CITY OF SAINT PAUL, MINNESOTA

BUILD AMERICA BONDS, RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS AND RECOVERY ZONE FACILITY BONDS PRE AND POST-ISSUANCE COMPLIANCE MANAGEMENT PROCEDURE

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Build America Bonds and
Recovery Zone Economic Development Bonds
Pre and Post-Issuance Compliance
Management Procedure

March 2010

The purpose of this written procedure (this "Procedure") is for the Office of Financial Services-Treasury Section ("OFS") is to ensure proceeds of any Build America Bonds ("BABs") and/or Recovery Zone Economic Development Bonds ("RZEDs") issued by the City of Saint Paul, Minnesota (the "City") comply with the proper use of BAB and RZED bond proceeds and the requirement that such bond proceeds also comply with the requirements for tax-exempt bonds. Under the Internal Revenue Code of 1986, as amended, and the treasury regulations promulgated thereunder (collectively, the "Code"), BABs and RZEDs must both comply with the tax-exempt bond provisions of the Code, in addition to compliance with the provisions of the American Recovery and Reinvestment Act of 2009 ("ARRA"). The purpose of this Procedure is to ensure that the City and the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota (the "HRA") will comply with the requirements of the Code and ARRA to enable the City and the HRA to be confident that they will successfully pass an audit from the Internal Revenue Service and receive the timely collection of the interest subsidy payments from the federal government related to BABs and RZEDs. This procedure will also briefly discuss conduit Recovery Zone Facility Bonds ("RZFBs") that are authorized to be issued by the City or the HRA under the provisions of ARRA.

The majority of the provisions of ARRA expire on December 31, 2010. Therefore, in order to issue bonds that comply with the current provisions of ARRA, such bonds must be issued on or before December 31, 2010. The following table lists the current direct payment credit amounts for BABs and RZEDs and other information relating to RZFBs.

Type of ARRA Bond	Direct Payment Credit Percentage	Expiration Date
BABs	35%	12-31-2010
RZEDs	45%	12-31-2010
RZFBs	0%, but allows the issuer to issue tax-exempt bonds for projects that would otherwise not be eligible	12-31-2010

A. Build America Bonds (Direct Payment) Summary and General BAB Features

ARRA and the Code authorize local governments such as the City to designate certain debt obligations as "Build America Bonds". BABs may either be issued as (i) a tax credit bond or (ii) a bond for which the issuer receives a direct credit payment from the U.S. Treasury for a portion of the interest payment. BABs are issued on a taxable basis; however, proceeds of BABs must be used for financing capital projects that would otherwise qualify for the use of tax-exempt bonds. Upon the filing of a Form 8038-CP, the issuer of BABs will receive a direct payment from the federal government equal to 35% of the interest due on each interest payment date for a qualified series of BABs. A taxable interest rate structure (with the 35% direct payment subsidy from the federal government) may provide a lower net financing cost to the City or the HRA as compared to issuance of ordinary tax-exempt bonds or notes. The potential advantage of a BAB designation for any particular bond or note issue must be determined on a case by case basis considering market conditions, issuer credit quality, structure, term, desired call features and general needs and objectives of the issuer. A BAB designation does not guarantee an issuer a lower cost of financing as compared to issuance of tax-exempt bonds or notes, and City and HRA staff should consult with their financial advisor to identify and evaluate the potential benefits and risks before proceeding to designate an issue as a BAB.

BABs (unlike RZEDS) are not subject to any allocation of volume cap from the State of Minnesota. Under the provisions of ARRA and the Code, there is not any limitation with respect to the amount of BABs that may be issued by the City or the HRA. However, other general federal and Minnesota law provisions relating to the issuance of municipal debt obligations apply to the issuance of BABs and, therefore, bond counsel must be engaged in order to determine if BABs may be issued for a prospective capital project.

The following are general provisions pertaining to Qualified BABs:

1. Eligible Uses of BAB Proceeds.

(a) Capital Improvements that would otherwise qualify for tax-exempt financing. Proceeds of BABs are not eligible for working capital costs.

(b) Reasonably required reserve funds.

(c) Costs of issuance not to exceed 2%.

(d) Bond Premium - the issue price of a maturity of BABs may not include more than a de minimis amount of premium over the stated principal amount of the bond. De minimis is determined as 0.25% of the stated redemption price at maturity multiplied by the number of complete years to the earlier of (i) the optional redemption date or (ii) maturity.

2. Ineligible Uses of BAB Proceeds.

(a) Refunding of prior bonds (except for temporary short term financing incurred after February 17, 2009).

(b) Projects that would not qualify for tax-exempt financing.

(c) Working capital financing/costs.

