
POST ISSUANCE COMPLIANCE POLICY

Section 1. PURPOSE

The purpose of this policy is to ensure that the Bedford Regional Water Authority (“Authority”) complies with applicable requirements of federal tax law necessary to preserve the tax-exempt status of interest on tax-exempt obligations issued for the benefit of the Authority. This Policy is designed to set forth compliance procedures so that the Authority utilizes the proceeds of all issues of tax-exempt bonds in accordance with applicable federal tax requirements, and complies with all other applicable federal requirements with respect to bond issues.

Section 2. GENERAL PROCEDURES

- A. The Authority shall be responsible for monitoring post-issuance compliance issues.
- B. The Authority shall review post issuance compliance procedures and systems on a periodic basis; at least annually.
- C. Overall administration and coordination of this policy is the responsibility of the Director of Finance. Such person shall be responsible for identifying any violations of federal tax requirements relating to the bonds and shall consult with bond counsel as to the best method for the timely correction of any identified violations.

Section 3. ISSUANCE OF OBLIGATIONS

- A. The Authority will retain a firm of nationally recognized bond counsel (“Bond Counsel”) to deliver a legal opinion upon issuance of bonds. The Authority will consult with Bond Counsel and other legal counsel and advisors, as needed, following issuance of bonds to ensure that applicable post issuance requirements are in fact met, so that interest on all bond issues will be excluded from gross income for federal tax purposes so long as any bonds remain outstanding.
- B. The Authority shall obtain all closing documents; an electronic copy shall be stored on the accounting drive of the Authority’s server. All original paper documents shall be stored in the locked fireproof safe located at the Authority’s Administrative offices. .
- C. The Authority shall insure that bond counsel has filed the applicable information (i.e. Form 8038-G) for such issue with the Internal Revenue Service on a timely basis.

Section 4. The Authority shall coordinate receipt and retention of relevant records with respect to the investment and expenditure of the proceeds of such Obligation with Authority staff,

Section 5. TIMELY EXPENDITURE OF PROCEEDS

At the time of issuance of any bonds (or any portion thereof) issued to fund original expenditures, the Authority must reasonably expect to spend at least 85% of all proceeds expected to be used to finance such expenditures (which proceeds would exclude proceeds in a reasonably required reserve fund) within three (3) years of issuance. In addition, for such bonds, the Authority must have incurred or

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expect to incur within six months after issuance original expenditure of not less than 5% of such amount of proceeds, and must expect to complete the bond financed project and allocate bond proceeds to costs with due diligence. Satisfaction of these requirements allows project related bond proceeds to be invested at an unrestricted yield for three years. Bonds issued to refinance outstanding obligations are subject to separate expenditure requirements, which shall be outlined in the Tax Compliance Agreement relating to such bonds. The Authority's Financial Manager will monitor the appropriate capital projects accounts (and, to the extent applicable, working capital expenditures and/or refunding escrow accounts) and ensure that the bond proceeds are spent within the time period(s) required under federal tax law.

Section 6. USE OF BOND FINANCED ASSETS

- A. The Authority must constitute a tax-exempt political subdivision of the Commonwealth of Virginia at all times while a bond issue is outstanding. For the life of the bond issue, the project must be owned and operated by a political subdivision of the Commonwealth of Virginia, and must be used in furtherance of the Authority's tax-exempt purposes. No more than 5% of the bond proceeds, or assets financed or refinanced with bond proceeds, can be used in the trade or business of a private entity.
- B. Any management, operation or service contracts whereby a non-exempt entity is using assets financed or refinanced with bond proceeds must relate to portions of the project that fit within the above mentioned 5% allowable private use or the contracts must meet the IRS safe harbor for management contracts. Any replacements of or changes to such contracts should be reviewed by bond counsel. The Authority shall contact bond counsel if there may be a lease, sale, disposition or other change in use of assets financed or refinanced with bond proceeds.

