

**Procedures
Regarding
Compliance with
Federal Securities
Law and Bond
Covenants**

Continuing
Disclosure
Obligations

These procedures are intended to assist the District in complying with federal securities law and related District agreements after the District has issued debt, including bonds and maintenance tax notes (each an “obligation,” and collectively, “obligations”). Failure to comply with federal securities law could have serious consequences for investors, the District, its officials, and its employees.

After issuing obligations (including taxable bonds), the District may be required to prepare and file “continuing disclosures” of financial information and operating data pursuant to an agreement entered into pursuant to Rule 15c2-12 (the “Rule”) of the United States Securities and Exchange Commission (“SEC”). The Rule indirectly applies to the District by requiring the underwriters of the District’s obligations to ensure that the District has agreed to make such continuing disclosures before the underwriters may purchase or sell the District’s obligations.

[See CCA(LEGAL) at FEDERAL SECURITIES LAW for federal laws the District must generally follow before issuing obligations.]

Obligations, whether taxable or tax-exempt, sold in a public offering in an amount of \$1 million or more are subject to the Rule. If the District has less than \$10 million in obligations outstanding, it may qualify for the “small issuer exemption” to the Rule. The District may consult with qualified counsel to determine if this exemption applies. Pursuant to the Rule, the District is required to make annual filings of certain information, as well as make filings upon the occurrence of certain specified events. All filings must be made with the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access System (EMMA) at <http://emma.msrb.org/>.

To identify exactly what continuing disclosures are required in connection with a particular issuance of obligations and when such disclosures must be made, the District must refer to the continuing disclosure agreement (CDA) it entered into when the obligations were issued. [See CCA(LEGAL) at FEDERAL SECURITIES LAW, CONTINUING DISCLOSURE AFTER ISSUING BONDS.]

The District’s existing CDAs should generally track the Rule’s requirement for making certain annual filings and event filings.

CDAs executed by the District for obligations to be issued now or in the future will most likely require the District to file at least the information described below under ANNUAL FILINGS and NOTICE OF SPECIFIED EVENTS. The CDA may also require certain other parties (“obligated persons” as defined by the Rule) to make continuing disclosures if such obligated person(s) is committed to

support repayment of all or part of a particular issuance of District obligations.

The District's CFO, as the primary disclosure official, will be responsible for making continuing disclosure filings and otherwise complying with the District's CDAs. [See COMPLYING WITH FEDERAL SECURITIES LAW below.]

The CFO will receive appropriate training regarding the District's accounting system, contract intake system, facilities management, and other systems necessary to track the investment and expenditure of the proceeds and the use of the facilities financed with the proceeds of the obligations. The foregoing notwithstanding, the CFO will be authorized and instructed to retain such experienced advisors and agents as may be necessary to carry out the purposes of these instructions.

Annual Filings

The CDA will require the District to file the information listed below with EMMA within the time frame set forth in the CDA for so long as the respective series of obligations remains outstanding. [See CE(LOCAL)] The CDA will require the District to file each of the following items with EMMA:

1. An update of all financial information and operating data of the type included in the official statement prepared in connection with the issuance of the obligations; and
2. If not included as part of the financial information and operating data, the District's audited financial statements.

The District's CFO must compile, prepare, and make such filings within the required time, or, alternatively, contract with a third party, such as the District's financial adviser, to make such filings on the District's behalf.

Notices of Specified Events

The CDA will require the District to provide notice of any of the following events with respect to the obligations to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event):

1. Principal and interest payment delinquencies;
2. Nonpayment-related defaults, if material. "Material" under federal securities law generally means information a reasonable investor in the District's obligations would want to know. The District may consult with qualified counsel if it is unsure whether notice of a particular event should be filed;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the obligations, or other material events affecting the tax status of the obligations;
7. Modifications to rights of obligation holders, if material;
8. Obligations calls, including redemptions and other early payments, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the obligations, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership, or similar event of the District or another obligated person;
13. The consummation of a merger, consolidation, or acquisition involving the District or another obligated person; or the sale of all or substantially all of the assets of the District or another obligated person, other than in the ordinary course of business; the entry into 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;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material; and
15. In a timely manner, notice of a failure of the District to make the required annual filings listed at ANNUAL FILINGS, above.

The District's CFO should review this list at regular intervals to determine whether any event has occurred that may require a filing with EMMA.

Liability Under
Federal Securities
Law

The District and its Board members, appointed officials, and employees are subject to liability under the "antifraud provisions" of the federal securities laws contained in Section 17(a) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934, and Rule 10b-5 of the SEC. The antifraud provisions generally prohibit false or misleading statements made in connection

with the offer or sale of a district's obligations (or the omission of material facts from such statements), including all continuing disclosure filings made after the obligations are issued and any other statement reasonably expected to reach investors in the obligations.

