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CITY OF DEER PARK
POST-ISSUANCE COMPLIANCE POLICY AND PROCEDURES MANUAL

TABLE OF CONTENTS

PURPOSE

A. *Purpose*

The purpose of this post-issuance compliance policy and procedures manual is to adopt policies and procedures to guide the City of Deer Park (the "City") in meeting the requirements of the Internal Revenue Code of 1986, as amended, and Treasury Regulations promulgated thereunder (collectively, the "Tax Code") concerning tax-exempt and tax-advantaged debt ("debt issuances"). These requirements include restrictions on the use of proceeds, arbitrage yield restrictions, and the arbitrage rebate requirement. In general, these requirements are applicable throughout the period the debt issuance remains outstanding.

Non-compliance with the requirements of the Tax Code may result in fines and/or loss of the preferential status of the City's debt issuances. This manual shall incorporate the appropriate policies and procedures to demonstrate compliance with the associated Federal regulations. It shall be reviewed and updated or revised, as necessary, to reflect the most current Federal regulations relative to the City's debt issuances.

B. *Responsible Parties*

As an issuer of debt obligations, the City is responsible for post-issuance compliance with respect to its debt issuances. The Director of Finance, serving as the Compliance Officer, shall be primarily responsible for ensuring that the City successfully carries out its post-issuance compliance requirements relative to all debt issuances of the City. The Compliance Officer shall be assisted by other City staff and officials as well as the Bond Counsel, Financial Advisor, and Arbitrage Consultant.

The Compliance Officer shall coordinate the efforts of all parties to ensure compliance with the Tax Code. This shall include working with the Records Management Officer to maintain and preserve the appropriate records identified herein.

City staff shall receive training and educational materials in order to fully understand the requirements for post-issuance compliance and their respective roles and responsibilities.

ARBITRAGE – YIELD RESTRICTION AND REBATE

A. *Definitions*

"Arbitrage" is the price differential, or profit made, from investing inherently lower yielding debt issuance proceeds in higher yielding taxable investments. It represents 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. Positive arbitrage results when the overall investment yield on the gross proceeds exceeds the yield on the debt issuance. Negative arbitrage results when the overall investment yield on the gross proceeds is less than the yield on the debt issuance. If the overall investment yield on the gross proceeds equals the yield on the debt issuance, there is no arbitrage.

B. *Areas of Arbitrage Compliance To Be Addressed*

1. 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 consult with the Arbitrage Consultant and/or Bond Counsel to determine the specific yield restriction requirements for each debt issuance.

   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 percent 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 + 0.125 percent) 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 reduction payment under the yield restriction requirements must be paid per the same deadlines as the arbitrage rebate requirements, which is every five years after the date of issuance (or earlier if elected) through and including the final maturity.

2. The arbitrage rebate requirements identify what must be done with any arbitrage (profits or earnings) above the 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 years after the date of issuance (or earlier if elected) through and including the final maturity ("filing date").

C. *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.

D. *Funds Subject to Arbitrage Compliance*

As of August 31, 1986, governmental debt issuances, which include debt issuances of the City, are subject to arbitrage compliance.

The following funds and proceeds of a debt issuance are defined as "Gross Proceeds" of a debt issuance: sale proceeds, investment proceeds, replacement proceeds (e.g., debt service funds, reserve funds, and pledged funds), and 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).

One of the most common funds subject to arbitrage rebate that is not funded from sale proceeds is the debt service fund. The debt service fund receives a majority of its funding from tax revenues. Amounts in the debt service fund less any portion that is a "bona fide debt service fund" are required to be included in the arbitrage rebate calculation. The "bona fide" portion of the debt service fund is the amount not depleted at least once each bond year, <u>except</u> 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 for the immediately preceding bond year.

E. *Exceptions to the Rebate Requirements*

The Tax Code sets forth general 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 percent of investment earnings in 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 rebate requirements. The City shall consult with the 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.

Spending exceptions and the associated requirements are described below. The City must still comply with yield restriction requirements unless it meets a separate yield restriction exception. There may be special elections and circumstances for a debt issuance that can affect how these exceptions are tested. The City shall seek advice from the Arbitrage Consultant and/or Bond Counsel before any action is taken.

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. The following intermediate expenditure requirements are necessary: 95 percent by 6 months and 100 percent 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 if the remaining amount is 5 percent or less and is spent within 6 months from the end of the 6-month spending date.

18-Month Spending Exception: If a debt issuance does not qualify as a construction issuance (75 percent 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. The following intermediate expenditure requirements are necessary: 15 percent by 6 months, 60 percent by 12 months, and 100 percent 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:

a. A reasonable retainage amount of 5 percent 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 percent of the issue price and due diligence is exercised to complete the project and spend the remaining project/construction proceeds.

