

**New Issue/Book-Entry-Only**

**Ratings:** Moody's: Aa1  
S&P: AAA  
Fitch: AA+  
(See "RATINGS" herein)

**\$14,525,000**  
**Orange Water and Sewer Authority (North Carolina)**  
**Water and Sewer System Revenue Bonds**  
**Series 2024**

**Dated: Date of Delivery**

**Due: June 1, as shown on the inside cover**

The bonds offered hereby (the "Series 2024 Bonds") will be special obligations of the Orange Water and Sewer Authority ("OWASA") secured by and payable from the Net Receipts (as defined herein) of OWASA's Water and Sewer System (as defined herein) and, under certain circumstances, the proceeds of the Series 2024 Bonds and certain other proceeds. **Neither the faith and credit nor the taxing power of the State of North Carolina nor any political subdivision thereof, including OWASA, is pledged for the payment of principal of, premium, if any, or interest on the Series 2024 Bonds, and no registered owner of the Series 2024 Bonds has the right to compel the exercise of the taxing power by the State of North Carolina or any of its political subdivisions, including OWASA, or the forfeiture of any of their respective properties in connection with any default on the Series 2024 Bonds, except as provided in the Bond Order and the 2024 Series Resolution (both as defined herein). OWASA has no taxing power.**

The Series 2024 Bonds are being issued for the purpose of providing funds, together with any other available funds, to (1) pay or reimburse the costs of the 2024 Projects (as defined herein) and (2) pay the fees and expenses incurred in connection with the sale and issuance of the Series 2024 Bonds.

The Series 2024 Bonds will be initially issued as fully registered bonds and when delivered will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"). DTC will act as the initial securities depository for the Series 2024 Bonds. Individual purchases of the Series 2024 Bonds by the beneficial owners will be made in denominations of \$5,000 or any whole multiple thereof. So long as Cede & Co. is the registered owner of the Series 2024 Bonds, as nominee for DTC, references herein to registered owners or Owners shall mean Cede & Co. and shall not mean the beneficial owners of the Series 2024 Bonds. So long as Cede & Co. is the registered owner of the Series 2024 Bonds, the principal of and interest on the Series 2024 Bonds are payable by the Bond Registrar to Cede & Co., as nominee for DTC, which will in turn remit such principal and interest to the DTC participants for subsequent disbursement to the beneficial owners. See Appendix F hereto.

The Series 2024 Bonds will be subject to optional and mandatory sinking fund redemption as described herein.

In the opinion of Parker Poe Adams & Bernstein LLP, Bond Counsel, under existing law (1) assuming compliance by OWASA with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Series 2024 Bonds (a) is excludable from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal individual alternative minimum tax; provided, however, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations for tax years beginning after December 31, 2022, and (2) interest on the Series 2024 Bonds is exempt from State of North Carolina income taxation. See "TAX TREATMENT" herein.

The Series 2024 Bonds are offered subject to prior sale, when, as and if issued and accepted by the Underwriter, subject to the approval of their validity and certain other matters by Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, Bond Counsel. Certain legal matters will be passed upon for OWASA by Epting & Hackney, Chapel Hill, North Carolina, counsel for OWASA, and for the Underwriter by Womble Bond Dickinson (US) LLP, Raleigh, North Carolina, counsel to the Underwriter. It is expected that the Series 2024 Bonds will be available for delivery through the facilities of DTC on or about June 27, 2024.

**Wells Fargo Securities**

June 10, 2024

## MATURITY SCHEDULE

<u>Due June 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP®*</u>
2025	\$355,000	5.00%	3.21%	685349 JM5
2026	325,000	5.00	3.18	685349 JN3
2027	340,000	4.00	3.03	685349 JP8
2028	355,000	5.00	3.04	685349 JQ6
2029	370,000	5.00	3.02	685349 JR4
2030	390,000	5.00	3.02	685349 JS2
2031	410,000	5.00	3.02	685349 JT0
2032	430,000	5.00	3.04	685349 JU7
2033	450,000	5.00	3.04	685349 JV5
2034	475,000	5.00	3.04	685349 JW3
2035	495,000	5.00	3.05 <sup>C</sup>	685349 JX1
2036	520,000	5.00	3.08 <sup>C</sup>	685349 JY9
2037	545,000	5.00	3.17 <sup>C</sup>	685349 JZ6
2038	575,000	5.00	3.23 <sup>C</sup>	685349 KA9
2039	605,000	5.00	3.29 <sup>C</sup>	685349 KB7
2040	635,000	5.00	3.40 <sup>C</sup>	685349 KC5
2041	665,000	5.00	3.50 <sup>C</sup>	685349 KD3
2042	700,000	5.00	3.56 <sup>C</sup>	685349 KE1
2043	735,000	5.00	3.61 <sup>C</sup>	685349 KF8
2044	770,000	5.00	3.66 <sup>C</sup>	685349 KG6

**\$4,380,000 4.00% Term Bonds Due June 1, 2049 – Yield 4.13%; CUSIP 685349 KH4**

<sup>C</sup> Yield to June 1, 2034 call date at 100%.

\* CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services is managed on behalf of the American Bankers Association by FactSet Research Systems, Inc. Copyright ©2024 CUSIP Global Services. All rights reserved. OWASA, the Underwriter and the LGC (as defined herein) do not take responsibility for the accuracy of such data. Also, investors should be aware that under certain circumstances the CUSIP identification number assigned to a maturity of the 2024 Bonds may be changed to a new replacement number.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representation other than those contained in this Official Statement in connection with the offering described herein, and, if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Series 2024 Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the Series 2024 Bonds in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Official Statement nor the sale of any of the Series 2024 Bonds implies that the information herein is correct as of any date subsequent to the date thereof.

The information contained herein has been obtained from OWASA and other sources believed to be reliable. The information contained herein is subject to change after the date of this Official Statement, and this Official Statement speaks only as of its date.

References to any website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or hyperlinks contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, Rule 15c2-12 (as defined herein).

This Official Statement is deemed to be a final official statement with respect to the Series 2024 Bonds within the meaning of Rule 15c2-12, except, when it is in preliminary form, for the omission of certain pricing and other information authorized to be omitted by Rule 15c2-12.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2024 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

This Official Statement contains forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward looking statements. These forward-looking statements speak only as of the date of this Official Statement. OWASA disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the OWASA's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

This page intentionally left blank.

## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION .....	1
OWASA .....	3
THE SERIES 2024 BONDS .....	3
Authorization .....	3
General .....	3
Redemption Provisions .....	4
SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024 BONDS .....	5
General .....	5
Pledge of Net Receipts .....	5
Funds and Accounts .....	6
Application of Gross Receipts .....	7
Parity and Subordinated Indebtedness .....	8
Rate Covenant .....	9
THE 2024 PROJECTS .....	9
ESTIMATED SOURCES AND USES OF FUNDS .....	10
ANNUAL DEBT SERVICE REQUIREMENTS .....	11
HISTORICAL DEBT SERVICE COVERAGE .....	12
PROJECTED DEBT SERVICE COVERAGE .....	12
CONTINUING DISCLOSURE .....	15
LITIGATION .....	18
LEGAL MATTERS .....	18
TAX TREATMENT .....	18
General .....	18
Original Issue Discount .....	20
Original Issue Premium .....	21
LEGALITY FOR INVESTMENT .....	21
RATINGS .....	21
UNDERWRITING .....	21
FINANCIAL ADVISOR .....	22
MISCELLANEOUS .....	22
APPENDIX A    Certain Information Concerning OWASA and the Water and Sewer System	
APPENDIX B    Financial Information of OWASA	
APPENDIX C    Summary of Principal Legal Documents	
APPENDIX D    The North Carolina Local Government Commission	
APPENDIX E    Proposed Form of Opinion of Bond Counsel	
APPENDIX F    DTC’s Book-Entry-Only System	

This page intentionally left blank.

NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



*Dale R. Folwell, CPA*  
STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA

LOCAL GOVERNMENT COMMISSION  
STATE AND LOCAL GOVERNMENT FINANCE DIVISION

**Official Statement  
of the North Carolina Local Government Commission  
Concerning  
\$14,525,000  
Orange Water and Sewer Authority (North Carolina)  
Water and Sewer System Revenue Bonds  
Series 2024**

**INTRODUCTION**

The purpose of this Official Statement, which includes the appendices, is to provide certain information in connection with the issuance by Orange Water and Sewer Authority ("OWASA") of \$14,525,000 Water and Sewer System Revenue Bonds, Series 2024 (the "Series 2024 Bonds").

The Series 2024 Bonds are being issued pursuant to an Amended and Restated Bond Order adopted by OWASA on September 13, 2001, as amended by a supplemental order adopted by OWASA on October 28, 2010 (collectively, the "Bond Order"), and a Series Resolution adopted by OWASA on May 9, 2024 (the "2024 Series Resolution").

Pursuant to the Bond Order, OWASA has heretofore issued (a) \$15,695,000 Water and Sewer System Revenue Refunding Bonds, Series 2014 (the "Series 2014 Bonds"), \$9,705,000 of which are currently outstanding, (b) \$18,075,000 Water and Sewer System Revenue Refunding Bonds, Series 2018 (the "Series 2018 Bonds"), \$13,485,000 of which are currently outstanding, (c) \$16,640,000 Water and Sewer System Revenue Bonds, Series 2019 (the "Series 2019 Bonds"), \$15,410,000 of which are currently outstanding, (d) \$9,500,000 Water and Sewer System Revenue Refunding Bonds, Series 2020 (the "Series 2020 Bonds"), \$3,325,000 of which are currently outstanding and (e) \$18,840,000 Water and Sewer System Revenue Bonds, Series 2021 (the "Series 2021 Bonds"), \$17,835,000 of which are currently outstanding.

OWASA has also entered into ten loans from the North Carolina Department of Environmental Quality (the "State Clean Water Loans"), \$16,671,578 principal amount of which was outstanding as of June 30, 2023, to fund various improvements to the Water and Sewer System. OWASA is authorized to draw additional funds under such State Clean Water Loans in an aggregate principal amount not to exceed \$10,665,117. All of the State Clean Water Loans constitute Subordinated Indebtedness under the Bond Order.

This introduction provides certain limited information to serve as a guide to the Official Statement and is expressly qualified by the Official Statement as a whole. Investors should make a full review of the entire Official Statement and the documents summarized or described herein.

Capitalized terms used herein and not otherwise defined have the meanings given such terms in the Bond Order and the 2024 Series Resolution. For the definitions of certain terms used herein and a summary of certain provisions of the Bond Order and the 2024 Series Resolution, see “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” in Appendix C hereto.

Authorization. The Series 2024 Bonds are being issued pursuant to the North Carolina Water and Sewer Authorities Act, Article 1 of Chapter 162A of the General Statutes of North Carolina and The State and Local Government Revenue Bond Act, Article 5 of Chapter 159, as amended, of the General Statutes of North Carolina (collectively, the “Act”), the Bond Order and the 2024 Series Resolution.

Security. The Series 2024 Bonds will be special obligations of OWASA, secured by and payable from the Net Receipts of the Water and Sewer System and, under certain circumstances, the proceeds of the Series 2024 Bonds and certain other proceeds. The Series 2024 Bonds will be additionally secured by certain funds and accounts held by The Bank of New York Mellon Trust Company, N.A., as successor trustee (the “Trustee”), under the Bond Order and the 2024 Series Resolution.

The Bond Order and the 2024 Series Resolution provide that the Series 2024 Bonds will be secured by a pledge, charge and lien upon the Net Receipts on a parity with any Parity Indebtedness heretofore or hereafter incurred by OWASA and secured by the Bond Order, including the Series 2014 Bonds, the Series 2018 Bonds, the Series 2019 Bonds, the Series 2020 Bonds and the Series 2021 Bonds that are Outstanding under the Bond Order.

See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024 BONDS” herein.

Purpose. The Series 2024 Bonds are being issued for the purpose of providing funds, together with any other available funds, to pay or reimburse the costs of the various improvements to the Water and Sewer System as more particularly described under “THE 2024 PROJECTS” herein (the “2024 Projects”) and (2) pay the fees and expenses incurred in connection with the sale and issuance of the Series 2024 Bonds. The 2024 Projects constitute an “Additional Project” within the meaning of the Bond Order.

Details of Bonds. The Series 2024 Bonds will be dated as of the date of delivery thereof. Interest on the Series 2024 Bonds will be payable on June 1 and December 1 of each year, beginning December 1, 2024, at the rates shown on the inside front cover hereof. Principal of the Series 2024 Bonds will be payable, subject to prior redemption as described herein, on June 1 in the years and amounts shown on the inside front cover hereof.

The Series 2024 Bonds will be issued as fully registered bonds in book-entry-only form, without physical delivery of bond certificates to the beneficial owners of the Series 2024 Bonds. The Bond Registrar will make payment of principal of and interest on the Series 2024 Bonds to The Depository Trust Company (“DTC”), which will in turn remit such payment to its participants for subsequent distribution to the beneficial owners of the Series 2024 Bonds. Individual purchases of the Series 2024 Bonds by the beneficial owners will be made in denominations of \$5,000 or whole multiples thereof. See Appendix F hereto for further information regarding DTC and the book-entry-only system for the Series 2024 Bonds.



OWASA and the Water and Sewer System. For certain information regarding OWASA and the Water and Sewer System, see “OWASA” herein and Appendix A hereto. Audited financial statements of OWASA and notes related thereto for the Fiscal Year ended June 30, 2023 are included in Appendix B hereto.

Tax Status. See “TAX TREATMENT” herein.

Professionals. Wells Fargo Bank, National Association, Charlotte, North Carolina (the “Underwriter”), is underwriting the Series 2024 Bonds. Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, is serving as Bond Counsel. Epting & Hackney, Chapel Hill, North Carolina, is serving as counsel to OWASA. Womble Bond Dickinson (US) LLP, Raleigh, North Carolina, is serving as counsel to the Underwriter. The Bank of New York Mellon Trust Company, N.A., Jacksonville, Florida, is serving as the Trustee and Bond Registrar. First Tryon Advisors, Charlotte, North Carolina, is serving as financial advisor to OWASA in connection with the sale and issuance of the Series 2024 Bonds.

## **OWASA**

OWASA is a public body and body politic and corporate of the State of North Carolina and is organized under the North Carolina Water and Sewer Authorities Act, Article 1 of Chapter 162A of the General Statutes of North Carolina, as amended. OWASA was created in 1975 by the governing bodies of Orange County, the Town of Chapel Hill and the Town of Carrboro for the purpose of acquiring, consolidating, improving and operating the water and sanitary sewer systems in southern Orange County. These systems were previously owned and operated by The University of North Carolina at Chapel Hill, the Town of Chapel Hill and the Town of Carrboro.

## **THE SERIES 2024 BONDS**

### **Authorization**

The Series 2024 Bonds will be issued pursuant to the Act, the Bond Order and the 2024 Series Resolution. The issuance of the Series 2024 Bonds is expected to receive the required approval of the North Carolina Local Government Commission (the “LGC”) on June 4, 2024. The LGC is a division of the State Treasurer’s office charged with general oversight of local government finance in North Carolina. Its approval is required for all local government bond issues and substantially all other local government financing arrangements in North Carolina. In determining whether to allow bonds to be issued under the Act, the LGC has been given wide statutory discretion to consider the need for and feasibility of the projects to be financed, the local government’s capability to repay the amount financed from the pledged revenue sources and the local government’s general compliance with State budget and finance laws. Under the Act, the LGC is also responsible, with the issuing unit’s approval, for selling bonds issued pursuant to the Act. See Appendix D hereto for additional information on the LGC and its powers and duties.

### **General**

The Series 2024 Bonds will be dated the date of delivery thereof, will bear interest (computed on the basis of a 360-day year consisting of twelve 30-day months) from their date payable on June 1 and December 1 of each year, beginning December 1, 2024, at the rates shown on the inside front cover hereof and will mature, subject to prior redemption as described below, on June 1 in the years and amounts shown on the inside front cover hereof. The Series 2024 Bonds will be issued as fully registered

bonds and will be subject to the provisions of the book-entry-only system described below. Individual purchases of the Series 2024 Bonds by the beneficial owners will be made in denominations of \$5,000 or whole multiples thereof.

The Series 2024 Bonds will be issued as fully registered bonds in book-entry-only form without physical delivery of bonds to the beneficial owners of the Series 2024 Bonds. The Bond Registrar will make payments of principal of and interest on the Series 2024 Bonds to DTC, which will in turn remit such payments to DTC participants for subsequent distribution to the beneficial owners of the Series 2024 Bonds. See Appendix F hereto for more information regarding DTC and the book-entry-only system for the Series 2024 Bonds.

## **Redemption Provisions**

Optional Redemption. The Series 2024 Bonds maturing on or after June 1, 2035 are subject to redemption, at the option of OWASA, either in whole or in part on any date on or after June 1, 2034, at a Redemption Price equal to 100% of the principal amount of the Series 2024 Bonds to be redeemed, plus accrued interest thereon to the redemption date.

Mandatory Sinking Fund Redemption. The Series 2024 Bonds maturing on June 1, 2049 are subject to mandatory redemption prior to maturity, in part, on each June 1 in the following years and amounts at a Redemption Price equal to 100% of the principal amount of such Series 2024 Bonds to be redeemed, plus accrued interest to the redemption date:

<u>Year</u>	<u>Amount</u>
2045	\$810,000
2046	840,000
2047	875,000
2048	910,000
2049*	945,000

\* Maturity

General Redemption Provisions. At least 30 days, but not more than 60 days, prior to the redemption date for Series 2024 Bonds, whether such redemption be in whole or in part, the Bond Registrar will cause a notice of redemption to be mailed first-class, postage prepaid, to all Owners of Series 2024 Bonds to be redeemed in whole or in part; provided, however, that notices to DTC shall be sent by Electronic Means if so required or requested by DTC and provided further that failure to give any such notice to any Owner or any defect in such notice will not affect the validity of the proceedings for such redemption as to the Series 2024 Bonds of any other Owner to whom such notice has been properly given. Not less than thirty (30) days prior to the date of redemption, the Bond Registrar will also give such notice of redemption to (a) the MSRB through its Electronic Municipal Market Access (EMMA) system and (b) the North Carolina Local Government Commission by first class mail, postage prepaid, but failure to give such notice or any defect therein shall not affect the validity of any proceedings for the redemption of any Series 2024 Bonds.

