GREENVILLE WATER

POLICY No. FIN-2 DATE: 05/07/2013

SUBJECT: Debt Management Policy

CONTENTS

I. Objective

The Debt Management Policy establishes conditions for the use of debt and to minimize Greenville Water's debt service and issuance costs, retain its AAA credit rating and maintain full and complete financial disclosure and reporting. The Debt Management Policy is intended to guide the prudent use of resources to provide the needed services to our customers and to maintain sound financial management practices.

The Debt Management Policy documents the procedures and goals for the use of debt to finance capital needs. The policy, in conjunction with the Capital Improvement Program (CIP), the Five-Year Financial Forecast, the Investment Policy, and the Reserve Policy, serves as an important tool that supports the use of the resources to meet financial commitments and to maintain sound financial management practices. This policy is enacted in an effort to standardize and plan the issuance and management of debt and serves as a guideline for general use.

II. Capital Planning and Budgeting

The five-year financial forecast, used in conjunction with the development of the CIP, will be used to determine the capacity for debt as well as identify the amount and timing of borrowing and capital funding activities.

III. Conditions for Debt Issuance

Acceptable purposes and conditions for the use of debt include the following:

- the issuance of debt must enable the target debt service coverage ratio of at least 2.0x, as provided in the five-year financial forecast, to be maintained. The target coverage ratio, however, will not be required to be maintained during a project's construction period or during any capitalized interest period;
- the goal of maintaining the AAA credit rating will be preserved;
- debt will be used, when appropriate, to spread the cost of an asset over its useful life so that the customers benefitting will pay for it;
- debt will be used for one time investments providing a net benefit to the system and that have a useful life of at least five years;
- debt will not be used for ongoing, recurring needs such as maintenance and rehabilitation. However, significant rehabilitation/major maintenance projects may be eligible for the use of debt; and
- the five-year financial forecast demonstrates that debt can be repaid without compromising the financial condition of the system.

Only those forms of debt authorized by South Carolina law will be used. The particular lawful debt instrument to be used will be determined to be the most appropriate given the nature of the project or equipment being financed.

IV. Restrictions on Debt Issuance

Restrictions on the issuance of debt include the following:

- debt is not to be used to fund operations;
- debt will not be issued with an amortization period longer than the life of the asset being financed;
- although bond covenants require a debt service coverage ratio of 1.25x, Greenville Water will target to maintain a debt service coverage ratio of at least 2.0x; and
- consideration will be given to the frequency of issuance and the efficient sizing of bond issues in consideration of relative costs associated with issuance of debt.

Factors which favor pay-as-you-go financing include circumstances where:

- the project can be adequately funded from available current revenues and reserves;
- the project can be completed in an acceptable timeframe given available revenues;
- additional debt levels could adversely affect the AAA credit rating or repayment sources; and
- market conditions are unstable or suggest difficulties in marketing debt.

V. Financial Limitations

Although bond covenants require a debt service coverage ratio of 1.25x, Greenville Water will target to maintain a debt service coverage ratio of at least 2.0x.

VI. Structuring Practices

Debt will not be issued with an amortization period longer than the life of the asset being financed and will be repaid in an expeditious manner within the overall financial objectives of Greenville Water.

Repayment schedules for revenue bonds will be amortized on a level debt service basis to the extent practical considering the forecasted available pledged revenues.

Back loaded repayment schedules may be considered under the following conditions:

- natural disasters or extraordinary or unanticipated external factors make payments on the debt in early years prohibitive;
- the benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present;
- such structuring is beneficial to the overall debt payment schedule; and
- such structuring will allow debt service to more closely match project revenues during early years of the project's operation.

Debt service reserve funds may be used in situations where they will have a favorable impact on the marketability of the debt. When used, a debt issuance may be sized such that a debt service reserve fund is established at the time of issuance.

The maximum size of the debt service reserve fund is generally governed by tax law, which permits the lesser of: 1) 10% of par; 2) 125% of average annual debt service and 3) 100% of maximum annual debt service. Debt service reserve funds are typically equal to approximately one year's maximum debt service on the bonds. On a case-by-case basis, assuming there is no economic or credit disadvantage, debt may be issued with a debt service reserve fund that is sized at a lower level.

Credit enhancements may be used if the cost of the enhancement will result in a net decrease in borrowing costs or otherwise provide significant benefits in the marketability of the debt.

Redemption provisions and call features shall be evaluated in the context of each bond sale to enhance the marketability of the bonds; to ensure flexibility related to potential early redemption; to foster future refunding transactions; or in consideration of special conditions of the transaction. The potential of additional costs (i.e., call premium) and higher interest rates as a result of including a call provision shall also be evaluated.

Capitalized interest for revenue producing projects is generally acceptable but the capitalization period should not exceed the time it takes for the asset to begin producing revenue.

VI. Debt Issuance Process

The use of long term debt will comply with state and local legal requirements. The Commission and the Greenville City Council, as required, will approve any use of debt.

Public sales, including negotiated underwritings, are the preferred method of marketing debt; however, direct or private placement of debt may be used in situations such as interim financings, or to avoid the costs of a public offering for smaller issuances.

