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GREENVILLE WATER

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

SUBJECT: Debt Management Policy

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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 1.75x, 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 1.75x; 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 1.75x.

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.

<u>BOND COMPLIANCE POLICIES AND PROCEDURES</u>

These Bond Compliance Policies and Procedures have been initially approved by the **Chief Financial Officer** of the Commissioners of Public Works for the Commissioners of Greenville, South Carolina (the "***Commissioners***"), on January 8, 2015.

<u>Statement of Purpose; Summary</u>

The Commissioners may, from time to time, finance its capital improvements and operations through the issuance of debt obligations by the City of Greenville, South Carolina (the ***"City"***) that are eligible for tax benefits under federal and South Carolina law. Such obligations may include tax exempt bonds and/or bonds eligible for tax credits (direct subsidies to the City or tax credits to bond owners). All such obligations are referred to herein as "***Bonds,***" whether in the form of revenue bonds, bond anticipation notes, lease-purchase obligations, or otherwise.

The purpose of these policies and procedures is to ensure that the requirements of the federal and South Carolina law necessary to preserve the tax advantages of Bonds are continuously complied with for the requisite periods.

This document contains two primary components:

- The Bond Compliance Policies (the "***Policies***"), which are general statements of the goals of the Commissioners with respect to compliance with the federal and South Carolina law applicable to Bonds; and

- The Bond Compliance Procedures (the "***Procedures***"), which are specific operational procedures by which the Commissioners intends to ensure, on a continuing basis, that its issuance, payment of debt service on, and expenditure and investment of the proceeds of Bonds are and remain in compliance with the federal and South Carolina law applicable to Bonds.

The Policies may be modified, expanded, abridged, or otherwise amended by the **Chief Financial Officer** of the Commissioners upon consultation with the Commissioners' bond counsel (***"Bond Counsel"***).

The **Chief Financial Officer** will be responsible for ensuring that Bonds comply with federal and South Carolina law applicable to Bonds and will develop and implement the Procedures. The Procedures may be modified, expanded, abridged, or otherwise amended by the **Chief Financial Officer** in consultation with Bond Counsel, in order to: (a) ensure efficiency of administration; (b) establish and maintain appropriate assignments of staff responsibility; (c) reflect changes in the Commissioners' system of accounting, financial controls, procurement practices, or other internal procedures and practices; (d) respond to changes in law or interpretation that may, from time to time, be reported to the Commissioners by Bond Counsel; or (e) otherwise ensure compliance with the Policies in the most efficient and effective manner.

PART I: BOND COMPLIANCE POLICIES

A. Investment and Expenditure of Bond Proceeds. The Commissioners' system of internal controls and accounting will be capable of tracking the investment and expenditure of proceeds of Bonds and other amounts subject to special requirements, and the allocation of such proceeds and other amounts to Commissioners facilities. Appropriate coding will be developed to identify Commissioners facilities (or portions thereof) financed or refinanced by Bonds. Such procedures will ensure that such proceeds are expended only for the purposes authorized by the bond ordinances and resolutions, pursuant to which such bonds were issued and in compliance with the Arbitrage and Tax Compliance Certificate relating to the Bonds or other instructions of Bond Counsel.

B. Bond-Financed Facilities. The Commissioners will track the use of facilities (or portions thereof) financed or refinanced by Bonds in the private trades or businesses of non-governmental persons. Arrangements for the sale, disposition, lease, management or other use of substantial portions (more than 1%) of facilities financed or refinanced by Bonds with a term of (i) less than 200 days will be subject to prior review and approval by the **Chief Financial Officer**, and (ii) equal to or greater than 200 days will be subject to prior review and approval by the **Chief Financial Officer** and Bond Counsel.

C. Periodic Review. The Commissioners will periodically review compliance with the requirements of the federal and South Carolina law necessary to preserve the tax advantages of such Bonds. Such reviews should include final allocations of proceeds not later than 18 months after completion of bond-financed facilities and periodic reviews to ensure private business use of bond financed facilities does not exceed allowable levels.

D. Potential Non-Compliance. Should the **Chief Financial Officer**, upon any periodic review or otherwise, discover non-compliance with any requirements of federal or South Carolina law necessary to preserve the tax advantages of such Bonds, such Procedures will include steps to be taken, in concert with Bond Counsel, to remedy any such non-compliance.