[See SEC Report on the Municipal Securities Market (July 31, 2012) at pg. 29 (the "SEC 2012 Report") and SEC Exchange Act Release No. 33741 (March 9, 1994).]

The antifraud provisions also apply to statements made before the District's obligations are issued, including the official statement for the obligations. [See CCA(LEGAL) at FEDERAL SECURITIES LAW.]

*Disclosure of
Non-Compliance
in Official
Statements*

The Rule requires any material instances in which the District failed to comply with its CDAs during the previous five years to be disclosed in any official statement prepared in connection with the issuance of the District's obligations. A material misstatement regarding the District's past compliance may constitute a violation of the antifraud provisions.

*Complying with
Federal
Securities Law*

The SEC has recently expressed concern regarding the accuracy, completeness, and timeliness of continuing disclosures and has instituted enforcement actions against municipalities for failure to comply with their CDAs executed pursuant to federal securities laws. [See MSRB Notice 2013-18 (August 12, 2013) available at <http://www.msrb.org/Rules-and-Interpretations/Regulatory-Notices/2013/2013-18.aspx>.]

The District will implement the following best practices to ensure that the District makes accurate, complete, and timely continuing disclosures and otherwise fully complies with its CDAs and federal securities law after obligations are issued:

1. Identify the primary disclosure official(s) who will be responsible for making continuing disclosure filings and otherwise complying with the District's CDAs and ensure the primary disclosure official(s) and their disclosure team receive proper training to understand the District's obligations under its CDAs.
2. Develop continuing disclosure procedures for the disclosure team to follow (which shall not be adopted by the Board).
3. Engage a third party, such as the District's financial adviser or another outside consultant, to assist the District in complying with its CDAs.

The District may also consult with qualified counsel for advice regarding compliance with its CDAs and related federal securities laws.

Note: See Governmental Finance Officers Association, GFOA Best Practice: *Understanding Your Continuing Disclosure Responsibilities* (2010), available at <http://www.gfoa.org/understanding-your-continuing-disclosure-responsibilities> and cited on page 57 of the 2012 SEC Report.

ARBITRAGE
COMPLIANCE

Arbitrage refers to the difference between the interest paid on tax-exempt obligations and the interest earned by investing the proceeds of tax-exempt obligations in higher-yielding investments. Such higher-yielding investments could take the form of loans, securities, real property, personal property, or other investments that could yield a profit to the District. Federal income tax laws generally restrict the ability to earn arbitrage utilizing the proceeds of tax-exempt obligations. Generally, any profit from investing obligation proceeds at a yield above the yield paid on the obligations belongs to the federal government and must be rebated to the federal government. If the District fails to comply with federal tax guidelines, obligations could be deemed to be “arbitrage bonds” by the Internal Revenue Service (IRS), which would expose the District to monetary liability from the District’s investors..

The arbitrage yield on the obligations is set forth on the IRS Form 8038-G for tax-exempt obligations, and the permitted sinking fund yield is set forth on the IRS Form 8038-TC for tax credit obligations.

With respect to the investment and expenditure of the proceeds of tax-exempt obligations, the District’s CFO will undertake the following in order to monitor and ensure that the obligations do not become “arbitrage bonds”:

1. Instruct the person who is primarily responsible for the construction, renovation, or acquisition of the facilities financed by the obligations (the “project”) that the project must proceed with due diligence and that binding contracts for the expenditure of at least five percent of the proceeds of the obligations will be entered into within six months of the date of closing of the obligations (the “issue date”);
2. Monitor that at least 85 percent of the proceeds of the obligations to be used for the construction, renovation, or

acquisition of the project are expended within three years of the issue date;

3. Monitor investment of proceeds of the obligations and restrict the yield of the investments to the yield on the obligations after three years of the issue date;
4. Monitor all amounts deposited into an interest and sinking fund, also known as a debt service fund or bond fund ("I&S fund"), to ensure that the maximum amount invested within the I&S fund at a yield higher than the yield on the obligations does not exceed an amount equal to the debt service on the obligations in the succeeding 12-month period plus a carryover amount equal to one-twelfth of the principal and interest payable on the obligations for the immediately preceding 12-month period;

Note: The purpose of the I&S fund is to achieve a proper matching of revenues with principal and interest payments within each fiscal year. The I&S fund should be used as a mechanism for payment of current debt service and not as a long-term investment fund for debt service many years in the future.

