

**GASTON COUNTY, NORTH CAROLINA  
TAX-EXEMPT BOND  
POST-ISSUANCE COMPLIANCE POLICIES AND PROCEDURES  
FEBRUARY 25, 2025**

**INTRODUCTION**

Gaston County (the “County”) has issued or incurred one or more tax-exempt obligations (hereinafter referred to as “bonds”) that are outstanding. As used herein, the term “bonds” includes general obligation bonds, revenue bonds, installment financing contracts entered into by the County pursuant Section 160A-20 of the North Carolina General Statutes, and any other obligation lawfully incurred by the County that constitutes “debt” for federal income tax purposes.

Set forth below are the policies and procedures that the County has adopted as of the date set forth above to ensure the post-issuance compliance of its tax-exempt bonds.

**BOND COMPLIANCE OFFICER**

***Identification***

The **Finance Director** for the County will have day-to-day responsibility for implementation of these policies and procedures and is referred to as the “Bond Compliance Officer.” The **County Manager** for the County will have ultimate responsibility for the implementation of these policies and procedures and will supervise the Bond Compliance Officer.

In the event of a change in the Bond Compliance Officer, the outgoing Bond Compliance Officer and the **County Manager** for the County will be responsible for transferring responsibility for these policies and procedures and records to be retained to the new Bond Compliance Officer.

***Training***

Promptly after becoming the Bond Compliance Officer, and periodically thereafter, the Bond Compliance Officer will consult with bond counsel regarding, and obtain training necessary to implement, these policies and procedures and monitor compliance.

**REVISION OF THESE POLICIES AND PROCEDURES**

The Bond Compliance Officer will review these policies and procedures and consult with bond counsel regarding any revisions that are necessary and appropriate:

- Annually, in connection with the preparation of the County’s annual continuing disclosure filing; and
- Promptly, after
  - the issuance of any additional bonds by the County, or
  - the retirement of bonds of the County.

The Bond Compliance Officer will propose any such revisions to the **County Manager** for the County for review and approval. If these policies and procedures are revised, the Bond

Compliance Officer will distribute the revised version of these policies and procedures to all relevant officers, employees and counsel.

## **OUTSTANDING BOND ISSUES**

For federal income tax purposes, two or more series of bonds of the County may be treated as a single issue (hereinafter referred to as a “bond issue”). These policies and procedures will be applied to each bond issue (e.g., the limitation on private business use applies separately to each bond issue).

Appendix A describes all bond issues of the County outstanding as of the date of these policies and procedures. Appendix A will be revised by the Bond Compliance Officer from time to time to reflect the issuance of any additional bonds of the County or the retirement of any bonds of the County. The Bond Compliance Officer will consult with bond counsel as needed in preparing Appendix A (e.g., to confirm whether two or more series of bonds are treated as a single bond issue for federal income tax purposes).

## **EXPENDITURE/ALLOCATION OF PROCEEDS**

### ***Definition of “Proceeds”***

For the purpose of applying these policies and procedures, proceeds of a bond issue generally means the sales proceeds of the bond issue and investment proceeds from investments that accrue during the project period (net of any rebate amounts attributable to the project period).

### ***Review of Expenditures and Requisitions***

Until all proceeds (except sales proceeds deposited into a reasonably required reserve or replacement fund, i.e., a debt service reserve fund)<sup>1</sup> of each of the County’s outstanding bond issues have been expended, the Bond Compliance Officer will review each expenditure or requisition for disbursement of bond proceeds prior to its payment or submission for payment to confirm:

- All expenditures are capital expenditures or issuance costs (unless working capital expenditures were expected to be financed)<sup>2</sup>;
- Any expenditures paid by the County prior to the issuance of the bonds are eligible for reimbursement under the reimbursement regulations.

