuance. Arbitrage on gross proceeds must be rebated to the federal government every five (5) years after the date of issuance (or earlier if elected) through and including the final maturity ("filing date").

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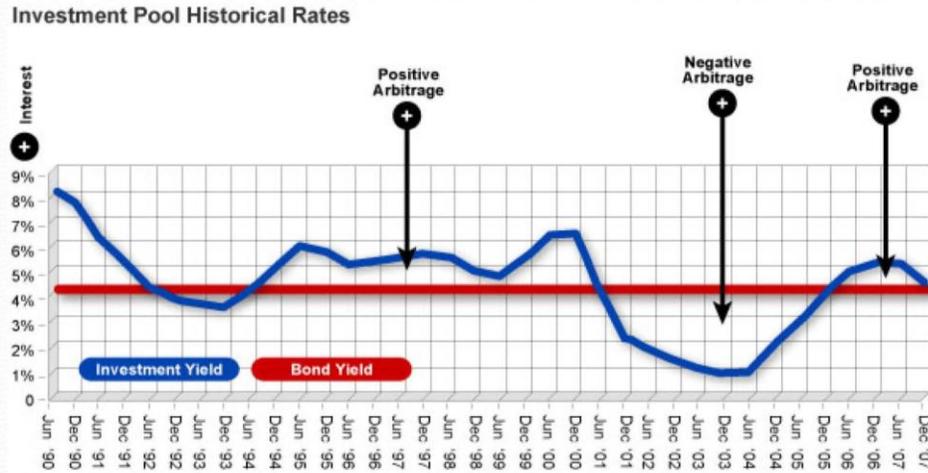
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What is Arbitrage Rebate?



2. The yield restriction requirements set forth various investment yield limitation conditions for different categories of gross proceeds from a debt issuance (e.g. construction, refunding escrow, debt service, and reserve funds). The issuer should meet these various yield restriction conditions to avoid compromising the tax-exempt or tax-advantaged status of the debt issuance. Since the yield restriction requirements are specific to a debt issuance it is recommended that the City of Mont Belvieu consult with the Arbitrage Consultant and/or Bond Counsel to determine the specific yield restriction requirements on a per debt issuance basis.

Construction Fund Yield Restriction: The most common yield restriction constraint for an issuer is related to construction funds. Generally, if there are unexpended project/construction proceeds at the end of the initial 3-year temporary period in excess of the **minor portion** (the lesser of \$100,000 or 5% of the sale proceeds of the debt issuance), an issuer may no longer invest the remaining proceeds above the **materially higher yield** (debt issuance yield + .125%) without taking corrective actions to remedy interest earnings above the materially higher yield. The issuer must yield restrict the proceeds below the materially higher yield, or a yield reduction payment report will be required. Any yield

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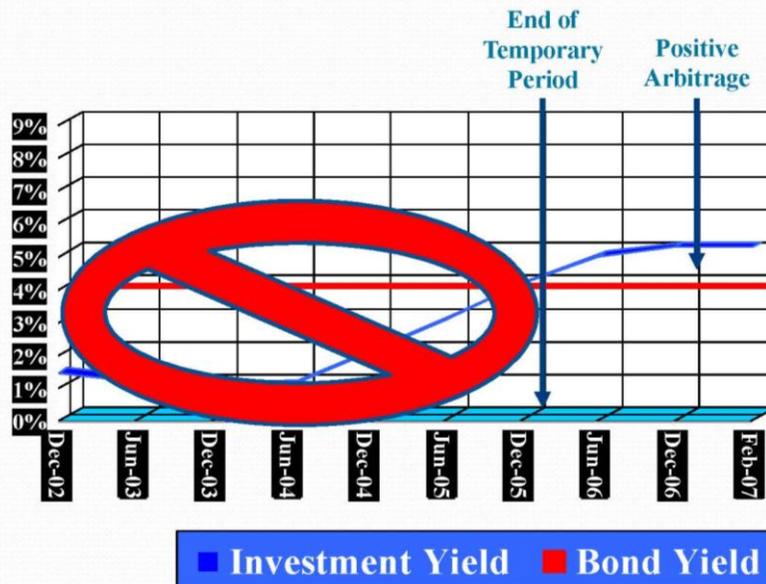
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reduction payment under the yield restriction requirements must be paid per the same deadlines as the arbitrage rebate requirements: every five years after the date of issuance (or earlier if elected) through and including the final maturity.

