

RESOLUTION NO. 2017-06

Resolution Adopting and Approving Tax Compliance Procedures Relating to
Tax-Exempt Bonds

WHEREAS, pursuant to the laws of the State of Iowa and Section 103 of the Internal Revenue Code, Lyon County, Iowa (the “County”), acting by and through the authority of its Board of Supervisors, has issued, and likely will issue in the future, tax exempt municipal bonds, notes or other obligations (the “Tax Exempt Bonds”); and

WHEREAS, the County deems it necessary and desirable to adopt certain procedures and practices to be followed by the County in connection with the issuance of Tax Exempt Bonds; and

WHEREAS, proposed tax compliance procedures are attached hereto as Exhibit A (the “Compliance Procedures”);

NOW, THEREFORE, Be It Resolved by the Board of Supervisors of Lyon County, Iowa, as follows:

Section 1. The Compliance Procedures attached hereto as Exhibit A are hereby adopted and shall be dated as of the date hereof.

Section 2. The County Auditor is hereby authorized and directed to periodically update the Compliance Procedures in accordance with the Internal Revenue Code and supporting Internal Revenue Service Rulings and Regulations, with advice from bond counsel.

Section 3. All resolutions or parts of resolutions in conflict herewith are hereby repealed to the extent of such conflict.

Passed and approved February 6, 2017.

Chairperson, Board of Supervisors

Attest:

County Auditor

EXHIBIT A

TAX COMPLIANCE PROCEDURES RELATING TO TAX-EXEMPT BONDS

Lyon County, Iowa Tax Compliance Procedures Relating to Tax-Exempt Bonds

Dated: February 6, 2017

I. Purpose:

To ensure that interest on tax-exempt bonds, notes or other obligations (the “Bonds”) of Lyon County, Iowa (the “Issuer”) remains excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”).

These written procedures shall be followed by the Issuer in connection with its issuance of Bonds:

II. Expenditure/Use of Proceeds:

- A. Expenditure of Bond proceeds will be maintained and/or coordinated with the County Auditor (the “Compliance Officer”) for consistency with the Bond documents, including any applicable resolutions, loan agreements, tax/arbitrage/closing certificates or other operative document (referred to collectively as “Bond Documents”).
- B. The Issuer has separately established procedures for preparation and review of requisitions of Bond proceeds through the accounting system of the Issuer. To such end, the Compliance Officer shall:
 - a. account and record how the Bond proceeds are spent (including investment earnings and including reimbursement of expenditures made before bond issuance) and maintaining records identifying Bond-financed or refinanced assets (e.g., land, buildings, improvements, facilities, furnishings or equipment) (the “Bond-Financed Property”), including the average economic life of such Bond-Financed Property and allocation of such Bond-Financed Property to private use or other non-qualifying use.
 - b. create the required funds/accounts (and any necessary subaccounts) required by the Bond Documents (i.e. sinking funds, debt service funds, debt service reserve funds, project funds, etc.), and if such funds are not required by the applicable Bond Documents, create such funds and accounts, into which proceeds of a Bond issue will be deposited. For all construction projects, a project or construction fund shall be established to track expenditures for the

projects. (Referred to herein as the “Project Fund.”) (In the event the Bond Documents require a trustee, paying agent or other entity to create and hold such funds and accounts, the Compliance Officer will monitor such funds and accounts accordingly).

c. review and monitor all requisitions, draw schedules, draw requests, invoices and bills for payment from the Project Fund, and determine whether such payments are appropriate and consistent with the Bond Documents and use of the Bond proceeds.

d. make and account for all payments from the Project Fund and any other funds created (i.e. sinking funds, debt service funds, debt service reserve funds, etc.).

- C. None of the proceeds of Bonds will be used to reimburse the Issuer for costs of a capital project paid prior to the date of issuance of the Bonds unless the Issuer shall have fully complied with the provisions of Section 1.150-2 of the Treasury Regulations with respect to such reimbursed amounts, and those provisions are summarized in Exhibit 1 hereto.
- D. The Compliance Officer will make a “final allocation” of Bond proceeds to uses not later than 18 months after the in-service date of the Bond-Financed Property (and in any event not later than 5 years and 60 days after the issuance of the Bonds or not later than 60 days after earlier retirement of the Bonds) in a manner consistent with allocations made to determine compliance with arbitrage yield restriction and rebate requirements.
- E. Expenditure of proceeds of Bonds will be measured against the Issuer’s expectation, as set forth in the Bond Documents, to proceed with due diligence to complete the capital project and fully spend the net sale and investment proceeds within three years.
- F. If there are any Bond proceeds remaining other than in a reserve or debt service fund established pursuant to the Bond Documents after completion of the projects, such proceeds shall be applied in a manner consistent with the applicable Bond Documents or pursuant to advice from Bond Counsel/Special Tax Counsel.
- G. In the event that Bond proceeds are to be used to make a grant to an unrelated party, a grant agreement will be reviewed prior to execution for compliance with the Code. Such agreement will be approved by the Issuer’s Attorney or Bond Counsel and the Compliance Officer. The repayment of any portion of a grant by the grantee shall be treated as unspent Bond proceeds.