If less than all of the Series 2024 Bonds are called for redemption, the Series 2024 Bonds or portions thereof to be redeemed will be selected by OWASA in its discretion. If less than all the Series 2024 Bonds of any one maturity are called for redemption, the Series 2024 Bonds to be redeemed will be selected by the Bond Registrar by lot; provided, however that so long as the only Owner of the Series 2024 Bonds is DTC, such selection will be made by DTC by lot. The Series 2024 Bonds may be redeemed only in whole multiples of \$5,000, and in selecting the Series 2024 Bonds for redemption, each

\$5,000 portion of principal of the Series 2024 Bonds shall be counted as one Series 2024 Bond for such purpose. If a portion of a Series 2024 Bond is called for redemption, a new Series 2024 Bond in principal amount equal to the unredeemed portion thereof will be issued to the Owner upon surrender thereof.

Upon giving notice and depositing funds or securities with the Trustee or the Bond Registrar as provided in the Bond Order, the Series 2024 Bonds or portions thereof so called for redemption shall become due and payable on the redemption date, and interest on such Series 2024 Bonds or portions thereof shall cease to accrue from and after such date.

Any notice of optional redemption may state that the redemption to be effected is conditioned upon the receipt by the Trustee or Bond Registrar, on or prior to the redemption date, of moneys sufficient to pay the Redemption Price of and interest on the Series 2024 Bonds to be redeemed and that if such moneys are not so received such notice shall be of no force or effect and such Series 2024 Bonds shall not be required to be redeemed. In the event that such notice contains such a condition and moneys sufficient to pay the Redemption Price of and interest on such Series 2024 Bonds are not received by the Trustee or Bond Registrar on or prior to the redemption date, the redemption shall not be made and the Bond Registrar shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

## **SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024 BONDS**

### **General**

The Series 2024 Bonds will be special obligations of OWASA, secured by and payable from the Net Receipts of the Water and Sewer System and, under certain circumstances, the proceeds of the Series 2024 Bonds and certain other proceeds. The Series 2024 Bonds will be additionally secured by certain funds and accounts held by the Trustee under the Bond Order and the 2024 Series Resolution. **Neither the faith and credit nor the taxing power of the State of North Carolina or any other political subdivision thereof, including OWASA, is pledged for the payment of principal of, premium, if any, or interest on the Series 2024 Bonds, and no Owner of the Series 2024 Bonds has the right to compel the exercise of the taxing power by the State of North Carolina or any of its political subdivisions, including OWASA, or the forfeiture of any of their respective properties in connection with any default on the Series 2024 Bonds except as provided in the Bond Order and the 2024 Series Resolution. OWASA has no taxing power.**

OWASA may sell or dispose of and encumber certain components of the Water and Sewer System upon compliance with the provisions set forth in the Bond Order. See “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Covenants Against Sale and Exceptions Thereto” in Appendix C hereto.

### **Pledge of Net Receipts**

The Net Receipts of the Water and Sewer System are pledged to the payment of, and as security for, the Series 2024 Bonds and any other Indebtedness secured by the Bond Order, including the Series 2014 Bonds, the Series 2018 Bonds, the Series 2019 Bonds, the Series 2020 Bonds, the Series 2021 Bonds and any other Bonds that are hereafter issued and are Outstanding under the Bond Order (see “Parity and Subordinated Indebtedness” below). Net Receipts for any particular period means the excess, if any, of Gross Receipts after the payment of Current Expenses for such period. However, any funds transferred from the Revenue Account to the General Fund or any other fund or account designated by OWASA as permitted by the Bond Order, other than transfers made to any account or subaccount of the

Bond Fund or any other fund or account securing or providing for the payment of Parity Debt, will no longer be subject to the pledge, charge and lien upon the Net Receipts created by the Bond Order. See “-Application of Gross Receipts” below.

Gross Receipts generally include substantially all receipts, revenues, income, proceeds and money received in any period by or for OWASA in respect of the Water and Sewer System, and all rights to receive the same, whether in the form of accounts receivable, contract rights or other rights, and the proceeds of such rights whether now owned or held or hereafter coming into existence. Current Expenses generally include OWASA’s current expenses for the operation, maintenance and repair of the Water and Sewer System as determined in accordance with generally accepted accounting principles, except that Current Expenses do not include reserves for extraordinary replacements and repairs, allowances for depreciation or amortization of financing expenses, deposits to any fund, account or subaccount created by the Bond Order or any Series Resolution or debt service payments in respect of Parity Debt or Subordinated Indebtedness. See Appendix C hereto for complete definitions of Gross Receipts and Current Expenses.

### **Funds and Accounts**

The Bond Order creates the following funds and accounts:

Revenue Account. The Revenue Account is administered by OWASA and is not a Trustee-held fund. OWASA deposits all Gross Receipts as received in the Revenue Account. However, upon the occurrence of an Event of Default under the Bond Order, the Trustee may, and upon the written request of the Owners and Holders of a majority in aggregate principal amount of Parity Indebtedness then Outstanding shall, (a) require OWASA to endorse all checks and other negotiable instruments representing Gross Receipts to the order of the Trustee immediately upon receipt thereof and deliver such endorsed instruments daily to the Trustee, (b) notify any or all account debtors of OWASA to pay any amounts representing Gross Receipts, when due and owing, directly to the Trustee and (c) require OWASA to deliver to the Trustee all money and Investment Obligations held by OWASA or any Depositary in the Revenue Account.

Bond Fund. The Bond Fund is held by the Trustee and is composed of six separate accounts known as the Capitalized Interest Account, the Interest Account, the Principal Account, the Sinking Fund Account, the Redemption Account and the Parity Reserve Account. Each Series Resolution authorizing a Series of Bonds will provide for the creation, to the extent applicable, of separate subaccounts within the Capitalized Interest Account, the Interest Account, the Principal Account, the Sinking Fund Account and the Redemption Account relating to the Series of Bonds authorized by such Series Resolution. Moneys held in such subaccounts are pledged to the payment of the principal of (whether at maturity or pursuant to mandatory sinking fund redemption) and interest on the Series of Bonds for which such subaccounts are established and do not secure other Series of Bonds or other Parity Debt.

Each Parity Resolution providing for the incurrence of Parity Indebtedness may provide that the Parity Indebtedness authorized thereby will be secured by the Parity Reserve Account. If any Parity Indebtedness is secured by the Parity Reserve Account, OWASA must fund the Parity Reserve Account in an amount equal to the Parity Reserve Account Requirement at the time of delivery and payment for such Parity Indebtedness. If the Parity Resolution authorizing Parity Indebtedness does not provide that such Parity Indebtedness will be secured by the Parity Reserve Account, such Parity Indebtedness will have no claim on the Parity Reserve Account.

Moneys on deposit in the Parity Reserve Account (or provided under a Reserve Alternative Instrument) will be used as necessary to pay the principal of and interest on all Parity Indebtedness

secured by the Parity Reserve Account to the extent that moneys on deposit for such payment are insufficient therefor. OWASA does not have any Parity Indebtedness currently secured by the Parity Reserve Account, and no funds are currently on deposit in the Parity Reserve Account. **The Series 2024 Bonds will not be secured by the Parity Reserve Account.**

Special Reserve Account. A Parity Resolution authorizing Parity Indebtedness may also provide for the creation of a Special Reserve Account to be maintained by the Trustee or a Depositary that will secure only the Parity Indebtedness authorized by such Parity Resolution. OWASA does not have any Parity Indebtedness currently secured by a Special Reserve Account, and no funds are currently on deposit in any Special Reserve Account. **The Series 2024 Bonds will not be secured by a Special Reserve Account.**

Series 2024 Additional Project Account. The proceeds of the Series 2024 Bonds to be used to pay the costs of the 2024 Projects and the fees and expenses incurred in connection with the sale and issuance of the Series 2024 Bonds will be deposited in the Series 2024 Additional Project Account created under the 2024 Series Resolution (the “Series 2024 Additional Project Account”) and held by the Trustee. Amounts deposited in the Series 2024 Additional Project Account, including any investment earnings thereon, will be used to pay the costs of the 2024 Projects and the fees and expenses incurred in connection with the sale and issuance of the Series 2024 Bonds. Amounts on deposit in the Series 2024 Additional Project Account are, to the extent permitted by law, subject to a lien and charge in favor of the Owners of the Series 2024 Bonds pending the application of such amounts to pay such costs.

Insurance and Condemnation Award Account. The Insurance and Condemnation Award Account is held by the Trustee. Under certain circumstances described in the Bond Order, Net Insurance Proceeds and Net Eminent Domain Proceeds are required to be deposited by OWASA in the Insurance and Condemnation Award Account. Moneys held in the Insurance and Condemnation Award Account will be disbursed to repair or replace the Water and Sewer System or to pay or redeem Bonds and Parity Debt in the manner set forth in the Bond Order. See “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Insurance and Condemnation Award Account” in Appendix C hereto.

General Fund. The General Fund is administered by OWASA and is not a Trustee-held fund. Moneys held for the credit of the General Fund may be used for any lawful purpose of OWASA.

### **Application of Gross Receipts**

OWASA will pay Current Expenses from Gross Receipts deposited in the Revenue Account, and Current Expenses will be a first charge against the Revenue Account; provided, however, that OWASA may pay Current Expenses from any other legally available sources. Current Expenses will be paid as they become due and payable in conformity with OWASA’s applicable budgetary and payment procedures. At such time or times as are specifically provided for in any Parity Resolution or Subordinated Indebtedness Resolution, OWASA will use amounts on deposit in the Revenue Account to make the required deposits under the Bond Order and any Series Resolution or Parity Debt Resolution as described below.

The 2024 Series Resolution provides that, with respect to the Series 2024 Bonds, OWASA will deposit with the Trustee from moneys held in the Revenue Account the following amounts for application in the following order:

- (1) into the Series 2024 Subaccount of the Interest Account, on the Business Day immediately preceding each Interest Payment Date, an amount equal to the interest payable on the Series 2024 Bonds on such Interest Payment Date;

(2) into the Series 2024 Subaccount of the Principal Account, on the Business Day immediately preceding each June 1, beginning June 1, 2025, an amount equal to the principal of all Series 2024 Bonds that are Serial Bonds due on such June 1; and

(3) into the Series 2024 Subaccount of the Sinking Fund Account, on the Business Day immediately preceding each June 1, beginning June 1, 2045, the amount required to retire the Series 2024 Bonds that are Term Bonds to be called by mandatory redemption or to be paid at maturity on such June 1 in accordance with the Sinking Fund Requirement therefor.

Moneys on deposit in the subaccounts and account mentioned above will be used to pay the scheduled payments of principal of (including mandatory sinking fund redemptions) and interest on the Series 2024 Bonds.

The deposits required by the 2024 Series Resolution mentioned above are subject to the provisions of the Bond Order governing the withdrawal and transfer of funds from the Revenue Account as described under “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Use of Money for Debt Service Accounts; Other Deposits” in Appendix C hereto.

Except during the continuation of an Event of Default, OWASA may, in its discretion, after making the deposits required by the Bond Order, transfer in each month any balance remaining in the Revenue Account, in whole or in part, to the General Fund or any other fund or account designated by OWASA, provided that (i) an Authorized Officer first certify to the Trustee that the transfer of such amount will not have a materially adverse effect on OWASA’s ability over the following twelve calendar months to pay the Current Expenses, to make the deposits required under the Bond Order and to meet all other financial obligations imposed by the Bond Order or any Parity Resolution and (ii) the total amount transferred in any month does not exceed one-twelfth of the total amount budgeted to be transferred from the Revenue Account in such Fiscal Year as shown in the Annual Budget multiplied by the number of full months elapsed in such Fiscal Year less any amounts previously transferred from the Revenue Account in such Fiscal Year.

Except during the continuation of an Event of Default, OWASA may, in its discretion, transfer within the thirty (30) days following June 30 of each Fiscal Year any balance remaining in the Revenue Account on such date, in whole or in part, to the General Fund or any other fund or account designated by OWASA, provided that an Authorized Officer first certify to the Trustee in an Officer’s Certificate that the transfer of such amount will not have a material adverse effect on OWASA’s ability over the next twelve (12) calendar months to pay Current Expenses, to make all deposits required by the Bond Order and to meet all other financial obligations imposed by the Bond Order or any Parity Resolution.

### **Parity and Subordinated Indebtedness**

The Series 2014 Bonds, the Series 2018 Bonds, the Series 2019 Bonds, the Series 2020 Bonds and the Series 2021 Bonds that are Outstanding under the Bond Order will be secured under the Bond Order on a parity with the Series 2024 Bonds. Under the conditions and limitations set forth in the Bond Order, and without the approval or consent of the Owners or Holders of Indebtedness, OWASA may issue, incur or assume additional Parity Indebtedness on a parity with the Series 2014 Bonds, the Series 2018 Bonds, the Series 2019 Bonds, the Series 2020 Bonds, the Series 2021 Bonds and the Series 2024 Bonds that are Outstanding under the Bond Order. See “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Limitation on Parity Indebtedness” in Appendix C hereto.

Under the conditions and limitations set forth in the Bond Order and without the approval or consent of the Owners or Holders of Indebtedness, OWASA may issue, incur or assume Subordinated

Indebtedness which will be subordinate to the payment of Parity Indebtedness. The State Clean Water Loans constitute Subordinated Indebtedness under the Bond Order. See “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Limitation on Subordinated Indebtedness” in Appendix C hereto.

### **Rate Covenant**

Under the Bond Order, OWASA has covenanted as follows:

(a) to fix and charge rates, fees, rentals and charges for the use of and for the services furnished or to be furnished by the Water and Sewer System, and from time to time and as often as it shall appear necessary, to revise such rates, fees, rentals and charges as may be necessary or appropriate, in order that for each Fiscal Year, the Income Available for Debt Service for such Fiscal Year will not be less than the greater of (i) 120% of the Long-Term Debt Service Requirement for Parity Indebtedness only for such Fiscal Year and (ii) 100% of the Long-Term Debt Service Requirement for Parity Indebtedness and Subordinated Indebtedness for such Fiscal Year; and

(b) to fix and charge rates, fees, rentals and charges for the use of, and for the services furnished or to be furnished by, the Water and Sewer System, and from time to time and as often as it shall appear necessary, to revise such rates, fees, rentals and charges as may be necessary or appropriate, in order that the Gross Receipts will be sufficient in each Fiscal Year to pay the Current Expenses and to make the cash deposits required under the Bond Order to pay, among other things, principal of and interest on the Series 2024 Bonds and any other Parity Indebtedness, and the amounts required by the related documentation to make up any deficiencies in the Parity Reserve Account or any Special Reserve Account, and to make payments of principal and interest on any Subordinated Indebtedness.

### **THE 2024 PROJECTS**

The 2024 Projects consist of various improvements to the Water and Sewer System, including, without limitation:

- Rehabilitation of certain dam infrastructure;
- Water main replacements;
- Improvement of interceptors;
- Rehabilitation of pump stations, including electrical and site improvements;
- Fermenter mixer improvements;
- Clearwell improvements;
- Walkway replacement and paving improvements;
- Gravity sewer rehabilitation; and
- Improvements to and rehabilitation of wastewater treatment plant facilities and equipment.

The total cost of the 2024 Projects is approximately \$15,244,850, all of which are expected to be paid or reimbursed from proceeds of the Series 2024 Bonds. All components of the 2024 Projects are expected to be completed by December 2025.

## ESTIMATED SOURCES AND USES OF FUNDS

OWASA estimates the sources and uses for the plan of financing to be as follows:

### Sources:

Par Amount of Series 2024 Bonds	\$14,525,000
Net Original Issue Premium	<u>1,140,841</u>
Total	<u>\$15,665,841</u>

### Uses:

2024 Projects Costs	\$15,248,221
Costs of Issuance <sup>1</sup>	<u>417,620</u>
Total	<u>\$15,665,841</u>

<sup>1</sup> Includes underwriter's discount, legal fees, printing costs, rating agency fees, fees and expenses of the Trustee and the feasibility consultant and miscellaneous fees and expenses.



## ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth for each twelve-month period ending July 1, the amounts required to pay the debt service on the Series 2014 Bonds, the Series 2018 Bonds, the Series 2019 Bonds, the Series 2020 Bonds and the Series 2021 Bonds that are currently outstanding under the Bond Order (collectively for purposes of the table below, the “Prior Bonds”) and the Series 2024 Bonds:

Twelve-Month Period Ending July 1,	Prior Bonds <sup>1</sup>	<u>Series 2024 Bonds</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 7,853,138	--	--	\$ 7,853,138
2025	7,902,388	\$355,000	\$630,008	8,887,395
2026	7,920,388	325,000	661,300	8,906,688
2027	6,129,463	340,000	645,050	7,114,513
2028	6,138,088	355,000	631,450	7,124,538
2029	6,145,138	370,000	613,700	7,128,838
2030	3,548,488	390,000	595,200	4,533,688
2031	3,545,338	410,000	575,700	4,531,038
2032	2,101,938	430,000	555,200	3,087,138
2033	2,108,288	450,000	533,700	3,091,988
2034	2,107,388	475,000	511,200	3,093,588
2035	2,104,438	495,000	487,450	3,086,888
2036	2,107,138	520,000	462,700	3,089,838
2037	2,108,138	545,000	436,700	3,089,838
2038	2,105,888	575,000	409,450	3,090,338
2039	2,107,588	605,000	380,700	3,093,288
2040	2,103,138	635,000	350,450	3,088,588
2041	2,107,638	665,000	318,700	3,091,338
2042	2,110,838	700,000	285,450	3,096,288
2043	2,102,738	735,000	250,450	3,088,188
2044	2,103,588	770,000	213,700	3,087,288
2045	1,048,138	810,000	175,200	2,033,338
2046	<u>1,046,781</u>	840,000	142,800	2,029,581
2047	--	875,000	109,200	984,200
2048	--	910,000	74,200	984,200
2049	<u>--</u>	<u>945,000</u>	<u>37,800</u>	<u>982,800</u>
Total	<u>\$78,656,081</u>	<u>\$14,525,000</u>	<u>\$10,087,458</u>	<u>\$103,268,549</u>

<sup>1</sup> Includes principal and interest on the Prior Bonds. Does not include debt service on the State Clean Water Loans which constitute Subordinated Indebtedness under the Bond Order.

Note: Totals may not foot due to rounding.

