

**City of Lawrence, Kansas**  
**Tax and Securities Compliance Procedures**

The City of Lawrence is committed to full compliance with the federal tax and securities requirements for all of its outstanding and future tax-advantaged and taxable financings. These procedures are established to comply with the IRS directive and to improve tax and securities compliance and documentation.

**Part I – Governmental Tax-Advantaged Bonds**

From time to time, the City enters into financings that are the obligation of the City or another political subdivision or government instrumentality created or controlled by the City, the proceeds of which are to be loaned or otherwise made available to the City. The City also, from time to time, issues obligations used to make a grant or to provide an economic incentive to another entity unrelated to the City. Each of these types of obligations are referred to as “Governmental Tax-Advantaged Bonds” and are covered under this Part I.

**I. Governmental Tax-Advantaged Bond Compliance, Generally.**

**Bond Compliance Duties** Bond compliance duties are generally undertaken by the Finance Director, City Clerk and Accountant. The Finance Director is designated as the City’s Bond Compliance Officer and is responsible for coordinating with other City staff to implement these procedures. The Finance Director and other City staff implementing these procedures will also consult with bond counsel, legal counsel to the City, accountants, tax return preparers and other outside experts as necessary.

**Training** When appropriate, the employees responsible for compliance with these procedures will attend training programs offered by the IRS or other industry professionals regarding tax exempt or other tax advantaged financings that are relevant to the City.

**II. Record Retention and Annual Compliance Monitoring.**

**Compliance Checklists** The Finance Director will complete a compliance checklist (example attached as **Exhibit A**) for all Governmental Tax-Advantaged Bonds. A checklist will be completed on an annual basis for each issue of outstanding Governmental Tax-Advantaged Bonds. Completed annual compliance checklists will be maintained by the City Clerk with the other records of the Governmental Tax-Advantaged Bond issue. The Finance Director will refer any responses indicating a violation with the tax requirements for the Governmental Tax-Advantaged Bonds to legal counsel to the City or bond counsel and if recommended by counsel, will follow the procedures below to remediate the non-compliance.

**Correcting Deficiencies in Compliance** When it is determined that there is a deficiency in compliance with a Tax Compliance Agreement or Federal Tax Certificate for an outstanding Governmental Tax-Advantaged Bond, the Finance Director will follow the procedures described in Treasury Regulations or the Tax-Exempt Bonds Voluntary Closing Agreement Program (VCAP) to remediate the noncompliance. If remediation of the noncompliance requires the City to submit a request under VCAP, the Finance Director will undertake this step only after reporting the violation to the City Manager and the Governing Body.

**Accounting for New Money Projects** The Accountant will be responsible for accounting for the investment and allocation of proceeds of the Governmental Tax-Advantaged Bonds. The Accountant will establish the necessary accounts and project identification number to record expenditures of all bond proceeds, including any investment earnings. In recording costs for projects financed with Governmental Tax-Advantaged Bonds, the Accountant will ensure that the accounting system will include the following

information: (1) identity of the vendor paid, along with a narrative description of the purpose for the payment, (2) date of payment, (3) amount paid, and (4) invoice number or other identifying reference.

Additional information to be maintained by the Accountant includes: (1) sufficiency of bond reserves, (2) debt coverage requirements, (3) rating agency distributions and notices, and (4) any bond insurance requirements.

**Accounting for Refunded Bonds and Related Refunded Bond Accounts** For Governmental Tax-Advantaged Bonds that refund prior issues, the Tax Compliance Agreement or Federal Tax Certificate will set out special accounting and allocation procedures for the proceeds of the financing, and if necessary proceeds of the refinanced debt.

**Records** The City Clerk will be responsible for assembling and maintaining all records associated with the Governmental Tax-Advantaged Bond as listed in **Exhibit B**. All records will be maintained for the life of the issue (including any bonds issued to refund a Governmental Tax-Advantaged Bond) plus three years.

### **III. Prior to Issuance of Governmental Tax-Advantaged Bonds**

**Intent Resolution** The Governing Body will authorize and approve the issuance of Governmental Tax-Advantaged Bonds by adopting an authorizing resolution or ordinance in accordance with State statute and any federal tax requirements.

