Metropolitan Government of Nashville and Davidson County	**Subject:** Bond post issuance Federal tax compliance policy	**Revision Date:** Dec 2011
Finance Dept Policy **Effective Date:** December 22 2011	**Sponsor:** Metropolitan Treasurer	

Federal Tax Compliance Policies and Procedures

Purpose

In order to issue tax-exempt debt obligations ("Tax-Exempt Obligations"), the interest on which is excluded from gross income of the holders of such debt obligations, The Metropolitan Government of Nashville and Davidson County (the "Issuer") must comply with federal tax rules regarding expenditure of proceeds, use of financed property, investment of proceeds in compliance with arbitrage rules, retention of records and filings with the Internal Revenue Service pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the "Code").

This Tax Compliance Policy sets forth the Issuer's policies for compliance with Sections 141-150 of the Code and related rules and regulations. This Policy is applicable to Tax-Exempt Obligations issued by the Issuer for general governmental purposes, as well as for the benefit of its District Energy System and Water and Sewer Systems. This Policy is also applicable to Tax-Exempt Obligations issued by The Sports Authority of The Metropolitan Government of Nashville and Davidson County and The Convention Center Authority of The Metropolitan Government of Nashville and Davidson County, both of which are instrumentalities of the Issuer and both of which rely exclusively on the Issuer with respect to federal tax compliance matters.

I. Expenditure of Proceeds

Expenditure of proceeds as set forth below will be reviewed and managed by the Issuer's Chief Accountant as needed to ensure compliance with the requirements with each tax certificate executed in connection with Tax-Exempt Obligations. In connection with such review and management, the Chief Accountant will undertake the following with respect to the expenditure of proceeds of Tax-Exempt Obligations:

- Establish forms and procedures for documenting expenditures of the proceeds, including for new-money issues a description of the property financed with each expenditure and for refunding issues a description of the refunded obligations and the property financed with the refunded obligations.

- Only permit proceeds to be expended for capital expenditures, working capital if accompanied by an opinion of nationally recognized bond counsel, refunding of Tax-Exempt Obligations and other debt obligations used for the foregoing purposes, the funding of debt reserve funds to the extent permitted by the Code and costs of issuance of Tax-Exempt Obligations.

- Not permit amounts to be expended to pay capitalized interest on Tax-Exempt Obligations except during the actual construction period of financed property unless accompanied by an opinion of nationally recognized bond counsel.

- Restrict reimbursement of costs that were paid prior to the issuance of the new-money Tax-Exempt Obligations to costs paid subsequent to, or not more than 60 days prior to, the date a "declaration of intent" to reimburse the costs was adopted by the Issuer or as is otherwise approved by bond counsel.

- For new-money issues, prepare a "final allocation" of proceeds to uses, which will be made and retained with the records of the Tax-Exempt Obligations, not later than 18 months after the placed-in-service date of the financed property (and in any event not later than 5 years and 60 days after the issuance of the issue).

- Monitor the expenditure of proceeds of the new-money Tax-Exempt Obligations against the tax certificate expectation to (i) spend or commit 5% of net sale proceeds within 6 months, (ii) spend 85% of net sale proceeds within 3 years, and (iii) proceed with due diligence to complete the project and fully spend the net sale proceeds.

- Monitor the expenditure of proceeds of the Tax-Exempt Obligations against the schedule for any arbitrage rebate exception or exceptions identified in the tax certificate related to such issue of Tax-Exempt Obligations.

II. Use of Property Financed with Tax-Exempt Obligations and Remediation upon Change in Use

Use of property financed with Tax-Exempt Obligations, when completed and placed in service, will be reviewed by the Metropolitan Treasurer on at least an annual basis.

The Issuer will not do any of the following with respect to the financed property without prior discussion with bond counsel regarding potential effect of such action on the tax exemption of the Tax-Exempt Obligations that financed or refinanced such property:

- Enter into a management, service or incentive payment contract with any non-governmental person or entity (including the federal government) (a "Non-Governmental Person").