III. Use of Bond-Financed Property:

- A. Use of Bond-Financed Property when completed and placed in service will be reviewed and continually monitored by the Compliance Officer.

- B. The Compliance Officer shall monitor all private use or private payments with respect to Bond-Financed Property by nongovernmental entities and the use thereof throughout the term of the Bonds to ensure compliance with covenants and restrictions set forth in the applicable Bond Documents relating to the Bonds. Private Use includes but is not limited to leases, research contracts, and use of Bond-Financed Property by a non-employee, such as third-party contracts concerning use, management or services in the Bond-Financed Property that do not meet the compensation, term and other requirements under Revenue Procedures 97-13. Such agreements will be approved by the Issuer's Attorney and the Compliance Officer, who will be responsible for determining whether the proposed agreement (i) results in private business use of the Bond-Financed Property, and (ii) if applicable, meets the compensation, term and other requirements under Revenue Procedures 97-13 and 2007-47 (i.e. Management/Service Contract Rules); all upon advice of Bond Counsel, as necessary.
- C. Appropriate department/facility managers shall be advised in writing concerning restrictions on the use of the Bond proceeds and the Bond-Financed Property and instructed to consult with the Compliance Officer and the Issuer's Attorney or Bond Counsel, as appropriate, regarding private use.
- D. Upon issuance of Bonds, there shall be no expectation that the Bond-Financed Property will be sold or otherwise disposed of by the Issuer during the term of the Bonds; and no item of Bond-Financed Property will be sold or transferred by the Issuer while the Bonds are outstanding without approval of the Issuer's Attorney and the Compliance Officer upon advice of Bond Counsel or advance arrangement of a "remedial action" under the applicable Treasury Regulations.
- E. To the extent that the Issuer discovers that any applicable tax restrictions regarding use of Bond proceeds and Bond-Financed Property will or may be violated, the Issuer will consult promptly with Issuer's Counsel/Bond Counsel/Special Tax Counsel to determine a course of action to remediate all nonqualified bonds, if such counsel advises that a "remedial action" is necessary.
- F. The Issuer acknowledges that any sale, transfer, change in use, or change in users of the Bond-Financed Property may require remedial action or resolution pursuant to the IRS Voluntary Closing Agreement Program (or "VCAP") to assist in resolving violations of the federal tax laws applicable to the Bonds.

IV. Investments:

- A. The Compliance Officer shall manage and supervise the investment of Bond proceeds in compliance with the arbitrage and rebate requirements of the Code and applicable Treasury Regulations.
- B. Guaranteed investment contracts ("GICs") may be purchased only in accordance with the fair market value provisions of applicable Treasury Regulations,

including bid requirements and fee limitations. Certificates of deposit may be purchased only according to the fair market value provisions of applicable Treasury Regulations. The Issuer's Counsel/Bond Counsel/Special Tax Counsel will be consulted before purchasing any other, non-marketable securities and before depositing gross proceeds in any other bank account not explicitly authorized by the Bond Documents.

