RESOLUTION NO. 7252

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF REDLANDS APPROVING POST ISSUANCE COMPLIANCE PROCEDURES FOR BONDS

BE IT RESOLVED by the City Council of the City of Redlands as follows:

Section 1. The City Council of the City of Redlands hereby adopts the Post Issuance Compliance Procedures for Bonds attached hereto as Exhibit "A."

ADOPTED, SIGNED AND APPROVED this 5th day of February, 2013.

Peter Aguilar, Mayor

ATTEST:

Sam Irwin, City Clerk

I, Sam Irwin, City Clerk of the City of Redlands, hereby certify that the foregoing Resolution was duly adopted by the City Council at a regular meeting thereof, held on the 5th day of February, 2013, by the following vote:

AYES:	Councilmembers Harrison, Foster, Gilbreath; Mayor Aguilar
NOES:	None
ABSTAIN:	None
ABSENT:	Councilmember Gardner

Sam Irwin, City Clerk

EXHIBIT 'A'

CITY OF REDLANDS
BOND COMPLIANCE POLICIES AND PROCEDURES

These Bond Compliance Policies and Procedures have been initially approved by the City Council of the City of Redlands (the "*City*"), on ___________ __, 2013.

Statement of Purpose; Summary

The City may, from time to time, finance its capital improvements and operations through the issuance of debt obligations that are eligible for tax benefits under federal and California law. Such obligations may include tax exempt bonds and/or bonds eligible for tax credits (direct subsidies to the City or tax credits to bond owners). All such obligations are referred to herein as "***City Bonds,***" whether in the form of general obligation bonds, revenue bonds, bond anticipation notes, tax anticipation notes, lease-purchase obligations, installment-purchase obligations, Certificates of Participation or otherwise.

The purpose of these policies and procedures is to ensure that the requirements of the federal and California law necessary to preserve the tax advantages of City Bonds are continuously complied with for the requisite periods.

This document contains two primary components:

- The City Bond Compliance Policies (the "***Policies***"), which are general statements of the goals of the City with respect to compliance with the federal and California law applicable to City Bonds; and

- The City Bond Compliance Procedures (the "***Procedures***"), which are specific operational procedures by which the City intends to ensure, on a continuing basis, that its issuance, payment of debt service on, and expenditure and investment of the proceeds of City Bonds are and remain in compliance with the federal and California law applicable to City Bonds.

The Policies may be modified, expanded, abridged, or otherwise amended only by the City Council of the City upon consultation with the **City Manager**, the **City Attorney** and the City's bond counsel ("***Bond Counsel***").

The **Finance Director** will be responsible for ensuring that City Bonds comply with federal and California law applicable to City Bonds and will develop and implement the Procedures. The Procedures may be modified, expanded, abridged, or otherwise amended by the **Finance Director** in consultation with the City Attorney and Bond Counsel, in order to: (a) ensure efficiency of administration; (b) establish and maintain appropriate assignments and training of staff responsibility; (c) reflect changes in the City's system of accounting, financial controls, procurement practices, or other internal procedures and practices; (d) respond to changes in law or interpretation that may, from time to time, be reported to the City by Bond Counsel; or (e) otherwise ensure compliance with the Policies in the most efficient and effective manner.

PART I: CITY BOND COMPLIANCE POLICIES

A. Investment and Expenditure of Bond Proceeds. The City's system of internal controls and accounting will be capable of tracking the investment and expenditure of proceeds of City Bonds and other amounts subject to special requirements, and the allocation of such proceeds and other amounts to City facilities. Appropriate coding will be developed to identify City facilities (or portions thereof) financed or refinanced by City Bonds. Such procedures will ensure that such proceeds are expended only for the purposes authorized by the ordinance and, as applicable, indenture, pursuant to which such bonds were issued and in compliance with the Tax Certificate relating to the City Bonds or other instructions of Bond Counsel.

B. Bond-Financed Facilities. The City will track the use of facilities (or portions thereof) financed or refinanced by City Bonds in the private trades or businesses of non-governmental persons. Arrangements for the sale, disposition, lease, management or other use of substantial portions (more than 1%) of facilities financed or refinanced by City Bonds with a term of (i) less than 200 days will be subject to prior review and approval by the **Finance Director**, and (ii) equal to or greater than 200 days will be subject to prior review and approval by the **Finance Director** and Bond Counsel. The **Finance Director** will track the aggregate annual private use (if any) of facilities provided by City Bonds.