- Enter into a lease with any Non-Governmental Person.

- Sell or otherwise transfer such property to any Non-Governmental Person.

- Grant special legal entitlements with respect to such property to any Non-Governmental Person.

- Enter into an "output contract", as defined in Section 1.141-7 of the Treasury Regulations promulgated under the Code, that has the effect of transferring the benefits of owning the financed facility and the burden of paying debt service on the pertinent Tax-Exempt Obligation to a Non-Governmental Person.

If any action occurs, notwithstanding the foregoing, that causes Tax-Exempt Obligations to become private activity bonds as a result of private use of financed projects and/or private payments for parties utilizing financed projects, the Issuer will promptly consult with bond counsel as to the steps to be taken in order to remediate such change in use in accordance with the regulations under the Code, including the remediation of nonqualified bonds.

III. Investment of Proceeds

Investment of proceeds of Tax-Exempt Obligations in compliance with the arbitrage bond rules and rebate of arbitrage will be supervised by the Metropolitan Treasurer.

All proceeds of each Tax-Exempt Obligation will be deposited and maintained in a separate account or accounts. The investment of Tax-Exempt Obligations proceeds shall comply with the following:

- Investments will be purchased only in market transactions at fair market value.

- Calculations of rebate liability will be performed periodically as set forth in the tax certificate by outside consultants unless the Issuer is eligible for an exception to rebate liability with respect to the Tax-Exempt Obligations.

- Rebate payments, if required, will be made with Form 8038-T no later than 60 days after (a) each fifth anniversary of the date of issuance and (b) the final retirement of the Tax-Exempt Obligations. Compliance with rebate requirements will be reported to the bond trustee, if any, and the Issuer.

- The Issuer will identify the date for first rebate payment at time of issuance if rebate payments are expected.

IV. Records

Management and retention of records related to Tax-Exempt Obligations will be supervised by the Metropolitan Treasurer and the Chief Accountant.

- Records will be retained for the life of the Tax-Exempt Obligations plus any refunding bonds plus six years. Records may be in the form of documents or electronic copies of documents, appropriately indexed to specific bond issues and compliance functions.

- Retain records pertaining to the issuance of Tax-Exempt Obligations including the transcript of documents executed in connection with the issuance of the Tax-Exempt Obligations and any amendments, and copies of rebate calculations and records of payments including Form 8038-T.

- Retain records pertaining to expenditures of proceeds of Tax-Exempt Obligations including requisitions, trustee statements (if any) and final allocation of proceeds.

- Retain records pertaining to use of property, including all agreements reviewed for nonexempt use and any reviewed documents relating to unrelated business activity.

- Retain records pertaining to investments, including GIC and hedge documents under the Treasury regulations, records of purchase and sale of other investments, and records of investment activity sufficient to permit calculation of arbitrage rebate or demonstration that no rebate is due.

V. Miscellaneous Post-Issuance Changes

The Metropolitan Treasurer will consult with bond counsel prior to engaging in any post-issuance credit enhancement transactions (*e.g.*, letter of credit or bond insurance) or hedging transactions (*e.g.*, interest rate swaps).

The Metropolitan Treasurer will consult with bond counsel prior to the making of any significant modifications to the bond documents that might cause a "reissuance" of the Tax-Exempt Obligations as described in Section 1.1001-3 of the Treasury regulations, such as (i) changes in the yield of a Tax-Exempt Obligation, (ii) changes in the timing of payments on a Tax-Exempt Obligation or (iii) changes in the obligor of or security for a Tax-Exempt Obligations.

VI. Overall Responsibility

Overall administration and coordination of this policy is the responsibility of the Metropolitan Treasurer and the Chief Accountant. Such officers shall be responsible for identifying any violations of federal tax requirements relating to any Tax-Exempt Obligations and shall consult with bond counsel as to best method for the timely correction of any identified violations either through available remedial actions or through the IRS's Voluntary Closing Agreement Program.

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