(d) Issuance expenses in excess of 2% of issue proceeds. Typical issuance expenses include underwriter's discount, bond counsel, rating fee and financial advisory fee.

(e) Not available for private activity bonds (no 501(c)(3) bonds). May only be used for bonds that would be tax exempt, but for the election to designate the bonds as BABs.

3. BAB Designation and Payment Application.

(a) BABs must be irrevocably designated by the issuer as BABs not later than the date of issue for a series of bonds.

(b) Issuer must file IRS Form 8038-B after the issuance of the BABs on the same timeline as for an 8038-G for typical tax-exempt bonds.

(c) Using IRS Form 8038-CP (typically filed semi-annually), the issuer must request the direct subsidy payment from the federal government (equal to 35% of the interest due on each interest payment date) not more than 90 days and not less than 45 days prior to each interest payment date.

4. Arbitrage and Rebate. Although BABs are issued on a taxable basis, they are treated as tax-exempt obligations for purposes of compliance with the arbitrage and rebate provisions of the Code. The "arbitrage yield" for a series of BABs will be based upon on the net interest cost of such bonds, which will generally be defined as the taxable interest rate on the bonds less the 35% federal subsidy payment.

5. Timing Considerations.

(a) BABs, as presently authorized, can be used in conjunction with any qualifying obligation issued on or before December 31, 2010.

(b) The December 31, 2010 date applies only to the issuance of BABs. Proceeds derived from an issue of BABs are not required to be fully spent by December 31, 2010.

(c) There is an expectation by market participants that the BAB program will be extended beyond its current expiration date, however, there is no guarantee that this will occur. If the program is extended or made permanent, it is expected that the current 35% refundable tax credit will be reduced to a lower percentage tax credit payment.

6. Miscellaneous. The 35% direct payment from the federal government does not constitute a "federal guarantee" of the BABs for purposes of Section 149(b) of the Internal Revenue Code. Projects financed with BABs are *not* subject to federal Davis-Bacon/prevailing wage requirements.

7. Use of Unspent Proceeds. If capital project costs are less than expected resulting in unspent proceeds of BABs, those proceeds must be expended for other capital expenditures (unlike unspent proceeds from ordinary tax-exempt issues, which, in certain situations, may, dependent upon the circumstances, be transferred to the debt service account and use to pay debt principal and interest of the obligation). It is therefore important when issuing BABs to ensure that a plan exists to expend all proceeds for eligible capital expenditures within three years of issuance.

B. General Recovery Zone Economic Development Bonds ("RZEDs")

RZEDs are subject to an allocation of volume cap and the City received a direct allocation of $8,672,000 for RZEDs. The federal government made direct allocations of RZED issuance authority directly to each county and municipalities over 100,000 residents based upon multiple factors. Under the provisions of ARRA and the Code, this allocation is the limitation of with respect to the principal amount of RZEDs that the City may issue without receiving a further allocation of RZED authority from the State of Minnesota. The Minnesota Management & Budget Office ("MMB") is the department of the State of Minnesota that is responsible for reallocating unused allocations of RZED authority. If the City (or the HRA) intends to issue more than the City's initial allocation of RZEDs, then the City must receive a supplemental allocation from MMB through a competitive process.

The following summarizes the main requirements and features of RZEDs:

1. National Limitations. ARRA provides for national limitations on RZEDs of $10 billion. The IRS allocated these amounts among each state (including Minnesota) in the proportion that each

State's 2008 employment decline bears to the aggregate of the 2008 employment declines for all States. As mentioned above, the City received a direct allocation of RZED authority.

2. Recovery Zone Designation. Before RZEDs may be issued, an issuer (the City or HRA) must designate a recovery zone based on one of the following requirements:

(a) Any area designated by the issuer as having significant poverty, unemployment, rate of home foreclosures, or general distress;

(b) Any area designated by the issuer as economically distressed by reason of the closure or realignment of a military installation pursuant to the Defense Base Closure and Realignment Act of 1990; or

(c) Any area for which a designation as an empowerment zone or renewal community is in effect.

(d) Recovery zones may be designated by an issuer in any reasonable manner as the issuer shall determine in good faith in its discretion.

3. General. A RZED is similar to a BAB, so all BAB provisions typically apply, such as:

(a) *Availability*: During calendar years 2009 and 2010 only.

(b) *Interest*: Taxable, but RZEDs must comply with the requirements for tax-exempt bonds, including public use, arbitrage compliance and reimbursement rules.

(c) *Uses*: Only may be issued for governmental activities (see below). RZEDs may not be issued as private activity bonds (no qualified 501(c)(3) bonds, exempt facility bonds, small-issue manufacturing bonds, etc.).