Section 7. INVESTMENT OF BOND PROCEEDS

- A. The Authority shall coordinate the investment of bond proceeds with a third party, as necessary. The use of the State Non-Arbitrage Program ("SNAP") is preferred to provide investment management, accounting and arbitrage calculation services for proceeds received from tax exempt financings.
- B. The Authority's Director of Finance will monitor the investment of bond proceeds to ensure compliance with yield restriction rules.
- C. Investment earnings on bond proceeds should be tracked and monitored to comply with applicable yield restrictions and/or rebate requirements. The Authority is responsible for calculating (or causing the calculation of) rebate liability for each bond issue, and for making any required rebate payments. Any funds of the Authority set aside or otherwise pledged or earmarked to pay debt service on bonds should be analyzed to assure compliance with the tax law rules on arbitrage, invested sinking funds and pledged funds (including gifts or donations linked to the bond financed asset(s)).
- D. The Authority will retain an arbitrage rebate consultant to perform rebate calculations that may be required to be made from time to time with respect to any bond issue. The Authority is responsible for providing the arbitrage rebate consultant with requested documents and

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information on a prompt basis, reviewing applicable rebate reports and other calculations and generally interacting with the arbitrage rebate consultant to ensure the timely preparation of rebate reports and payment of any rebate.

- E. Copies of all arbitrage rebate reports, related return filings with the IRS, copies of cancelled checks with respect to any rebate payments, and information statements must be retained as described below

Section 8. RECORD RETENTION

- A. The Authority shall allocate (spend) bond proceeds to expenditures for assets, and shall trace and keep track of the use of bond proceeds and property financed or refinanced therewith.
- B. Copies of all relevant documents and records sufficient to support that the tax requirements relating to a bond issue have been satisfied will be maintained by the Authority for the term of a bond issue plus six years, including the following documents and records:
 - a. Bond closing transcript
 - b. All records of investments, arbitrage reports, returns filed with the IRS and underlying documents
 - c. Construction contracts, purchase orders, invoices and payment records
 - d. Documents relating to costs reimbursed with bond proceeds
 - e. All contracts and arrangements involving private use of the bond financed property
 - f. All reports relating to the allocation of bond proceeds and private use of bond financed property
 - g. Itemization of property financed with bond proceeds

Section 9. CONTINUING DISCLOSURE REQUIREMENTS

- C. The Authority shall coordinate and monitor continuing disclosure requirements with all outstanding bond issues.
- D. The Director of Finance shall send the Comprehensive Annual Financial Report (CAFR) and annual budget document to all national and/or state agencies, as required.
- E. The Authority will conduct periodic reviews of compliance with these procedures to determine whether any violations have occurred so such violations can be remedied through the “remedial action” regulations (Treas. Reg. Section 1.141-12) or the Voluntary Closing Agreement Program (VCAP) described in IRS Notice 2008-31 (or successor guidance). If any changes to the terms or provisions of a bond issue are contemplated, the Authority will consult bond counsel.
- F. The Authority will maintain records identifying the assets or portion of assets that are financed or refinanced with proceeds of a bond issue, including the uses and the users (including terms of use and type of use) thereof. Such records may be kept in any combination of paper or electronic form. In the event the use of bond proceeds or the assets financed or refinanced with bond proceeds is different from the covenants, representations or factual statements in the Tax Compliance Agreement, the Authority will promptly contact and consult with Bond Counsel to

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ensure that there is no adverse effect on the tax exempt status of the Bond issue and, where appropriate, will remedy any violations through the “remedial action” regulations (Treas. Reg. Section 1.141-12), the Voluntary Closing Agreement Program (VCAP) described in IRS Notice 2008-31 (or successor guidance), or as otherwise prescribed by bond counsel.

Section 10. REVISIONS

- A. This policy was approved and adopted by the Authority’s Board of Directors on March 26, 2013, effective July 1, 2013.
- B. This policy was modified with the following amendments:
 - 1. Approved April 21, 2015, effective April 22, 2015
 - a. Modified policy with current requirements.
 - 2. Approved June 16, 2020, effective June 17, 2020
 - b. This policy was revised to update titles and formatting throughout.