What is Yield Restriction?



D. Purpose of the Tax Code regarding arbitrage:

The Tax Code was put into place to minimize the benefits of investing tax-exempt or tax-advantaged debt proceeds, thus encouraging expenditures for the governmental purpose of the debt issuance and to remove the incentive to:

1. Issue debt earlier than needed,
2. Leave debt outstanding longer than necessary, and/or
3. Issue more debt than necessary for a governmental purpose.

E. Type of debt issuances and funds subject to arbitrage compliance:

1. The following types of debt issuances are subject to arbitrage compliance as of the following dates:

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- a. Single Family Debt Issuances 09/25/79
- b. Private Activity Debt Issuances 12/31/84
- c. Student Loan Debt Issuances 12/31/85
- d. Governmental Debt Issuances 08/31/86

2. The following funds and proceeds of a debt issuance are defined as **Gross Proceeds** of a debt issuance:

- a. Project funds
- b. Debt service funds
- c. Costs of issuance funds
- d. Refunding escrow funds
- e. Reserve funds
- f. Disposition proceeds
- g. Replacement proceeds (other than debt service funds)
- h. Transferred proceeds (if an old debt issuance has been refunded by a new debt issuance and the old debt issuance has unspent funds, such funds may transfer to the new debt issuance)

Note of Concern: An often misunderstood concept is that monies received upon closing of a debt issuance are the only monies subject to arbitrage rebate. One of the most common funds found to be subject to arbitrage rebate that is not funded from debt issuance proceeds is the debt service fund. The debt service fund receives a majority of its funding from tax or use revenues. The debt service fund is required to be included in the arbitrage rebate calculation unless the fund balance is depleted at least once each bond year, except for a reasonable carryover amount not to exceed the greater of:

- a. The earnings on the fund for the immediate preceding bond year; **or**
- b. One-twelfth of the principal and interest payments on the Debt Issuance or the immediately preceding bond year.

F. Exceptions to the rebate requirements:

The Tax Code sets forth general arbitrage and rebate requirements for debt issuances. The general rule is that any arbitrage earned must be determined and reported to the federal government every fifth anniversary date after the date of issuance of the debt issuance and on the final maturity, or as elected. Arbitrage rebate is essentially 100% of investment earnings in

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excess of the debt issuance's yield. There are several exceptions to the arbitrage and rebate requirements, and if any one of these exceptions are met, all or a portion of the debt issuance's proceeds are not subject to the arbitrage and rebate requirements. Consult with the City of Mont Belvieu's Arbitrage Consultant and/or Bond Counsel to determine if the debt issuance is eligible for a particular exception, to establish the appropriate investment plan for the debt issuance proceeds, and to assess whether the exception requirements were met.

The purpose of this section is to introduce the concept of spending exceptions and their requirements. There may be special elections and circumstances for a debt issuance that can affect how the exceptions are tested. Advice from the City of Mont Belvieu's Arbitrage Consultant and/or Bond Counsel is strongly recommended before any action is taken. Below are descriptions of the various exceptions:

1. **6-month spending exception:** If all gross proceeds and actual interest earnings are spent within 6-months after issuance, the interest earned during that period is not subject to the rebate requirements. Intermediate expenditure requirements are necessary (95% by 6 months and 100% within 12 months).

If there are unspent proceeds remaining at the end of the 6-month period, an issuer may still qualify for the spending exception under the following condition:

- a. If the remaining amount is 5% or less and is spent within 6 months from the end of the 6-month spending date.

2. **18-month spending exception:** If a debt issuance *does not* qualify as a construction issuance (75% of the debt issuance actually spent on construction) then the debt issuance is eligible for the 18-month spending exception, but *not* the 2-year spending exception. If all gross proceeds and expected interest earnings for the 6-month and 12-month period and actual interest for the 18-month period is spent within 18-months according to a strict timetable, the interest earned during that period is not subject to the rebate requirements. Intermediate expenditure requirements are necessary (15% by 6 months, 60% by 12 months, 100% by 18 months).