(d) *Bond Premium*: The issue price may not include more than a de minimis amount of premium for each maturity over the stated principal amount of the bond. De minimis is determined as 0.25% of the stated redemption price at maturity multiplied by the number of complete years to the earlier of (i) the optional redemption date or (ii) maturity.

4. Payments to Issuer. The Issuer must specifically and irrevocably designate the bonds as RZEDs, and will receive a direct subsidy payment from the federal government equal to 45% of the interest due on each interest payment date. Form 8038-B is filed with the Internal Revenue Service when RZEDs are issued; Form 8038-CP is to be filed with the Internal Revenue Service requesting the 45% bond interest payment not more than 90 and not less than 45 days before each fixed rate interest payment date.

5. Proceeds.

(a) *Uses*: RZED proceeds may only be used for: (i) qualified economic development purposes, (ii) a deposit into a reasonably required reserve fund, and (iii) costs of issuance (up to 2% of sale proceeds). This rule precludes refundings and working capital financings.

(b) *Qualified Economic Development Purposes*: ARRA defines these purposes as:

(i) capital expenditures paid or incurred with respect to property located in a Recovery Zone;

(ii) expenditures for public infrastructure and construction of public facilities; and

(iii) expenditures for job training and educational programs.

6. Arbitrage and Rebate. Although RZEDs are issued on a taxable basis, they are treated as tax-exempt obligations for purposes of compliance with the arbitrage and rebate provisions of the Code. The "arbitrage yield" for a series of RZEDs will be based upon on the net interest cost of such bonds, which will generally be defined as the taxable interest rate on the bonds less the 45% federal subsidy payment.

7. Miscellaneous. The 45% direct payment does not constitute a "federal guarantee" of the RZED for purposes of Section 149(b) of the Internal Revenue Code. Projects financed with RZEDs *are* subject to federal Davis-Bacon/prevailing wage requirements.

8. Use of Unspent Proceeds. If capital project costs are less than expected resulting in unspent proceeds of RZEDs, those proceeds must be expended for other capital expenditures (unlike unspent proceeds from ordinary tax-exempt issues, which, in certain situations, may, dependent upon the circumstances, be transferred to the debt service account and use to pay debt principal and interest of the obligation). It is therefore important when issuing RZEDs to ensure that a plan exists to expend all proceeds for eligible capital expenditures within three years of issuance.

C. BAB and RZED Risk Factors

As compared to issuance of traditional tax-exempt obligations for governmental purposes, BABs or RZEDs may present additional risk factors that should be considered when evaluating whether or not to issue bonds or notes on a taxable basis and designated them as Qualified BABs or RZEDS.

The following is a summary of these risk factors:

1. Payment Risk – Sufficiency of Direct Payment from Federal Government. The issuer's ability to benefit from the BAB or RZED designation is contingent on the continued direct payment of the federal subsidy. The direct payments made by the federal government are on the same basis as income tax refund payments to tax payers. While unlikely, the federal government could in the future eliminate the (i) 35% direct payment to the BAB issuer or (ii) 45% direct payment to the RZED issuer, or could reduce the amount of the subsidy. Since the issuer would still be responsible for payment of the full interest due on the obligation, any elimination or reduction in the subsidy amount would increase the issuer's cost of financing. To mitigate the risk of the refundable tax credit being eliminated or reduced, with the inclusion of an "Extraordinary Call Feature" that allows the issuer to refund the BAB or RZED may be a consideration to be considered in structuring one of these bond issues. There may be a cost to the special call feature interest rate an issuer will pay. While the extraordinary call feature provides protection to the issuer should the direct payment subsidy be reduced or eliminated, the issuer would still be subject to refunding at whatever current market rates are at that time.

Budgeting debt service with respect to an issue of BABs or RZEDs should always be gross debt service without the benefit of the payment of the 35% direct subsidy payment or, if applicable the 45%

direct payment, from the federal government. In the event that the City or the HRA determines that it may be beneficial to not budget debt service for an issue of BABs or RZEDs on a gross debt service basis, then City treasury staff and, if applicable HRA staff, shall research with the City's financial advisor, underwriter (if the bonds are to be sold on a negotiated sale basis), and the credit rating agencies the consequences of not budgeting the debt service payments on such bond issue on an gross debt service basis.