Professionals may be retained to provide legal and advisory services on individual debt issues and the overall debt program. In general, a competitive selection process will be used in the retention of any consultants; however, the CFO may also directly engage professional service providers on a case-by-case basis. The following professional service providers may be retained:

- underwriters
- bond counsel
- special counsel
- financial advisors

Professional service providers selected in connection with the capital planning and debt issuance program may be chosen through a request for qualifications process. If this process is used, the request for qualification process will be designed to select providers that offer the best combination of expertise and price. It is not required that the firm offering the lowest price be selected. The objectives of the process will be to:

- promote competition;
- be as objective as possible;
- incorporate clear and rationale selection criteria;
- be independent of political influence;
- be perceived as fair by the respondents;
- result in a cost-effective transaction; and
- select the most qualified firm(s).

The CFO shall be responsible for determining whether a rating shall be requested on a particular financing, and which of the major rating agencies shall be asked to provide such a rating. If it is determined that a credit rating is desirable, the probable rating of the proposed debt issuance is assessed before its issuance, and necessary steps are taken in structuring the debt issuance to ensure that the best possible rating is achieved.

VIII. Debt Management Process

Appropriate records will be maintained in accordance with federal, state, and local requirements, and in accordance with bond documents to fully meet their provisions and provide for ease of any reporting requirements.

Debt issues will be structured and timed such that the investment of bond proceeds will minimize any arbitrage and/or rebate liabilities.

Necessary steps will be taken to ensure that investments placed in escrow fully comply with regulatory provisions.

A system of record keeping and reporting will be maintained to meet the arbitrage rebate compliance requirements required by the federal tax code. This includes tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of outstanding debt issuances. Additionally, general financial reporting and other tax certification requirements embodied in bond covenants shall be monitored to ensure that all covenants are in compliance.

Secondary disclosure requirements will be met in a timely and comprehensive manner, as stipulated by the SEC Rule 15c2-12. The CFO shall be responsible for providing ongoing disclosure information to the Municipal Securities Rulemaking Board's (MSRB's) Electronic Municipal Market Access (EMMA) system, the central depository designated by the SEC for ongoing disclosures by municipal issuers. The CFO is responsible for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies, including the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the Securities and Exchange Commission (SEC), and Generally Accepted Accounting Principles (GAAP). Full and complete financial disclosure will be provided to rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, comprehensive, and accurate financial information using the appropriate channels/policies/procedures.

Post issuance compliance policies and procedures have been adopted and are attached hereto as Exhibit A. Such policies and procedures are incorporated herein by reference.

Verification of compliance with all undertakings, covenants, and agreements of each bond issuance on an ongoing basis will be performed. This Includes ensuring annual appropriation of revenues to meet debt service payments, timely transfer of debt service payments to the trustee or paying agent and compliance with rate covenants.

Refundings may be undertaken for the following reasons:

- take advantage of lower interest rates and achieve debt service cost savings;
- eliminate restrictive or burdensome bond covenants;
- restructure debt to either lengthen the duration of debt or free up reserve funds; and
- refund outstanding indebtedness when existing bond covenants or other financial structures impinge on prudent and sound financial management.

A refunding will only be undertaken when there is a net economic benefit; i.e., when there is an aggregate net present value savings, expressed as a percentage of the par amount of the refunded bonds, of at least 3%. This savings requirement for a refunding may be waived by the CFO upon a finding that such a restructuring is in the overall best financial interest of Greenville Water.

Bonds will generally be refunded within the term of the originally issued debt. However, an extension of the maturity may be considered when necessary to achieve a desired outcome.

The CFO will ensure that good relations are maintained with credit rating agencies, investors in our long-term debt obligations, and those in the financial community who participate in the issuance or monitoring of our long-term obligations. A policy of full and open disclosure on every financial report and long-term obligation transaction will be maintained.

The goal of Greenville Water is to preserve and maintain its AAA credit rating for its debt obligations.

XI. Special Situations

Extreme caution will be exercised in the issuance and sale of derivative instruments, and their utilization will be considered only when sufficient understanding of the products and sufficient expertise for their appropriate use has been developed.

Debt will generally be issued a fixed interest rate basis, wherein at the time of the bond sale all interest rates are known and do not change while those bonds are outstanding. Particular conditions may arise where use of variable interest rate bonds may be considered. Conditions which would cause a consideration of variable rate debt are:

- adverse fixed-rate municipal market;
- uncertainty or variability of the amount of annual revenues for debt service;
- the potential for a rapid repayment of debt; and
- the need or desire to maximize the asset/liability balance.

Given that variable interest rate debt creates an exposure to interest rate risk over the term of the financing, the aggregate amount of variable rate debt will not exceed 20% of outstanding debt.

Short-term financings, including loans and lease purchase agreements may be executed to finance essential equipment and vehicles with a purchase price exceeding $100,000 and having a minimum useful life of three years.

Bond Anticipation Notes (BANs) are short-term interest-bearing notes issued in the anticipation of future long-term bond issuances. BANs may be issued as a source of interim financing when it is considered by the CFO to be prudent and advantageous.

Grant Anticipation Notes (GANs) are short-term interest-bearing notes issued in the anticipation of receiving grant moneys. GANs may be issued as a source of interim financing when it is considered by the CFO to be prudent and advantageous.

The use of lease purchase agreements, as provided under state law, in the acquisition of vehicles, equipment and other capital assets shall be considered carefully relative to any other financing option or a "pay-as-you-go" basis. The lifetime cost of a lease typically will be higher than other financing options or cash purchases. Nevertheless, lease/purchase agreements may be used as funding options for capital acquisitions if operational or cash-flow considerations preclude the use of other financing techniques.