2-Year Spending Exception: If a debt issuance qualifies as a construction issuance (75 percent 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. The following intermediate expenditure requirements are necessary: 10 percent by 6 months, 45 percent by 12 months, 75 percent by 18 months, and 100 percent by 2-years.

If there are unspent 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 percent 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 percent of the issue price and due diligence is exercised to complete the project and spend the remaining project/construction proceeds.

Small Issuer Exception: General taxing authorities reasonably expecting to issue $5,000,000 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. Issuers must still satisfy the yield restriction requirements. At least 95 percent of the proceeds must be used for local governmental activities of the issuer or by governmental units located within the issuer's boundaries.

Additional requirements relative to refunding debt issuances include the following:

a. The debt being refunded (old debt issuance) must have qualified for the small issuer exception.

b. 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 issuer must have general taxing powers.

c. The refunding debt (new debt issuance) must not mature more than thirty years after the issuance of the original refunded debt (old debt issuance).

PRIVATE BUSINESS USE

A. *General*

1. To confirm that the debt issuance serves governmental purposes rather than providing proscribed benefits to nongovernmental persons engaged in "private business" activity, it must be determined whether the City expects that there will be any private business use of the proceeds of the debt issuance. Private business use exists if more than five percent (and, in certain circumstances, ten percent) of the proceeds of the issue or the property to be financed by the debt issuance are used directly or indirectly by any nongovernmental person in that person's trade or business. In addition, no more than five percent (and, in certain circumstances, ten percent) of the proceeds of an issue may be secured directly or indirectly by property or payments derived from private business use under the "private security or payment test." Private business use may occur due to arrangements (typically contractual) that give nongovernmental persons special legal entitlements with respect to the use of bond-financed property (including a sale or other transfer of bond-financed property to a nongovernmental person). Finally, no more than five percent of the proceeds of an issue of bonds may be used to make loans or arrangements that allow a nongovernmental person to defer payments that it is obligated to make with respect to the financed property or the bonds.

2. The Compliance Officer shall coordinate with the parties responsible for the use and operation of a bond-financed facility by communicating the private business use restrictions to such parties and requiring that all activity that may give rise to such use be communicated to the Compliance Officer in advance of such use. The Compliance Officer is responsible for tracking trade or business activity by third parties as it relates to each debt issuance and will monitor such activity no less frequently than annually and, in any event, upon being notified of any new activity that will give rise to a significant amount of trade or business activity by a third party.

B. *Special Legal Entitlements that Can Create Private Business Use*

1. A special legal entitlement that can create private business use can arise from arrangements that convey ownership rights, leasehold rights or management rights (e.g., priority rights to use the facility) or other similar rights. Recognizing that a special legal entitlement may give rise to private business use, each time the City intends to enter into one of the following, the City shall determine if such agreement relates to any bond-financed facility:

a. Management and other service contracts

b. Research agreements

c. Naming rights contracts

d. Ownership

e. Leases

f. Subleases

g. Leasehold improvement contracts

h. Joint venture arrangements

i. Limited liability corporation arrangements

j. Partnership agreements

k. Non-contractual use of bond-financed office space and/or parking facilities by any nongovernmental person

l. Any other contract conferring a special legal entitlement or special economic benefit that are comparable to ownership

2. If such an agreement will be with respect to a bond-financed facility, the City shall take measures designed to preserve the intended federal income tax status of that issue of Bonds. Such measures may include ensuring that such agreement falls into an applicable exception under the private business use rules, making a determination that private use will not exceed the applicable limit, or such other action as may be recommended by Bond Counsel, including taking remedial actions with respect to the issue of Bonds whose federal tax status is implicated.

REISSUANCE

Prior to making any changes to the terms of an obligation, including its underlying security, the City shall consult with Bond Counsel to determine whether such change will result in the reissuance of such obligation for federal tax law purposes. If it is determined that a change will result in a reissuance, the City shall take such action, including the recalculation of yield, the filing of a new Form 8038-G and the payment of rebate obligations, as is necessary, to maintain the tax status of the bonds.

RECORDS RETENTION

A. *General Overview*

1. Debt Not Refunded: Currently the IRS records retention requirements are to keep all records, data and documents associated with non-refunded debt issuances for three years past the final maturity date of the debt issuance.

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 pertaining to the new and old debt issuances (the new debt issuance).

B. *Records Retention*

1. Hard Copy (Paper) Storage: The City shall maintain a designated storage box or container for each debt issuance. This box shall clearly display a description of the debt issuance and shall contain the required information specified herein. Access shall be controlled by the City Secretary, serving as the Records Management Officer, and shall be restricted to persons authorized by the Compliance Officer. Records for each debt issuance shall be maintained for the period described above, which shall supersede any and all other records retention schedules applicable to the City.