If there are unspent proceeds remaining at the end of the 18-month period an issuer may still qualify for the spending exception under the following conditions:

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- a. A reasonable retainage amount of 5% or less is allowed for business purposes and the retainage is spent within 12 months from the end of the 18-month spending date, **or**;
 - b. If the remaining amount does not exceed the lessor of \$250,000 or 3% of the issue price and due diligence is exercised to complete the project and spend the remaining project/construction proceeds.
3. **2-year spending exception:** If a debt issuance qualifies as a construction issuance (75% of the debt issuance is actually spent on construction) and all gross proceeds and expected interest earnings for the 6-month, 12-month, and 18-month period and actual interest for the 24-month period are spent within 2 years according to a strict timetable, then interest earned during that period is not subject to the rebate requirements. Intermediate expenditure requirements are necessary (10% by 6 months, 45% by 12 months, 75% by 18 months and 100% by 2-years).

If there are unspent project/construction proceeds remaining at the end of the 2-year period, an issuer may still qualify for the spending exception under the following conditions:

- a. A reasonable retainage amount of 5% or less is allowed for business purposes and the retainage is spent within 12 months from the end of the 2-year spending date, **or**;
 - b. If the remaining amount does not exceed the lessor of \$250,000 or 3% of the issue price and due diligence is exercised to complete the project and spend the remaining project/construction proceeds.
4. **Small issuer exception:** General taxing authorities reasonably expecting to issue \$5M or less in tax-exempt or tax-advantaged debt during each calendar year (cumulative for all debt issuances) may qualify for the small issuer exception to the rebate requirements, *but must still satisfy the yield restriction requirements*. The small issuer exception does not apply to private activity, 501(c)(3) or student loan debt.
- a. General requirements:
 - i. The issuer must have general taxing powers.
 - ii. The debt issuances must be governmental debt issuances.

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- iii. At least 95% of the proceeds must be used for local governmental activities of the issuer or by governmental units located within the issuer's boundaries.
 - iv. All tax-exempt or tax-advantaged debt issued in a calendar year cannot exceed \$5,000,000.
- b. Additional requirements for refunding debt issuances:
- i. The debt being refunded (old debt issuance) must have qualified for the small issuer exception.
 - ii. The weighted average maturity of the refunding debt issuance (new debt issuance) must not exceed the weighted average maturity of the refunded debt (old debt issuance). Current refunding debt issuances that have a three year or less weighted average maturity are exempt from the weighted average maturity test.
 - iii. The refunding debt (new debt issuance) must not mature more than thirty years after the issuance of the original refunded debt (old debt issuance).

Note to Compliance Officer – Historically 1/3 of refunding debt issuances (new debt issuances) will fail one of the three rules listed above and become subject to the rebate requirements.

II. DUE DILIGENCE REVIEW AT REGULAR INTERVALS

This policy and its related procedures start with a review of the due diligence measures that will take place at regular intervals, as well as each filing date to ensure that each debt issuance is compliant with the requirements of the Tax Code. The City of Mont Belvieu will complete the annual due diligence review every twelve (12) months on all debt issuances.

III. IDENTIFYING THE COMPLIANCE OFFICER RESPONSIBLE FOR REVIEW

The Finance Department is primarily responsible for the administration of this policy. Within the Finance Department the Compliance Officer will be responsible for the due diligence review. The due diligence review will apply to all debt issuances.

IV. TRAINING OF COMPLIANCE OFFICER

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The Compliance Officer has and will continue to take all necessary steps to maintain an adequate understanding of post-issuance compliance requirements relating to the debt issuances for which he/she will review.

V. RETENTION OF ADEQUATE RECORDS TO SUBSTANTIATE COMPLIANCE

A. General overview

1. **Debt not refunded:** Currently the IRS record retention requirements are to keep all records, data and documents associated with non-refunded debt issuances for three years past the final maturity date for the debt issuance (or longer if required by local or state law.)
2. **Refunded debt:** Since the refunding debt issuance (new debt issuance) is dependent on the tax-exempt or tax-advantaged status of the refunded debt issuance (old debt issuance), all records are required to be maintained for three years past the final maturity of both debt issuances (or longer if required by local or state law).
3. **Electronic data storage requirements:** Electronic records may be stored in an electronic format in lieu of hard copies if certain requirements are satisfied, for example:
 - a. The system must ensure an accurate and complete transfer of the hard copy books and records to the electronic storage system and contain a retrieval system that indexes, stores, preserves, retrieves and reproduces all transferred information.
 - b. The system must include reasonable controls and quality assurance programs.
 - c. The information maintained in the system must be cross-referenced with the books and records in a manner that provides an audit trail to the source documents.
 - d. Upon request by the IRS, a complete description of the electronic storage system, including all procedures relating to its use and the indexing system must be provided.
 - e. Upon request by the IRS, the issuer must retrieve and reproduce hard copies of all electronically stored records.
 - f. The system must not be subject to any agreement that would limit the IRS' access to the use of the system.