**Tax Compliance Agreement** Each Governmental Tax-Advantaged Bond issue will include a Tax Compliance Agreement, Federal Tax Certificate, Arbitrage Agreement or other written certifications setting out post issuance tax compliance requirements, signed by the Finance Director. The Tax Compliance Agreement will (1) describe the project and the anticipated assets to be financed in whole or in part with proceeds of the bonds, (2) identify all funds subject to federal tax restrictions related to the bond issue and provide for arbitrage and rebate compliance, (3) require a final written allocation for bonds issued to finance new projects, and (4) include an annual compliance checklist for the issue. For Governmental Tax-Advantaged Bonds that refund prior issues, the Tax Compliance Agreement will set out special accounting and allocation procedures for the proceeds of the financing, and if necessary, proceeds of the refinanced debt.

**Preliminary Cost Allocations** The Finance Director will prepare a preliminary cost allocation plan for the projects to be financed with Governmental Tax-Advantaged Bonds. The preliminary cost allocation plan will identify the assets and expected costs for the project, and, when necessary, will separate the portions of costs that the City expects to finance with Governmental Tax-Advantaged Bonds from the portions expected to be financed from other sources.

### **IV. Final Cost Allocation of Governmental Tax-Advantaged Bond Proceeds**

A final written cost allocation of bond proceeds will be prepared by the Finance Director and Accountant. For a new money financing, the Finance Director and Accountant will commence this process as of the earliest of (1) the requisition of all Governmental Tax-Advantaged Bond proceeds from any segregated Governmental Tax-Advantage Bond funded account, (2) the date the project financed in whole or in part from Governmental Tax-Advantaged Bond proceeds has been substantially completed or (3) four and one-half years following the issue date of the Governmental Tax-Advantaged Bonds.

Each final written cost allocation will contain the following: (1) a reconciliation of the actual sources and uses of funds for the project financed in whole or in part with Governmental Tax-Advantaged Bonds, (2)

the percentage of the cost of the project financed with proceeds of the Governmental Tax-Advantaged Bonds (sale proceeds plus any investment earnings on those sale proceeds), (3) the Placed in Service date, (4) the estimated economic useful life of the project, and (5) any special procedures to be followed in completing the an annual compliance checklist. The final written allocation will be reviewed by legal counsel to the City or bond counsel for sufficiency and compliance with the Federal Tax Certificate or Tax Compliance Agreement and this compliance procedure. A copy of the final written cost allocation will be maintained by the City Clerk with the other records of the Governmental Tax-Advantaged Bond issue.

For Governmental Tax-Advantaged Bonds issued only to refund a prior issue of Governmental Tax-Advantaged Bonds, the Finance Director and Accountant will prepare and/or document the final written cost allocation for the project financed by the refunded Governmental Tax-Advantaged Bonds in accordance with the advice of bond counsel and include it in the Tax Compliance Agreement or Federal Tax Certificate for the financing.

## **V. Arbitrage and Rebate Compliance**

The Accountant will monitor the investment of restricted funds for Governmental Tax-Advantaged Bonds and provide investment records to the Rebate Analyst on a timely basis. The Accountant will follow the directions of the Rebate Analyst with respect to the preparation of and the timing of rebate or yield reduction computations.

## **VI. Continuing Disclosure**

**General** The Finance Director acknowledges that the City has entered into various continuing disclosure undertakings with respect to Governmental Tax-Advantaged Bonds and other taxable securities issued by the City.

**Annual Disclosure Filings** For each issuance of Governmental Bonds that is subject to a continuing disclosure undertaking, the Finance Director will review the continuing disclosure undertaking to determine the financial information and operating data required to be included in the annual report to be filed by the City with the MSRB on EMMA. The Finance Director will cause the annual report to be filed with the MSRB on EMMA within the timeframe provided in the continuing disclosure undertaking for the Governmental Tax-Advantaged Bonds.

**Material Event Disclosure Filings** For each outstanding issue of Governmental Tax-Advantaged Bonds that is subject to a continuing disclosure undertaking, the Finance Director will review the continuing disclosure undertaking to determine the "material events" that require prompt notice to be filed with the MSRB.

After obtaining actual knowledge of the occurrence of any event that the Finance Director believes may constitute an event requiring disclosure, the Finance Director will contact bond counsel to determine if notice of the event is required to be given to the MSRB under the applicable continuing disclosure undertaking. If it is determined that notice should be provided to the MSRB or is required to be provided to the MSRB by the continuing disclosure undertaking, the Finance Director will cause the appropriate notice to be filed with the MSRB on EMMA within the applicable time frame set forth in the continuing disclosure undertaking (e.g., 10 business days after the occurrence of the event) or as otherwise advised by bond counsel, and will provide copies of such notice to the City Manager and Governing Body.