5. Ensure that no more than 50 percent of the proceeds of the obligations are invested in an investment with a guaranteed yield for four years or more;
6. If the District plans to spend funds on hand for a project, with the intent to later repay such funds from a debt issue, contact bond counsel to obtain advice regarding a reimbursement resolution;
7. Ensure that the applicable information return (e.g., IRS Form 8038-G, 8038-GC, or any successor forms) is timely filed with the IRS; and
8. If proceeds of the obligations are to be invested in interest-earning investments, ensure that, unless excepted from rebate and yield restriction under section 148(f) of the Code, investment earnings are computed and any rebate amount is paid to the U.S. government at such time and in such manner as directed by the IRS: If the District plans to spend funds on hand for a project, with the intent to later repay such funds from a debt issue, contact bond counsel to obtain advice regarding a reimbursement resolution;

- a. At least every five years after the issue date; and
- b. Within 30 days after the date the obligations are retired.

If proceeds of the obligations are to be invested in interest-earning investments, it should be discussed whether hiring an arbitrage consultant is prudent

PRIVATE BUSINESS
USE

Generally, the proceeds of tax-exempt obligations may not be used in the trade of business of such entities, including nonprofit corporations and the federal government (private business use). In simple terms, a series of obligations may lose their tax-exempt status if:

1. More than ten percent of the proceeds of the obligations are to be used for any private business use and the payment of the principal of, or the interest on, more than ten percent of the proceeds of the obligations is secured by or payable from property used for a private business use; or
2. The amount of proceeds of the obligations used to make loans to borrowers other than state and local governments exceeds the lesser of five percent of the proceeds or \$5 million.

With respect to the use of facilities financed or refinanced with the proceeds of a series of tax-exempt obligations, the District's CFO will:

1. Develop procedures, or a "tracking system," to identify all property financed with tax-exempt debt;
2. Monitor and record the date on which the project is substantially complete and available to be used for the purpose intended;
3. Monitor and record whether, at any time the obligations are outstanding, any person, other than the District, the employees of the District, the agents of the District, or members of the general public have any contractual right (such as a lease, purchase contract, management agreement, or other service agreement) with respect to any portion of the project;
4. Monitor and record whether, at any time the obligations are outstanding, any person, other than the District, the employees of the District, the agents of the District, or members of the general public has a right to use the output of the project (e.g., water, gas, electricity, capacity);

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5. Monitor and record whether, at any time, the obligations are outstanding, any person, other than the District, has a naming right for the project, or any other contractual right granting an intangible benefit;
6. Monitor and record whether, at any time, the obligations are outstanding, the project or any portion of the project is sold or otherwise disposed of;
7. Before entering into any private business use arrangement that involves the use of the project, the CFO must obtain a description of the proposed private business use arrangement and determine whether such arrangement, if put into effect, will be consistent with the restrictions on private business use of the project;
8. In connection with the evaluation of any proposed private business use arrangement, the CFO should consult with bond counsel to discuss whether such arrangement, if put into effect, will be consistent with the restrictions on private business use of the project, and, if not, whether any remedial action permitted under federal guidelines may be taken as a means of enabling such private business use without adversely affecting the tax-exempt status of the obligations;
9. Prior to any sale of property owned by the District (real or personal), the CFO must confirm whether such property was financed with tax-exempt debt, and if so, determine whether the proposed disposition of the property could impact the tax-exempt status of the series of obligations that financed the acquisition of such property; and
10. Take such action as is necessary to remediate any failure to maintain compliance with the covenants contained in the order, resolution, or indenture adopted by the Board authorizing the issuance of the applicable series of obligations.

RECORD RETENTION

The District's CFO will maintain or cause to be maintained all records relating to the investment and expenditure of the proceeds of the tax-exempt obligations and the use of the project for a period ending four years after the final payment of the obligations. To comply with the foregoing, the CFO should:

1. Maintain any official action of the District, such as a reimbursement resolution, stating its intent to reimburse with the proceeds of tax-exempt obligations any amount expended prior to the issue date for the acquisition, renovation, or construction of the project;

2. Maintain records showing that proceeds of the obligations are spent on qualified purposes for which the obligations were issued by recording all expenditures;
3. Maintain detailed records of all expenditures and investments related to all funds created by the obligations (e.g., construction fund, I&S fund, escrow fund); and
4. Maintain a copy of the transcript of proceedings for the obligations.

If any portion of a series of tax-exempt obligations is refunded with the proceeds of another series of tax-exempt obligations, the records described above relating to the refunded obligations will be maintained until four years after the final payment of the refunding obligations. Such records can be maintained in paper or electronic format.