E. Retention of Professionals; Rebate Analyst. The Commissioners will engage such professionals or consultants as are necessary, in the judgment of the **Chief Financial Officer**, to ensure that the requirements of federal and South Carolina law necessary to preserve the tax advantages of such Bonds are timely met, including, without limitation, the requirement to compute and pay rebatable arbitrage to the United States government or to confirm an exception thereto. The **Controller** will ensure that all information reports or other returns or filings with the United States Department of Treasury or Internal Revenue Service timely will be filed on behalf of the Commissioners.

F. Purchase of Investments. All investments of the proceeds of Bonds will be purchased at Fair Market Value, as defined in the federal tax laws, and will comply with the requirements of federal tax law relating to yield restriction as advised by Bond Counsel.

G. Credit Enhancement Transactions. The **Chief Financial Officer** or the **Controller** will consult with Bond Counsel prior to engaging in any post-issuance credit enhancement transactions (i.e., bond insurance or letters of credit) or hedging transactions (i.e., interest rate swaps) relating to any Bonds.

H. Subsidy Payments. The **Chief Financial Officer** or the **Controller** will implement proper procedures to ensure that any federal subsidy payable in respect of any direct-pay tax credit bonds is timely transmitted to the appropriate account of the Commissioners including the timely filing of any required return or other documentation.

I. Post-Issuance Modifications. The **Chief Financial Officer** or the **Controller** will consult with Bond Counsel prior to any modification of the interest rate, maturity date, or other material terms of any outstanding Bonds.

J. Records Retention. The Commissioners will retain records sufficient to demonstrate compliance with the requirements of federal and South Carolina law necessary to preserve the tax advantages of such Bonds for the period required by law, presently understood to be the life of the debt obligations or any succeeding refunding obligations plus 3 years.

The Foregoing Policies were last revised on January 8, 2015.

Chief Financial Officer
Commissioners of Public Works of the
City of Greenville, South Carolina

BOND PROCEDURES

These Procedures are organized with reference to the applicable lettered paragraphs in the Policies.

Certain of these Procedures assign responsibilities to named officials of the Commissioners. The named officials may delegate certain assigned responsibilities but will remain responsible for compliance with these Procedures. The official with ultimate responsibility for compliance with the Policies and Procedures will be the **Chief Financial Officer**.

Policy A: Investment and Expenditure of Bond Proceeds.

Implementing Procedures:

1. The **Controller** will charge capital expenditures that are financed by debt to the corresponding capital projects fund. Each project will have a specific fund number used to track that project, and discrete expenditures will be further categorized by project location (by street address or name of facility) and functional description of financed improvement.

2. The **Controller** will enter purchase orders and pay and capture such purchase orders in the general ledger by the specific account code.

3. The **Controller** will file and retain all purchase orders and invoices by vendor, check number, check date, and purchase order number, if applicable.

4. Until final allocation of bond proceeds, on a monthly basis, at a minimum, the **Controller** will analyze each project for expenditures and will summarize such expenditures on a spreadsheet showing the year-to-date expenditures for that project and will identify facilities or equipment financed or refinanced by Bonds ("***Bond Financed Facilities***"). A copy of the Commissioners' transaction activity report and/or summary report by account code generated from the general ledger will be used to back up this spreadsheet and filed with that spreadsheet.

5. The **Controller** will ensure that the investment of all proceeds of Bonds is tracked by fund or account (e.g., debt service fund, debt service reserve fund, project or construction fund, etc.) and investment yield.

Policy B: Bond-Financed Facilities.

Implementing Procedures:

1. The **Chief Financial Officer** will periodically review and evaluate existing or pending sales, leases, management contracts, research contracts, or other special legal entitlements that relate to the Commissioners' real or personal property (collectively, "***Use Arrangements***").

2. The **Chief Financial Officer** will be responsible for determining whether any Use Arrangement relates to Bond Financed Facilities. If so, the **Chief Financial Officer** will consult with the Commissioners' Attorney and solicit advice concerning the Use Arrangement. If the term of the Use Arrangement relating to any Bond Financed Facilities (with any extensions at the sole option of the counterparty) exceeds 200 days, the **Chief Financial Officer** and the Commissioners' Attorney will also consult Bond Counsel for advice prior to execution of the Use Arrangement.

3. The **Chief Financial Officer** will notify the **Chief Executive Officer** upon receipt of any Use Arrangements submitted for approval for any Bond Financed Facilities.

Policy C: **Periodic Review**.

Implementing Procedures:

1. The **Chief Financial Officer** periodically will cause an evaluation of tax compliance to be undertaken for outstanding Bonds.