2. Payment Risk – Timing of Direct Payments. To receive the direct subsidy payment from the federal government, the issuer must file IRS Form 8038-CP not earlier than 90 days and not later than 45 days prior to an interest payment date for a fixed rate bond issue. There are another set of rules for the filing of an 8038-CP with respect to a variable rate bond issue. The Treasury has indicated that payments to the issuer will be made within 30 days of receipt of an 8038-CP. Therefore, the subsidy payment with respect to an issue of BABs or RZEDs should be received by the issuer at least 15 days prior to the interest payment date. If, however, the subsidy payment is delayed for any reason, the issuer may have insufficient funds to make the interest payment on the due date unless debt service is budgeted on a gross debt service basis. Prior to designating an issue as a BAB, the issuer should consider whether or not it has sufficient funds available from other sources that could be applied to make scheduled interest payments on an interim basis (as part of the credit rating process for BAB issues, Standard & Poor's is now requesting issuers for written verification of this).

3. Governmental Purpose/Market Rate Comparables. Outside bond counsel should be used to determine governmental purpose and OFS should review as part of preapproval of proceeding with City or HRA issue BABs or RZEDs that there is a transparent method for the payment to third party consultants and managers (including underwriters) at or below current market rates with BAB or RZED proceeds. If it is determined that this is not the case then additional non BAB funds need to be identified by time of requesting approval to proceed. See Compliance Requirements below.

4. Post-Issuance Compliance/Relationship to the IRS. Early analysis of the BAB Program guidance suggested that participation could change the relationship between the issuer and the IRS with respect to post-issuance compliance activities. In February of 2010, the IRS published Form 14127 (Direct Pay Bonds Compliance Questionnaire) that all BAB issuers who issued BABs in 2009 are required to complete. The correspondence relating to the questionnaire states that BABs issuers will be required to detail their policies or procedures that ensure proceeds of BABs are used in accordance with program requirements. A copy of the IRS form is attached in Exhibit G. While traditional tax-exempt bond issues have always been subject to audit for review of these same considerations, the ability to withhold future direct subsidy payments in the event of asserted non-compliance provides the IRS with a substantially more direct enforcement mechanism.

5. Direct Payment Offset by Federal Government. Since the subsidy payments are considered to be made on the same basis as income tax refunds under IRS rules, direct payments relating to an issue of BABs or RZEDs will be reduced by any amount the issuer may owe to the federal government for an unrelated event or controversy. This may result in the issuer receiving a smaller subsidy payment than expected (or no subsidy payment) and create a need to utilize other funds to make scheduled debt service payments. Issuers that may owe the Federal government money should consider the possibility that BAB or RZED subsidy payments will be offset by amounts owed for unrelated purposes prior to the issuance of BABs or RZEDs. In addition, IRS staff has indicated in public materials that the offset program is automated so there will not be the ability to argue or protest an offset prior to it occurring and there is no notice period prior to an offset occurring.

6. Regulatory Uncertainty. IRS Notice 2009-26 provided guidance "intended to facilitate prompt implementation of the BABs program and to enable state and local governments to begin issuing these bonds for authorized purposes to promote economic recovery and job creation." Final Treasury regulations pertaining to the BAB program have not been published. Reliance on the information found in Notice 2009-26 or obtained from other sources presents the risk that final regulations may provide a different or contrary interpretation.

D. Compliance Requirements

1. Generally. The Treasurer of the City or his designee (the "City Treasurer") shall be the person generally responsible for assigning post-issuance compliance responsibilities to members of OFS, other staff of the City and the HRA, outside bond counsel, bond trustee, paying agent, and rebate analyst. The City Treasurer shall utilize such other professional service organizations as are necessary to ensure compliance with the post-issuance compliance requirements of the City and the HRA. The City Treasurer shall provide training and educational resources to City and HRA staff that are responsible for ensuring compliance with any portion of the post-issuance compliance requirements of this Procedure.

2. Procedures for Monitoring, Verification, and Inspections. The City Treasurer shall institute such procedures as the City Treasurer shall deem necessary and appropriate to monitor the use of the proceeds of RZEDs and BABs issued by the City and/or HRA, to verify that certain post-issuance compliance actions have been taken by the City and/or HRA, and to provide for the inspection of the facilities financed with the proceeds of such bonds. At a minimum, the City Treasurer shall establish the following procedures:

(a) The City Treasurer shall monitor the use of the proceeds of RZEDs and BABs to: (i) ensure compliance with the expenditure and investment requirements under the temporary period provisions set forth in Treasury Regulations, Section 1.148-2(e); (ii) ensure compliance with the safe harbor restrictions on the acquisition of investments set forth in Treasury Regulations, Section 1.148-5(d); (iii) ensure that the investments of any yield-restricted funds do not exceed the yield to which such investments are restricted; and (iv) determine whether there has been compliance with the spend-down requirements under the spending exceptions to the rebate requirements set forth in Treasury Regulations, Section 1.148 7; and

(b) The City Treasurer shall monitor the use of all RZED and BAB financed facilities in order to: (i) determine whether private business uses of bond-financed facilities have exceeded the de minimus limits set forth in Section 141(b) of the Code as a result of leases and subleases, licenses, management contracts, research contracts, naming rights agreements, or other arrangements that provide special legal entitlements to nongovernmental persons; and (ii) determine whether private security or payments that exceed the de minimus limits set forth in Section 141(b) of the Code have been provided by nongovernmental persons with respect to such bond-financed facilities.