- B. Electronic file storage and backup:** Financial/accounting transactions will be retained in a designated computer file folder labeled as "I:\data" and will be backed up by the City's I.T

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Department using “Replay System” or any of its successors backup system service providers. Access to this folder will be restricted as authorized by the Compliance Officer.

C. Storage of hard copies: A folder jacket, box or other media storage container displaying the debt issuance description will be set up for each debt issuance. The storage container will contain the documents mentioned in Section E on the next page. Access will be restricted to persons authorized by the Compliance Officer.

D. Destruction of records: A log will be kept of all debt issuances whose records are destroyed after the IRS mandated retention period detailing the debt issuance description, allowable destruction date, date records were destroyed, the Compliance Officer’s signature authorizing the record destruction, and witness signature. Access to this information will be restricted as authorized by the Compliance Officer and stored on his computer.

E. Required information to be stored for each debt issuance

1. **Documents:** Bond Counsel shall send a Transcript for the debt issuance to the Compliance Officer. If a Transcript was not compiled, then copies of the following documents will be forwarded or made available to the Compliance Officer’s office:

- a. Bond Counsel Opinion
- b. Final Official Statement or Private Placement Memorandum
- c. Insurance Documents
- d. Council Certificate for Ordinance
- e. Copy of Ordinance Authorizing Debt Issuance
- f. IRS Form 8038-G, Form 8038-GC, Form 8038, Form 8308-TC or Form 8038-B
- g. CPA Verification Report (for refunding debt issuances only)
- h. Non-Arbitrage Tax Certificate or similar document
- i. All Debt Service Schedules not included in the Official Statement
- j. Letter of Credit Agreement (generally for variable rate debt issuances only)
- k. Swap Agreement (generally for variable rate debt issuances only)
- l. Winning Bid Forms
- m. Trust Indenture
- n. Investment Banker’s Closing Memorandum
- o. Investment Banker’s Notice of Delivery Memorandum
- p. Investment Banker’s Sources and Uses of Funds Memorandum

2. **Reports completed after issuance**

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- a. Rebate calculation reports
- b. Yield restriction reports
- c. Spending exception reports
- d. Penalty in lieu of rebate reports
- e. CPA verification report for restructuring of escrow
- f. Payment documentation to include:
 - i. Form 8038-T
 - ii. Cancelled check
 - iii. Proof of mailing
- g. Refund claims
- h. Other reports related to the Debt Issuance

3. Correspondence

- a. Bond Counsel
- b. Board Meetings
- c. Financial Advisor
- d. Arbitrage Consultant
- e. Underwriter
- f. Investment Firms
- g. Other correspondence concerning any other aspect of the debt issuance to include but not limited to expenditures, investments, allowable projects, etc.

4. Investment activity: Trust statements (or equivalent) with detailed investment activity for the entire computation period for each fund/account in which gross proceeds of the debt issuance were held. Investment information must be recorded on a daily transactional level. This information is required to compute the yield on the investments and to comply with archive requirements. Investment activity details should include such items as:

- a. General ledgers
- b. Subsidiary ledgers
- c. Investment statements (state pools, bank statements, etc.)
- d. Type of investment
- e. Date of purchase and purchase price
- f. Interest rate
- g. Interest payment amounts
- h. Maturity date

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- i. Interest payment dates
 - j. Interest calculation methodology
 - k. Date of sale and sales price
 - l. Investment contract information to include:
 - i. Evidence of the purchase price paid for investment contract
 - ii. Detailed documentation of the investment contract bid process
 - iii. Certification by the investment contract provider of fees paid for contract
 - iv. All bid solicitation forms (3 bid minimum)
 - v. Administrative costs
5. **Expenditure information:** The Finance Department will capture expenditure information. The following expenditure information must be captured and stored in accordance with the above mentioned record retention requirements to include:
- a. Description of expenditure
 - b. Date of expenditure
 - c. Amount of expenditure
 - d. Invoices
 - e. Proof of payment (canceled check, wire information, etc.)
6. **Initial letter of credit information to include:**
- a. Payment amounts
 - b. Date of payment
 - c. Terms
7. **Actual letter of credit information to include:**
- a. Actual amount paid
 - b. Actual date payment is made
 - c. Invoices
 - d. Statements
8. **Initial swap/hedge agreement information to include:**
- a. Payment amounts
 - b. Date of payment
 - c. Terms