## HISTORICAL DEBT SERVICE COVERAGE

The following table sets forth the historical debt service coverage on Parity Indebtedness for each of the last five fiscal years ended June 30, 2019 to 2023:

	<u>Fiscal Year Ended June 30,</u>				
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Total Revenues	\$37,843,892	\$37,763,272	\$37,377,038	\$39,178,697	\$44,522,433
Total Current Expenses	22,339,711	23,208,744	21,858,958	22,281,269	25,657,521
Income Available for Debt Service	15,504,181	14,544,528	15,518,080	16,897,428	18,864,912
Long-Term Debt Service Requirement on Parity Indebtedness*	7,229,279	6,351,758	6,699,307	7,363,089	7,897,924
Debt Service Coverage	2.1	2.3	2.3	2.3	2.4

\* Totals may not match the table in OWASA's Comprehensive Annual Financial Report for such Fiscal Years due to the auditor's inclusion of July 1 principal and interest payments in the Fiscal Year in which they were paid to bondholders as opposed to the amounts shown above which include debt service payments required to be deposited with the Trustee in such Fiscal Years for payment to bondholders on July 1 of the following Fiscal Year (which is the methodology specified in the Bond Order).

## PROJECTED DEBT SERVICE COVERAGE

The following table sets forth the projected debt service coverage on Parity Indebtedness only and Parity Indebtedness and Subordinated Indebtedness combined for the five Fiscal Years ending June 30, 2024 to 2028. Certain assumptions were made in conjunction with such financial projections as described in the notes accompanying the table. Certain of these assumptions may not materialize, and unforeseen events and circumstances may occur. Therefore, there will usually be differences between the forecasted operating results and the actual operating results, which differences may be material.

The financial projections shown in the table below, together with the assumptions mentioned in the preceding paragraph, have been reviewed by Stantec Consulting Services, Inc., an independent consultant experienced in the preparation of financial projections for public entities, and were determined by such consultant to be reasonable.

[Remainder of page left blank intentionally]

Year Ended June 30,					
	2024	2025	2026	2027	2028
<b>Operating Income:</b>					
Operating Revenues: Charges for Services (1)					
Water	\$ 24,437,528	\$ 28,014,932	\$ 31,084,633	\$ 34,066,592	\$ 36,543,123
Sewer	22,755,154	26,083,331	28,947,142	31,730,336	34,044,779
Service Initiation Fees	14,720	14,720	14,720	14,720	14,720
Reclaimed Water	441,300	441,300	441,300	441,300	441,300
Other	30,386	18,288	11,937	5,427	(1,246)
Subtotal: Operating Revenues	\$ 47,679,089	\$ 54,572,571	\$ 60,499,731	\$ 66,258,375	\$ 71,042,675
Operating Expenses: Before Depreciation, Amortization, and OPEB (2)					
Water Supply and Treatment	\$ (7,679,763)	\$ (7,576,111)	\$ (7,889,215)	\$ (8,215,935)	\$ (8,556,892)
Water Distribution	(3,728,703)	(3,997,898)	(4,188,965)	(4,389,612)	(4,600,335)
Sewer Treatment	(6,541,769)	(6,746,172)	(7,020,748)	(7,307,278)	(7,606,314)
Sewer Collections	(1,711,197)	(1,996,696)	(2,085,368)	(2,178,238)	(2,275,514)
General and Administrative (3)	(10,490,207)	(11,629,541)	(12,148,557)	(12,692,343)	(13,262,142)
Subtotal: Operating Expenses	\$ (30,151,639)	\$ (31,946,417)	\$ (33,332,854)	\$ (34,783,405)	\$ (36,301,197)
Operating Income: Before Depreciation, Amortization and OPEB	\$ 17,527,450	\$ 22,626,154	\$ 27,166,878	\$ 31,474,970	\$ 34,741,479
Depreciation, Amortization, and OPEB:					
Depreciation and Amortization	(12,680,883)	(13,504,550)	(15,632,230)	(17,643,264)	(18,553,475)
Other Post-Employment Benefits	-	-	-	-	-
Subtotal: Depreciation, Amortization, and OPEB	\$ (12,680,883)	\$ (13,504,550)	\$ (15,632,230)	\$ (17,643,264)	\$ (18,553,475)
<b>Operating Income:</b>	<b>\$ 4,846,567</b>	<b>\$ 9,121,604</b>	<b>\$ 11,534,648</b>	<b>\$ 13,831,706</b>	<b>\$ 16,188,004</b>
Non-Operating Revenues (Expenses):					
System Development Fees (4)	\$ 2,446,369	\$ 1,849,665	\$ 919,317	\$ 919,317	\$ 827,385
Investment Income, Net of Fair Value of Investments Adjustment (5)	757,729	934,911	1,037,971	982,522	1,006,009
Cell Phone Tower Rental	401,232	401,232	401,232	401,232	401,232
Subtotal: Non-Operating Revenues (Expenses)	\$ 3,605,330	\$ 3,185,808	\$ 2,358,520	\$ 2,303,071	\$ 2,234,626
<b>Net Income:</b>	<b>\$ 8,451,897</b>	<b>\$ 12,307,412</b>	<b>\$ 13,893,167</b>	<b>\$ 16,134,777</b>	<b>\$ 18,422,630</b>
<b>Determination of Income Available for Debt Service:</b>					
Adjustments:					
Depreciation and Amortization	\$ 12,680,883	\$ 13,504,550	\$ 15,632,230	\$ 17,643,264	\$ 18,553,475
Subtotal: Adjustments	\$ 12,680,883	\$ 13,504,550	\$ 15,632,230	\$ 17,643,264	\$ 18,553,475
<b>Income Available for Debt Service:</b>	<b>\$ 21,132,780</b>	<b>\$ 25,811,962</b>	<b>\$ 29,525,398</b>	<b>\$ 33,778,041</b>	<b>\$ 36,976,105</b>
System Development Fees (4)	\$ (2,446,369)	\$ (1,849,665)	\$ (919,317)	\$ (919,317)	\$ (827,385)
<b>Income Available for Debt Service Excl. System Development Fees:</b>	<b>\$ 18,686,411</b>	<b>\$ 23,962,297</b>	<b>\$ 28,606,081</b>	<b>\$ 32,858,724</b>	<b>\$ 36,148,720</b>

Year Ended June 30,					
	2024	2025	2026	2027	2028
<b>1 Parity Debt Service:</b>					
2 Existing Series 2014(6), Series 2018, Series 2019, Series 2020 & Series 2021	7,853,138	7,902,388	7,920,388	6,129,463	6,138,088
3 Series 2024 (7)	-	999,933	997,388	996,388	999,638
4 Proposed Series 2025 (8)	-	4,694,068	4,694,068	4,694,068	4,694,068
5 Proposed Series 2027 (9)	-	-	-	4,095,943	4,095,943
<b>6 Total Parity Debt Service</b>	<b>7,853,138</b>	<b>13,596,389</b>	<b>13,611,843</b>	<b>15,915,861</b>	<b>15,927,736</b>
<b>7 Subordinated Debt Service (10):</b>					
8 Existing Subordinated Debt Service	1,536,793	1,522,314	1,507,835	1,493,356	1,478,877
9 Proposed H-SRF-F-20-1983 (11)	249,880	255,846	253,466	251,086	248,706
10 Proposed WTP Belt Filter Press Replacement (12)	-	302,877	283,034	280,616	278,198
11 Proposed W Cameron Phase 2 (13)	-	-	255,022	249,340	246,970
<b>12 Total Subordinated Debt Service</b>	<b>1,786,672</b>	<b>2,081,037</b>	<b>2,299,357</b>	<b>2,274,398</b>	<b>2,252,751</b>
<b>13 Total Parity and Subordinated Debt Service</b>	<b>\$ 9,639,810</b>	<b>\$ 15,677,426</b>	<b>\$ 15,911,200</b>	<b>\$ 18,190,259</b>	<b>\$ 18,180,487</b>
<b>14 Income Available for Debt Service</b>	<b>\$ 21,132,780</b>	<b>\$ 25,811,962</b>	<b>\$ 29,525,398</b>	<b>\$ 33,778,041</b>	<b>\$ 36,976,105</b>
<b>15 Parity Debt Service Coverage (line 14 / line 6) (Min. Req. 1.20x) (14)</b>	<b>2.69</b>	<b>1.90</b>	<b>2.17</b>	<b>2.12</b>	<b>2.32</b>
<b>16 Parity and Subordinated Debt Service Coverage (line 14 / line 13) (Min. Req. 1.00x) (14)</b>	<b>2.19</b>	<b>1.65</b>	<b>1.86</b>	<b>1.86</b>	<b>2.03</b>

## Notes:

- Charges for Services includes charges for water, sewer and reclaimed water services. Projected growth in water and sewer equivalent residential units (ERU's) is based on historical trends and information provided by the Authority and averages 0.77% and 0.93% respectively, over the 5-year projection period. Projected FY 2024 water and sewer billed flows assumes growth of 1.46% and 0.00% over FY 2023 respectively and is based on fiscal year to date volumes thru December 2023. Beyond FY 2024 water and sewer billed flows assume annual growth of less than a 0.50%. FY 2024 rate revenues reflect the increases to ERU's, and billed flows just described herein, and a rate increase of 9.0% which went into effect on October 1, 2023. The Authority has historically adjusted rates as necessary to meet its revenue requirements as such, beyond FY 2024, rates are assumed to increase at 15.00% in FY 2025, 9.00% in FY 2026 and FY 2027 and 6.00% in FY 2028. While these future rate

increases have not yet been adopted, the increases have been communicated to the Authority Board. The Authority reviews its rates annually as part of the budget process to account for changes in revenues, as well as updated operating, and capital requirements.

2. Operating Expenses Before Depreciation Amortization and OPEB reflect projections for FY 2024. Future expense projections are based on the FY 2024 projection and FY 2025 Preliminary Budget as provided by the Authority. Starting in FY 2026, expenses are adjusted to account for assumed future inflation. Specifically, chemicals are projected to increase 4.00%, while salaries and wages are escalated at 5.00% (with notable exception of fringe benefits which escalate at 6.00%), and all other expenses are escalated by 3.00%. In total, operating expenses are projected to increase by approximately 4.75% per year over the five-year projection period.
3. General and Administrative expenses include departments such as Office of the Executive Director, Customer Service, Finance, Human Resources, Information Technology, and other general expenses associated with operating the Authority.
4. FY 2024 System Development Fee revenues reflect actual revenues as provided by Authority staff and received through January 2024. System Development Fee revenue projections reflect the expected new ERUs” for each system multiplied by the water (\$2,062 in FY 2024) and sewer (\$3,191 in FY 2024) system development fees. As a conservative measure, the analysis also includes an assumption that only 70% of new connections will be paying system development fees starting in FY 2025. This is because the Authority charges residential system development fees on the basis of detached household size, and in the last few years the average fee collected per new connection has declined approximately 30%.
5. Investment Income projections are calculated each year based upon assumed annual interest rates (4.50% in FY 2024, 3.75% in FY 2025, 3.50% in FY 2026, 3.25% in FY 2027, and 3.00% in FY 2028) and projected average fund balances.
6. The Authority has determined not to refund the 2014 Series Bonds at this time.
7. Assumes a par amount of \$14.57 million, a true interest cost (“TIC”) of 4.14%, and a 25-year term. Projected issuance of June 2024. The issuance assumes first full debt service payment of \$999,933 projected for FY 2025 as provided by First Tryon Advisors.
8. Assumes a par amount of \$73.33 million, a TIC interest rate of 4.00%, and a 25-year term. Projected issuance during FY 2025.
9. Assumes a par amount of \$63.99 million, a TIC interest rate of 4.00%, and a 25-year term. Projected issuance during FY 2027.
10. Existing debt service schedules were provided by the Authority and reflect debt service on North Carolina State Revolving Loans.
11. Assumes a par amount of \$4.21 million, a 1.13% true interest cost and 20-year term as provided by the Authority.
12. Assumes a par amount of \$4.74 million, a 1.02% true interest cost and 20-year term as provided by the Authority.
13. Assumes a par amount of \$4.90 million, a 1.16% true interest cost and 20-year term as provided by the Authority.
14. Pursuant to the Bond Order, Section 7.04, Rate Covenant, subsection (a):

“The Authority covenants to fix and charge rates, fees, rentals and charges for the use of, and for the services furnished or to be furnished by, the Water and Sewer System, and that from time to time and as often as it shall appear necessary, it shall revise such rates, fees, rentals and charges as may be

necessary or appropriate, in order that for each Fiscal Year, the Income Available for Debt Service for such Fiscal Year will be not less than the greater of (i) one hundred twenty percent (120%) of the Long-Term Debt Service Requirements for Parity Indebtedness only for such Fiscal Year and (ii) one hundred percent (100%) of the Long-Term Debt Service Requirement for Parity Indebtedness and Subordinated Indebtedness for such Fiscal Year.”

Annual rate covenants are calculated by dividing Income Available for Debt Service by the Parity Indebtedness Debt Service to meet Section 7.04(a)(i) of the Bond Order and Income Available for Debt Service is divided by the sum of all Parity Indebtedness and Subordinated Indebtedness debt service to comply with the requirements of Section 7.04(a)(ii) of the Bond Order.

## **CONTINUING DISCLOSURE**

In the 2024 Series Resolution, OWASA has undertaken, for the benefit of the beneficial owners of the Series 2024 Bonds, to provide:

(a) by not later than seven months from the end of each Fiscal Year, beginning with the Fiscal Year ending June 30, 2024, to the Municipal Securities Rulemaking Board (the “MSRB”), the audited financial statements of OWASA for such Fiscal Year, if available, prepared in accordance with Section 159-34 of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute, or, if such audited financial statements of OWASA are not available by seven months from the end of such Fiscal Year, unaudited financial statements of OWASA for such Fiscal Year to be replaced subsequently by audited financial statements of OWASA to be delivered within fifteen (15) days after such audited financial statements become available for distribution;

(b) by not later than seven months from the end of each Fiscal Year, beginning with the Fiscal Year ending June 30, 2024, to the MSRB, the financial and statistical data as of the date not earlier than the end of the preceding Fiscal Year for the type of information included under the following headings in Appendix A hereto, to the extent such items are not included in the audited financial statements referred to in (a) above:

- “Rates, Fees and Charges” (tables and other rate information therein, excluding tables showing comparative bills for surrounding municipalities and future rate increases);
- “Customer Accounts” (tables therein); and
- “Historical Operating Results” (table therein);

(c) in a timely manner, not in excess of ten business days after the occurrence of the event, to the MSRB, notice of any of the following events with respect to the Series 2024 Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on any debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on any credit enhancements reflecting financial difficulties;
- (5) substitution of any credit or liquidity providers, or their failure to perform;

- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2024 Bonds, or other material events affecting the tax status of the Series 2024 Bonds;
- (7) modification to rights of the beneficial owners of the Series 2024 Bonds, if material;
- (8) bond calls, other than bond calls relating to mandatory sinking fund redemptions, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution or sale of any property securing repayment of the Series 2024 Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of OWASA, which shall be considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for OWASA in a proceeding under Title 11 of the United States Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of OWASA, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of OWASA;
- (13) the consummation of a merger, consolidation, or acquisition involving OWASA or the sale of all or substantially all of the assets of OWASA, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) appointment of a successor or additional Trustee or the change of name of a Trustee, if material;
- (15) incurrence of a financial obligation (as defined below) of OWASA, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of OWASA, any of which affect beneficial owners of the Series 2024 Bonds, if material; and
- (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of OWASA, any of which reflect financial difficulties; and

(d) in a timely manner, to the MSRB, notice of a failure of OWASA to provide required annual financial information described in (a) or (b) above on or before the date specified.

For purposes of this undertaking, “financial obligation” means (a) a debt obligation, (b) a derivative instrument entered into in connection with, or pledged as security or a source of payment for,

an existing or planned debt obligation, or (c) a guarantee of either clause (a) or (b) above. The term “financial obligation” does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with Rule 15c2-12 issued under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”).

OWASA shall provide the documents referred to above to the MSRB in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB.

OWASA may discharge its undertaking described above by transmitting the documents referred to above to any entity and by any method authorized by the U.S. Securities Exchange Commission.

At present, Section 159-34 of the General Statutes of North Carolina requires OWASA’s financial statements to be prepared in accordance with generally accepted accounting principles and to be audited in accordance with generally accepted auditing standards.

The 2024 Series Resolution also provides that if OWASA fails to comply with the undertaking described above, the Trustee or any beneficial owner of the Series 2024 Bonds then Outstanding may take action to protect and enforce the rights of all beneficial owners with respect to such undertaking, including an action for specific performance; provided, however, that OWASA’s failure to comply with the undertaking will not constitute an event of default under the Bond Order and will not result in any acceleration of payment of the Series 2024 Bonds. All actions shall be instituted, had and maintained in the manner provided in this paragraph for the benefit of all beneficial owners of the Series 2024 Bonds.

OWASA reserves the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of OWASA, provided that any such modification will be done in a manner consistent with Rule 15c2-12, and provided further that:

(a) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of OWASA;

(b) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 as of the date of this Official Statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and

(c) any such modification does not materially impair the interests of the beneficial owners of the Series 2024 Bonds, as determined either by parties unaffiliated with OWASA (such as bond counsel or the Trustee), or by the approving vote of the Owners of not less than 51% in aggregate principal amount of the Series 2024 Bonds then Outstanding pursuant to the terms of the Bond Order, as it may be amended from time to time.

Any annual financial information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

The undertaking described above will terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal of and interest on all of the Series 2024 Bonds.

To its knowledge, OWASA has complied in all material respects with all of its previous undertakings under Rule 15c2-12 for the past five years.

## **LITIGATION**

No litigation is now pending or, to the best of OWASA's knowledge, threatened against or affecting OWASA seeking to restrain or enjoin the authorization, execution or delivery of the Series 2024 Bonds or contesting the validity or the authority or proceedings for the adoption, authorization, execution or delivery of the Series 2024 Bonds, the Bond Order or the 2024 Series Resolution or OWASA's creation, organization or corporate existence, or the title of any of OWASA's present officers to their respective offices, or OWASA's authority to carry out its obligations thereunder, or that would have a material adverse impact on OWASA's financial position.