2. Electronic Data Storage: In lieu of hard (paper) copies, the City may store the records associated with each debt issuance in an electronic format if the records are retained in an organized, accessible format that preserves the accuracy of the documentation. The required records must be maintained separately for each debt issuance in accordance with the following system guidelines, as set forth in Revenue Procedure 97-22,1997-1 C.B. 652 (Recordkeeping requirements – electronic storage system):

   a. There must be an accurate and complete transfer of the hard copy documentation to the electronic format which shall also include a functional retrieval system.

   b. There must be reasonable controls and quality assurance for any electronic storage system, with access in accordance with the same restrictions as the hard copy documentation.

   c. The system must not be subject to any agreement that would limit or deny the IRS access or use of the system.

3. The City shall provide copies of any records requested by the IRS. Further, the City shall furnish to the IRS a complete description of the records management system, including storage, retention, retrieval, etc.

C. *Records Destruction*

The City shall maintain a destruction log for all debt issuances whose records are destroyed following the IRS mandated retention period. This log shall include a description of the debt issuance, the allowable destruction date, and the actual date the records were destroyed. The log shall include the signature of the Compliance Officer and a witness next to each entry indicating authorization for the records destruction. This log shall be maintained in the office of the Director of Finance (Compliance Officer). Access to the log will be restricted as authorized by the Compliance Officer.

D. *Required Information to be Stored for Each Debt Issuance*

1. The Records Management Officer shall maintain copies of the following documents on file at all times:

   a. Audited Financial Statements

   b. Reports of any examinations of the City's debt issuances by the IRS

2. For each debt issuance, the Records Management Officer shall maintain copies of the following in accordance with the IRS records retention requirements described above, which shall supersede any and all City records retention schedules.

   a. Bond transcript, including authorizing documents, offering document, the federal tax certificate, and certificates regarding issue price

   b. Minutes and resolution(s) authorizing the issuance

   c. Documentation of any formal elections (e.g., election to employ an accounting methodology other than specific tracing)

   d. Records relating to the payment of debt service (including credit enhancement)

   e. Documentation relating to investments and arbitrage compliance

   f. Documentary evidence of when and for what purpose the bond proceeds were expended

   g. Any grant requests or fund raising materials and documentation of grant funding or fund raising receipts relating to projects that also may be financed, in whole or in part, by the debt issuances

   h. Any agreement for private business use that relates to a facility financed by any debt issuances

   i. Bond paying agent/trustee statements

   j. Rebate compliance reports and any related IRS filings (e.g., Form 8038-T)

   k. IRS correspondence related to any debt issuances

l. Any other documentation and correspondence material to the particular requirements applicable to the tax status of the debt issuances

3. In order to compute the yield on the investments, the Finance Department shall maintain trust statements (or the equivalent) showing detailed investment activity for the entire computation period for each fund/account in which gross proceeds of the debt issuance were held. At the conclusion of the annual audit for each fiscal period, these statements shall be provided to the Records Management Officer to be filed with the records for each respective debt issuance.

   Investment information must be recorded on a daily transactional level and, in addition to investment reports or statements, may also include general ledgers, investment bids and confirmations, etc.

4. In a joint effort with the department responsible for the project expenditures, the Finance Department shall capture expenditure information to be maintained as part of the debt issuance record. This information shall include the following:

   a. Description of expenditure
   b. Date of expenditure
   c. Amount of expenditure
   d. Invoices
   e. Proof of payment (cancelled check, wire confirmation, etc.)

5. The City shall allocate gross proceeds of a debt issuance to expenditures in a timely manner, as set forth herein and shall retain documentation thereof. 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 an expenditure is paid by check, the outlay shall be the date the check is mailed given the expectation that the check is expected to be cashed within five banking days.

   a. 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 to put the proceeds of more than one debt issuance into a single account (commingle) and treat all expenditures as coming from the proceeds of the first debt issuance until they are fully spent.

ii. The gross proceeds spent first method is used when 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 to keep proceeds from different debt issuances in separate accounts. Costs may be charged to any debt issuance at the City's discretion.

iv. The ratable allocation method permits the City 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 single account. The expenditures are allocated to each debt issuance ratably based on each debt issuance's proportionate ownership of the account.

b. For debt issuances issued on or after May 16, 1997, the City shall account for the allocation of proceeds to expenditures not more than 18 months after the later of (i) the date the expenditure is paid, or (ii) the date the project, if any, that is financed by the debt issuance is placed into service. In either case, this allocation must be made by the earlier of 60 days after the fifth anniversary of the issuance date or the date 60 days after the retirement of the debt issuance.

6. Documentation must be maintained regarding the 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). The City's fiscal period ends on September 30 of each year. This allocation must be based on a consistently applied, reasonable ratable allocation. Currently, the City allocates all payments and receipts on a monthly basis.