(c) The City Treasurer shall monitor the use of proceeds of RZEDs and BABs to ensure compliance with the requirements that (i) all proceeds (other than amounts placed in a reasonably required reserve fund and used to pay costs of issuance) are used to pay capital costs; and (ii) no more than two percent of the principal amount of the bonds are used to pay costs of issuance; and

(d) The City Treasurer shall undertake the following with respect to each outstanding issue of RZEDs and BABs of the City and the HRA: (i) an annual review of the books and records maintained by the City and/or the HRA with respect to such bonds; and (ii) an annual physical inspection of the facilities financed with the proceeds of such bonds, conducted by the City Treasurer with the assistance with any City/HRA staff who have the primary responsibility for the operation, maintenance, or inspection of such bond-financed facilities.

E. Record Retention

The City Treasurer shall collect and retain data with respect to each issue of RZEDs and BABs of the City and the HRA in conformance with Chapters 13 and 138 of Minnesota Statutes, respectively referred to as the Minnesota Government Data Practices Act (the “MCDPA”) and the Public Records Retention Act (“PRRA”).

In addition to other data required to be collected and retained pursuant to the MGDPA and the PRRA, the City Treasurer shall also collect and retain the following records with respect to each issue of RZEDs and BABs of the City and the HRA with respect to the facilities financed with the proceeds of such bonds:

(i) audited financial statements of the City/HRA;
(ii) appraisals, demand surveys, or feasibility studies with respect to the facilities to be financed with the proceeds of such bonds;
(iii) publications, brochures, and newspaper articles related to the bond financing;
(iv) trustee or paying agent statements;
(v) records of all investments and the gains (or losses) from such investments;
(vi) paying agent or trustee statements regarding investments and investment earnings;
(vii) reimbursement resolutions and expenditures reimbursed with the proceeds of such bonds;
(viii) allocations of proceeds to expenditures (including costs of issuance) and the dates and amounts of such expenditures (including requisitions, draw schedules, draw requests, invoices, bills, and cancelled checks with respect to such expenditures);
(ix) contracts entered into for the construction, renovation, or purchase of bond-financed facilities;
(x) an asset list or schedule of all bond-financed depreciable property and any depreciation schedules with respect to such assets or property;
(xi) records of the purchases and sales of bond-financed assets;
(xii) private business uses of bond-financed facilities that arise subsequent to the date of issue through leases and subleases, licenses, management contracts, research contracts, naming rights agreements, or other arrangements that provide special legal entitlements to nongovernmental persons and copies of any such agreements or instruments;
(xiii) arbitrage rebate reports and records of rebate and yield reduction payments;
(xiv) resolutions or other actions taken by the governing body subsequent to the date of issue with respect to such bonds;
(xv) formal elections authorized by the Code or Treasury Regulations that are taken with respect to such bonds;
(xvi) relevant correspondence relating to such bonds;
(xvii) documents related to guaranteed investment contracts or certificates of deposit, credit enhancement transactions, and financial derivatives entered into subsequent to the date of issue;

(xviii) copies of all Form 8038Ts and Form 8038-Rs filed with the IRS; and
(xix) the transcript prepared with respect to such RZEDs and BABs.

In addition to the above listing of the documents and information that is required to be maintained by the City/HRA, such list is also set forth in Exhibit A to this Procedure.

Subject to the requirements imposed pursuant to the MGDPA and the PRRA, the records collected by the City Treasurer shall be stored in any format deemed appropriate by the City Treasurer and shall be retained for a period equal to the life of the RZEDs or BABs with respect to which the records are collected (which shall include the life of any bonds issued to refund any portion of such RZED or BABs or to refund any refunding bonds) plus six (6) years.

F. Recovery Zone Facility Bonds

ARRA and the Code also authorize an issuer to issue "Recovery Zone Facility Bonds" and loan the proceeds derived from the RZFBs to a private borrower. Generally, RZFBs are conduit revenue bonds that are special limited obligations of the issuer and the general credit and taxing power are not pledged to an issue of RZFBs. However, the City and/or the HRA may be able to issue bonds that do not qualify as traditional tax-exempt bonds (certain bonds that fail the private security and private payments tests or the private loan financing test under the Code) and designate such bonds as RZFBs. City and/or HRA staff should work with outside bond counsel to ensure compliance of an issue of RZFBs with the provisions of the Code.