## **LEGAL MATTERS**

Legal matters related to the authorization, execution, sale and delivery of the Series 2024 Bonds are subject to the approval of Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, Bond Counsel, whose proposed form of approving opinion is set forth in Appendix E hereto. Certain legal matters will be passed upon for OWASA by Epting & Hackney, Chapel Hill, North Carolina, counsel to OWASA, and for the Underwriter by Womble Bond Dickinson (US) LLP, Raleigh, North Carolina, counsel to the Underwriter.

## **TAX TREATMENT**

### **General**

On the date of issuance of the Series 2024 Bonds, Parker Poe Adams & Bernstein LLP ("Bond Counsel") will render an opinion that, under existing law, (1) assuming compliance by OWASA with certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Series 2024 Bonds (a) is excludable from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal individual alternative minimum tax, however, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations (as defined in Section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations and (2) interest on the Series 2024 Bonds is exempt from State of North Carolina income taxation.

The Code imposes various restrictions, conditions and requirements relating to the exclusion of interest on obligations, such as the Series 2024 Bonds, from gross income for federal income tax purposes, including, but not limited to, the requirement that OWASA rebate certain excess earnings on proceeds and amounts treated as proceeds of the Series 2024 Bonds to the United States Treasury, restrictions on the investment of such proceeds and other amounts, and restrictions on the ownership and use of the facilities financed or refinanced with proceeds of the Series 2024 Bonds. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied by OWASA subsequent to issuance of the Series 2024 Bonds to maintain the excludability of the interest on the Series 2024 Bonds from gross income for federal income tax purposes. Bond Counsel's opinion is given in reliance on certifications by representatives of OWASA as to certain facts material to the opinion and the requirements of the Code.

OWASA has covenanted to comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2024 Bonds in order that the interest on the Series 2024 Bonds be, or continue to be, excludable from gross income for federal income tax purposes. The opinion of Bond Counsel assumes compliance by OWASA such covenants, and Bond Counsel has not been retained



to monitor compliance by OWASA with such covenants subsequent to the date of issuance of the Series 2024 Bonds. Failure to comply with certain of such requirements may cause the interest on the Series 2024 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2024 Bonds. No other opinion is expressed by Bond Counsel regarding the federal tax consequences of the ownership of or the receipt, accrual or amount of interest with respect to, the Series 2024 Bonds.

If the interest on the Series 2024 Bonds subsequently becomes included in gross income for federal income tax purposes due to a failure by OWASA to comply with any requirements described above, OWASA is not required to redeem the Series 2024 Bonds or to pay any additional interest or penalty.

The Internal Revenue Service has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includible in gross income for federal income tax purposes. Bond Counsel cannot predict whether the Internal Revenue Service will commence an audit of the Series 2024 Bonds. Prospective purchasers and owners of the Series 2024 Bonds are advised that, if the Internal Revenue Service does audit the Series 2024 Bonds, under current Internal Revenue Service procedures, at least during the early stages of an audit, the Internal Revenue Service will treat OWASA as the taxpayer, and the owners of the Series 2024 Bonds may have limited rights, if any, to participate in such audit. The commencement of an audit could adversely affect the market value and liquidity of the Series 2024 Bonds until the audit is concluded, regardless of the ultimate outcome.

Prospective purchasers of the Series 2024 Bonds should be aware that ownership of the Series 2024 Bonds and the accrual or receipt of interest on the Series 2024 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property or casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain Subchapter S Corporations with “excess net passive income,” foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Series 2024 Bonds. Bond Counsel does not express any opinion as to any such collateral tax consequences. Prospective purchasers of the Series 2024 Bonds should consult their own tax advisors as to collateral tax consequences.

Proposed legislation is considered from time to time by the United States Congress that, if enacted, would affect the tax consequences of owning the Series 2024 Bonds. No assurance can be given that any future legislation, or clarifications or amendments to the Code, if enacted into law, will not contain provisions which could cause the interest on the Series 2024 Bonds to be subject directly or indirectly to federal, state or local income taxation, adversely affect the market price or marketability of the Series 2024 Bonds or otherwise prevent the owners of the Series 2024 Bonds from realizing the full current benefit of the status of the interest on the Series 2024 Bonds.

Bond Counsel’s opinion is based on existing law, which is subject to change. Such opinion is further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinion is not a guarantee of a particular result, and is not binding on the Internal Revenue Service or the courts; rather, such opinion represents Bond Counsel’s professional judgment based on its review of existing law, and in reliance on the representations and covenants that Bond Counsel deems relevant to such opinion. Bond Counsel’s opinion expresses the professional judgment of the attorneys rendering the opinion regarding the legal issues expressly addressed therein. By rendering its opinion, Bond Counsel does not become an insurer or guarantor of the result indicated by that expression of professional judgment, of the transaction on which the opinion is

rendered, or of the future performance of OWASA, nor does the rendering of such opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

### **Original Issue Discount**

As indicated on the inside cover page, the Series 2024 Bonds maturing on June 1, 2049 (the “OID Bonds”), are being sold at initial offering prices which are less than the principal amount payable at maturity. Under the Code, the difference between (a) the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of each maturity of the OID Bonds is sold and (b) the principal amount payable at maturity of such OID Bonds, constitutes original issue discount treated as interest which will be excluded from the gross income of the owners of such OID Bonds for federal income tax purposes.

In the case of an owner of an OID Bond, the amount of original issue discount on such OID Bond is treated as having accrued daily over the term of such OID Bond on the basis of a constant yield compounded at the end of each accrual period and is added to the owner’s cost basis of such OID Bond in determining, for federal income tax purposes, the gain or loss upon the sale, redemption or other disposition of such OID Bond (including its sale, redemption or payment at maturity). Amounts received upon the sale, redemption or other disposition of an OID Bond which are attributable to accrued original issue discount on such OID Bonds will be treated as interest exempt from gross income, rather than as a taxable gain, for federal income tax purposes, and will not be a specific item of tax preference for purposes of the federal individual alternative minimum tax. However, it should be noted that the original issue discount that accrues to an owner of an OID Bond may result in other collateral federal income tax consequences for certain taxpayers in the year of accrual.

Original issue discount is treated as compounding semiannually (which yield is based on the initial public offering price of such OID Bond) at a rate determined by reference to the yield to maturity of each individual OID Bond. The amount treated as original issue discount on an OID Bond for a particular semiannual accrual period is equal to (a) the product of (i) the yield to maturity for such OID Bond (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such OID Bond at the beginning of the particular accrual period if held by the original purchaser, less (b) the amount of interest payable on such OID Bond during the particular accrual period. The tax basis is determined by adding to the initial public offering price on such OID Bond the sum of the amounts which have been treated as original issue discount for such purposes during all prior accrual periods. If an OID Bond is sold between semiannual compounding dates, original issue discount which would have accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

The Code contains additional provisions relating to the accrual of original issue discount in the case of owners of the OID Bonds who subsequently purchase any OID Bonds after the initial offering or at a price different from the initial offering price during the initial offering of the Series 2024 Bonds. Owners of OID Bonds should consult their own tax advisors with respect to the precise determination for federal and state income tax purposes of the amount of original issue discount accrued upon the sale, redemption or other disposition of an OID Bond as of any date and with respect to other federal, state and local tax consequences of owning and disposing of an OID Bond. It is possible that under the applicable provisions governing the determination of state or local taxes, accrued original issue discount on an OID Bond may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment attributable to such original issue discount until a later year.

## **Original Issue Premium**

As indicated on the inside cover page, the Series 2024 Bonds maturing on June 1, 2025 to 2044, inclusive (the “Premium Bonds”), are being sold at initial offering prices which are in excess of the principal amount payable at maturity. The difference between (a) the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of the Premium Bonds is sold and (b) the principal amount payable at maturity of such Premium Bonds constitutes original issue premium, which original issue premium is not deductible for federal income tax purposes. In the case of an owner of a Premium Bond, however, the amount of the original issue premium which is treated as having accrued over the term of such Premium Bond is reduced from the owner’s cost basis of such Premium Bond in determining, for federal income tax purposes, the taxable gain or loss upon the sale, redemption or other disposition of such Premium Bond (whether upon its sale, redemption or payment at maturity). Owners of Premium Bonds should consult their tax advisors with respect to the determination, for federal income tax purposes, of the “adjusted basis” of such Premium Bonds upon any sale or disposition and with respect to any state or local tax consequences of owning a Premium Bond.

## **LEGALITY FOR INVESTMENT**

Section 159-140 of the General Statutes of North Carolina provides that the Series 2024 Bonds are securities in which all public officers and public bodies of the State of North Carolina and its political subdivisions and agencies and all insurance companies, trust companies, investment companies, banks, savings banks, building and loan associations, savings and loan associations, credit unions, pension or retirement funds, other financial institutions engaged in business in the State of North Carolina, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them, and the Series 2024 Bonds are securities which may properly and legally be deposited with and received by any State of North Carolina or municipal officer or any agency or political subdivision of the State for any purpose for which the deposit of bonds, notes or obligations of the State is now or may hereafter be authorized by law.

## **RATINGS**

Moody’s Investors Service, Inc. (“Moody’s”), S&P Global Ratings (“S&P”) and Fitch Ratings (“Fitch”) have given the Series 2024 Bonds the ratings of “Aa1,” “AAA” and “AA+,” respectively. Further explanation of the significance of such ratings may be obtained from Moody’s, S&P and Fitch. OWASA has provided to Moody’s, S&P and Fitch certain information that has not been included in this Official Statement. The ratings are not a recommendation to buy, sell or hold the Series 2024 Bonds and should be evaluated independently. There is no assurance that such ratings will not be withdrawn or revised downward by Moody’s, S&P or Fitch. Such action may have an adverse effect on the market price of the Series 2024 Bonds. Neither OWASA nor the Underwriter has undertaken any responsibility after the issuance of the Series 2024 Bonds to assure maintenance of the ratings or to oppose any such revision or withdrawal.

## **UNDERWRITING**

The Underwriter has entered into a Bond Purchase Agreement to purchase all of the Series 2024 Bonds, if any of the Series 2024 Bonds are to be purchased, at a purchase price equal to 100% of the principal amount thereof, plus a net original issue premium of \$1,140,840.75 and less an underwriter’s

discount of \$112,619.61. The obligation of the Underwriter to pay for the Series 2024 Bonds is subject to certain terms and conditions set forth in the Bond Purchase Agreement.

The Underwriter may offer and sell the Series 2024 Bonds to certain dealers (including dealers depositing the Series 2024 Bonds into investment trusts) and others at prices lower or yields higher than the initial public offering yields stated on the inside front cover hereof. The public offering prices or yields may be changed from time to time by the Underwriter.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association ("WFBNA"), which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of WFBNA, registered with the SEC as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934. WFBNA, acting through its Municipal Products Group, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Series 2024 Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 2024 Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Series 2024 Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

## **FINANCIAL ADVISOR**

First Tryon Advisors has served as financial advisor (the "Financial Advisor") to OWASA in connection with the sale of the Series 2024 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2024 Bonds is contingent on the issuance of the Series 2024 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement and the appendices hereto.

## **MISCELLANEOUS**

Members of the LGC staff have participated in the preparation of this Official Statement and other documents related to the issuance of the Series 2024 Bonds, but the LGC and its staff assume no responsibility for the accuracy or completeness of any representation or statement in this Official Statement other than those made in Appendix D hereto.

The summaries of the provisions of the Series 2024 Bonds, the Bond Order and the 2024 Series Resolution contained in this Official Statement, including Appendix C hereto, do not purport to be complete and are made subject to the detailed provisions thereof to which reference is hereby made.

The LGC and OWASA have each duly authorized the delivery of this Official Statement.

**APPENDIX A**

**CERTAIN INFORMATION CONCERNING  
OWASA AND THE WATER AND SEWER SYSTEM**

This page intentionally left blank.

**CERTAIN INFORMATION CONCERNING  
OWASA AND THE WATER AND SEWER SYSTEM**

**Organization and Management**

Organization. The Orange Water and Sewer Authority (“OWASA”) is a public body and body politic and corporate of the State of North Carolina (the “State”) organized under the North Carolina Water and Sewer Authorities Act, Article 1 of Chapter 162A of the General Statutes of North Carolina, as amended (the “Act”). OWASA was created in 1975 by the governing bodies of Orange County, the Town of Chapel Hill and the Town of Carrboro for the purpose of acquiring, consolidating, improving and operating the water and sanitary sewer systems in southern Orange County. These systems were previously owned and operated by The University of North Carolina at Chapel Hill (“UNC-CH”), the Town of Chapel Hill and the Town of Carrboro.

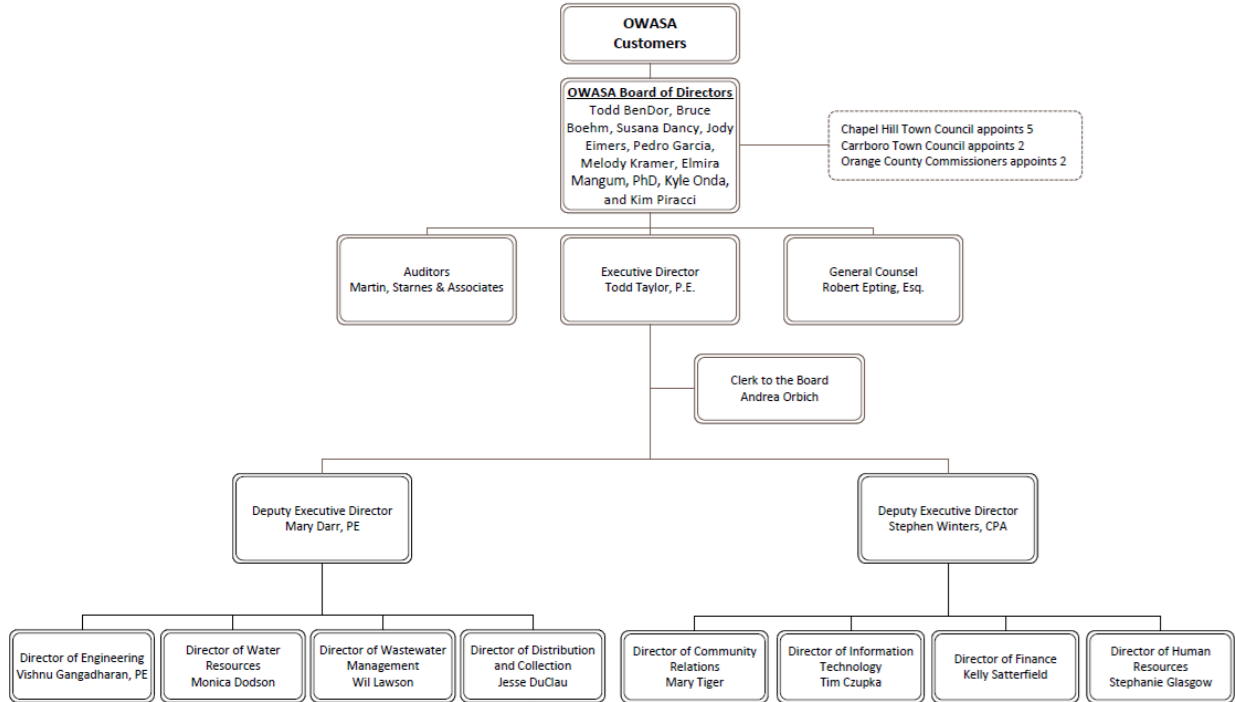
Under the Act, OWASA is authorized, among other things, to: (a) acquire, lease, construct, reconstruct, improve, extend, enlarge, equip, repair, maintain and operate water and sewer systems located partly within and without Orange County; (b) issue revenue bonds and revenue bond anticipation notes of OWASA to pay the cost of such acquisition, construction, reconstruction, improvement, extension, enlargement or equipment; and (c) fix, revise, charge and collect rates, fees and charges for the use of and for the services and facilities furnished by any water and sewer system operated by OWASA.

OWASA is organized into three operating divisions: Engineering and Planning, Operations, and Finance and Customer Service.

The chart below illustrates the management structure:

[Remainder of page left blank intentionally]

## ORANGE WATER AND SEWER AUTHORITY



**Board of Directors.** OWASA is administered by a nine-member Board of Directors (the “Board”). Five members of the Board are appointed by the Town Council of the Town of Chapel Hill, two members are appointed by the Board of Aldermen of the Town of Carrboro and two members are appointed by the Board of Commissioners of Orange County. The officers of the Board are elected annually by the members of the Board. Each Board member is appointed for a term of three years. The following persons are presently serving as members of the Board of OWASA:

<u>Name</u>	<u>Office</u>	<u>Appointed By</u>	<u>Term Expires</u>
Bruce Boehm	Chair	Town of Chapel Hill	6/30/2025
Melody Kramer	Vice Chair	Town of Carrboro	6/30/2024
Elmira Mangum, PhD	Secretary	Town of Carrboro	6/30/2025
Todd BenDor	Member	Town of Chapel Hill	6/30/2024
Susana Dancy	Member	Town of Chapel Hill	6/30/2026
Jody Eimers	Member	Orange County	6/30/2024
Pedro Garcia	Member	Town of Chapel Hill	6/30/2025
Kyle Onda	Member	Town of Chapel Hill	6/30/2026
Kim Piracci	Member	Orange County	6/30/2026

**Management.** OWASA’s management personnel include the following individuals:

**Todd Taylor, P.E.,** Executive Director, manages the activities of OWASA as the chief executive officer. Mr. Taylor has over 22 years of experience in the water and wastewater profession and has served as the Executive Director of OWASA since July 2020. Mr. Taylor previously served as the General Manager of Operations of OWASA. Prior to joining OWASA he worked as a consultant with Jewell Engineering in Kernersville, North Carolina, as Town Engineer and then Public Works Director with the Town of Harrisburg, North Carolina, as a Project Manager with the City of Charlotte Engineering



Department and for a general contractor. Mr. Taylor received a Master of Business Administration degree from Wake Forest University and a Bachelor of Science degree in Civil Engineering from Bluefield State College in West Virginia. He also holds multiple state certifications in operation of water and sewer systems.

**Mary Darr, P.E.**, Deputy Executive Director, is responsible for services and facilities, including the drinking water, reclaimed water and wastewater treatment plants; the water, sewer and reclaimed water pipe systems; laboratories; maintenance; and engineering. Ms. Darr has been with OWASA since 1994 and has over 29 years of experience in the water and wastewater industry. During her career at OWASA, Ms. Darr has been involved with long-range utility system planning, system development, capital improvement programming, geographic information system development, utility operations, water system optimization, emergency management planning, and asset management. Ms. Darr received her bachelor's degree in Civil Engineering and her master's degree in Environmental Engineering from the University of Michigan. She is a licensed Professional Engineer in the State of North Carolina and holds wastewater treatment and land application system operator licenses. Ms. Darr volunteers with the American Water Works Association and EPA-sponsored Partnership for Safe Water program and has presented technical papers at state and national conferences.