2. Not later than 18 months after completion of any Bond Financed Facilities, the **Controller** will make and retain a final allocation of the expenditure of proceeds of Bonds and other amounts used to finance such improvements.

Policy D: **Potential Noncompliance**.

Implementing Procedures:

1. If any evaluation discloses potential non-compliance with the tax requirements applicable to any issue of outstanding Bonds, the **Chief Financial Officer** will promptly consult with the Commissioners' Attorney and Bond Counsel. Such consultation will consider whether the evaluations were properly performed and whether any amendments to Use Arrangements, adjustments to allocation methodologies, mixed financing sources, or other accounting techniques may avoid non-compliance.

2. If the Commissioners determines after consultation with counsel that non-compliance has occurred, the **Chief Financial Officer** will promptly consult Bond Counsel concerning the ability of the Commissioners to remedy the non-compliance under applicable IRS regulations or to seek a voluntary closing agreement.

Policy E: **Retention of Professionals; Rebate Analyst**.

Implementing Procedures:

1. If the **Chief Financial Officer** determines that any of its outstanding Bonds are not exempt from rebate, the Commissioners will engage an arbitrage rebate firm as its arbitrage rebate computation agent (the "***Rebate Analyst***"). The **Controller** will ensure that records of investment and expenditure of the proceeds of Bonds are timely delivered to the Rebate Analyst and that the Rebate Analyst prepares annual computation reports that advise the Commissioners of any rebatable arbitrage accrued with respect to any such bonds.

2. The **Controller** will ensure that the Rebate Analyst timely prepares returns relating to payment of arbitrage rebate (currently on IRS Form 8038-T) and that such forms are timely filed with and any rebatable arbitrage are timely paid to the United States as required under Section 148(f)(4) of the Code.

Policy F: **Purchase of Investments**.

Implementing Procedures:

1. All investments of the proceeds of Bonds will be made by the Commissioners at the direction of the **Chief Financial Officer**, who will ensure that such proceeds are invested in

compliance with federal tax requirements and that all such investments are made at Fair Market Value. The **Chief Financial Officer** will consult with Bond Counsel prior to investing any proceeds of Bonds in guaranteed investment contracts or certificates of deposit not publicly traded on any investment exchange.

Policy G: **Credit Enhancement Transactions**.

Implementing Procedures:

1. Prior to bidding for, purchasing, entering into, or otherwise engaging in any post-issuance credit enhancement transactions relating to the proceeds of or debt service on Bonds (including, without limitation, bond insurance policies, letters of credit, guaranteed investment contracts, interest rate swaps, and market hedges), the **Chief Financial Officer** will consult with Bond Counsel.

Policy H: **Subsidy Payments.**

Implementing Procedures:

1. See the implementing procedures of Policy A, above.

Policy I: **Post-Issuance Modifications**.

Implementing Procedures:

1. Prior to entering into any modification of the terms of any outstanding Bonds (including, without limitation, changes in maturity date, interest rate, call provisions, financial or earnings covenants, or use of proceeds), the **Chief Financial Officer** will consult with Bond Counsel.

Policy J: **Records Retention**.

Implementing Procedures:

1. Retention Period: Records material to Bonds will be retained by the Commissioners for a period equal to the maturity of such Bonds plus 3 years. In the event any Bonds are refunded, records of the original Bonds will be retained until the maturity of the refunding Bonds, plus 3 years.

2. Records to be Retained:

   A. Records regarding the issuance and sale of the Bonds (bond transcript and closing documents), the investment and expenditure of the original proceeds of the Bonds and any investment earnings, including requisitions, trust or investment statements, bidding certificates for guaranteed investment contracts, rebate computations, credit enhancement contracts, swap or other derivative contracts, certifications relating to any of the foregoing, rebate computations, any filings with the IRS, any correspondence with the IRS, and architectural or construction drawings and documents of the bond financed or refinanced facilities.

   B. Elections regarding accounting methods, rebate matters, or application of regulatory provisions.

C. Copies of any Use Arrangements, including, without limitation, the following arrangements involving the use of any facilities financed by the Bonds: leases, naming rights agreements, title retention agreements, management contracts, sponsored research contracts, capacity reservation agreements, agreements regarding rates or charges for use of Bond Financed Facilities, incentive payment service contracts, requirements contracts or "take" contracts or "take or pay" contracts.

D. The **Controller** will be custodian of the foregoing records.

The Foregoing Procedures were last revised on January 8, 2015.

Chief Financial Officer
Commissioners of Public Works of the
City of Greenville, South Carolina