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<sup>1</sup> If any proceeds of a prior issue that become transferred proceeds of a refunding issue are intended to finance a project, the Bond Compliance Officer will review each expenditure or requisition for disbursement of the transferred proceeds in the manner described above and retain a copy of all documentation supporting such expenditure or requisition.

<sup>2</sup> Unless working capital expenditures were expected to be financed, working capital expenditures should not be financed with bond proceeds. If working capital expenditures were expected to be financed, the Bond Compliance Officer should confirm the working capital expenditures to be financed are directly related to capital expenditures financed by the bond issue (e.g., initial operating expenses for a new capital project) and that the aggregate working capital expenditures to be financed do not exceed 5% of the sale proceeds of the bond issue.

The Bond Compliance Officer will retain a copy of all documentation supporting an expenditure or requisition.

### ***Allocations of Proceeds***

The Bond Compliance Officer will cause all allocations of the proceeds of each bond issue to be made within 18 months after the later of the date the expenditure is made or the date the project is placed in service, but not later than the earlier of five years after the bonds were issued or 60 days after the issue is retired. Allocations will be made using any reasonable, consistently applied method and generally will not be considered final until the expiration of the dates described in the preceding sentence.

### ***Summary of Use of Proceeds***

The Bond Compliance Officer will prepare and retain a summary of the use of the proceeds of each outstanding bond issue (and each bond issue refunded with an outstanding bond issue). Until all proceeds (except sales proceeds deposited into a debt service reserve fund) of each outstanding bond issue have been expended, the Bond Compliance Officer will update the summary for each such bond issue promptly after each expenditure or submission of requisition for disbursement of bond proceeds.

The summary of the use of the proceeds of each outstanding bond issue (and each bond issue refunded with an outstanding bond issue) will include the following:

- Total proceeds of the bond issue, including the issue price of the bond issue and investment proceeds
- Proceeds used for issuance costs
- Proceeds used for credit enhancement (e.g., letters of credit, liquidity facilities or bond insurance)
- Proceeds allocated to reasonably required reserve or replacement fund (e.g., debt service reserve fund)<sup>3</sup>
- Proceeds used to currently refund prior issue
- Proceeds used for capital expenditures (except capitalized interest), categorized as follows for the project (or, if the bond issue financed multiple projects, each project):
  - Land
  - Land improvements
  - Buildings
  - Equipment
- Proceeds used for capitalized interest (i.e., construction period interest)
- Proceeds used for working capital expenditures

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<sup>3</sup> In addition to sales proceeds deposited in a debt service reserve fund, the summary should also specify the amount of any proceeds of a prior issue that are deposited in a debt service reserve for a refunding issue and become transferred proceeds of the refunding issue.

- Year of substantial completion<sup>4</sup> (of each project, if more than one)

The summary will be accompanied by a description of the bond-financed property. County-owned assets that have been paid for with bond proceeds will be indicated within the County's financial system of record. For assets purchased with bond proceeds that are school related, once the asset is placed in service, Gaston County Schools will notify the County and identify which funding source was used for the purchase, and include the identifying asset number, serial number, or other unique number to the asset.

## **PRIVATE BUSINESS USE**

### ***Brief Summary of Private Business Use Test***

The property financed by each bond issue must not be subject to excessive private business use while the bond issue is outstanding. Generally, no more than ten percent<sup>5</sup> of the net proceeds<sup>6</sup> of the bond issue may be used for any private business use.

### ***Examples of Transactions that Could Result in Violations of the Private Business Use Test***

Use of bond-financed property by a qualified user does not result in private business use. "Qualified user" means the County or a state or local government unit (or instrumentality) thereof. Private business use of bond-financed property can arise for a number of different reasons, including:

- Use by a non-governmental entity (e.g., a 501(c)(3) organization or a for-profit entity);
- Use by the federal government;
- Sale or lease to a non-qualified user (e.g., a non-governmental entity or the federal government); or
- A management contract<sup>7</sup> that does not meet one of the safe harbors for private business use described in Revenue Procedure 2017-13.