C. Periodic Review. The City will periodically review compliance with the requirements of the federal and California law necessary to preserve the tax advantages of such City Bonds. Such reviews should include final allocations of proceeds not later than 18 months after completion of bond-financed facilities and annual reviews to ensure private business use of bond financed facilities does not exceed allowable levels. Such annual review should be conducted in connection with the preparation of the City's audited financial statements.

D. Potential Non-Compliance. Should the **Finance Director**, upon any annual review or otherwise, discover non-compliance with any requirements of federal or California law necessary to preserve the tax advantages of such City Bonds, the **Finance Director** will identify Procedures which will include steps to be taken, in concert with Bond Counsel, to remedy any such non-compliance.

E. Retention of Professionals; Rebate Analyst. The City will engage such professionals or consultants as are necessary, in the judgment of the **Finance Director**, to ensure that the requirements of federal and California law necessary to preserve the tax advantages of such City Bonds are timely met, including, without limitation, the requirement to compute and pay rebatable arbitrage to the United States government or to confirm an exception thereto. The **Finance Director** will ensure that all information reports or other returns or filings with the United States Department of Treasury or Internal Revenue Service timely will be filed on behalf of the City.

F. Purchase of Investments. All investments of the proceeds of City Bonds will be purchased at Fair Market Value, as defined in the federal tax laws, and will comply with the requirements of federal tax law relating to yield restriction as advised by Bond Counsel.

G. Credit Enhancement Transactions. The **Finance Director** will consult with Bond Counsel prior to engaging in any post-issuance credit enhancement transactions (i.e., bond insurance or letters of credit) or hedging transactions (i.e., interest rate swaps) relating to any City Bonds.

H. Subsidy Payments. The **Finance Director** will implement proper procedures to ensure that any federal subsidy payable in respect of any direct-pay tax credit bonds is timely transmitted to the appropriate account of the City including the timely filing of any required return or other documentation.

I. Post-Issuance Modifications. The Finance Director will consult with Bond Counsel prior to any modification of the interest rate, maturity date, or other material terms of any outstanding City Bonds.

J. Records Retention. The City will retain records sufficient to demonstrate compliance with the requirements of federal and California law necessary to preserve the tax advantages of such City Bonds for the period required by law, presently understood to be the life of the debt obligations or any succeeding refunding obligations plus 3 years.

The Foregoing Policies were adopted on ____________ __, 2013.

City Manager
City of Redlands

CITY BOND PROCEDURES

These Procedures are organized with reference to the applicable lettered paragraphs in the Policies.

Certain of these Procedures assign responsibilities to named officials of the City. The named officials may delegate certain assigned responsibilities but will remain responsible for compliance with these Procedures and assurance of adequate training of City personnel assigned responsibilities hereunder. The official with ultimate responsibility for compliance with the Policies and Procedures will be the **City Manager**.

A summary of the initial responsibility assignments appears as ***Exhibit A*** to these Procedures.

Policy A: **Investment and Expenditure of Bond Proceeds**.

Implementing Procedures:

1. The **Finance Director** will charge capital expenditures that are financed by debt to the corresponding capital projects fund. Each project will have a specific fund number used to track that project, and discrete expenditures will be further categorized by project location (by street address or name of facility) and functional description of financed improvement.

2. The **Purchasing Services Manager** will enter purchase orders and the **Finance Director** will pay and capture such purchase orders in the general ledger by the specific account code.

3. The **Purchasing Services Manager** will electronically scan, file and retain all purchase orders and invoices by vendor, check number, check date, and purchase order number, if applicable.

4. Until final allocation of bond proceeds, on a monthly basis, at a minimum, the **Finance Director** will analyze each project for expenditures and will summarize such expenditures on a spreadsheet showing the year-to-date expenditures for that project and will identify facilities or equipment financed or refinanced by City Bonds ("***Bond Financed Facilities***"). A copy of the City's transaction activity report and/or summary report by account code generated from the general ledger will be used to back up this spreadsheet and filed with that spreadsheet.

5. The **Finance Director** will ensure that the investment of all proceeds of City Bonds is tracked by fund or account (e.g., debt service fund, debt service reserve fund, project or construction fund, etc.) and investment yield.

