

South Central Connecticut Regional Water Authority
Tax Exempt Bond Post Issuance Tax Compliance Procedures
Revised

Purpose of Procedures

The South Central Connecticut Regional Water Authority (the “Authority”) has adopted these Post-Issuance Tax Compliance Procedures (the “Procedures”) to: (1) maximize the Authority’s compliance with the federal tax law requirements applicable to all of its outstanding tax-exempt bonds and tax favored bonds tax, (the “Bonds”); and (2) identify and resolve any noncompliance matters, on a timely basis, to preserve the tax-exempt status of the Bonds.

The adoption of these Procedures will be treated by the Authority as the establishment of written procedures to: (1) ensure that any Bonds that no longer qualify for tax-exempt status are identified and remediated in accordance with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”) and applicable regulations, including the remediation provisions of Treas. Reg. Sec. 1.141-12 or other remedial actions authorized by the Commissioner of the Internal Revenue Service under Treas. Reg. Sec. 1.141-12(h); and (2) monitor compliance with the requirements of Section 148 of the Code (which include arbitrage, yield restriction and rebate requirements) and related regulations.

Monitoring of Post-Issuance Compliance

The Authority’s Vice President and Chief Financial Officer (the “Compliance Chief Officer”) will be responsible for the overall implementation of these procedures and monitoring the post issuance tax compliance of the Bonds. The Controller will be responsible for the duties specifically assigned to the Controller herein and informing of the Chief Compliance Officer of any tax compliance issues.

Bond Issuance

The Controller shall cause to be maintained, in either paper or electronic format, full and correct copies of all proceedings relating to the approval, sale, issuance, delivery and use of the Authority’s bonds. Such proceedings shall include:

- A complete transcript of proceedings relating to each bond issue, including all resolutions and all documents relating to such bond issue, and related approvals.
- A complete accounting of all costs of issuance of each bond issue, including, but not limited to, fees and expenses, as applicable.
- Computation on the arbitrage yield, net interest cost and true interest cost of the bonds, any and all Form 8038’s or similar IRS reports reflecting bond issuance and costs, and evidence of timely filing of such reports.

- Any guaranteed investment contracts or other investment instruments for bond proceeds.
- Any agreements for swaps or financial derivatives, and an accounting for the income and expenses related to such financial instruments relating to the bonds.
- Contracts, agreements or other evidence relating to the bidding and cost of financial products.
- Any documents, agreements or instruments of whatsoever kind or character (including, but not limited to, leases, subleases, naming rights, management agreements, etc.) relating to use of any part of the bond-financed property or project for private business use (including 501(c) corporations), and accounting of any revenues received in relation thereto.

Expenditure of Proceeds

Expenditure of bond proceeds will be supervised by the Controller.

- Requisitions for the expenditure of bond proceeds must be consistent with the terms of the Tax Compliance Certificate and Agreement delivered by the Authority in respect to the appropriate series of bonds (the "Tax Certificate").
- Requisitions must identify the financed property in conformity with the Tax Certificate, including certifications as to the character (property with long or short useful life) of the bond-financed property.
- Requisitions for costs that were paid prior to the issuance of the bonds, in general, must be limited 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 Authority.
- Final allocation of proceeds to uses shall be recorded not later than 18 months after the in-service date of the financed property (and in any event not later than 5 years and 60 days after the issuance of the appropriate series of bonds).
- Expenditure of proceeds shall be measured every 6 months against the tax certificate expectation to spend or commit 5% of net sale proceeds within 6 months, to spend 85% of net sale proceeds within 3 years, and to proceed with due diligence to complete the project and fully spend the net sale proceeds.
- Expenditure of "available construction proceeds" shall also be measured every 6 months against the following schedule for the arbitrage rebate exception for construction issues, if applicable:

10% within 6 months

45% within 12 months

75% within 18 months

100% within 24 months

- Expenditure of bond proceeds that do not qualify as proceeds of a construction issue shall also be measured every 6 months against the six month exception and the following schedule for the arbitrage rebate exception for capital issues, if applicable:

15% within 6 months

60% within 12 months

100% within 18 months

- Expenditures of proceeds of tax anticipation notes or grants shall be determined as provided in the Tax Certificate for such notes or grants and the requisite reports prepared in accordance with such Tax Certificate.

The Controller shall cause the following to be maintained:

- A complete accounting of all payments of principal of, and interest or premiums on the bonds.
- A detailed accounting of the purposes or projects for which bond proceeds are used, and any change in such purpose or project during the course of its acquisition or construction.
- A detailed accounting of the expenditure of bond proceeds for the project purposes, copies of requisitions, invoices and bills together with contracts for construction, renovation or acquisition of bond-financed facilities, including a time line or draw schedule indicating the date of such expenditure, and a detailed list of assets acquired.
- Evidence of the retirement, redemption, refunding, reissuance or restructuring of such bonds, including dates of such occurrences.

Use of Bond-Financed Property

Use of bond-financed property when completed and placed in service will be reviewed jointly by the Controller and the Authority official with responsibility for such project.