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<sup>4</sup> A project can be treated as substantially completed when, based upon all the facts and circumstances, the project has reached a degree of completion which would permit its operation at substantially its design level and it is, in fact, in operation at such level.

<sup>5</sup> The limitation is reduced to 5% if the private business use is unrelated or disproportionate to the governmental use of the proceeds. Also, when proceeds of a bond issue exceed \$150 million, a \$15 million limitation on private use becomes relevant. Under the \$15 million limitation, the bonds may be private activity bonds if the "nonqualified amount" exceeds \$15 million. The nonqualified amount is the lesser of (i) the portion of the bond proceeds to be used for private business use or (ii) the portion of the bonds that are secured by or payments derived from property used in private business use.

<sup>6</sup> "Net proceeds" means the proceeds of the bond issue reduced by amounts in a debt service reserve fund.

<sup>7</sup> "Management contract" means a management, service, or incentive payment contract between a qualified user and a service provider under which the service provider provides services involving all, a portion of, or any function of, a bond-financed facility. A management contract includes not only a contract that provides for the actual management of a facility (such as an operator of a cafeteria) but also one that provides services.

### ***Policy Regarding Private Business Use***

The County's policy is to avoid private business use of its bond-financed property to the extent possible and to track such use to ensure the applicable limits are not exceeded.

### ***Compliance Procedures Regarding Private Business Use***

The Bond Compliance Officer will:

- Make other relevant officers and employees of the County aware of the limitations on private business use;
- Identify for such officers and employees the bond-financed property subject to the private business use limitations; and
- Require such other officers and employees to notify the Bond Compliance Officer of:
  - Any proposed sale or lease of bond-financed property;
  - Any proposed use by a non-governmental entity (e.g., a 501(c)(3) organization or a for-profit entity) of bond-financed property;
  - Any proposed use by the federal government of bond-financed property; and
  - Any proposed management contract with respect to bond-financed property.

The Bond Compliance Officer will cause any proposed management contract to be reviewed by bond counsel for compliance with the safe harbors in Revenue Procedure 2017-13.

### ***Remedial Action; Tax-Exempt Bonds Voluntary Closing Agreement Program***

If there is a compelling business reason for the County to permit any use of bond-financed property by (i) the federal government or (ii) any other non-qualified user (pursuant to a sale, lease or otherwise), or to enter into a management contract that does not meet a safe harbor for private business use, the Bond Compliance Officer will consult with bond counsel to compute the amount of private business use expected to result from such use or contract and confirm whether such private business use, together with all other expected private business use, will result in excess private business use. If such use or contract will result in excess private business use, the Bond Compliance Officer will consult with bond counsel regarding the availability of remedial action and, if remedial action is available, cause the County to take such remedial action *before* such use begins or the County enters into such management contract.

If remedial action is not available, the County will request that the IRS enter into a closing agreement pursuant to its Tax-Exempt Bond Voluntary Compliance Agreement Program.

## ***Annual Summary of Private Business Use***

In connection with the preparation of the County's annual continuing disclosure filing, the Bond Compliance Officer will prepare and retain for the related fiscal year of the County:

- A summary for each outstanding bond issue of the amount of private business use of the property financed by such bond issue;
- A summary of each sale or lease of bond-financed property reviewed during such fiscal year, including a brief description of the sale agreement or lease, who performed the review and the conclusions of the reviewer;
- A summary of each management contract reviewed during such fiscal year for safe harbor compliance, including a brief description of the contract, who performed the review and the conclusions of the reviewer;
- Copies of all sale agreements, leases and management contracts relating to bond-financed property reviewed during such fiscal year; and
- Copies of all documents relating to all remedial action taken (or VCAP closing agreements obtained) during such fiscal year.