## **Part II – Conduit Tax-Advantaged Bonds**

From time to time, the City enters into financings that are a debt obligation of the City, the proceeds of which are to be loaned or otherwise made available to an entity that is not related to or controlled by the City (the “Conduit User”). The Conduit User receives proceeds of the debt obligation issued by the City and in exchange is required to pay principal and interest on the debt obligation. These types of obligations are referred to as “Conduit Tax-Advantaged Bonds” and are covered under this Part II.

For purposes of post-issuance tax and securities compliance, any bonds issued by the City to finance projects for Lawrence Memorial Hospital shall be treated as Conduit Tax-Advantaged Bonds.

### **I. Conduit Tax-Advantaged Bond Compliance, Generally**

**Notice to Conduit User** The City Clerk will send to each Conduit User of a Conduit Tax-Advantaged Bond, a copy of the Tax Compliance Agreement for the financing along with a letter reminding the Conduit User that under the agreement it is responsible for post-issuance tax compliance related to the investment of restricted funds, record keeping, use of the Conduit Tax-Advantaged Bond proceeds, and use of the project financed in whole or in part with proceeds of the Conduit Tax-Advantaged Bonds. The City Clerk shall also send a copy of these procedures with specific reference to this Part II. A copy of the letter should also be provided to the trustee for the Conduit Tax-Advantaged Bond.

**Bond Compliance Duties** The City Clerk shall request that the Conduit User name a specific staff member or employee as the “Conduit User’s Bond Compliance Officer,” which will be the person primarily responsible for post-issuance tax compliance for the Conduit Tax-Advantaged Bonds. The Conduit User Bond Compliance Officer shall be responsible for coordinating the Conduit User’s post-issuance tax compliance related to the investment of restricted funds, record keeping, use of the Conduit Tax-Advantaged Bond proceeds, and use of the project financed in whole or in part with proceeds of the Conduit Tax-Advantaged Bonds. Upon request, the Conduit User Bond Compliance Officer or other staff members or employees of the Conduit User shall provide any documents requested by the City to substantiate compliance with post-issuance tax compliance.

### **II. Record Retention and Annual Compliance Monitoring.**

**Conduit Tax-Advantaged Bond Records** The Conduit User Bond Compliance Officer will be responsible for assembling and maintaining all records associated with the Conduit Tax-Advantaged Bond as listed in **Exhibit B**, the “Conduit User’s Tax-Advantaged Bond File”. All records will be maintained for the life of the issue (including any bonds issued to refund a Conduit Tax-Advantaged Bond) plus three years.

**Annual Compliance Certification** The Conduit User Bond Compliance Officer will confirm to the City, at least annually, the Conduit User’s compliance with the terms of the Tax Compliance Agreement for the Conduit Tax-Advantaged Bonds. The Conduit User’s annual certification shall be provided to and maintained by the City Clerk. The City Clerk will report the failure of any Conduit User to provide annual certification or an annual certification identifying noncompliance to the City Manager, the City’s legal counsel and bond counsel.

**Correcting Prior Deficiencies in Compliance** In the event a Conduit User informs the City Clerk of a deficiency in compliance with a Tax Compliance Agreement for an outstanding Conduit Tax-Advantaged Bond, the City Clerk will direct the Conduit User to follow the procedures described in Treasury Regulations or the Tax-Exempt Bonds Voluntary Closing Agreement Program (VCAP) to remediate the noncompliance. If remediation of the noncompliance requires the City to submit a request under VCAP,

the City Clerk will undertake this step only after reporting the violation to the City Manager and Governing Body.

**Accounting for New Money Projects** The Conduit User Bond Compliance Officer will be responsible for accounting for the investment and allocation of proceeds of the Conduit Tax-Advantaged Bonds. The Conduit User Bond Compliance Officer will establish appropriate accounts to record expenditures for the costs of the project to be financed in whole or in part with Conduit Tax-Advantaged Bonds. The Conduit User Bond Compliance Officer may use accounts established pursuant to a trust indenture for the Conduit Tax-Advantaged Bonds to assist it in accounting for the investment and expenditure of Conduit Tax-Advantaged Bonds. In recording costs for the project financed in whole or part with the proceeds of Conduit Tax-Advantaged Bonds, the Conduit User will ensure that the accounting system will include the following information: (1) identity of the vendor paid, along with a narrative description of the purpose for the payment, (2) date of payment, (3) amount paid, and (4) invoice number or other identifying reference. These accounting records will be maintained by the Conduit User Bond Compliance Officer as part of the Conduit User's Tax-Advantaged Bond File

**Accounting for Refunded Bonds and Related Refunded Bond Accounts** For Conduit Tax-Advantaged Bonds that refund prior issues, the Tax Compliance Agreement will set out special accounting and allocation procedures for the proceeds of the financing, and if necessary proceeds of the refinanced debt.