RZFBs are subject to an allocation of volume cap and the City received a direct allocation of $13,008,000 for RZFBs. The federal Treasury made direct allocations of RZFB issuance authority directly to each county and municipalities over 100,000 residents based upon multiple factors. Under the provisions of ARRA and the Code, this allocation is the limitation of with respect to the principal amount of RZFBs that the City may issue without receiving a further allocation of RZFB authority from the State of Minnesota. The MMD is the department of the State of Minnesota that is responsible for reallocating unused allocations of RZFB authority. If the City (or the HRA) intends to issue more than the City's allocation of RZFBs, then the City must receive a supplemental allocation from MMB.

The City and the HRA must comply with the provisions of this Procedure relating to record retention, issuance procedure, and post-issuance compliance if the City or the HRA were to issue RZFBs for which the City or the HRA are the obligated party to repay such obligations. If the City and or the HRA issue RZFBs that are conduit revenue bonds, then the City Treasurer or the Project Manager of the HRA responsible for the monitoring of such project shall work with bond counsel to ensure that the loan documentation for such RZFBs contain tax covenants and record retention provisions to ensure that the borrower of such funds comply with provisions similar to those contained in this Procedure.

Attachments:

Exhibit A	Checklist of Pre Sale, Sale and Post Sale Compliance for BABs and RZEDs
Exhibit B-1	Sample Preliminary Official Statement Language for Competitive Sales from Springsted Incorporated
Exhibit B-2	Sample Preliminary Official Statement Language for Competitive Sales from Ehlers & Associates, Inc.
Exhibit C	Pre Sale BAB and RZED Dates
Exhibit D	Sale and Post Sale BABs and RZEDs Compliance Dates
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Exhibit G	Sample IRS Forms and Questionnaires

Exhibit A

Checklist of Pre Sale, Sale and Post Sale Compliance for BABs and RZEDs

Pre Sale

1. Determine Governmental Purpose, type of BABs, credit amount and applicability of the project financing with the effected Department including market rate comps for third party consultants paid with BABs or RZEDs.

2. Determine Competitive versus Negotiated Sale.

3. Get initial approval to proceed from Administration, Department and OFS Director.

4. Meet with Department about the accounting and treatment of BABs, review sources and uses (no working capital for governmental purpose, etc.), request draw schedule and exploring timing of sale and when proceeds will be available, need for a post closing inspection on the use of BABs for intended purpose described in Sources and Uses.

5. Prepare Preliminary Resolution; insert governmental purpose and reimbursement language (if necessary).

6. If competitive sale, add language to POS similar to B-1 or B-2 for Original Issue Premium ("OIP") restriction.

Sale Date

1. If Competitive, follow Competitive sale process – Bid in a.m. and Award at City Council in p.m.

2. If negotiated, decide to award, if no OIP, otherwise cancel sale and reschedule.

Between Sale Date and Closing

1. Bond Counsel and /or F/A monitor post sale transactions with closing.

Pre Closing

1. Follow normal pre closing Process.

2. Review with Bond Counsel, all sales transactions, if any non-confirming secondary sales from award.

Post Closing

1. <u>IRS</u>.

   (a) File 8038-B (work with Bond Counsel).

2. <u>Bond Transcript</u>. Verify that bond transcript has:

(a) Arbitrage / Tax Certificate;

(b) Confirmation of filing form 8038 with IRS;

(c) Final sources and uses;

(d) Debt service payments schedule reviewed by F/A; and

(e) Continuing disclosure undertaking certificate.

3. <u>Accounting</u>.

(a) Set up/confirm bond related accounts in the City's systems, distribute proceeds.

(b) Choose accounting method (work with accountants).

(c) Verify that no proceeds use for private activity (except de minimis amount).

4. <u>Debt payments</u>.

(a) Add debt schedule into Mun-ease.

(b) See Debt payments procedure.

(c) File 8038-CP for interest credit between 45 and 90 days prior to debt payment (BAB's and RZED's only) Include a debt service schedule with signed form

5. <u>Investment</u>.

(a) Based upon arbitrage yield, City Treasurer determined to include bond related accounts into the pool for interest allocation or set up a separate interest earning account if necessary.

(b) Non-purpose investments?

6. <u>Arbitrage</u>.

(a) Add relevant dates to the arbitrage calendar.

(b) Start arbitrage tracking file.

(c) Estimate rebate amount on after 2 year issuance anniversary – set up rebate account if necessary (N/A for BABs).

(d) Check available proceeds after 3 year issuance anniversary – yield restrict if necessary.

(e) Calculate and file rebate with IRS.