C. The Compliance Officer will:

- (i) Maintain a procedure for the allocation of proceeds of the Bonds and investment earnings to expenditures, including the reimbursement of pre-issuance expenditures. (See Section I Expenditure/Use of Proceeds and Section II Use of Financed Property, above).
- (ii) Obtain a computation of the Bond yield for each issue of the Bonds from the Issuer's financial advisor, underwriter or other relevant third party and maintain a system for tracking investment earnings.
- (iii) Coordinate with Issuer staff to monitor compliance by departments with the applicable "temporary period" (as defined in the Code and Treasury Regulations) exceptions for the expenditure of proceeds of the Bonds, and provide for yield restriction on the investment of such proceeds if such exceptions are not satisfied.
- (iv) Ensure that investments acquired with proceeds of the Bonds are purchased at fair market value. In determining whether an investment is purchased at fair market value, any applicable Treasury Regulation safe harbor may be used. (See Section IV. B. above).
- (v) Avoid formal or informal creation of funds reasonably expected to be used to pay debt service on the Bonds without determining in advance whether such funds must be invested at a restricted yield.
- (vi) Consult with Bond Counsel/Special Tax Counsel prior to engaging in any post-issuance credit enhancement transactions.
- (vii) Monitor compliance of spending of Bond proceeds with six-month, 18-month or 2-year spending exceptions to the rebate requirement, as applicable.
- (x) Prepare or cause to be prepared a spending exception report or an arbitrage rebate computation (as applicable) for the Bonds upon final expenditure of the Bond proceeds, other than a reserve fund or debt service fund (i.e. after the project is completed and Bond proceeds allocated to the projects have been spent).
- (xi) Cause rebate payments, if due, to be made with Form 8038-T no later than 60 days after (i) each fifth anniversary of the date of issuance of the Bonds

and (ii) the final payment or prepayment of the Bonds. The Compliance Officer shall engage a rebate specialist to assist with its rebate obligations.

- (xii) Arrange for timely computation and payment of “yield reduction payments” (as such term is defined in the Code and Treasury Regulations), if applicable.
- (xiii) In the case of any issue of refunding Bonds, coordinate with the Issuer’s financial advisor and any escrow agent to arrange for the purchase of the refunding escrow securities, obtain a computation of the yield on such escrow securities and monitor compliance with applicable yield restrictions.

V. Continuing Disclosure:

The Compliance Officer shall be responsible for complying with any continuing disclosure agreements/obligations related to any Bond issue, including making required annual filings, reporting material events and coordinating with any dissemination agent.

VI. Financial & Other Non-Tax Covenants:

The Compliance Officer shall be responsible for monitoring and complying with financial and other non-tax covenants and requirements in the Bond Documents, including but not limited to covenants and requirements regarding liquidity, debt coverage, incurrence of additional indebtedness, financial reporting, transfer of property, lien restrictions and loan-to-value ratios.

VII. Record Management and Retention:

- A. Management and retention of records related to Bond issues will be supervised by the Compliance Officer.
- B. Records for Bonds will be retained for the life of the Bonds, plus any refunding Bonds, plus eleven years (or such longer term as may be required by the state records administrator). [Iowa Code section 372.13(5)(a)] Such records may be in the form of documents or electronic copies of documents, appropriately indexed to specific Bond issues and compliance functions.
- C. Records pertaining to Bond issuance shall include a transcript of documents executed in connection with the issuance of the Bonds and any amendments, and copies of rebate calculations and records of payments, including Forms 8038-T.
- D. Records pertaining to expenditures of Bond proceeds and final allocation of Bond proceeds will include requests for Bond proceeds, construction contracts, purchase orders, invoices, payment records, and trustee/paying agent reports. Such documents will include documents relating to costs reimbursed with Bond proceeds.

- E. Records pertaining to use of Bond-Financed Property shall include all third-party contracts concerning use of the Bond-Financed Property, including (without limitation) leases, use, management or service contracts, and research contracts.
- F. Records pertaining to investments shall include records of purchase and sale of GICs, certificates of deposit and other investments, and records of investment activity sufficient to permit calculation of arbitrage rebate or demonstration that no rebate is due.
- G. Records shall include all documents pertaining to IRS communications regarding the Bonds, including audits and compliance questionnaires.

VIII. Overall Responsibility:

- A. Overall administration and coordination of these procedures is the responsibility of the Compliance Officer.
- B. The Compliance Officer shall review compliance with these procedures not less than annually.
- C. The Issuer understands that failure to comply with these policies and procedures could result in the retroactive loss of the exclusion of interest on Bonds from federal gross taxable income.
- D. Any violations or potential violations of federal tax requirements shall promptly be reported to the Compliance Officer, and the Issuer will engage qualified consultants and Bond Counsel to further investigate potential violations or recommend appropriate remedial actions, if necessary.

CONDUIT BOND POST ISSUANCE PROCEDURES

It is the policy of the Issuer that for any conduit bonds (the “Conduit Bonds”) issued on behalf of a conduit borrower (the “Borrower”) the Borrower shall be responsible for and shall establish written procedures in the applicable bond documents for the issuance such Conduit Bonds (the “Conduit Bond Documents”) to address ongoing compliance with applicable financial and tax requirements, arbitrage/rebate requirements, remedial actions and other applicable post-issuance requirements of federal tax law throughout the term of the Conduit Bonds (collectively, the “Borrower’s Post Issuance Compliance Procedures”).