### **III. Prior to Issuance of Conduit Tax-Advantaged Bonds**

**Intent Resolution** The Governing Body will authorize and approve the issuance of Conduit Tax-Advantaged Bonds by adopting an authorizing resolution or ordinance in accordance with State statute and federal tax laws. The City Clerk will provide the Conduit User with a copy of this Compliance Procedure prior to adoption of the resolution or ordinance.

**Tax Compliance Agreement** Each Conduit Tax-Advantaged Bond issue will include a Tax Compliance Agreement or other written certifications setting out post issuance tax compliance requirements signed by the Conduit User Bond Compliance Officer. The Tax Compliance Agreement will (1) describe the project and the assets anticipated to be financed in whole or in part with proceeds of the Conduit Tax-Advantaged Bonds, (2) identify all restricted funds and provide for arbitrage and rebate compliance by the Conduit User, (3) require the Conduit User to complete a final cost allocation for new money financings, and (4) include an annual compliance checklist for the Conduit Tax-Advantaged Bond issue.

**Preliminary Cost Allocations** The Conduit User Bond Compliance Officer will prepare a preliminary cost allocation plan for the projects to be financed with Conduit Tax-Advantaged Bonds. The preliminary cost allocation plan will identify the assets and expected costs for the project, and, when necessary, will separate the portions of costs that the Conduit User expects to finance with Conduit Tax-Advantaged Bonds from the portions expected to be financed from other sources.

### **IV. Final Cost Allocation of Conduit Tax-Advantaged Bond Proceeds**

**Final Cost Allocation** A final written cost allocation of bond proceeds will be prepared by the Conduit User Bond Compliance Officer. For a new money financing, the Conduit User Bond Compliance Officer will commence this process as of the earliest of (1) the requisition of all Conduit Tax-Advantaged Bond proceeds from any segregated Conduit Tax-Advantage Bond funded account, (2) the date the project financed in whole or in part from the Conduit Tax-Advantaged Bond proceeds has been substantially completed or (3) four and one-half years following the issue date of the Conduit Tax-Advantaged Bonds.

Each final cost allocation will contain the following: (1) a reconciliation of the actual sources and uses to costs of the project financed in whole or in part with proceeds of the Conduit Tax-Advantaged Bonds, (2) the percentage of the cost of the project financed with proceeds of the Conduit Tax-Advantaged Bonds (sale proceeds plus any investment earnings on those sale proceeds), (3) the project's placed in service date, (4) the estimated economic useful life of the project, and (5) any special procedures to be followed in completing the annual compliance checklist. The final written allocation will be reviewed by legal counsel to the Conduit User or bond counsel for sufficiency and compliance with the Tax Compliance Agreement and this compliance procedure. A copy of the final written cost allocation will be maintained by the Conduit User Bond Compliance Officer as part of the Conduit User's Tax-Advantaged Bond File.

For Conduit Tax-Advantaged Bonds issued only to refund a prior issue of Conduit Tax-Advantaged Bonds, the Conduit User Bond Compliance Officer will prepare and/or document the final written cost allocation for the project financed by the refunded Conduit Tax-Advantaged Bonds in accordance with the advice of bond counsel and include it in the Tax Compliance Agreement for the financing.

#### **V. Compliance Checklist.**

An annual compliance checklist will be completed for Conduit Tax-Advantaged Bonds by the Conduit User Bond Compliance Officer each year following completion of the final written cost allocation. Each annual compliance checklist will be designed and completed for the purpose of identifying potential noncompliance with the terms of the Tax Compliance Agreement or this Compliance Procedure and obtaining documents (such as investment records, arbitrage calculations, or other documentation for the project financed in whole or in part with Conduit Tax-Advantaged Bonds) that are required to be maintained for the Conduit Tax-Advantaged Bonds. The Conduit User Bond Compliance Officer will refer any responses indicating a violation of the terms of the Tax Compliance Agreement to legal counsel to the Conduit User or bond counsel and, if recommended by counsel, will follow the procedure set out in this Part II to remediate the non-compliance. Annual compliance checklists will be maintained by the Conduit User Bond Compliance Officer as part of the Conduit User's Tax-Advantaged Bond File

#### **VI. Arbitrage and Rebate Compliance**

The Conduit User Bond Compliance Officer will monitor the investment of restricted funds for Conduit Tax-Advantaged Bonds and provide investment records to a Rebate Analyst on a timely basis. The Conduit User Bond Compliance Officer will follow the directions of the Rebate Analyst with respect to the preparation of and the timing of rebate or yield reduction computations. Investment records and rebate or yield reduction computations will be maintained by the Conduit User Bond Compliance Officer as part of the Conduit User's Tax-Advantaged Bond File.