- Generally, average private business uses of bond-financed property over the life of the appropriate bond issue cannot exceed 10% of the proceeds. For this purpose, private business use includes uses by private businesses arising under leases or management contracts or wholesale contracts. For purposes of the 10% test all such

uses are aggregated. Where the private business use is unrelated to the governmental facility financed or disproportionate, a 5% test is substituted for the 10% test. Bond Counsel should be consulted as to its applicability.

- Private business uses will be determined annually as a percentage of total use of proceeds of the appropriate bond issue. In the event that private uses exceed 3%, then Bond Counsel should be contacted.
- Agreements with business users for lease, management services or any other potential nonexempt use of bond-financed property will be reviewed (if appropriate, by Bond Counsel) prior to execution for compliance with the 10% limit.
- No item of bond-financed property will be sold or transferred to a nonexempt party without prior consultation with Bond Counsel and only after implementing any recommendations of Bond Counsel so such disposition does not affect the tax status of any of Authority's bonds.

Investments

Investment of bond proceeds in compliance with the arbitrage bond rules and rebate of arbitrage will be supervised by the Controller.

- Guaranteed investment contracts ("GIC") will be purchased only using the three-bid "safe harbor" of applicable Treasury regulations, in compliance with fee limitations on GIC brokers in the regulations. Bond Counsel shall be consulted in connection with the purchase of any GIC with bond proceeds.
- Other investments will be purchased only in market transactions at fair market value.
- Calculations of rebate liability will be performed annually and an outside consultant retained if required.
- In the event Form 8038-T is required a rebate expert or specialist will be retained to prepare same.
- Rebate payments will be made with Form 8038-T no later than 60 days after (a) each fifth anniversary of the date of issuance of the appropriate series of bond and (b) the final retirement of the applicable series of bonds. Such returns shall be prepared by a rebate or arbitrage specialist.
- Identify date for first rebate payment at time of issuance. Enter in records for the appropriate issue.

Records

Management and retention of records related to tax exempt bond issues will be supervised by the Controller.

- Records will be retained for the life of the bonds plus any refunding bonds plus six years or such shorter period as approved by the Internal Revenue Service. Records may be in the form of documents or electronic copies of documents, appropriately indexed to specific bond issues and compliance functions.
- Records pertaining to bond issuance include transcript of documents executed in connection with the issuance of the bonds and any amendments, and copies of rebate calculations and records of payments including Forms 8038-T.
- Records pertaining to expenditures of bond proceeds include requisitions, trustee and bank statements and final allocation of proceeds.
- Records pertaining to use of property include all agreements for nonexempt use and any documents relating to unrelated business activity.
- Records pertaining to investments include GIC 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.
- Records of any amendments and other changes to bond documents including interest rate conversions and defeasances.
- Records of any letter of credit or other guarantees for Bonds and interest rate swaps and other derivatives that are related to the Bonds.

Remedial Action

If at any time during the life of a Bond issue, the Chief Compliance Officer or the Controller discovers that a violation of federal tax law requirements applicable to that issue may have occurred, either may consult with bond counsel to determine whether any such violation actually has occurred. If the Chief Compliance Officer determines that a violation has in fact occurred, the Chief Compliance Officer will inform the Chairman of the Authority of the same and the Chief Compliance Officer will take prompt action to accomplish an available remedial action under applicable regulations or to enter into a closing agreement with the IRS under the IRS's Voluntary Closing Agreement Program or other future published guidance.

Review

At least annually, the Controller will complete, with the assistance of Bond Counsel, an overall post-issuance compliance report pertaining to expenditure of proceeds, use of bond financed property and investment of proceeds, including the retention of necessary records. As part of

such review the Compliance Officer shall confer with personnel responsible for Bond-financed or refinanced assets to identify and discuss the present use and any planned use of Bond-financed or refinanced assets, to ensure that those uses are consistent with all applicable covenants and restrictions. Such annual review shall be completed by October 30th of each calendar year. The Such report shall be delivered to Chief Compliance Officer and reviewed by the Chief Compliance Officer.

Bond Counsel Review

The Chief Compliance Officer or the Controller may engage bond counsel to assist in implementing these Procedures, including, but not limited to, assistance in the following areas:

- Rebate calculations and compliance;
- Records retention;
- Periodic review of the Bond Records for compliance with federal tax laws regarding private business use;
- Determination of whether a violation of federal tax law requirements applicable to that Bond issue may have occurred and the Authority's options to address the violation so the preferential tax status of the Bond issue is maintained;
- Termination or modification of any interest rate swaps or other derivatives;
- Review of investment agreements;
- Modifications to Bond Documents; and
- Other federal tax law compliance, including any annual reporting requirements that may be imposed by the IRS.

Training Requirements

The Chief Compliance Officer, the Controller and designees will undergo ongoing training regarding basic federal tax concepts relating to the Bonds and records required to be maintained under these Procedures. Such training may include, but is not limited to attending sessions relating to federal tax law requirements and post-issuance compliance presented by the Government Finance Officers Association (GFOA), National Association of Bond Lawyers (NABL) or other similar trade organizations and public finance law firms and arbitrage compliance specialists. At least annually, the Chief Compliance Officer, Controller and other appropriate officers of the Authority will meet with Bond Counsel regarding updates on the federal tax law governing the Bonds, compliance requirements and available non-compliance remedial actions.

Revised Effective as of March 1, 2014