## **ARBITRAGE/REBATE**

### ***Rebate Computations/Exceptions***

With respect to each of the County's outstanding bond issues, the Bond Compliance Officer will annually, in connection with the preparation of the County's annual continuing disclosure filing, confirm whether it is appropriate to perform a rebate computation with respect to such bond issue during that year. If a computation is appropriate, the Bond Compliance Officer will cause the computation to be performed by retaining a rebate analyst. If the rebate computation reflects that a payment is required, the Bond Compliance Officer will cause the County to file Form 8038-T and the County will pay any rebate when due.

Until all proceeds of a bond issue have been expended, the Bond Compliance Officer will monitor expenditures prior to semi-annual target dates for the six-month, 18-month and 24-month rebate exceptions.

### ***Yield Restriction of Gross Proceeds Invested Beyond an Available Temporary Period***

If any gross proceeds of a bond issue must be invested beyond an available temporary period (e.g., proceeds of a new money bond issue deposited in a construction/project fund are not expended within three years after the issue date), the Bond Compliance Officer will cause such gross proceeds to be yield restricted.<sup>8</sup>

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<sup>8</sup> The Bond Compliance Officer will consult with bond counsel as appropriate regarding alternatives to yield restriction, including investing in tax-exempt obligations and yield reduction payments.



### ***Purchase of Rollover Securities (Zero SLGs) for Defeasance Escrows***

With respect to each outstanding bond issue that has been defeased, the Bond Compliance Officer will annually, in connection with the preparation of the County's annual continuing disclosure filing, confirm whether any escrow securities are required to be rolled over into zero SLGs during that year. If a rollover is required, the Bond Compliance Officer will contact the escrow agent at least 30 days prior to the rollover date to confirm that the escrow agent has taken or will take the action necessary to complete the rollover.

### ***Qualified Hedges (e.g., Interest Rate Swaps)***

Prior to entering into a hedge with respect to any outstanding bond issue, the Bond Compliance Officer will consult with bond counsel about treating the hedge as a qualified hedge.

### ***Guaranteed Investment Contracts***

Prior to entering into a guaranteed investment contract for investment of any gross proceeds of any outstanding bond issue, the Bond Compliance Officer will consult with bond counsel regarding compliance with the regulatory safe harbor for establishing the fair market value of the GIC.

### ***Avoiding Creation of Replacement Proceeds; Yield Restriction of Replacement Proceeds***

To avoid the creation of replacement proceeds whenever possible, the Bond Compliance Officer will consult with bond counsel before the County pledges cash or securities to the bondholders, the bond trustee or a guarantor (e.g., a credit or liquidity provider), agrees to a negative pledge (e.g., a liquidity covenant such as a day's cash on hand covenant or a covenant to maintain a specified amount of deposits) or establishes or designates any amount it expects to be used to pay debt service as to any issues.

Within 30 days after any replacement proceeds (e.g., a sinking fund, a pledged fund) with respect to any outstanding bond issue come into existence, the Bond Compliance Officer will cause such replacement proceeds to be yield-restricted.<sup>9</sup>

## **RECORD RETENTION**

The Bond Compliance Officer will maintain general records relating to each of the County's outstanding bond issues (and any bond issue refunded with proceeds of any outstanding bond issue) for the life of such bond issue plus six years. These general records will include:

- The transcript for the initial issuance and delivery of the bond issue, including proof of filing of Form 8038-G for the bond issue.
- Any supplemental transcripts relating to the bond issue.
- Records to support the final allocation of proceeds, including:
  - The summary of the use of the proceeds described above;

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<sup>9</sup> See footnote 8.