7. Documentation must be maintained to support the qualified use of proceeds, property financed, and private business use (defined herein). The qualified use of proceeds, property financed, and private business use limitations by the debt issuance shall 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 limitations of the Tax Code. The Compliance Officer shall ensure such limitations are in compliance with debt issuance documents or, if more restrictive, state law or the limitations of the Tax Code. Further, the City shall communicate the private business use restrictions to the party responsible for the use and operation of a bond-financed facility and shall require that all activity that may give rise to such private business use be communicated to the City in advance of such use.

8. Documentation must be maintained showing the issuance price determination and the volume cap allocation limitations of the debt issuance. The issuance price and volume cap allocation activity limitations shall 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 limitations of the Tax Code. The Compliance Officer shall ensure such limitations are in compliance with the debt issuance documents or, if more restrictive, state law or the limitations of the Tax Code.

9. The City shall maintain documentation showing that investments were purchased or sold at a fair value. The City may not purchase an investment at a price in excess of fair market value with gross proceeds of the debt issuance. Conversely, the City may not sell an investment purchased with gross proceeds at a price lower than fair market value. 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.

    b. Certificates of deposit purchased using a safe harbor under the 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 using a three-bid safe harbor under the Tax Code.

MATTERS OF DUE DILIGENCE

A. *Annual Review*

This policy and procedures manual shall be reviewed annually to confirm that all necessary procedures are in place to identify matters of non-compliance. The Compliance Officer shall complete the annual review of all debt issuances prior to the end of each calendar year. The City shall take corrective action(s) as necessary to address matters of non-compliance in a timely manner.

B. *Training*

The Compliance Officer shall take all necessary steps to maintain an adequate understanding of post-issuance compliance requirements relating to the debt issuances. The City shall provide the necessary training to the Compliance Officer and other City staff on matters related to post-issuance compliance, including arbitrage rebate.

C. *Continuing Disclosure*

Continuing disclosure consists of important information about a debt issuance that arises after the initial debt issuance. The purpose of this information is to report the financial condition of the issuer and to disclose specific events subsequent to the debt issuance that may impact (1) the issuer's ability to pay principal and interest when due, (2) the value of the bond if it is bought or sold prior to its maturity, and/or (3) other key features of the debt issuance.

In accordance with SEC rule 15c2-12, the City shall furnish the necessary documentation to satisfy continuing disclosure requirements. Information shall be disclosed for each debt issuance and shall include annual financial information and material event notices. The Compliance Officer is primarily responsible for undertaking such continuing disclosure obligations and shall monitor compliance with such obligations.

The City shall timely file a material event notice with the Municipal Securities Rulemaking Board (the “MSRB”) through the Electronic Municipal Market Access (“EMMA”) system if there is an occurrence of any of the following 16 events described in SEC rule 15c2-12:

a. Principal and interest payment delinquencies

b. Non-payment related defaults, if material

c. Unscheduled draws on debt service reserves reflecting financial difficulties

d. Unscheduled draws on credit enhancements reflecting financial difficulties

e. Substitution of credit or liquidity providers, or their failure to perform

f. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form S701-TEB), or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security

g. Modifications to rights of holders of the security, if material

h. Bond calls, if material, and tender offers

i. Defeasances

j. Release, substitution, or sale of property securing repayment of the security, if material

k. Rating changes

l. Bankruptcy, insolvency, receivership, or similar event of the City or another obligated person

m. The consummation of a merger, consolidation, or acquisition involving the City or another obligated person or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material

n. Appointment of a successor or additional trustee or the change of name of a trustee, if material

o. Incurrence of a financial obligation (other than municipal securities for which a continuing disclosure agreement is entered into and an official statement is filed with the MSRB) of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material

p. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties

Note: for purposes of the last two items on the above list, the term "financial obligation" means (i) a debt obligation, (ii) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). Financial obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with this rule.

CORRECTIVE ACTION FOR NON-COMPLIANCE

If it is determined that the City has not complied with the Tax Code or these policies and procedures related to post-issuance compliance of any debt issuance, the City shall take the appropriate corrective action to remedy such non-compliance in accordance with the Tax Code.

The City shall seek to resolve non-compliance issues in a timely manner in order to reduce penalties and interest (note: a 60-day resolution period is recommended). Corrective action may include, but is not limited to, the following:

A. Notify the Compliance Officer.

B. Notify the Bond Counsel, Arbitrage Consultant, and/or Financial Advisors.

C. Take a remedial action described under Section 1.141-12 (Remedial actions) of the Tax Code.

D. Take the appropriate remedial action as advised by Bond Counsel. Remedies may include, but are not limited to:

   1. Enter into a closing agreement under the Tax-Exempt Bonds Voluntary Closing Agreement Program ("VCAP").

   2. Pay all past due arbitrage rebate or yield restriction liabilities to the IRS, including a letter of explanation for the late payment, etc.

   3. Review this policy and procedures manual and implement any new procedures as necessary to ensure future compliance.