7. <u>Disclosure</u>.

(a) Add bond CUSIP numbers to the CUSIP database.

(b) See Continuing Disclosure Annually Procedure.

8. <u>Reserve (if required)</u>.

(a) Set up relevant accounts and dates to recalculate reserve amounts for commingled reserve funds.

9. Audit.

(a) Perform internal semi-annually review of compliance.

(b) Meet with Project Manager to walk-thru to review use of proceeds. (Site Visits regarding private use?)

10. Record Retention. In addition to other data required to be collected and retained pursuant to the MGDPA and the PRRA, the City Treasurer shall also collect and retain the following records with respect to each issue of RZEDs and BABs of the City and the HRA with respect to the facilities financed with the proceeds of such bonds:

(i) audited financial statements of the City/HRA;
(ii) appraisals, demand surveys, or feasibility studies with respect to the facilities to be financed with the proceeds of such bonds;
(iii) publications, brochures, and newspaper articles related to the bond financing;
(iv) trustee or paying agent statements;
(v) records of all investments and the gains (or losses) from such investments;
(vi) paying agent or trustee statements regarding investments and investment earnings;
(vii) reimbursement resolutions and expenditures reimbursed with the proceeds of such bonds;
(viii) allocations of proceeds to expenditures (including costs of issuance) and the dates and amounts of such expenditures (including requisitions, draw schedules, draw requests, invoices, bills, and cancelled checks with respect to such expenditures);
(ix) contracts entered into for the construction, renovation, or purchase of bond-financed facilities;
(x) an asset list or schedule of all bond-financed depreciable property and any depreciation schedules with respect to such assets or property;
(xi) records of the purchases and sales of bond-financed assets;
(xii) private business uses of bond-financed facilities that arise subsequent to the date of issue through leases and subleases, licenses, management contracts, research contracts, naming rights agreements, or other arrangements that provide special legal entitlements to nongovernmental persons and copies of any such agreements or instruments;
(xiii) arbitrage rebate reports and records of rebate and yield reduction payments;
(xiv) resolutions or other actions taken by the governing body subsequent to the date of issue with respect to such bonds;
(xv) formal elections authorized by the Code or Treasury Regulations that are taken with respect to such bonds;
(xvi) relevant correspondence relating to such bonds;
(xvii) documents related to guaranteed investment contracts or certificates of deposit, credit enhancement transactions, and financial derivatives entered into subsequent to the date of issue;
(xviii) copies of all Form 8038Ts and Form 8038-Rs filed with the IRS; and
(xix) the transcript prepared with respect to such RZEDs and BABs.

Exhibit B-1

Sample Preliminary Official Statement Language
For Competitive Sales
From Springsted Incorporated

Past examples of POS language instructing winning bidder in rules regarding Original Issue Premiums.

Proposals for the Bonds bid as Taxable Bonds shall be for not less than $12,375,000 (the "Minimum Bid") and accrued interest on the total principal amount of the Bonds.

If the Bonds are issued as taxable Build American Bonds, in order to comply with the "Build America Bond" provisions of the Code, each proposal for the Taxable Bonds must specify the expected reoffering price for each maturity of the Taxable Bonds, and (i) each such reoffering price cannot exceed the par amount of the maturity by more than .25% multiplied by the number of complete years to the earlier of the maturity date or the first optional redemption date for the maturity of the Taxable Bonds, and (ii) in the initial offering no such Taxable Bond may be sold for a price in excess of such limit.

Proposals for the Taxable Bonds shall be for not less than the Minimum Bid or for not more than a de minimis premium, as described below.

Maturity Date	Maximum Permitted Reoffering Price	Maturity Date	Maximum Permitted Reoffering Price	Maturity Date	Maximum Permitted Reoffering Price	Maturity Date	Maximum Permitted Reoffering Price
5/1/2011	100.25%	5/1/2016	101.50%	5/1/2021	102.50%	5/1/2026	102.50%
11/1/2011	100.25%	11/1/2016	101.50%	11/1/2021	102.50%	11/1/2026	102.50%
5/1/2012	100.50%	5/1/2017	101.75%	5/1/2022	102.50%	5/1/2027	102.50%
11/1/2012	100.50%	11/1/2017	101.75%	11/1/2022	102.50%	11/1/2027	102.50%
5/1/2013	100.75%	5/1/2018	102.00%	5/1/2023	102.50%	5/1/2028	102.50%
11/1/2013	100.75%	11/1/2018	102.00%	11/1/2023	102.50%	11/1/2028	102.50%
5/1/2014	101.00%	5/1/2019	102.25%	5/1/2024	102.50%	5/1/2029	102.50%
11/1/2014	101.00%	11/1/2019	102.25%	11/1/2024	102.50%	11/1/2029	102.50%
5/1/2015	101.25%	5/1/2020	102.50%	5/1/2025	102.50%	5/1/2030	102.50%
11/1/2015	101.25%	11/1/2020	102.50%	11/1/2025	102.50%		

Exhibit B-2

Sample Preliminary Official Statement Language
For Competitive Sales
From Ehlers & Associates, Inc.