- The description of the bond-financed property; and
- Copies of documentation supporting expenditures and requisitions.
- Records to support the computation of private business use, including:
  - A summary of the amount of private business use of the property financed by such bond issue;
  - Each annual summary of sales or leases of bond-financed property reviewed during such fiscal year, including a brief description of the sale agreement or lease, who performed the review and the conclusions of the reviewer;
  - Each annual summary of management contracts reviewed during each fiscal year for safe harbor compliance, including a brief description of the contract, who performed the review and the conclusions of the reviewer;
  - Copies of all sale agreements, leases and management contracts relating to bond-financed property reviewed during each fiscal year; and
  - Copies of all documents relating to all remedial action taken (or VCAP closing agreements obtained).
- All rebate computations and Forms 8038-T relating to the bond issue.
- With respect to guaranteed investment contracts, if any, and investments purchased for a yield restricted defeasance escrow which satisfied the regulatory safe harbor requirements for establishing their fair market value, the records required to be maintained pursuant to Treas. Reg. § 1.148-5(d)(6)(iii)(E).
- With respect to each qualified hedge, if any, evidence of the identification of such hedge on the County's books and records.
- All reports, summaries and other documents prepared by the Bond Compliance Officer in implementing these policies and procedures.

## **REISSUANCE**

A modification to the terms of an outstanding bond issue may result in a reissuance (i.e., a deemed current refunding) of such bond issue. Examples of such changes include a change in the principal payment schedule, a change in the interest rate (including a change in the interest rate mode) and a change in the credit or liquidity support for the bond issue. Before the County consents to any modification to the terms of an outstanding bond issue, the Bond Compliance Officer will consult with bond counsel to determine whether such change will result in a reissuance of the bond issue. If a reissuance occurs as a result of such change, the Bond Compliance Officer will cause the County to take all action required by bond counsel to maintain the tax-exempt status of the bond issue upon reissuance (e.g., filing of Form 8038-G and a final rebate computation) and will revise these policies and procedures as necessary to reflect such reissuance.

## **CORRECTIVE ACTION**

These policies and procedures are intended to ensure violations of federal tax requirements for the County's outstanding bond issues are timely identified. The Bond Compliance Officer will consult with bond counsel promptly if any violation is identified. If remedial action is not available for any violation that is identified, the County will attempt to correct such violation in a timely manner through the IRS Tax-Exempt Bonds Voluntary Closing Agreement Program.



## **APPENDIX A**

### **Outstanding Tax-Exempt Bond Issues**

As of the date of these policies and procedures, the following tax-exempt bond issues<sup>i</sup> of the County are outstanding<sup>ii</sup>:

|    | <u>Name of Issue</u>   | <u>CUSIP #<sup>iii</sup></u> | <u>Issue Date<sup>iv</sup></u> | <u>Issue Price<sup>v</sup></u> | <u>Description of Purpose<sup>vi</sup></u>  | <u>Collateral</u>                                    |
|----|--|------------------------------|--------------------------------|--------------------------------|---|--|
| 1. | General Obligation Refunding Bonds, Series 2013  | 367298XF8                    | 4/16/2013                      | \$69,328,661.90                | Refund a portion of the County's General Obligation School Bonds, Series 2004 dated March 1, 2004, General Obligation Public Improvement Bonds, Series 2006 dated March 1, 2006, General Obligation School Bonds, Series 2006 dated October 1, 2006, and General Obligation Community College Bonds Series 2007 dated August 30, 2007 | Full faith and credit and taxing power of the County |
| 2. | General Obligation School Bonds, Series 2016 and General Obligation Refunding Bonds, Series 2016 | 367298YB6                    | 5/24/2016                      | \$60,682,188.70                | (a) acquire, construct and equip public school facilities and (b) refund a portion of the County's General Obligation School Bonds, Series 2006 dated October 1, 2006, and General Obligation Community College Bonds, Series 2007 dated August 30, 2007.   | Full faith and credit and taxing power of the County |