**Exhibit A**  
**COMPLIANCE CHECKLIST FOR GOVERNMENTAL TAX-ADVANTAGED BONDS**

<b>Name of tax-advantaged bonds (“Bonds”) financing Financed Asset:</b>	
<b>Issue Date of Bonds:</b>	
<b>Name of Bond Compliance Officer:</b>	
<b>Period covered by request (“Annual Period”):</b>	

**Description of Project Facility**

*(Note: in lieu of completing the table below, the City may attach a copy of the Preliminary Cost Allocation or Final Written Allocation, as may be updated from time to time)*

Description	Actual Date Placed in Service	in Estimated Useful Life	Actual Total Cost	Actual Amount Financed From Bonds

1. Were all of the required Form 8038’s filed?
2. Were there any significant modifications to existing bond documents?
3. Was the entire project owned by the City during the entire period?
4. During the period, was any part of the project leased at any time pursuant to a lease or similar agreement for more than 50 days?
5. During the period, has the management of all or any part of the operations of the financed asset (e.g., cafeteria, gift shop, etc.) been assumed by or transferred to another entity?
6. Was any other agreement entered into with an individual or entity that grants special legal rights to the financed asset?
7. Were any excess bond proceeds available and used for redemption or defeasance of the bonds?
8. Have all rebate and yield reduction calculations mandated in the Tax Compliance Agreement been prepared for the current year?

If answer above was "Yes" to any of the above questions, was an opinion of Bond Counsel obtained prior to instituting of the change?

If yes, include a copy of the opinion in the records.

If “No”, contact Bond Counsel and include a description of the actions in the records.

## **Exhibit B**

**Bond Records** means documents and records such as paper and electronic medium maintained for each Governmental Tax-Advantaged Bond and Conduit Tax-Advantaged Bond. Governmental Tax-Advantaged Bond records will be maintained by the City Clerk, unless stated otherwise, and will include the following information if applicable. Bond records associated with Conduit Tax-Advantaged Bonds will be maintained by the Conduit User Bond Compliance Officer and/or the Trustee.

Intent Resolution

Bond Transcript

Feasibility Studies

Final cost allocation and/or all available accounting records related to the project showing expenditures allocated to the proceeds of a Tax-Advantaged Bond and expenditures (if any) allocated to other sources of funds.

All rebate and yield reduction payment calculations performed by the Rebate Analyst and all investment records provided to the Rebate Analyst for purposes of preparing the calculation.

Forms 8038-T together with proof of filing and payment of rebate.

Investment agreement bid documents (maintained by the Accountant, unless included in the Bond Transcript) including:

- (1) Bid solicitation, bid responses, certificate of broker;
- (2) Written summary of reasons for deviations from the terms of the solicitation that are incorporated into the investment agreement; and
- (3) Copies of the investment agreement and any amendments.

Any item required to be maintained by the terms of the Tax Compliance Agreement involving the use of the project or expenditures related to tax compliance for the Tax-Advantaged Bonds.

Any opinion of Bond Counsel regarding the Tax-Advantaged Bonds not included in the Bond Transcript.

Amendments, modifications or substitute agreements to any agreement contained in the Bond Transcript.

Any correspondence with the IRS relating to the Tax-Advantaged Bonds including all correspondence relating to an audit by the IRS of the Tax-Advantaged Bonds or any proceedings under the Tax-Advantaged Bonds Voluntary Closing Agreement Program (VCAP).

Any available questionnaires or correspondence substantiating the use of the project in accordance with the terms of the Tax Compliance Agreement for the Tax-Advantaged Bond issue.

For refunding bond issues, the Tax-Advantaged Bond records for the refunded Tax-Advantaged Bonds.

Any Form 8038-CP or other form required by the IRS to obtain a federal subsidy payment or tax credit related to the Tax-Advantaged Bonds.