**Stephen Winters, CPA**, Deputy Executive Director, leads the teams responsible for community relations, finance, human resources and information technology. Mr. Winters has over 40 years of experience in management and finance. He founded and served as managing shareholder of Winters, Winters and Reeb, an accounting and consulting firm and helped start Arthur Andersen's Austin, Texas office. In 2001, he joined the American Institute of Certified Public Accountants and served as Director of Specialized Communities and Firm Practice Management where he was responsible for leading and managing a division responsible for developing and delivering specialized products and services to members. Throughout his career, Mr. Winters has been a consultant to businesses and was chief operations officer for a software development company. He received his bachelor's degree from Texas State University and is a licensed CPA in North Carolina and Texas.

**Tim Czupka, CGCIO**, Director of Information Technology, joined OWASA in April 2023. Mr. Czupka has over 25 years of experience as an information technology professional, including 10 years of experience in IT management, spanning a range of industries and technologies. Prior to joining OWASA, he was the Information Technology Operations manager for the Town of Chapel Hill where he was responsible for managing all aspects of the IT infrastructure and associated staff. Mr. Czupka's experience also includes Network Engineer at AT&T, Technical Sales and Support Rep at Bandag, Inc. and as an instructor for Microsoft and Cisco courses. Mr. Czupka received his bachelor's degree in management information systems from Iowa State University of Science and Technology and is a graduate of the National Certified Government Chief Information Officer certification program at the University of North Carolina School of Government.

**Monica Dodson**, Director of Water Resources, leads the teams responsible for water supply and protection, water treatment, and distribution storage and pump stations. She has over 20 years of progressive experience at OWASA providing leadership and support in various areas such as water supply, water treatment and distribution, wastewater collection and treatment, biosolids recycling, reclaimed water, lake recreation, and land management. Ms. Dodson is a graduate of North Carolina State University with a bachelor's degree in Environmental Technology and Management.

**Jesse DuClau**, Director of Distribution and Collection, leads the teams responsible for water and sewer maintenance and repair. Mr. DuClau earned a bachelor's degree in Civil Engineering from North Carolina State University and has over 15 years of experience in utility construction. He began his career in the construction field as a project engineer on large scale grading and utility projects where he gained

experience in project management, utilities, survey, and heavy civil construction. Mr. DuClau has a North Carolina General Contractors license and certifications in design-build construction and trenchless pipe repair.

***Vishnu Gangadharan, PE***, Director of Engineering, joined OWASA in January 2006. Mr. Gangadharan has 28 years of experience in civil and environmental engineering, including roles in local government, engineering consulting, and construction. He was named Director of Engineering and Planning in March 2021. He previously served as OWASA's Engineering Manager for Capital Projects from 2015 to March 2021, where he oversaw the completion of nearly \$89 million in capital improvements, and as OWASA's Utilities Engineer from 2006 to 2015. He received his bachelor's degree in Civil/Environmental Engineering from Duke University and is a licensed professional engineer in the State of North Carolina.

***Stephanie S. Glasgow, MESH, PHR***, Director of Human Resources and Safety, has been with OWASA since January 1990. Ms. Glasgow has over 30 years of experience as a Human Resource and Safety professional. In May 2003, she completed the Human Resource Management program at Duke University. Ms. Glasgow holds the national certification of Professional in Human Resources (PHR) along with the Manager of Environmental Safety and Health (MESH) certificate. She is an active member of the Society for Human Resource Management as well as the National Safety Council. In May 2011, Ms. Glasgow received the Safety Professional of the Year award from the North Carolina Industrial Commission. Ms. Glasgow serves as Chairperson for the Mid-State Safety Council and has served as an officer and board member of various professional organizations.

***Wil Lawson***, Director of Wastewater Management, leads the team responsible for wastewater treatment, biosolids recycling and reclaimed water services. Mr. Lawson has over 15 years of experience in wastewater treatment. He started his wastewater career in 2009 at a neighboring utility working as a Wastewater Plant Operator, which was quickly followed by promotions to Lead Wastewater Plant Operator/Backup Operator in Responsible Charge (ORC) in 2010 and Chief Wastewater Plant Operator/ORC in 2011. He holds a bachelor's degree in Earth and Environmental Sciences and a Waste Management Certificate from North Carolina A&T State University and multiple certifications including Wastewater Biological Grade 4, Land Application, Physical Chemical Grade 1, Pretreatment Grade 1, and Collection Grade 2.

***Kelly Satterfield, CPA***, Director of Finance, leads a team responsible for procurement and overall fiscal operations. Ms. Satterfield began serving the Carrboro-Chapel Hill communities at Orange Water and Sewer Authority in 2011. She has 36 years of experience in finance, which includes working in positions of increasing responsibilities in private industry including publicly traded multinational corporations. She began her career in public accounting. Ms. Satterfield received her bachelor's degree from the University of North Carolina at Greensboro and is a licensed Certified Public Accountant in North Carolina.

***Mary Tiger***, Director of Administration, rejoined OWASA in January 2024. Ms. Tiger has 19 years of progressive experience in public utilities. Prior to rejoining OWASA, Ms. Tiger served as an Assistant Director for the City of Durham's Water Management Department, where she managed the utility's customer service, finance, planning, compliance laboratories, communications, and industrial waste control divisions. Ms. Tiger's experience also includes serving as the Strategic Initiative Manager and Sustainability Manager for OWASA, and as the Chief Operating Officer for the UNC Environmental Finance Center. Ms. Tiger holds a bachelor's degree in environmental journalism from the University of North Carolina at Asheville and a master's degree in public administration from the University of North Carolina at Chapel Hill.

Employees and Employee Relations. OWASA has 146 authorized positions. In a non-unionized work environment, OWASA utilizes a performance planning and appraisal system in evaluating employee performance and awarding merit increases. This plan contributes to improved performance and employee satisfaction. The average tenure for all OWASA employees is 10.5 years. The average tenure for OWASA's senior managers is 17.0 years. OWASA offers extensive staff training and development opportunities, and employees are encouraged to attend schools, workshops and seminars in order to become more proficient in their jobs.

None of the employees of OWASA are represented by a collective bargaining agent. OWASA is not aware of any active organizing effort among its employees and is precluded by state statute from entering into collective bargaining agreements with employees.

## **Water and Sewer System**

Initial Acquisition of the Water and Sewer System. Pursuant to Chapter 723 of the North Carolina Session Laws of 1971, the water and sewer utility facilities previously owned by UNC-CH were conveyed to OWASA, and an agreement of sale and purchase between the State, on behalf of UNC-CH, and OWASA evidencing such conveyance was executed on August 9, 1976. Agreements of sale and purchase between the Towns of Chapel Hill and Carrboro, North Carolina, respectively, and OWASA evidencing the acquisition by OWASA of the respective water and sewer utility facilities of the towns were also executed in 1976. See "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" in Appendix C for additional information concerning such agreements, and a description of the terms and conditions relating to the provision of water and sewer service by OWASA, the rates, fees and charges to be charged for such service and other matters affecting the operations of the Water and Sewer System.

Water System. OWASA's existing raw water supplies include the Cane Creek Reservoir, University Lake, the Stone Quarry Reservoir and a water supply storage allocation from B. Everett Jordan Lake. The Cane Creek/University Lake/Stone Quarry Reservoir system can provide 10.5 million gallons of water per day ("MGD") while maintaining a 20% storage reserve and can reliably meet OWASA's water supply needs when streamflow and reservoir levels are significantly lower than "normal." OWASA's yield estimate includes a 20% storage reserve (700 million gallons) that is believed to provide adequate time to implement emergency supply measures during an extreme drought.

Cane Creek Reservoir ("Cane Creek"), located approximately 11 miles west of Carrboro, is OWASA's largest water supply source and is capable of storing three billion gallons of water from its 32-square mile drainage area. Cane Creek has a surface area of approximately 540 acres and is surrounded by nearly 2,900 acres of buffer lands either owned by OWASA (approximately 2,150 acres) or protected through conservation easements (approximately 700 acres).

Raw water from Cane Creek is pumped directly to the Jones Ferry Road Water Treatment Plant ("WTP") located in Carrboro via a 24-inch pipeline installed in 1991. The diameter of this pipeline increases to 30-inches at the Stone Quarry Reservoir. Water from Cane Creek can also be diverted through approximately 6.3 miles of pipe to the Stone Quarry Reservoir or to University Lake via Phils Creek.

University Lake is an impoundment built on Morgan Creek in 1932 and is located adjacent to the western corporate limits of Carrboro. This 200-acre reservoir drains a 30-square mile watershed and has a usable storage capacity of about 450 million gallons. Under the terms of the agreement executed in 1976 between the State, on behalf of UNC-CH, and OWASA, University Lake and surrounding land remains the property of UNC-CH with a lease to OWASA providing exclusive use of the reservoir and the right to regulate water levels so long as the lake is used for public water supply purposes, the facilities of OWASA are not sold or transferred to any party and the property is maintained as a protected watershed in its natural

state. The lease was renewed for 40 years in 2017. It is subject to renewal again, at the option of OWASA, for another term of 40 years in 2057. Raw water is pumped from University Lake to the Jones Ferry Road WTP by pumping through a 42-inch, 6,000-foot transmission main completed in 2000 and a 20-inch concrete main installed in 1963.

OWASA's third supply source is the Stone Quarry Reservoir, located approximately five miles west of Carrboro in the University Lake watershed and adjacent to the Cane Creek raw water transmission line. The Stone Quarry Reservoir was acquired in 1979 to supplement raw water supplies during extended droughts or other emergencies. It has a usable storage volume of approximately 200 million gallons and can be filled with excess water from Cane Creek. In 2000, OWASA purchased property adjacent to the Stone Quarry Reservoir, which is currently being leased to Martin Marietta for mining purposes pursuant to a special use permit. All quarrying operations must cease by December 31, 2030, at which time the large mining pit will be available for water supply storage. OWASA will fill the expanded quarry with water, and the resulting reservoir is expected to provide additional water storage capacity of three billion gallons, which is equal to the capacity of Cane Creek. The Stone Quarry Reservoir expansion that is planned to be completed in the early 2030s will provide between 2.1 and 2.9 MGD of additional yield (above the current 10.5 MGD). As a result of the 25% reduction in water use achieved by OWASA customers since 2002, the Cane Creek, University Lake and Quarry Reservoir supplies are now expected to meet projected customer demands through 2060 under most circumstances.

OWASA also holds a 5% water supply storage allocation from B. Everett Jordan Lake, a 14,000-acre multi-purpose impoundment in Chatham County owned and operated by the United States Army Corps of Engineers. This allocation equates to approximately 5 MGD and would be used to offset possible future water supply deficits that may exist before the expanded Stone Quarry Reservoir can be placed into use in the early 2030s. Currently, OWASA's use of this allocation is through purchases of treated water transmitted through the Durham and Cary water systems. OWASA is participating in the Western Intake Partnership, a group of area water utilities joining together to construct a raw water intake and drinking water treatment plant on the west side of Jordan Lake. OWASA plans to access its Jordan Lake allocation through this facility.

The Jones Ferry Road WTP, originally constructed in 1948, with expansions and upgrades in 1963, 1974, 1990, 1996, 2001, 2002 and 2004, provides treated water to areas served by OWASA. Water treatment processes include chemical coagulation, flocculation, sedimentation and filtration, followed by chlorination and fluoridation. Improvements completed in 2001 included rebuilding the existing eight filters and installation of an air scouring system to improve filter cleaning. Improvements in 2002 included two additional filters, a finished water pump and a modified disinfection system, bringing plant permitted capacity to 20 MGD. Laboratory facilities, a 1.5 million gallon finished water clearwell reservoir, a high lift pumping station and an alum sludge handling facility are also located at the plant site. The sludge disposal facilities were expanded in 2001 and included a new gravity thickener, additional equalization storage and an additional clarifier to meet the demands of the 20 MGD facility.

The average day potable water demand for the fiscal year ended June 30, 2023 was approximately 5.9 MGD. During this fiscal year, a peak day demand of 10.0 MGD was recorded. OWASA has implemented conservation efforts aimed at reducing both average and peak day demand.

Offsite storage of potable water is provided by five facilities with a total storage capacity of 6.5 million gallons. These facilities, combined with the onsite finished water reservoir, bring the total system storage to eight million gallons. A one million gallon elevated tank on Manning Drive is located on a site leased to OWASA by UNC-CH. OWASA also owns two storage tanks located at Nunn Mountain, a 3.0 million gallon ground level tank and a 0.5 million gallon elevated tank which provides system pressure to customers in the northeastern sector of the water system. OWASA also owns a 1.5 million gallon elevated

storage tank near Hilltop Drive which provides reinforcement for the Manning Drive tank. Together, these tanks provide service to the central campus of UNC-CH and downtown Chapel Hill. In addition, OWASA owns a 0.5 million gallon elevated tank in Carrboro and owns land for the possible addition of two elevated tanks; one in the northwestern sector and the other in the southern sector of the service area.

OWASA's water distribution system includes about 380 miles of transmission and distribution pipeline. OWASA's Water Distribution (Hydraulic) Model was updated in fiscal year 2011. This study identified areas of capacity and/or pressure concerns that need to be addressed in OWASA's water system through 2030. Study results indicated that OWASA's water distribution system has few hydraulic deficiencies and future investment requirements for hydraulic upgrades are not significant. The study also concluded that the Jones Ferry Road WTP will not need additional capacity improvements before 2030. In addition, OWASA routinely uses a Water Distribution System Prioritization Model that analyzes pipe age, criticality of customers being served, pipe material, repair history and other factors to aid in the prioritization of water pipeline replacement projects. The use of these and other infrastructure evaluation tools in combination with a proactive operation and maintenance program, sustainable investment in system rehabilitation and replacement, and the relatively young age of the distribution system have allowed OWASA to provide reliable service to its customers. OWASA's metered ratio of water sold to water treated is approximately 90%, a level considered excellent by utility standards.

In fiscal year 2019, OWASA completed implementation of an advanced metering infrastructure ("AMI") system throughout its water distribution system. The total investment in this project was approximately \$5.3 million.

Supplementary finished water connections to the water systems of the City of Durham, the Town of Hillsborough and Chatham County enable OWASA to transmit treated water between neighboring communities during periods of water supply emergency. Ten miles of pipe provide the capacity to transfer up to one MGD to or from the Town of Hillsborough. OWASA has two pump stations that can deliver approximately 7 MGD from the City of Durham to OWASA. Hillsborough and Durham also have inter-connections with other communities. A third inter-connection with the Chatham County water system allows the transfer of approximately 0.5 MGD.

Wastewater System. The wastewater collection system includes approximately 351 miles of sewer mains, 11,082 manhole access points and 21 pumping stations conveying waste from OWASA's sewer accounts to the Mason Farm Wastewater Treatment Plant ("WWTP").

The Mason Farm WWTP was originally constructed in 1948 with an initial capacity of 2.25 MGD. Treatment capacity was increased to 4.5 MGD in 1968. After acquiring the plant in 1977, OWASA expanded the plant capacity to 5.5 MGD. These improvements, completed in 1978, included the construction of an activated sludge basin for ammonia-nitrogen removal and a chlorine contact chamber for effluent disinfection. Another expansion and upgrade, completed in 1983, increased the plant capacity to 8 MGD and included two additional activated sludge basins, improved sludge handling equipment and major renovations throughout the plant. Further improvements were completed in 1990 to meet North Carolina Environmental Management Commission limits of 2 milligrams per liter ("mg/L") effluent phosphorus for discharges in the Jordan Lake watershed. Among those improvements were additional digester and sludge handling capacity, aeration basin tie-ins, and an air blower system powered by methane fuel produced in the digesters. OWASA has two off-site biosolids storage tanks: a 1.0 million gallon tank built in 1994 and a 1.5 million gallon tank completed in 2002.

In November 1999, OWASA expanded the plant capacity to 12 MGD by building new headworks facilities, an additional primary clarifier, expanded aeration equipment, electrical improvements, an

additional final clarifier, new solids handling facilities and an expanded administration building which included a new laboratory.

The WWTP was upgraded and expanded to a capacity of 14.5 MGD as part of a multi-year, \$55 million construction project completed in 2007. This project provided six new deep bed denitrification filters, an ultraviolet (UV) disinfection system, new headworks, new influent sewers and influent pump station, new secondary clarifier, and major improvements to the aeration basins. In addition, the project converted digester covers from floating to fixed, installed a new digester gas storage system, added chemical storage tanks and installed a 2,700 kW generator and new switchgear. The denitrification filters help meet new total nitrogen and total phosphorus permit limits in the Jordan Lake Nutrient Management Rules.

The average day wastewater flow for the fiscal year ended June 30, 2023, was approximately 7.5 MGD. During this same fiscal year, a maximum day flow of 24.5 MGD was recorded.

Biosolids produced at the wastewater treatment plant are recycled as a fertilizer and soil amendment by land application on local farmlands through OWASA's Agricultural Nutrients Recycling Program. OWASA uses several privately-owned sites as well as sites it owns for the application and ultimate disposal of wastewater biosolids. The land application program has met all permit standards. OWASA owns additional land for biosolids application in anticipation of future needs. OWASA also owns a biosolids dewatering facility for managing its biosolids management program. This facility provides greater operational flexibility and reliability for biosolids management, reduces the weight and volume of biosolids that must be transported, and ensures that biosolids are managed in an environmentally sound and cost-effective manner.

Water Reclamation and Reuse System. Located at OWASA's Mason Farm WWTP, the reclaimed water ("RCW") system serves certain facilities in UNC-CH's main campus area. The system includes a pump station, storage tank, chemical treatment systems, a monitoring and control system and about 25,000 feet of RCW distribution lines 6 to 24 inches in diameter. UNC-CH uses RCW as make-up water for cooling towers at chiller plants and for irrigation at certain campus sites. For the fiscal year ended June 30, 2023, UNC-CH's RCW use was 0.6 MGD. By decreasing the amount of drinking water used for non-drinking purposes, the RCW system reduces the service area's risks in future droughts and other water shortages. The system enables OWASA to defer the need for expansion of water supply and treatment capacity and also helps reduce the amount of nutrients and other pollutants released to Morgan Creek and Jordan Lake.