|    |   |           |            |                 |  |  |
|----|---|-----------|------------|-----------------|--|--|
| 3. | General Obligation School Bonds, Series 2018                          | 367298ZA7 | 11/15/2018 | \$65,749,590.00 | Erecting additional school buildings and other school plant facilities, enlarging, reconstructing, renovating and replacing existing school buildings and other plant facilities and acquiring any necessary land, furnishings, equipment and appurtenant facilities therefore | Full faith and credit and taxing power of the County |
| 4. | Limited Obligation Bonds (Gaston County, North Carolina) Series 2019A | 36730WAU4 | 4/24/2019  | \$21,232,047.55 | (a) prepay obligations pursuant to the Equipment Lease-Purchase Agreement dated November 15, 2018, and (b) renovate, expand, equip and improve the existing Gaston County Sheriff's Office and jail facility   | Gaston County Jail                                   |
| 4. | General Obligation Refunding Bonds, Series 2020                       | 367298ZK5 | 10/28/2020 | \$60,516,875.10 | Refund the outstanding principal amount of the General Obligation Refunding Bonds, Series 2017 and the General Obligation School Bonds, Series 2017  | Full faith and credit and taxing power of the County |
| 5. | Schedule of Property No. 8 to Master Equipment Financing Agreement    | N/A       | 11/23/2021 | \$7,836,620.00  | Acquiring vehicles and equipment   | Vehicles and equipment purchased                     |
| 6. | Schedule of Property No. 9 to Master Equipment Financing Agreement    | N/A       | 6/21/2023  | \$8,180,820.71  | Acquiring vehicles and equipment   | Vehicles and equipment purchased                     |

|    |   |           |           |                 |  |  |
|----|---|-----------|-----------|-----------------|--|--|
| 7. | General Obligation School Bond Anticipation Notes, Series 2023      | 367298ZL3 | 7/11/2023 | \$81,144,800.00 | Acquire, construct and equip school facilities | Full faith and credit and taxing power of the County |
| 8. | Schedule of Property No. 10 to Master Equipment Financing Agreement | N/A       | 1/25/2024 | \$4,634,989.65  | Acquiring vehicles and equipment               | Vehicles and equipment purchased                     |
|    |   |           |           |                 |  |  |

<sup>i</sup> A tax-exempt bond includes any obligation issued by or on behalf of a governmental issuer on which the interest paid is excluded from the holder's gross income under Section 103 of the Code. For this purpose, a bond can be in any form of indebtedness under federal tax law, including a bond, note, loan or lease-purchase agreement. A bond issue may be an issue of two or more series of bonds which are sold at substantially the same time; sold pursuant to the same plan of financing; and payable from the same source of funds. See Treas. Reg. § 1.150-1(c). As a result, two or more series of bonds issued by the County can be treated as a single bond issue for federal income tax purposes.

<sup>ii</sup> For federal income tax purposes, bonds that have been defeased remain outstanding until they are redeemed or paid at maturity, and continued compliance with federal tax law requirements is still required with respect to such defeased obligations.

<sup>iii</sup> Enter the CUSIP number for the bond with the latest maturity. This should be the same CUSIP number listed on Form 8038-G. If no CUSIP number was assigned to the bond issue, write "None."

<sup>iv</sup> Should be identical to the issue date listed on Form 8038-G.

<sup>v</sup> Should be generally identical to the issue price listed on Form 8038-G. If the issue price listed on Form 8038-G was described as preliminary, e.g., the bond issue was a draw-down loan or commercial paper for which the aggregate issue price was not known on the issue date, the issue price could be different.

<sup>vi</sup> Describe the purpose of the bond issue, such as to construct schools or provide funds to refund a prior issue. If any of the bond proceeds were used to refund a prior issue, enter the date of issue for each of the refunded issues. If the issue has multiple purposes, state each purpose. If the issue financed various projects or activities corresponding to a related purpose, only state the purpose once. For example, if proceeds are used to acquire various items of office equipment, the amount of such expenditures should be aggregated and identified with the stated purpose of "office equipment." Alternatively, if proceeds are used to construct and equip a single facility, the expenditures should be aggregated and identified with stated purpose of "construct & equip facility" where the identification of the facility is distinguishable from other bond-financed facilities, if any.