BIDDING PARAMETERS

To comply with the “Build America Bond” provision of the Internal Revenue Code of 1986, as amended, the proposal for the Bonds must specify the expected reoffering price for each maturity of the Bonds, and (i) each such reoffering price cannot exceed the par amount of the maturity by more than .25% multiplied by the number of complete years to the earlier of the maturity date or the first optional redemption date for the maturity of the Bonds, and (ii) in the initial offering no bond may be sold for a price in excess of such limit unless the IRA provides authoritative guidance to the contrary.

Exhibit C

Pre Sale BAB and RZED Dates

Initial meeting with Department of potential of using Direct Pay BABs, Governmental purpose, market rate comps, etc.	
Contact Financial Advisor (“F/A”) or Underwriter (“U/D”) for initial sizing and comparison to tax exempt issue for estimated principal and term	
City Treasury and City Debt Manager recommend to OFS Director type of sale (competitive or negotiated sale) after determining governmental purpose. **If Competitive Sale** – work w F/A and Bond Counsel for correct language in POS to insure that none of maturities are issued with more than de minimis amount of premium. See Exhibits B-1 and B-2 for samples. **If Negotiated Sale** – meet with F/A, U/D and Bond Counsel to discuss mechanics of Pre-sale call and day of Sale Order period and agreement to cancel sale and reschedule if U/D can not agree that each maturity is not priced above par. If U/D agrees to underwrite at end of Order period on day of Sale then sign BPA in next two hours.	
Preliminary Resolution drafted by Bond Counsel, include reimbursement language if necessary	
Pre- Close	
Project review with Project Manager – check budget that no proceeds will be used to pay working capital expenditures – BABs and RZEDs only	
Get spending draw schedule and review, adjust as appropriate before Pre-Closing, Estimate interest earning over spending period usually 36 months	
Before sale – check that COI is less than 2%	
Before sale – check budget that no proceeds will not be used for private entities, except de minimis amount (doesn’t apply for RZFBs)	

Exhibit D

Sale and Post Sale BABs and RZEDs Compliance Dates

Sale Day – Follow normal Competitive or Negotiated procedures	
Post Closing	
Within the week of Closing – complete the following: Deposit to construction and debt funds consistent w Arbitrage Certificate Enter Muniex schedule after City Treasurer review	
15th day of the second calendar month following the quarter in which the bonds were issued – file 8038-B with IRS	
Debt payments dates – pay debt	
6 months anniversary – check that 5% of proceeds spent	
90 days before each debt payment – file 8038-CP with IRS	
2 year anniversary – check if 10%, 45%, 75% and 100% spent in 6 months periods; set up rebate account if necessary	
3 year anniversary – check that 85% of proceeds spent; check if yield restriction is needed	
5 years anniversaries plus 60 days – arbitrage rebate	
Next day after principal payment – check reserve amounts in the comingled debt service reserve fund	
July 31st every year – submit continuing disclosure documents to EMMA	

Exhibit E

Closed BAB Projects

$ 9,275,000 City of Saint Paul, Minnesota Taxable General Obligation Public Safety Bonds, Series 2009E (Build America Bonds – Direct Payment to Issuer)

$ 12,500,000 City of Saint Paul, Minnesota Taxable General Obligation Street Improvement Special Assessment Bonds, Series 2010C (Build America Bonds – Direct Payment)

$ 4,675,000 City of Saint Paul, Minnesota Taxable General Obligation Capital Improvement Bonds, Series 2010F (Build America Bonds – Direct Payment) - Pool Bonds

$ 7,765,000 City of Saint Paul, Minnesota Taxable General Obligation Capital Improvement Bonds, Series 2010G (Build America Bonds – Direct Payment) – Payne Maryland

$ 3,700,000 City of Saint Paul, Minnesota Taxable General Obligation Capital Library Bonds, Series 2010H (Build America Bonds – Direct Payment) – Payne Maryland

Exhibit F

List of Pending BAB or RZED for 2010/ 11

Penfield (HRA)

Lofts at Farmers Market (HRA)

Exhibit G

Sample IRS Forms and Questionnaires

Completed IRS Form 14127 - Submitted 3/30/2010 w/o attachment

Exhibit H

Frequently Asked Questions Prepared by IRS