Policy B: **Bond-Financed Facilities**.

Implementing Procedures:

1. The **Finance Director** will meet at least annually and coordinate with the **City Manager** to review and evaluate existing or pending sales, leases, management contracts, research contracts, or other special legal entitlements that relate to the City's real or personal property (collectively, "***Use Arrangements***").

2. The **Finance Director** will be responsible for determining whether any Use Arrangement relates to Bond Financed Facilities. If so, the **Finance Director** will consult with the **City Attorney** and solicit advice concerning the Use Arrangement. If the term of the Use Arrangement relating to any Bond Financed Facilities (with any extensions at the sole option

of the counterparty) exceeds 200 days, the **Finance Director** and the **City Attorney** will also consult Bond Counsel for advice prior to execution of the Use Arrangement.

3. The **City Attorney** will notify the **Finance Director** upon receipt of any Use Arrangements submitted for approval for any Bond Financed Facilities.

Policy C: **Periodic Review**.

Implementing Procedures:

1. Promptly after the adoption of the Policy, the **Finance Director** will cause an evaluation of tax compliance to be undertaken for each outstanding issue of City Bonds (the "***Initial Evaluation***"). Upon the completion of the Initial Evaluation, the **Finance Director** will prepare a report to the **City Manager** on the results of the Initial Evaluation (the "***Initial Report***") which will identify all City Bonds then outstanding and the Bond Financed Facilities allocable to each such issue of City Bonds. The Initial Report will express the findings of the **Finance Director** whether each outstanding issue of City Bonds satisfies the requirements of the Policy and will contain (A) a spreadsheet setting forth any Use Arrangement with respect to any Bond Financed Facilities and the City Bonds to which they relate, and (B) a statement that any arbitrage rebate then due has properly been paid or that an exception or exemption from such payment is available.

2. The **Finance Director** annually will cause a follow-up evaluation of tax compliance to be undertaken for each outstanding issue of City Bonds (the "***Annual Evaluation***") with the same objectives and scope as the Initial Evaluation and will provide to the **City Manager** a report (the "***Annual Report***") of the findings of the Annual Evaluation and an updated spreadsheet concerning private business use for each issue of City Bonds. Such allocation may be conducted in connection with the preparation of the City's audited financial statements for the fiscal year in which the final expenditure was made.

3. Not later than 18 months after completion of any Bond Financed Facilities, the **Finance Director** will make and retain a final allocation of the expenditure of proceeds of City Bonds and other amounts used to finance such improvements.

Policy D: **Potential Noncompliance**.

Implementing Procedures:

1. If the Initial Evaluation or any Annual Evaluation discloses potential non-compliance with the tax requirements applicable to any issue of outstanding City Bonds, the **Finance Director** will promptly consult with the **City Attorney** and **Bond Counsel**. Such consultation will consider whether the evaluations were properly performed and whether any amendments to Use Arrangements, adjustments to allocation methodologies, mixed financing sources, or other accounting techniques may avoid non-compliance.

2. If the City determines after consultation with counsel that non-compliance has occurred, the **Finance Director** will promptly consult Bond Counsel concerning the ability of the City to remedy the non-compliance under applicable IRS regulations or to seek a voluntary closing agreement.

Policy E: **Retention of Professionals; Rebate Analyst.**

***Implementing Procedures*:**

1. If the City determines that any of its outstanding City Bonds are not exempt from rebate, the City will engage an arbitrage rebate firm as its arbitrage rebate computation agent (the "***Rebate Analyst***"). The **Finance Director** will ensure that records of investment and expenditure of the proceeds of City Bonds are timely delivered to the Rebate Analyst and that the Rebate Analyst prepares annual computation reports that advise the City of any rebatable arbitrage accrued with respect to any such bonds.

2. The **Finance Director** will ensure that the Rebate Analyst timely prepares returns relating to payment of arbitrage rebate (currently on IRS Form 8038-T) and that such forms are timely filed with and any rebatable arbitrage are timely paid to the United States as required under Section 148(f)(4) of the Code.

Policy F: **Purchase of Investments.**

***Implementing Procedures*:**

1. All investments of the proceeds of City Bonds will be made by the City at the direction of the **Finance Director**, who will ensure that such proceeds are invested in compliance with federal tax requirements and that all such investments are made at Fair Market Value. The **Finance Director** will consult with Bond Counsel prior to investing any proceeds of City Bonds in guaranteed investment contracts or certificates of deposit not publicly traded on any investment exchange.

