

CITY OF FRANKLIN, TENNESSEE
Direct Payment Build America Bond Issue
Tax Compliance Policies and Procedures

Purpose

In order to qualify to receive direct subsidy payments from the U.S. Treasury with respect to direct payment Build America Bonds ("BABs") issued pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (the "Code"), the City of Franklin, Tennessee (the "Municipality") must comply with federal tax rules regarding expenditure of BABs proceeds, use of BABs-financed property, investment of BABs proceeds in compliance with arbitrage rules, retention of records and filings with the Internal Revenue Service. This Tax Compliance Policy sets forth the Municipality's policies for compliance with such rules.

I. Expenditure of Proceeds

Expenditure of bond proceeds as set forth below will be reviewed and managed by the Chief Financial Officer of the City as needed to ensure compliance with the requirements with the tax certificate executed in connection with the BABs. In connection with such review and management, the Chief Financial Officer will undertake the following:

- Establish form and procedure for documenting expenditures of BABs proceeds, including a description of the property financed with each expenditure.
- Only permit BABs proceeds to be expended for capital expenditures or costs of issuance of the BABs issue.
- Not permit more than 2% of proceeds to be applied to payment of costs of issuance of BABs.
- Not permit amounts to be expended to pay capitalized interest on the BABs issue except during actual construction period of BABs-financed property.
- Monitor costs that were paid prior to the issuance of the BABS issue are 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 Municipality or as is otherwise approved by bond counsel.
- Prepare a "final allocation" of proceeds to uses, which will be made and retained with the records of the BABs issue, 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 BABs).
- Monitor the expenditure of proceeds 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 against the schedule for the arbitrage rebate exception or exceptions identified in the tax certificate.

Use of BABs-Financed Property

Use of BABs-financed property, when completed and placed in service, will be reviewed by the Chief Financial Officer on at least an annual basis.

The Municipality will not do any of the following with respect to the BABs-financed property without prior discussion with bond counsel regarding potential effect of such action on the ability of the Municipality to be eligible for direct payments:

- 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.

Investment of Proceeds

Investment of BABS issue bond proceeds in compliance with the arbitrage bond rules and rebate of arbitrage will be supervised by the Chief Financial Officer.

All proceeds of BABS will be deposited and maintained in a separate account or accounts. The investment of bond proceeds shall comply with the following:

- Investments will be purchased only in market transactions at fair market value.
- Calculations of rebate liability as to BABs will be performed periodically as set forth in the tax certificate by outside consultants unless the Municipality is eligible for an exception to rebate liability with respect to BABs.
- 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 issue. Compliance with rebate requirements will be reported to the bond trustee and the issuer.
- The Municipality will identify date for first rebate payment at time of issuance if rebate payments are expected.

Form 8038-CP Filings

Periodic Filing of Form 8038-CP will be supervised by the Chief Financial Officer. Such Supervisory responsibilities will include:

- File a Form 8038-CP at least 45 days' prior to each interest payment date on the BABs, requesting the direct payment for such interest payment date.
- Ensure a proper determination of the amount of interest payable on each interest payment date and the proper amount of the refundable credit.

Records

Management and retention of records related to BABs issues will be supervised by the Chief Financial Officer.

- Records will be retained for the life of the BABs plus any refunding bonds plus three years. Records may be in the form of documents or electronic copies of documents, appropriate indexed to specific bond issues and compliance functions.
- Retainable 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 Form 8038-T.
- Retainable records pertaining to expenditures of bond proceeds include requisitions, trustee statements (if any) and final allocation of proceeds.
- Retainable records pertaining to use of property include all agreements reviewed for nonexempt use and any reviewed documents relating to unrelated business activity.
- Retainable 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.

Overall Responsibility

Overall administration and coordination of this policy is the responsibility of the Chief Financial Officer. Such person shall be responsible for identifying any violations of federal tax requirements relating to BABs 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.

Adopted by _____ Board of Mayor and Aldermen of the City of Franklin, Tennessee on April __, 2010.

8535816.1