The RCW project is financially self-supporting. UNC-CH paid to build the system, and OWASA recovers all operating, maintenance, management and overhead costs for the RCW through rates and fees. Financial responsibilities, including rate decisions by OWASA and other technical matters, are specified in a contract between OWASA and UNC-CH. OWASA received about \$2.25 million in federal and State grants for this project. The RCW system's revenues and costs are tracked separately to ensure proper cost allocation and recovery through cost-of-service rates.

General Facilities. OWASA's approximately 20,000 square foot administrative building provides office facilities to serve OWASA's customer base. A 30,000 square-foot operations center includes fleet maintenance, warehouse, material and equipment storage and vehicle wash facilities.

Environmental and Regulatory Compliance. Since commencing operations in 1977, OWASA has maintained a strong compliance record with environmental regulations applicable to the provision of both water and sewer services. OWASA meets or surpasses all federal and State drinking water standards, and there have been no water quality standard violations at the Water Treatment Plant or Wastewater Treatment Plant since December 2010. OWASA has an ongoing professional and technical staff training and

development program and adopted a cross-connection control ordinance in 1999 and a sewer use ordinance in 1982 which was updated in 1995, 2006 and 2020. A grease control regulation was established in 2001 in order to assure continuing compliance with federal and state environmental standards.

PFAS, short for per-and poly-fluoroalkyl substances, are a group of compounds used in a variety of industrial processes and in everyday products to increase resistance to water, grease, and stains. PFAS can be found in carpet, clothing, furniture fabric, food packaging, cookware, some firefighting foams, and other materials. This family of compounds has been around for decades, accumulating in the environment, including drinking water sources.

OWASA began monitoring PFAS in drinking water in 2018 and although there is no known active PFAS-producing industry in the watersheds that feed OWASA's reservoirs, OWASA's source water does contain PFAS compounds.

OWASA uses powdered activated carbon ("PAC") in the treatment process to reduce compounds that affect the taste and odor of drinking water. The PAC also removes some PFAS compounds during treatment. OWASA's water monitoring showed that its drinking water treatment process was already reducing some PFAS compounds. To further reduce PFAS, the Jones Ferry Road WTP substituted a different PAC in the winter of 2023. While OWASA expects that the new PAC will provide further reductions, it will take installing an additional treatment process at the Jones Ferry Road WTP to meet OWASA's goals and the requirements established by the United States Environmental Protection Agency ("EPA").

OWASA is working towards pilot testing and designing a combination of treatment technologies for addition at the Jones Ferry Road WTP. OWASA expects to find a technology or combination of technologies that will reduce PFAS levels to meet its goals and EPA requirements. After pilot testing and design work, OWASA will begin construction, which is expected to be complete in three to five years, which complies with the EPA's requirements.

In late 2020, the EPA finalized the first major update to the Lead and Copper Rule in nearly 30 years to further protect public health by reducing the risk of lead entering drinking water. The Lead and Copper Rule Revisions ("LCRR") require drinking water utilities to develop inventories of all service lines (public and private) in their service area, along with a plan to replace any lead or "galvanized requiring replacement" lines. In addition, the LCRR (a) sets a lower trigger level for conducting a corrosion control program evaluation, (b) requires enhanced community sampling; (c) requires water testing for schools and childcare facilities and (d) requires increased public communication.

The drinking water leaving OWASA's Jones Ferry Road WTP contains no lead, and OWASA maintains a corrosion control program to prevent lead from entering the drinking water by way of pipes, plumbing and fixtures.

In 2022, OWASA engaged a consultant to prepare for regulatory compliance with the LCRR well in advance of the October 2024 deadline. The initial focus was to complete an inventory of the drinking water service lines in OWASA's service area. With the assistance of machine learning, OWASA is on-track to have a comprehensive inventory (with no unknown service lines) completed in the summer of 2024. In doing so, OWASA can fully prepare for replacing any service lines that are required to be replaced and target communication and outreach to those affected customers. OWASA has received a \$1 million no-interest loan from the State's Clean Water State Revolving Fund to help cover the costs of OWASA's inventory efforts, and OWASA will apply for federal/state funding to replace any service lines identified as needing to be replaced. OWASA is prepared to fully comply with the other requirements of the LCRR, as well as the as the proposed Lead and Copper Rule Improvements.

Climate Change. OWASA is susceptible to the effects of extreme weather events and natural disasters, including floods, droughts, tornadoes, winter storms and hurricanes, and has experienced severe weather events within the past several years. To help prepare for future uncertainties related to climate change, OWASA is developing a Climate Action Plan to: (a) identify the potential impacts to OWASA from climate change; (b) identify and prioritize climate change vulnerabilities and risks to operations from those impacts; (c) create a Climate Action Plan that focuses on adapting to the highest climate risks; and (d) identify next steps to implement the Climate Action Plan and provide planning level budget. Such extreme weather events and natural disasters may disrupt or otherwise adversely impact the operations of OWASA. Additionally, the impact of these extreme weather events and natural disasters, and the frequency thereof, may be amplified by a prolonged global temperature increase over the next several decades (commonly referred to as “climate change”). No assurances can be given that a future extreme weather event driven by climate change will not adversely affect OWASA.

Cybersecurity Measures. OWASA’s Information Technology Department (the “IT Department”) has the primary responsibility for cybersecurity at OWASA; however, cybersecurity is the responsibility of all employees. The IT Department follows industry best practices to protect and manage OWASA’s information. OWASA’s information technology systems are designed to reduce the risk that OWASA becomes a target of hackers, uses multi-layered, integrated security measures to mitigate risk, hires third-party experts to periodically assess OWASA’s security and business continuity practices, and hires competent employees who are active in training and development and stay abreast of industry trends and best practices.

The IT Department adheres to applicable security requirements, regulations and guidance including, but not limited to (1) the Payment Card Industry Data Security Standard; (2) the CIS Framework for Improving Critical Infrastructure Cybersecurity; and (3) the North Carolina Identity Theft Protection Act. The IT Department has implemented various policies and procedures to comply with these standards. The IT Department also follows a robust approach to server and data backups to ensure business continuity in the face of disaster recovery.

Another fundamental strategy of the IT Department to limit the impact of a cybersecurity attack is by minimizing the extent to which OWASA is seen as a potential target. This is achieved by using Software-as-a-Service (“SaaS”) where possible so that a successful attack on the OWASA network will not impact all its business operations and that a compromise of one of the SaaS components will not impact the OWASA network.

The systems used to monitor and manage OWASA’s plant operations are protected through additional security measures. These systems related to supervisory control and data acquisition (“SCADA”) have no direct connection to the internet. Each OWASA plant has its own SCADA network with various firewall and other protections. The physical plants themselves are also designed for security and resiliency.

Capital Improvements Program. Since its creation in 1977, OWASA has developed a capital improvements program as part of its budgeting process. OWASA operates from a five-year capital improvements program which is reviewed and updated each year. OWASA’s capital improvements program for fiscal years 2024 to 2028 includes consideration of future demand for water and sewer services in OWASA’s service area and identifies and describes the capital projects which are expected to be undertaken to meet those demands. This plan is important to OWASA because it:

- helps OWASA plan for the orderly replacement and repair of existing facilities;
- provides the ability to deal with a broad range of needs comprehensively and to develop a balanced long-range program for meeting OWASA’s objectives;



- helps provide enough lead time for project planning, regulatory permitting, design, land acquisition and construction to assure that projects will be ready when needed;
- provides a framework for analyzing a wider range of acceptable and less costly alternatives than might otherwise be considered under a narrower and more time limited evaluation;
- provides a long-term perspective for assessing the adequacy of rates and fees and the time and amount of bond sales; and
- provides a framework for identifying, ranking and executing projects for which the needs are most urgent, thereby minimizing customer inconvenience, project delays and unnecessary carrying costs.

Each department manager is actively involved in the identification of capital needs to be used in the formulation of OWASA's capital improvements program. The Board, local governing bodies and the general public are provided the opportunity to comment on the program prior to its adoption by the Board.

OWASA's current five-year plan (covering fiscal years 2024 to 2028) includes projects totaling approximately \$192 million. Capital improvements during this five-year period are anticipated in most phases of operation, including water transmission and distribution, wastewater collection and wastewater treatment facilities. OWASA expects to expend approximately \$16.35 million in capital improvements in fiscal year 2024. Funding sources for capital improvements during this five-year period include the proceeds of the Series 2024 Bonds now being issued, State Clean Water Loans, funds made available by OWASA from operations, and reserves and grants or reimbursements. Additionally, OWASA anticipates issuing approximately \$134 million in additional revenue bonds over the next five years.

## **Rates, Fees and Charges**

General. OWASA has adopted a rate resolution establishing the schedule of rates, fees and charges for water and sewer service. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024 BONDS – Rate Covenant" and "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Rate Covenant" in Appendix C for information regarding certain covenants of OWASA under the Bond Order and the agreements of sale and purchase as to rates, fees and charges.

OWASA is authorized by statute to set and revise the rates, fees and charges for the water and sewer services it provides. OWASA's power to set, revise and collect such fees, rates and charges is not subject to review, oversight or regulation by the North Carolina Utilities Commission or any other public or private rate regulation agencies. In its agreement of sale and purchase with UNC-CH, OWASA agreed to notify UNC-CH not less than 90 days prior to the proposed effective date of any revision of rates. If the effect of any proposed revision of rates, together with all revisions of rates in the four years preceding the proposed effective date of such revision, would be to increase the rates charged to UNC-CH by more than 20% over such period, then UNC-CH has the right to require OWASA to retain a rate consultant or consulting firm of national repute to review such proposed revision. No such proposed revision will be adopted by OWASA until such report of the rate consultant or consulting firm has been made available to UNC-CH and reviewed and considered by OWASA. On the effective date of any proposed revision of rates with respect to which UNC-CH has requested OWASA to retain a rate consultant or consulting firm, a new period for the purpose of determining the effect of any further proposed revision of rates, together with all other revisions of rates subsequent to such effective date, shall be deemed to have commenced. See "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Summary of Certain Provisions of the Bond Order – Rate Covenant" in Appendix D for additional information regarding certain covenants by OWASA under the Bond Order and the agreements of sale and purchase as to rates, fees and charges.

OWASA utilizes an increasing block rate structure for individually metered single family residences, a uniform year-round rate for multi-family residential properties, and a seasonal rate structure for all other customers. These rates are intended to encourage water conservation, especially in the summer months when demand is at its highest. If peak summer demand can be lowered, capital expenditures to expand water treatment and distribution facilities to meet the peak demand can be deferred.

The following are the current rates, fees and charges that became effective on October 1, 2023.

Water Charges. Water charges are billed monthly at approximately 30-day intervals. Charges are due upon receipt of the bill, becoming delinquent 25 days after the original billing date. Monthly water rates consist of two components: a monthly service charge and a commodity (volume) charge. The service charge is calculated to recover costs related to certain direct and indirect customer service efforts, meter and lateral maintenance and capital costs associated with supplying water to the customers' property. Applicable to metered non-irrigation water accounts, independent of the quantity of water consumed, the monthly charge is based on meter size as follows:

<u>Meter Size</u>	<u>Monthly Service Charge</u>
5/8"	\$20.90
3/4" Combination Fire and Domestic Service Meter	\$21.61
1"	\$41.99
1" Combination Fire and Domestic Service Meter	\$42.70
1-1/2"	\$90.80
2"	\$137.04
3"	\$281.84
4"	\$460.09
6"	\$1,001.81
8"	\$1,424.82

With respect to metered irrigation water accounts, the water service charge is calculated to recover certain direct and indirect customer service, meter and lateral maintenance, and water capital costs associated with supplying water to properties with irrigation systems. The monthly service charge is applicable to all metered irrigation water accounts, regardless of the quantity of water consumed, based on meter size as follows:

<u>Meter Size</u>	<u>Monthly Service Charge</u>
5/8"	\$33.47
1"	\$66.90
1-1/2"	\$123.84
2"	\$190.47
3"	\$377.02
4"	\$578.74
6"	\$1,138.46
8"	\$1,810.48

Compound meter arrangements are billed based on the largest meter in the grouping. In addition to the applicable charge for the primary meter, sub-meters are billed according to the above schedule. Sub-meters are no longer available, and no additional sub-meters will be installed.

The water commodity charge is calculated to recover the remaining direct and indirect costs of water supply and treatment, water distribution, general administration and water capital costs not recovered

by the monthly service charge. This charge is applicable to water accounts based on meter readings of water consumed. When no meter reading is available due to an inoperative, damaged or inaccessible meter, consumption is estimated based on prior usage at the location and the current use of the facilities at that time.

Individually metered residential accounts (except irrigation-only accounts) are billed under an increasing block rate structure designed to encourage efficient water use by applying increasing commodity charges (rate per thousand gallons) to incremental increases in water use as follows:

	Volume of Use (Gallons)	Commodity Rate (Per 1,000 Gallons)
Block 1	0 to 2,000	\$3.74
Block 2	2,001 to 5,000	\$9.08
Block 3	5,001 to 10,000	\$11.14
Block 4	10,001 to 15,000	\$15.56
Block 5	All use 15,001 and up	\$28.15

Multi-family, master-metered residential accounts have one (or more) OWASA meter that serves more than one residential dwelling. Examples include apartment complexes, duplexes and condominiums. Multi-family, master-metered residential accounts are charged a year-round commodity rate of \$8.06 per thousand gallons.

A seasonal conservation rate structure is applied to all non-residential accounts other than irrigation-only accounts. A reduced water commodity charge is in effect during lower demand months (October through April), and a higher commodity charge is in effect during high demand months (May through September).

Off-Peak Rate	(October through April)	\$5.92 per thousand gallons
Peak Seasonal Rate	(May through September)	\$11.24 per thousand gallons

Water commodity charges applicable to customer accounts are temporarily increased during periods of declared water shortages and mandatory water use restrictions regardless of the time of year. The last time that OWASA implemented water commodity surcharges was during the drought of 2007 and 2008. To promote conservation of water used for irrigation and to achieve greater equity between rates for irrigation-only use and irrigation use through a domestic meter, irrigation-only accounts are charged a year-round commodity rate of \$12.09 per thousand gallons.

OWASA charges an interlocal water transfer charge to recover costs associated with the provision of supplemental water supply under contractual agreements with three nearby water purveyors. The specific rates charged are negotiated with the other party based upon specific conditions using the cost-of-service rate-making approach.

Water System Development Fees. The purpose of water system development fees is to recover a portion of the capital costs of providing water system facility capacity. The water system development fee is applicable to each new connection to a water main, regardless of who may have paid for the installation of the water main to which the connection is to be made. For the purpose of water system development fees, customer accounts are divided into three categories: (1) Single-Family Residential, (2) Multi-Family Residential, Individually-Metered and (3) Non-Residential. The Non-Residential category includes master-metered multi-family customers and commercial, UNC-CH and other institutional accounts. The use of these categories is justified by distinctive patterns of water consumption. See “System Development Fees” below. The current water system development fees are as follows:

5/8" Meter or 3/4" Combination Fire and Domestic Service,  
Single-Family Residential:

<500 square feet	\$346
501-800 square feet	\$515
801-1,300 square feet	\$820
1,301-1,700 square feet	\$1,050
1,701-2,400 square feet	\$1,360
2,401-3,100 square feet	\$1,855
3,101-3,800 square feet	\$2,578
>3,800 square feet	\$4,690
1" Meter, Single-Family Residential (all square footages)	\$8,160
5/8" Meter or 3/4" Combination Fire and Domestic Service Meter, Multi-Family Residential	\$862
5/8" Meter or 3/4" Combination Fire and Domestic Service Meter, Non-Residential*	\$3,264
1" Meter, Multi-Family Residential and Non-Residential*	\$8,160
1-1/2" Meter, Multi-Family Residential and Non-Residential*	\$16,319
2" Meter, Multi-Family Residential and Non-Residential*	\$26,109
3" Meter, Multi-Family Residential and Non-Residential*	\$52,228
4" Meter, Multi-Family Residential and Non-Residential*	\$81,606
6" Meter, Multi-Family Residential and Non-Residential*	\$163,213
8" Meter, Multi-Family Residential and Non-Residential*	\$261,139

\* Same fee for Irrigation-Only accounts.

Water Service and Meter Installation Charge. The purpose of this charge is to recover costs of extending service from the distribution system to individual properties and includes the installation of a service connection from the water main to the curb or property line and the setting of a meter within the premises, subject to satisfactory easement or license being provided by the applicant. Where a suitable stub-out for service has been made and is available, the "meter-only" charge will apply. Complete water service installation and meter-only charges are as follows:

Complete Water Service Installation, 5/8" Meter	\$4,400
Complete Water Service Installation, 3/4" Combination Fire and Domestic Service Meter	\$4,880
Complete Water Service Installation, 1" Meter	\$4,790
Meter Only Installation, 5/8" Meter	\$210
Meter Only Installation, 3/4" Combination Fire and Domestic Service Meter	\$640
Meter Only Installation, 1" Combination Fire and Domestic Service Meter	\$680
Meter Only Installation, 1" Meter	\$340
Meter Only Installation, 1-1/2" Meter	\$560

Meter Only Installation, 1-1/2" Combination Fire and Domestic Service Meter	\$980
Meter Only Installation, 2" Meter	\$340
Meter Only Installation, 2" Combination Fire and Domestic Service Meter	\$1,290
Remote Read Box with 5/8" Detector Meter	\$440

Complete installations are determined on a time and materials basis for 1-1/2 inch and 2-inch meters. For 3-inch and larger meters, the applicant is responsible for providing a meter box or vault constructed to the configuration and standards of OWASA at cost plus 10%. A \$160 delivery fee for 3-inch and larger meters shall be applied.

Water Main Tapping Fee. The purpose of this charge is for making a tap into an OWASA water main. The tap fee must be paid in advance of OWASA performing the work, with a minimum of 48-hours advance notice given to OWASA. The applicant is responsible for opening the ditch, providing adequate working clearance at the point of tap, adequately shoring the trench sidewalls, dewatering and such other associated activities as to provide a suitable and safe condition for OWASA personnel to complete the tap. Additionally, the applicant is responsible for providing an appropriate size tapping sleeve and tapping valve, and a backhoe or similar device must be available on-site for lowering the tapping unit into the ditch line. All permits, bonds and paving are the responsibility of the applicant. The charge varies but OWASA recovers its costs of time and equipment plus an allowance for overhead, but not less than \$360.