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9. **Final swap/hedge agreement information to include:**

- a. Actual date payment is made
- b. Actual amount paid
- c. Invoices
- d. Statements

10. **Allocation of gross proceeds to expenditures:** Any allocation of gross proceeds to expenditures must involve a current outlay of cash for the governmental purpose of the debt issuance. A current outlay of cash is an outlay reasonably expected to occur within five banking days after the date of an allocation. If expenditure is paid by check, the outlay is the date the check is mailed, provided that it is expected to be cashed in five days.

a. **Allocation:** Reasonable allocation methods for allocating funds from different sources to expenditures for the **same** governmental purpose include any of the following methods if consistently applied:

- i. The first in, first out/FIFO method permits the City of Mont Belvieu to put the proceeds of more than one debt issuance into a single account (commingle) and treat all expenditures as coming from proceeds of the first debt issuance until they are fully spent.
- ii. The gross proceeds spent first method is used where available funds include, tax revenues, private contributions, etc., in addition to debt issuance proceeds. The debt issuance proceeds are treated as spent first.
- iii. The specific tracing method permits the City of Mont Belvieu to keep proceeds from different debt issuances in separate accounts. Costs may be charged to any debt issuance/checking account at the City of Mont Belvieu's discretion.
- iv. The ratable allocation method permits the City of Mont Belvieu to place proceeds of more than one debt issuance into a single account (commingle) and treat expenditures as coming from proceeds of each debt issuance that contributed proceeds to that account. The expenditures are allocated to each debt issuance ratably based on each debt issuance's proportion of ownership of the account.

b. **Timing:** An issuer must account for the allocation of proceeds to expenditures not more than 18 months after the later of: the date the expenditure is paid or the date the project, if any, that is financed by the debt issuance is placed in service. This allocation must be made in any event by the date 60 days after the fifth anniversary of

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the issuance date or the date 60 days after the retirement of the debt issuance, if earlier.
This paragraph applies to debt issuances issued on or after May 16, 1997.

11. **Allocation of investments in a commingled fund:** The Tax Code requires that all payments and receipts on investments held in a commingled fund must be allocated to the different sources/investments in the fund not less frequently than the close of a consistently used fiscal period (not in excess of three months); this allocation must be based on a consistently applied, reasonable ratable allocation. Treasury Reg. Section 1.148-6(e). Currently, the City of Mont Belvieu allocates all payments and receipts on a monthly basis.

12. **Qualified use of proceeds, financed property, private business use:** The qualified use of proceeds, property financed, and private business use limitations by the debt issuance should be identified and continually monitored to ensure compliance with the limitations as defined in the debt issuance documents or if more restrictive, state law or the Tax Code's limitations. Supporting documentation is required to support qualified use of proceeds, property financed, and private business use. The Compliance Officer will ensure such limitations are in compliance with debt issuance documents or if more restrictive, state law or the Tax Code's limitations.

13. **Issuance price and volume cap allocation:** The issuance price and volume cap allocation activity limitations should be identified and monitored to ensure compliance with the limitations as defined in the debt issuance documents or if more restrictive, state law or the Tax Code's limitations. Supporting documentation is required for issuance price determination and volume cap allocation limitations of the debt issuance. The Compliance Officer will ensure such limitations are in compliance with the debt issuance documents or if more restrictive, state law or the Tax Code's limitations.

14. **Fair market value of investments:** The City of Mont Belvieu is to provide information to support that the investments were purchased or sold at a fair value. The City of Mont Belvieu may not purchase an investment at a price in excess of fair market City of Mont Belvieu sell an investment purchased with gross proceeds at a price lower than fair market value. Treasury Regulations Section 1.148-6(c). In dealing with fair market value requirements, the Tax Code specifically provides three safe harbor categories of investments:
 - a. Securities traded on an established market from a willing seller in a bona fide arm's-length transaction.

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- b. Certificates of deposit purchased using a safe harbor under the applicable Tax Code. The safe harbor is available only for certificates that have a fixed interest rate, a fixed payment schedule and a substantial penalty for early withdrawal.
 - c. Guaranteed investment contracts purchased used a three-bid safe harbor under the Tax Code.
15. **Continuing disclosure:** The City of Mont Belvieu is to provide continuing disclosure, such as annual financial information and material event notices in accordance with SEC rule 15c2-12. The Compliance Officer is primarily responsible for undertaking such continuing disclosure obligations and to monitor compliance with such obligations.