Policy G: **Credit Enhancement Transactions.**

***Implementing Procedures*:**

1. Prior to bidding for, purchasing, entering into, or otherwise engaging in any post-issuance credit enhancement transactions relating to the proceeds of or debt service on City Bonds (including, without limitation, bond insurance policies, letters of credit, guaranteed investment contracts, interest rate swaps, and market hedges), the **Finance Director** will consult with Bond Counsel.

Policy H: **Subsidy Payments.**

***Implementing Procedures*:**

1. See the implementing procedures of Policy A, above.

Policy I: **Post-Issuance Modifications.**

***Implementing Procedures*:**

1. Prior to entering into any modification of the terms of any outstanding City Bonds (including, without limitation, changes in maturity date, interest rate, call provisions, financial or earnings covenants, or use of proceeds), the **Finance Director** will consult with Bond Counsel.

Policy J: **Records Retention.**

Implementing Procedures:

1. Retention Period: Records material to City Bonds will be retained by the City for a period equal to the maturity of such City Bonds plus 3 years. In the event any City Bonds are refunded, records of the original City Bonds will be retained until the maturity of the refunding City Bonds, plus 3 years.

2. Records to be Retained:

   A. Records regarding the issuance and sale of the City Bonds (bond transcript and closing documents), the investment and expenditure of the original proceeds of the City Bonds and any investment earnings, including requisitions, trust or investment statements, bidding certificates for guaranteed investment contracts, rebate computations, credit enhancement contracts, swap or other derivative contracts, certifications relating to any of the foregoing, rebate computations, any filings with the IRS, any correspondence with the IRS, and architectural or construction drawings and documents of the bond financed or refinanced facilities.

   B. Elections regarding accounting methods, rebate matters, or application of regulatory provisions.

   C. Copies of any Use Arrangements, including, without limitation, the following arrangements involving the use of any facilities financed by the City Bonds: leases, naming rights agreements, title retention agreements, management contracts, sponsored research contracts, capacity reservation agreements, agreements regarding rates or charges for use of Bond Financed Facilities, incentive payment service contracts, requirements contracts or "take" contracts or "take or pay" contracts.

   D. The **Finance Director** will be custodian of the foregoing records.

The Foregoing Procedures were adopted on _____________, 2013.

Finance Director
City of Redlands

Exhibit A

Summary of Responsibility Assignments

City Manager

1. Ensure overall compliance with Policies and Procedures; monitor responsibility assignments and periodically review Procedures; periodically revise Policies as necessary.

2. Meet at least annually with the **Finance Director** to evaluate use of bond financed facilities. (Policy B)

Finance Director

1. Periodically revise Procedures as necessary.

2. Meet at least annually with the **City Manager** to evaluate use of bond financed facilities. (Policy B)

3. Report potential non-compliance to Bond Counsel. (Policy D)

4. Consult with Bond Counsel before (a) purchasing guaranteed investment contracts or non-publicly traded certificates of deposit with proceeds of, (b) entering into credit enhancement transactions with respect to, or (c) modifying the terms of, City Bonds. (Policies F and G)

5. Monitor Use Arrangements and consult with counsel prior to entering into new Use Arrangements. (Policy B)

6. Monitor, record, and allocate expenditure of bond proceeds by project location and functional description. (Policy A)

7. Ensure preparation of and review Initial Report and Annual Reports. (Policy C)

8. Until final allocation of bond proceeds, prepare a monthly report of project expenditures. (Policy A)

9. Prepare and retain separate records for investment performance of bond proceeds. (Policy A)

10. Prepare Initial Report and Annual Reports. (Policy C)

11. Make and record final allocations of expenditures of proceeds of City Bonds. (Policy A)

12. Retain and manage relationship with Rebate Analyst. (Policy E)

13. Ensure compliance with retention policies and act as custodian of retained records. (Policy J)

Purchasing Services Manager

1. Coordinate with the **Finance Director** on purchase orders and expenditures with respect to Bond Financed Facilities. (Policy A)

2. Scan and file all purchase orders and invoices with respect to Bond Financed Facilities. (Policy A)

City Attorney

1. Notify the Finance Director of any Use Arrangements submitted for approval that relate to Bond Financed Facilities. (Policy B).