Sewer Charges. Sewer charges are billed monthly at approximately 30-day intervals. Charges are due upon receipt of the bill, becoming delinquent 25 days after the original billing date. Monthly sewer rates consist of two components: a monthly service charge and a commodity (volume) charge.

The service charge is calculated to recover the direct and indirect customer service, service and inspection maintenance, and capital costs associated with providing sewer service to the customers' property. Applicable to all sewer accounts, regardless of whether or not there is a commodity charge, the monthly service charge is based on water meter size as follows:

<u>Meter Size</u>	<u>Monthly Service Charge</u>
5/8" or 3/4" Combination Fire and Domestic Service	\$17.06
1"	\$29.30
1-1/2"	\$50.52
2"	\$76.38
3"	\$144.43
4"	\$220.78
6"	\$404.80
8"	\$690.77

The sewer commodity charge is \$9.21 per thousand gallons. This charge recovers the remaining direct and indirect costs of wastewater treatment and collection, maintenance, inspection, customer service and administration and sewer capital costs not recovered by the monthly service charge. This charge is applicable to all accounts receiving sewer service based on the water meter reading, sewer meter reading, if applicable, or estimated volume of discharge as determined by OWASA. For most of OWASA's sewer customers, the volume of sewer gallons billed is based on the water use registered through the water meter. For individually-metered residences, the sewer commodity charge is imposed on only the first 15,000 gallons of use.

OWASA charges an interlocal wastewater collection, treatment and disposal charge to recover costs associated with the provision of wastewater collection, treatment and disposal services under contractual agreements with other wastewater service providers. The specific rates to be charged will be negotiated with the other party based upon specific conditions using the cost-of-service rate-making approach.

For existing sewer only accounts where there is no water meter, OWASA uses the following as the basis for calculating the fixed monthly charges: (1) the monthly service charge will be determined by the water meter size which would be required to supply water service to the property and (2) the billable quantity will be estimated using national engineering standards as the basis, but in no case will the billable quantity be less than 4,000 gallons per month and at a rate of \$9.21 per thousand gallons.

For special commercial and industrial customer classifications where the proportion of water consumed to wastewater discharged is extremely large, a metered sewer account may be approved. Metered sewer accounts must also pay the appropriate monthly sewer service charge based on the sewer meter size.

Sewer System Development Fees. The purpose of sewer system development fees is to recover a portion of the capital costs of providing sewer system facility capacity. The sewer system development fee is applicable to each new connection to a sewer main, regardless of who may have paid for the installation of the main to which the connection is to be made. For the purpose of sewer system development fees, customer accounts are divided into three categories: (1) Single-Family Residential, (2) Multi-Family Residential, Individually-Metered and (3) Non-Residential. The Non-Residential category includes master-metered multi-family customers plus commercial, UNC-CH and other institutional accounts. The use of these categories is justified by distinctive patterns of sewer consumption. See “System Development Fees” below. The current sewer system development fees are as follows:

[Remainder of page left blank intentionally]

5/8" Meter or 3/4" Combination Fire and Domestic Service,  
Single-Family Residential:

<500 square feet	\$1,147
501-800 square feet	\$1,708
801-1,300 square feet	\$2,045
1,301-1,700 square feet	\$2,313
1,701-2,400 square feet	\$2,616
2,401-3,100 square feet	\$2,976
3,101-3,800 square feet	\$3,344
>3,800 square feet	\$4,084
1" Meter, Single-Family Residential (all square footages)	\$13,694
5/8" Meter or 3/4" Combination Fire and Domestic Service, Multi-Family Residential	\$6,004
1" Meter, Multi-Family Residential (all square footages)	\$15,008
5/8" Meter or 3/4" Combination Fire and Domestic Service, Non-Residential	\$6,004
1" Meter, Non-Residential	\$15,008
1-1/2" Meter, Multi-Family Residential and Non-Residential	\$30,017
2" Meter, Multi-Family Residential and Non-Residential	\$48,023
3" Meter, Multi-Family Residential and Non-Residential	\$96,065
4" Meter, Multi-Family Residential and Non-Residential	\$150,102
6" Meter, Multi-Family Residential and Nonresidential	\$300,204
8" Meter, Multi-Family Residential and Non-Residential	\$480,323

Sewer Tap Charge. The sewer tap charge is for making a tap of the applicant's private sewer lateral into the main sewer line or sewer manhole of OWASA. The sewer tap fee must be paid in advance of OWASA performing the work, with a minimum of 48-hours advance notice given to OWASA. The applicant is responsible for opening the ditch, providing adequate working clearance at the point of tap, adequately shoring the trench sidewalls, dewatering and such other associated activities as to provide a suitable and safe condition for OWASA to connect the service lateral of the applicant into the facilities of OWASA. The minimum charge is based on a standard 4-inch service tap to the sewer line. All 6-inch lines and larger must be tapped into a manhole. All permits, bonds and pavement repairs are the responsibility of the applicant. The charge is for time and equipment plus an allowance for overhead, but not less than \$670.

High Strength Waste Surcharge. The purpose of this charge is to recover operating and maintenance costs from customers whose wastewater discharge into the system is in excess of certain parameters for normal strength domestic wastewater as determined by OWASA. Based on local sampling and analysis, normal strength domestic wastewater has been determined to have the following pollutant characteristics:

Normal Strength Domestic Wastewater

Carbonaceous Biochemical Oxygen Demand	205mg/l
Suspended Solids	235mg/l
Ammonia Nitrogen	25mg/l
Phosphorus	6.5mg/l

High strength waste surcharges apply at the following rates to all wastes exceeding the above concentrations:

Carbonaceous Biochemical Oxygen Demand	\$0.61 per pound for all CBOD in excess of 205 mg/l
Suspended Solids	\$0.74 per pound for all Suspended Solids in excess of 235 mg/l
Ammonia Nitrogen	\$4.33 per pound for all Ammonia Nitrogen in excess of 25 mg/l
Phosphorus	\$17.43 per pound for all Phosphorus excess of 6.5 mg/l

Reclaimed Water Rates and Charges. Reclaimed water charges are billed monthly at approximately 30-day intervals. Charges are due upon receipt of the bill and become delinquent 21 days after the original billing date. Monthly reclaimed water rates consist of two components: a monthly service charge and a commodity (volume) charge.

UNC-CH paid to construct the reclaimed water system, and OWASA and UNC-CH have contractually agreed to the methodology for determining reclaimed water charges applicable to UNC-CH. Reclaimed water charges have been established for two major customer classes: UNC-CH uses and non-UNC-CH uses. As determined necessary by OWASA, and in accord with OWASA's contractual obligations to UNC-CH, reclaimed water service to non-UNC-CH customers may be temporarily interrupted to ensure that UNC-CH's reclaimed water demand can be met from the facilities and capacity paid for by UNC-CH.

Reclaimed Water Service Charge. The purpose of this fixed monthly charge is to recover direct and indirect costs including but not limited to customer service and billing, meter and lateral maintenance, general and administrative services and fixed costs associated with supplying reclaimed water to the customer's property. The reclaimed water service charge is applicable to metered reclaimed water accounts, independent of the quantity of reclaimed water consumed. Meter readings and service charges for first and final bills are prorated based on days of service.

UNC-CH Reclaimed Water Use:		\$24,000.00 per month
Non-UNC-CH RCW Customers:	5/8" meter	\$8.37 per month
	1" meter	\$16.74 per month
	1-1/2" meter	\$30.96 per month
	2" meter	\$47.62 per month

Service charges for non-UNC-CH reclaimed water meters larger than 2" are determined on a case-by-case basis following an evaluation of the reclaimed water demands of the customer.

Reclaimed Water Commodity Charge. The purpose of this charge is to recover the direct costs for reclaimed water treatment and distribution and all other direct and indirect costs not recovered by fixed



monthly service charges. This charge is applicable to all reclaimed water accounts based on meter readings of reclaimed water consumed.

Metered monthly consumption is billed in thousand-gallon increments rounded down to the nearest thousand gallons. Unbilled consumption due to rounding is carried forward and billed in the month the next thousand-gallon increment is registered by the meter.

UNC-CH Accounts	\$0.60 per 1,000 gallons
Non-UNC-CH RCW Customers	\$2.18 per 1,000 gallons
Bulk (Tanker) Sales*	\$0.00

\* OWASA allows tanker trucks to pick up reclaimed water from its facility at no charge.

Reclaimed Water Availability Fees. The purpose of this fee is to recover the capital costs of providing reclaimed water system facility capacity and to fund future expansion of that capacity. Since UNC-CH paid to construct the reclaimed water system, UNC-CH is not required to pay a reclaimed water availability fee for UNC-CH facilities that are connected to and can be served by capacity available in the reclaimed water facilities.

Reclaimed water availability fees are applicable to each non-UNC-CH connection to the reclaimed water system, regardless of who may have paid for the installation of the main to which the connection is to be made. Reclaimed water availability fees for non-UNC-CH customers are as follows:

<u>Meter Size</u>	<u>Fee</u>
5/8"	\$1,229
1"	3,073
1-1/2"	6,146
2"	9,833

Reclaimed water availability fees for connections to be served by meters larger than 2 inches are determined on a case-by-case basis following an evaluation of the reclaimed water demands of the customer.

Reclaimed Water Service Connection Fees. Reclaimed water service connection fees, including meter installation and meter fees, are the same as the fees applicable to potable water system service connections, as specified above.

Miscellaneous Fees and Charges. OWASA also charges miscellaneous fees and charges such as service initiation fees, record change fees, reconnection fees, returned check fees, bulk wastewater charges, bulk water sales and other rental and user fees.

Comparative Bills. The following table provides comparative combined water and sewer monthly bills for residential service based on rates in effect as of January 1, 2024 for OWASA and several municipalities in surrounding areas:

	3,000 Gallons		5,000 Gallons		10,000 Gallons	
	Inside	Outside	Inside	Outside	Inside	Outside
OWASA	\$82.15	\$82.15	\$118.73	\$118.73	\$220.48	\$220.48
Cary	55.67	67.17	87.69	104.31	173.84	206.26
Durham <sup>1</sup>	50.30	100.42	73.26	152.02	137.70	287.88
Hillsborough	77.46	162.45	129.10	263.11	258.20	514.76
Raleigh <sup>1</sup>	45.52	81.90	70.89	116.38	134.32	211.84

<sup>1</sup> Durham and Raleigh bill based on one hundred cubic feet of water used. Commodity charges for those utilities have been adjusted to reflect the effective rate per 1,000 gallons of use.

Source: UNC School of Government Environmental Finance Center.

Because there are variations in the structure of the rate schedules and variations in the distribution of classes of customers within each service area, direct comparison has been made for specific levels of consumption only. OWASA has the same rates whether inside or outside corporate limits as contrasted with comparative municipal systems which increase their rates for customers outside corporate boundaries.

Future Rate Increases. The adequacy of OWASA's water and sewer rates to generate revenue to meet the organization's anticipated financial obligations and achieve the financial performance objectives established by the Board is evaluated each year as part of the annual budget process. The Board adopts rate adjustments on an annual basis and OWASA's long-term financial planning indicates that future rate increases should be in line with the rate of inflation.

Increasing population and demands for water and sewer services will require additional expansion and improvements of the water and sewer system. In the years ahead, the implementation of long-range system development plans and the continuing provision of quality water and sewer services by OWASA will require a substantial commitment of financial resources. Adequate funding will be needed for annual operating items such as employee salaries and fringe benefits, supplies, treatment plant chemicals and electricity. Historically, federal and North Carolina standards for treatment of both drinking water and wastewater have become more stringent and are likely to continue to do so in the future, thereby resulting in increased costs to OWASA's customers. The major portion of the projected cost increases will be borne by present and future customers and, therefore, further increases in the schedule of rates and fees of OWASA may be required in the future.

System Development Fees. On July 20, 2017, House Bill 436, Session Law 2017-138, also known as the "Public Water and Sewer System Development Fee Act" ("H.B. 436") became law. H.B. 436 provides uniform authority to local governmental units, including OWASA, to implement system development fees for public water and sewer systems. As described under "Water System Development Fee" and "Sewer System Development Fee" above, OWASA currently has in effect system development fees that fit the definition of a "system development fee" in H.B. 436.

H.B. 436 restricts how local governmental units can spend the revenue from system development fees, based on the method used to calculate such fees, and establishes requirements for the creation of capital reserve funds to account for revenue from such fees; however, while the Bonds are outstanding, the amounts collected from system development fees may be applied in the manner provided in the Bond Order. System development fees constitute Gross Receipts under the Bond Order and are subject to the pledge of Net Receipts of the Water and Sewer System under the Bond Order. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2024 BONDS – Pledge of Net Receipts" in the front part of this Official Statement.

## Customer Accounts

UNC-CH, including the University of North Carolina Hospitals at Chapel Hill (“UNC Hospitals”), is OWASA’s largest water and sewer customer. As shown in the table below, during fiscal years 2019 through 2023, potable water use at UNC-CH ranged from 19.1% to 24.5% of total potable water consumed in OWASA’s service area. Under the agreement of sale and purchase with UNC-CH, (1) OWASA has agreed to furnish UNC-CH potable water meeting certain purity standards in such quantity as may be required by UNC-CH to meet its needs and (2) UNC-CH has agreed to satisfy the potable water requirements of its facilities within OWASA’s service area by purchasing water from OWASA and will neither construct an alternate water supply nor purchase water from another supplier, unless OWASA is unable to furnish UNC-CH an adequate supply under the conditions specified in such agreement.

UNC-CH is continually expanding and renovating its Chapel Hill campus. Total square footage is currently approximately 18 million square feet.

UNC-CH has a 50-year plan for the development of a new, mixed-use academic campus, called Carolina North, on a tract of approximately 963 acres on the north side of Chapel Hill. Plans for this project have evolved since planning began in 1995. In 2007, the UNC-CH Board of Trustees approved a plan for the development of 250 acres. In 2009, UNC-CH and the Town of Chapel Hill entered into a 20-year development agreement that entitles UNC-CH to develop up to 3 million square feet on a defined 133-acre portion of the tract. While these initial development plans were put on hold, the timing for the planning and completion of the initial projects is still being evaluated. OWASA will provide the water and sewer services required for Carolina North. The construction costs associated with the infrastructure for providing water and sewer services to Carolina North is expected to be funded by UNC-CH.

The following table shows the number of water customer accounts, total potable water consumption and potable water consumption by UNC-CH for the past five fiscal years. Water customer accounts may include multiple meters.

Fiscal Year	Water Customer Accounts	Total Potable Water Sold (Million Gallons)	UNC-CH Potable Water Sold (Million Gallons)	UNC-CH’s Percentage of Total Potable Water Sold
2019	21,712	2,185	535	24.5%
2020	21,823	1,939	446	23.0
2021	21,921	2,025	386	19.1
2022	21,987	2,115	441	20.9
2023	22,039	2,142	457	21.3

In the fiscal year ended June 30, 2023, UNC-CH also used approximately 219 million gallons of reclaimed water. Other water users include several large apartment and townhouse complexes and commercial centers in the service area, but no water user other than UNC-CH represents more than 1.5% of OWASA’s total annual revenues. There are currently no water-intensive industries located within OWASA’s service area.

The following table provides information on the top ten customer accounts of OWASA (by annual revenues from potable water and sewer commodity charges and service charges) for the fiscal year ended June 30, 2023, the water consumption for each customer (upon which sewer charges are also billed) and the percentage of total annual water and sewer revenues generated by each customer:

Customer Account <sup>1</sup>	Product or Service	Potable Water Consumption (Million Gallons)	Annual Revenues	Percentage of Total Annual Revenues
UNC-CH	University	456.58	\$3,981,255	20.1%
Chapel Hill-Carrboro City Schools	Public School System	31.16	296,729	1.5
R.A. Properties/Kingswood	Apartments	17.42	113,055	0.7
Triangle Communities	Apartments	15.21	127,394	0.6
Shadowood	Apartments	14.11	122,788	0.6
Trinity at the Hill	Apartments	15.11	115,992	0.6
Carol Woods	Apartments	13.72	113,756	0.6
Northwood Ravin	Apartments	13.61	106,456	0.5
Town of Chapel Hill	Municipality	13.63	106,200	0.5
The Villages	Apartments	13.49	106,082	0.5
Total		604.04	\$5,189,707	26.2%

<sup>1</sup> Includes all accounts of the customer.

UNC-CH is OWASA's largest sewer system customer, representing approximately 13% of OWASA's annual wastewater services revenue. For the fiscal year ended June 30, 2023, total UNC-CH wastewater services revenue was about \$2.6 million.

### Billing and Collection Procedures

Customers are billed on a monthly basis. If any bill is not paid within 60 days of the date of billing and no arrangement satisfactory to OWASA for its payment has been made, then the respective premises will be disconnected from service to the extent practicable and OWASA will proceed to recover the amount of such bill in such lawful manner as it deems necessary and appropriate. OWASA's average annual write-off of customer receivables over the past five fiscal years has been less than 1%.

### Outstanding Indebtedness

As of July 1, 2023, OWASA had outstanding revenue bonds totaling \$61,815,000. In addition, as of July 1, 2023, OWASA had several clean water loans from the North Carolina Department of Environmental Quality outstanding in the principal amount of \$16,671,578. OWASA is authorized to draw additional funds under these loans in an aggregate principal amount not to exceed \$2,366,408. In addition, OWASA has received loan commitments from the North Carolina Department of Environmental Quality for three additional loans for an aggregate principal amount not to exceed \$8,298,709. Interest rates on these loans range from 0.0% to 1.53%. Annual debt service payments on these loans (which constitute Subordinated Indebtedness under the Bond Order) continue until fiscal year 2045. See Note 2 in OWASA's Financial Statements for the fiscal year ended June 30, 2023, included in Appendix B to this Official Statement.

### Service Area

General. OWASA provides water and sewer services to the residents, businesses and institutions in the Chapel Hill-Carrboro community and outlying areas. The term "service area" refers to the area presently being served and those proximate areas that may reasonably be served by extensions of the water and sewer system in the future. The present service area lies almost wholly within Chapel Hill and Carrboro in Orange County; however, there are contiguous extensions of the water and sewer system into the portion of the Chapel Hill city limits located in southwestern Durham County.