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VI. PROCEDURES TO IDENTIFY NON-COMPLIANCE

This policy and its related procedures begin with a review of the due diligence measures that will take place at regular intervals to ensure that each debt issuance is compliant with the Tax Code.

Date due diligence review completed: _____

Person(s)/Contractor(s) completing review:

Compliance Officer: _____	_____	_____
Name/Title	Signature/Date	Sections Completed

Arbitrage Consultant: _____	_____	_____
Name/Title	Signature/Date	Sections Completed

Date of next due diligence review: _____

The following pages contain items that are required to be verified for compliance. For all “no” responses, provide an explanation in Schedule A.

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A. GENERAL OVERVIEW OF ARBITRAGE, YIELD RESTRICTION AND REBATE REQUIREMENTS	Yes/No	Responsibility
1. Debt Facts		
a. Has a debt listing been prepared identifying all debt issuances issued on and after August 31, 1986? Include the following facts: i. Debt issuance description ii. Date of issuance iii. Maturity date iv. Subjectivity to arbitrage rebate v. Subjectivity to project fund yield restriction		
2. Debt Issuances that are Subject to Arbitrage Rebate		
a. Have arbitrage reports been completed for each filing date?		
3. Debt Issuances Subject to Project Fund Yield Restriction		
a. Have project proceeds been spent before the end of the temporary period for each debt issuance? If no, proceed with question 3.b. below.		
b. Have yield restriction calculations been completed for all filing dates until the project monies were spent below the minor portion? If no, provide the following information on Schedule A: i. End date of temporary period ii. Balance remaining on temporary period end date iii. Balance remaining as date of the review (if known) iv. Explanation of compliance measures taken		

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C. RETENTION OF ADEQUATE RECORDS	Yes/No	Responsibility
1. Retention of Adequate Records in Adherence to Policy Manual Guidelines		
a. Electronic data storage requirements met?		
b. Electronic file storage and backup requirements met?		
c. Storage of hard copy requirements met?		
d. Destruction of records requirements met?		
e. Document data storage requirements met?		
f. Report storage requirements met?		
g. Correspondence storage requirements met?		
2. Recording of Financial Transactions in Adherence to Policy Manual Guidelines		
a. Investment activity recording requirements met?		
b. Expenditure activity recording requirements met?		
c. Allocation of gross proceeds to expenditure requirements met?		
d. Allocation of investments in commingled fund requirements met?		
3. Qualified Use of Proceeds, Financed Property, Private Business Use		
a. Have proceeds been properly spent on allowable uses?		
b. Has the financed property been used in accordance with the allowable uses including Private Business Use limitations?		
4. Issuance Price, Volume Cap Allocation and Private Activity		
a. Has the issuance price been identified appropriately according to the requirements of the Tax Code and guidelines stated within the debt issuance documents?		
b. Have the volume cap allocation requirements been satisfied for applicable debt issuances as identified in the Tax Code and guidelines stated within the debt issuance documents?		
c. Have all qualified private activity debt issuances been identified appropriately according to the requirements of the Tax Code		

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and guidelines stated within the debt issuance documents?		
5. Fair Market Value of Investments		
a. Have all investments purchased since the last due diligence review qualified under the safe harbor rules for purchasing investments at fair market value?		
6. Continuing Disclosure		
a. Have continuing disclosure requirements been met for each debt issuance?		

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VII. PROCEDURES TO CORRECT NON-COMPLIANCE

If it is determined that the requirements of the policies and procedures set forth herein have been violated or if it is determined that the Tax Code related to each debt issuance has been violated, the City of Mont Belvieu will take the appropriate action described under the applicable Tax Code to remediate such non-compliance.

Such action may include, but is not limited to the following steps:

- A. Notify Compliance Officer.
- B. Notify Bond Counsel, Arbitrage Consultant, and/or Financial Advisors.
- C. Resolve non-compliance in a timely manner in order to reduce penalties and late interest. A 60 day resolution period is recommended.
- D. Take the appropriate remedial action as advised by Bond Counsel. Remedies may include, but are not limited to:
 - 1. Enter the Voluntary Closing Agreement Program (VCAP).
 - 2. Pay all past due arbitrage rebate or yield restriction liabilities to the IRS to include a letter of explanation for late payment, late interest and/or penalties.
 - 3. Correct non-compliance matter to ensure future compliance.