It is the Issuer’s policy that the Borrower shall be responsible for compliance with all of the following:

A. Arbitrage Rebate and Yield Requirements

- (i) determining the likelihood of complying with an arbitrage rebate exemption;
- (ii) if necessary, engaging the services of a rebate service provider;
- (iii) assuring payment of required rebate amounts, if any, no later than 60 days after each 5 year anniversary of the issue date of the Conduit Bonds, and no later than 60 days after the last Conduit Bond of each issue is paid or redeemed; and
- (iv) during the construction period of each capital project financed in whole or in part by Conduit Bonds, monitoring the investment and expenditure of Conduit Bond proceeds and consulting with the rebate service provider to determine compliance with any applicable exceptions from the arbitrage rebate requirements during each 6-month, 18 months or 2 year spending period, as applicable, following the issue date of the Conduit Bonds.

B. Use of Bond Proceeds and Bond-Financed or Refinanced Assets

- (i) monitoring the use of Conduit Bond proceeds (including investment earnings and including reimbursement of expenditures made before bond issuance) and the use of Bond-financed or refinanced assets (e.g., facilities, furnishings or equipment) (the “Conduit Bond-Financed Property”) throughout the term of the Conduit Bonds to ensure compliance with covenants and restrictions set forth in the Conduit Bond Documents;
- (ii) maintaining records identifying the Conduit Bond-Financed Property with proceeds of each issue of Conduit Bonds (including investment earnings and including reimbursement of expenditures made before bond issuance), including a final allocation of Conduit Bond proceeds as described below under “Record Keeping Requirements”;
- (iii) consulting with bond counsel and other legal counsel and advisers in the review of any change in use of Conduit Bond-Financed Property to ensure

compliance with all covenants and restrictions set forth in the Conduit Bond Documents; and

- (iv) to the extent that the Borrower discovers that any applicable tax restrictions regarding use of Conduit Bond proceeds and Conduit Bond-Financed Property will or may be violated, consulting promptly with bond counsel and other legal counsel and advisers to determine a course of action to remediate all nonqualified bonds, if such counsel advises that a remedial action is necessary.

C. Record Keeping Requirement

- (i) retaining copies of the Conduit Bond closing transcript(s) and other relevant documentation delivered to the Borrower at or in connection with closing of the issue of Conduit Bonds;
- (ii) retaining copies of all material documents relating to capital expenditures financed or refinanced by Conduit Bond proceeds, including (without limitation) construction contracts, purchase orders, invoices, trustee requisitions and payment records, as well as documents relating to costs reimbursed with Conduit Bond proceeds and records identifying the Conduit Bond-Financed Property, including a final allocation of Conduit Bond proceeds and the Final Completion Report filed pursuant to the Conduit Bond Documents;
- (iii) retaining copies of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements, in connection with any investment agreements, and copies of all bidding documents, if any; and
- (iv) ensuring the required 8038 forms (including 8038-T forms) are filed on a timely basis.

EXHIBIT 1

REIMBURSEMENT RULES SUMMARY

Following is a general summary of the requirements relating to Bonds (or a portion thereof) that are issued to reimburse expenditures that were paid prior to the date of issuance of such Bonds.

Subject to certain exceptions set forth below, the Bond proceeds cannot be used to reimburse expenditures paid more than 60 days prior to the adoption of the declaration of official intent/reimbursement resolution by the Issuer, which must contain:

- a general functional description of the property to which the reimbursement relates or an identification of the fund or account from which the expenditure is to be paid and a general functional description of the purposes of such fund or account; and
- the maximum principal amount of tax-exempt bonds to be issued.

Reimbursement allocations must be made in writing and not later than 18 months after the later of (i) the date on which the original expenditure is paid, or (ii) the date on which the property for which the original expenditure was made is placed in service or abandoned, but in any case not more than three years after the date on which the original expenditure is paid.

There are exceptions to the general 60-day rule described above for “de minimis” amounts (not in excess of the lesser of \$100,000 or 5% of proceeds of the Bonds) and for “preliminary expenditures” (such as architectural, engineering, surveying, soil testing and similar costs and costs of issuance that are incurred prior to acquisition, construction or rehabilitation but not including land acquisition and site preparation), so long as such preliminary expenditures do not exceed 20% of the aggregate issue price.

NOTE: This is only a summary of current law as of the Date of this Policy, and special rules may also apply. Additionally, the requirements may be amended or revised from time to time. The Issuer should consult with Bond Counsel/Special Tax Counsel, as necessary.