The developed portions of the service area are composed of the UNC-CH campus, including UNC Hospitals, commercial downtown areas and shopping centers and residential areas comprised of single-family residences and apartment complexes. Most of the development in the service area to date has consisted of residential development, including single family residences, townhouses and condominiums and apartments, and related commercial development, including office buildings, shopping facilities, restaurants and motels. Industrial development in the service area is limited in extent and is generally light manufacturing in nature.

Relative Location and Features of the Service Area. The area served by OWASA's water and sewer system is located predominantly within the southeastern portion of Orange County. Orange County is located in the north central part of the State. Originally formed in 1752, Orange County has an area of approximately 398 square miles. There are four incorporated towns in Orange County. Hillsborough, the county seat, is located near the center of the County; Chapel Hill and Carrboro, adjoining communities which comprise the major urbanized area of Orange County, are located in the southeast corner of Orange County; and Mebane is located on the western boundary of Orange County. The remainder of Orange County is rural in nature and primarily agriculturally-oriented.

Located on a plateau approximately 500 feet above sea level, the Chapel Hill-Carrboro area is surrounded by gently rolling land. The climate is mild, with an average January temperature of approximately 41 degrees and an average temperature in July of approximately 79 degrees. The area receives an average of approximately 46 inches of rainfall per year.

The towns of Chapel Hill and Carrboro are located approximately 10 miles southwest of Durham and approximately 25 miles northwest of Raleigh. The regional transportation system connects the area with the major North Carolina population centers of Charlotte, Durham, Raleigh, Greensboro, Winston-Salem and Wilmington. U.S. and State Highways connect Chapel Hill-Carrboro with Durham, the Research Triangle Park ("RTP"), Raleigh and Raleigh-Durham International Airport. The region is served by Interstate 85 extending northeasterly from Durham to Petersburg, Virginia where it intersects Interstate 95, and southwesterly through Greensboro to Charlotte and Atlanta, Georgia. Interstate 40, which extends from Raleigh through Orange County, connects the region directly to both the Atlantic and Pacific coasts of the United States. Rail service is provided by a branch of the Norfolk-Southern Railroad which extends north from Carrboro to a connection with the railroad west of Durham. Amtrak passenger rail service is available in Durham. Commercial air service is provided by Raleigh-Durham International Airport, located 16 miles from Chapel Hill.

The Chapel Hill-Carrboro area comprises one portion of the metropolitan area which includes the City of Durham and the City of Raleigh and is commonly known as the "Research Triangle." Major universities located in these communities include UNC-CH, Duke University and North Carolina Central University in Durham and North Carolina State University in Raleigh. The proximity of these universities makes the RTP area suited to many types of academic research and advanced, research-oriented industrial activities. There are numerous other smaller colleges and universities in the area.

The dominant economic sector in the Chapel Hill-Carrboro area is educational and medical services, including research activities, primarily through UNC-CH and UNC Hospitals. The RTP, located 10 miles east of Chapel Hill, contains approximately 7,000 acres of land which have been reserved for research and research-oriented manufacturing. The RTP is not served by OWASA; however, its impact on OWASA and the economy of the surrounding area is significant because of the companies and residents brought into the area directly and indirectly by the RTP.

Demographic Characteristics. The United States Department of Commerce, Bureau of the Census has recorded the populations of the Town of Chapel Hill, the Town of Carrboro and Orange County to be as follows:

<u>Year</u>	<u>Chapel Hill</u>	<u>Carrboro</u>	<u>Orange County</u>
1990	38,711	12,134	93,622
2000	48,715	16,782	118,227
2010	57,233	19,582	133,801
2020	63,705	21,239	149,077

The North Carolina Office of State Budget and Management has estimated the population, as of July 1, 2022, of the Town of Chapel Hill to be 62,195, the Town of Carrboro to be 21,136 and Orange County to be 148,707.

Education. An important factor in the economy and growth characteristics of OWASA's service area and the immediately surrounding area is UNC-CH. Fall enrollment at UNC-CH during the period 2019-2023 is shown in the following table:

<u>Fall</u>	<u>UNC-CH Enrollment</u>
2019	29,887
2020	30,092
2021	31,641
2022	31,705
2023	32,234

UNC-CH is among the most comprehensive educational institutions in the nation and belongs to the select group of research campuses that form the Association of American Universities. UNC-CH offers 74 bachelors', 104 masters', 65 doctorate and 7 professional degree programs through 14 schools and the College of Arts and Sciences, which are ranked among the top few in the nation.

Together, UNC-CH's health-related schools form one of the nation's major academic medical centers. Among the specialized medical programs are the Health Services Research Center, the Hand Rehabilitation Center, the Child Development Institute and the North Carolina Jaycees Burn Center. The School of Government, Cancer Research, Environmental Studies, Urban Studies, Marine Sciences and Social Sciences conduct multi-disciplinary research and public service programs.

Employment. The North Carolina Department of Commerce Labor and Economic Analysis Division has estimated the percentage of unemployment in Orange County to be as follows:

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
January	3.7%	3.2%	4.3%	2.9%	3.0%	2.8%
February	3.5	2.9	4.1	2.8	2.9	N/A
March	3.5	3.5	3.6	2.6	2.8	N/A
April	2.9	8.2	3.4	2.7	2.5	N/A
May	3.4	9.0	3.7	3.1	2.9	N/A
June	3.7	5.9	4.1	3.5	3.1	
July	3.8	6.7	4.0	3.5	3.2	
August	3.6	4.9	3.7	3.6	3.2	
September	2.8	5.0	2.9	2.9	2.8	
October	2.9	4.3	2.9	3.1	2.8	
November	2.8	4.4	2.6	3.0	2.8	
December	2.7	4.5	2.2	2.6	2.6	

The following table lists the ten largest employers in Orange County:

<u>Company or Institution</u>	<u>Service or Product</u>	<u>Number of Employees</u>
UNC Healthcare System	Health Care and Social Assistance	1,000+
UNC-CH	Educational Services	1,000+
Chapel Hill/Carrboro City Schools	Educational Services	1,000+
Orange County Government	Public Administration	1,000+
Orange County Schools	Educational Services	1,000+
Town of Chapel Hill	Public Administration	500-999
Industrial Connections & Solutions ABB (formerly G.E.)	Manufacturing	500-999
A K G of America, Inc.	Manufacturing	250-499
Wegmans	Grocery	250-499
Armacell	Manufacturing	250-499

Source: Annual Comprehensive Financial Report of Orange County (June 2023)

Total taxable retail sales in Orange County for the past five fiscal years and for the seven-month period ended January 31, 2024, are shown in the following table:

<u>Fiscal Year Ended June 30</u>	<u>Total Taxable Retail Sales</u>	<u>Increase Over Previous Year</u>
2019	\$1,923,461,091	8.9%
2020	1,955,949,743	1.7
2021	2,149,246,638	9.9
2022	2,482,070,449	15.5
2023	2,778,217,449	11.9
2024 (7 months) <sup>1</sup>	1,711,308,706	--

<sup>1</sup> For the seven-month period ended January 31, 2023, total taxable retail sales were \$1,638,594,750.  
Source: North Carolina Department of Revenue, Sales and Use Tax Division.

## Historical Operating Results

Summary Financial Information. The following table presents information on the financial performance of the water and sewer system for the past five fiscal years. The information has been derived from OWASA's audited financial statements and the notes thereto and should be read in conjunction with OWASA's audited financial statements and the notes thereto included in Appendix B to this Official Statement. Revenues and Current Expenses have been calculated as defined in the Bond Order.

### HISTORICAL REVENUES, CURRENT EXPENSES AND LONG-TERM DEBT SERVICE COVERAGE FISCAL YEARS 2019 – 2023

	Fiscal Year Ended June 30,				
	2019	2020	2021	2022	2023
<b>Operating Revenue</b>					
Water (Service & Commodity)	\$18,123,182	\$18,374,528	\$18,062,366	\$19,325,309	\$21,843,897
Sewer (Service & Commodity)	17,058,037	16,948,606	16,620,662	18,049,316	20,368,662
Other	1,004,621	983,060	831,793	620,635	389,341
<b>Total Operating Revenue</b>	<b>\$36,185,840</b>	<b>\$36,306,194</b>	<b>\$35,514,821</b>	<b>\$37,995,260</b>	<b>\$42,601,900</b>
<b>Non-Operating Revenue</b>					
System Development Fees	\$1,593,210	\$1,393,871	\$1,860,926	\$801,021	\$812,400
Investment Earnings	64,842	63,207	1,291	17,689	684,832
Other				626,396	189,134
<b>Total Non-Operating Revenue</b>	<b>\$1,658,052</b>	<b>\$1,457,078</b>	<b>\$1,862,217</b>	<b>\$1,445,106</b>	<b>\$1,516,366</b>
<b>Total Revenues</b>	<b>\$37,843,892</b>	<b>\$37,763,272</b>	<b>\$37,377,038</b>	<b>\$39,440,366</b>	<b>\$44,118,266</b>
<b>Current Expenses</b>					
Water	\$12,593,797	\$13,239,854	\$12,308,126	\$12,133,845	\$14,413,837
Sewer	9,745,914	9,968,891	9,550,832	10,147,424	11,243,684
<b>Total Current Expenses</b>	<b>\$22,339,711</b>	<b>\$23,208,744</b>	<b>\$21,858,958</b>	<b>\$22,281,269</b>	<b>\$25,657,521</b>
<b>Income Available for Debt Service</b>	<b>\$15,504,181</b>	<b>\$14,554,528</b>	<b>\$15,518,080</b>	<b>\$17,159,097</b>	<b>\$18,460,745</b>
<b>Long-Term Debt Service Requirement on Parity Indebtedness*</b>	<b>\$7,229,279</b>	<b>\$6,351,758</b>	<b>\$6,699,307</b>	<b>\$7,363,089</b>	<b>\$7,897,924</b>
<b>Long-Term Debt Service Coverage Ratio</b>	<b>2.1</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>	<b>2.4</b>

\* Totals do not match the table in OWASA's Comprehensive Annual Financial Report for such Fiscal Years due to the auditor's inclusion of July 1 principal and interest payments in the Fiscal Year in which they were paid to bondholders as opposed to the amounts shown above which include debt service payments required to be deposited with the Trustee in such Fiscal Years for payment to bondholders on July 1 of the following Fiscal Year (which is the methodology specified in the Bond Order).



## Management Discussion

OWASA has continued to experience favorable operating results over the last five fiscal years. OWASA's assets exceeded liabilities by \$292.1 million at June 30, 2023, compared to \$283.5 million at June 30, 2022. OWASA's overall financial position strengthened between fiscal years 2022 and 2023 as net position increased by \$8.6 million. Total assets increased during the same period by \$7.2 million. These trends reflect investments in infrastructure improvements funded through a combination of cash and debt. Favorable operating results have been accomplished during a period when potable water used by customers has been flat.

As a result of two severe droughts in 2002 and 2008, the use of reclaimed water instead of potable water by UNC-CH, the implementation of increasing block conservation water rates and an increase in the general conservation ethic within the service area, demand for potable water decreased from approximately 7.6 MGD in the fiscal year ended June 30, 2008, to 5.9 MGD in the fiscal year ended June 30, 2023. The projected potable water demand for the fiscal year ending June 30, 2024, is approximately 6.0 MGD. Through a combination of cost reductions and rate increases, OWASA has been able to compensate for the decline in water sales.

The budget for the fiscal year ending on June 30, 2024, includes \$1.0 million in revenue from system development fees. While no assurances may be given by OWASA at this time concerning future levels of system development fees or the amount of revenue derived from them, such fees have historically been a relatively small source of total revenues for OWASA. The percentage of total revenues derived from system development fees has averaged 3.4% during the five most recent fiscal years.

Operating revenues for the first nine months of the fiscal year ending June 30, 2024, were approximately 1% over budget. Operating expenses for the same period were approximately 8% under budget.

OWASA has no planned major capital expenditures for plant expansion during the next 15 years. OWASA's capital improvement plan over the next five-year planning horizon primarily focuses on renewing and replacing system components and installing treatment systems to remove PFAS compounds from the community's drinking water. Approximately 70% of the plan's expenditures are expected to be spent on system renewal and replacement, 14% on system enhancement and 16% on system growth. In addition, OWASA's water supply is expected to be sufficient to meet the service area's needs for the next 50 years under most prevailing circumstances.

OWASA continues to carefully control operating costs and achieve savings and efficiencies through operating changes, technological improvements and other capital investments in order to maintain a sound financial position. For budgeting and financial planning purposes, OWASA will continue to use conservative projections of operating revenues and expenses. The use of long-term financial planning and sufficient financial reserves allows OWASA to adjust more readily to changes in customer water use.

## Pension Plan Obligations

North Carolina Local Governmental Employees' Retirement System. OWASA contributes to the state-wide Local Governmental Employees' Retirement System ("LGERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Plan members are required to contribute 6% of their annual covered salary. OWASA is required to contribute at an actuarially determined rate, and the current rate is 12.85% of annual covered payroll. The contribution requirements of members and OWASA are established and may be amended by the North Carolina General Assembly. OWASA

makes the required contributions to the plan each year. See Note 3 to the Financial Statements of OWASA in Appendix B.

Other Post-Employment Benefits. OWASA administers a single employer defined benefit plan that provides health and life insurance benefits to eligible retirees. For employees hired prior to September 1, 2019, an employee who retires with 30 or more years of service or is at least age 60 with at least 10 years of service may continue in OWASA's group health plan until death. Eligible retirees are also provided life insurance coverage of \$5,000. Depending on an individual's age and tenure, retirees share in the cost of coverage at the rate of 0%, 25%, or 50%. OWASA may amend the benefit provisions at any time. OWASA funds the plan benefits on a pay-as-you-go basis. As of December 31, 2018, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability was approximately \$12.9 million as of such valuation date. See Note 3 to the Financial Statements of OWASA in Appendix B.

For employees hired on or after September 1, 2019, the plan described above is no longer offered or available. Instead, these employees participate in a plan that provides them a retiree health savings account into which employees contribute 2% of wages up to a maximum of \$1,000 per year. OWASA contributes \$35 per pay period to each such employee's account.

**APPENDIX B**  
**FINANCIAL INFORMATION OF OWASA**

This page intentionally left blank.

## **Management's Discussion and Analysis**

The following is Management's Discussion and Analysis of the financial activities of OWASA, lifted from the Annual Comprehensive Financial Report of OWASA for the fiscal year ended June 30, 2023. Management's Discussion and Analysis provides an objective and easily readable short and long-term analysis of OWASA's financial activities based on currently known facts, decisions or conditions. Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The independent auditors of OWASA have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of management and presentation of the required supplementary information. However, they did not audit this information and did not express an opinion on it.

This page intentionally left blank.

## Management's Discussion and Analysis

The management of the Orange Water and Sewer Authority (OWASA) offers the following discussion and analysis as a supplement to the organization's financial position and activities for the fiscal year ended June 30, 2023. This presentation is intended to enhance the readers' understanding of the financial statements which follow and should be read in conjunction with those statements and the introductory letter of transmittal found on pages i–vi.

### Financial Highlights

- At June 30, 2023, OWASA's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$292.1 million.
- OWASA's total net position increased by \$8.6 million, primarily resulting from income realized from operating activities.
- Due to the condition and capacity of OWASA's system, about 70% of the organization's \$19.1 million capital expenditures for Fiscal Year (FY) 2023 was invested in replacing and rehabilitating existing infrastructure.
- Non-current liabilities decreased by about \$1.5 million as a result of securing low-interest loans from the state of North Carolina and making principal payments on long-term debt.
- OWASA's credit ratings of AA+ from Fitch, Aa1 from Moody's, and AAA from Standard & Poor's remain unchanged.

### Overview of the Financial Statements

OWASA's primary mission is to provide water, wastewater, and reclaimed water services to Chapel Hill, Carrboro, and portions of southeastern Orange County. OWASA does not provide other general purpose government services or programs. OWASA's operations, capital improvements program, and debt payments are funded almost entirely through rates, fees and other charges for water, wastewater, and reclaimed water services. OWASA is considered to be, and therefore presents its financial report, as a stand-alone enterprise fund.

As a stand-alone enterprise fund, OWASA's basic financial statements consist of a *Statement of Net Position*, a *Statement of Revenues, Expenses and Changes in Net Position* and a *Statement of Cash Flows*. These statements, together with the *Management's Discussion and Analysis*, provide both short- and long-term financial information about OWASA's financial position. Presentations of comparative data in these schedules are intended to enhance the reader's ability to gauge OWASA's fiscal strength and provide useful trend information. *Notes to the Financial Statements* and a *Schedule of Revenues and Expenditures – Budget and Actual* appear immediately following the basic financial statements. In addition, other required supplementary information, generally statistical and demographic in nature, is presented.

The *Statement of Net Position* presents OWASA's basic financial position through disclosure of information about OWASA's assets and liabilities. Net position represents the difference between total assets and deferred outflows of resources and total liabilities. Over time, net position may serve as a useful indicator of OWASA's financial condition.

The *Statement of Revenues, Expenses and Changes in Net Position* provides information regarding OWASA's total economic resource inflow and outflow (accrual method of accounting). The difference between these inflows and outflows represents the change in net position, which links this statement to the *Statement of Net Position*.

The *Statement of Cash Flows* deals specifically with the flow of cash and cash equivalents arising from operating, capital and related financing and investing activities. Because OWASA's *Statement of Revenues*,

*Expenses and Changes in Net Position* measures the flow of total economic resources, operating income usually differs from net cash flow from operations. To supplement the reader's understanding of this difference, the *Statement of Cash Flows* includes reconciliation between these two amounts. In accordance with accounting principles generally accepted in the United States, a reconciliation of cash and cash equivalents is also presented in this statement.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

## Financial Analysis

Orange Water and Sewer Authority Schedule of Net Position (\$ millions)			
	Fiscal Year Ended		Percentage of Change
	<u>2023</u>	<u>2022</u>	
Current assets	\$32.9	\$37.9	(13.2%)
Other non-capital assets	0.8	0.8	0.0
Capital assets	369.4	357.7	3.3
Right-to-use leased assets	<u>1.1</u>	<u>0.6</u>	83.3
<b>Total assets</b>	404.2	397.0	1.8
 Total deferred outflows of resources	 7.6	 6.6	 15.2
 Current liabilities	 14.8	 13.1	 13.0
Non-current liabilities	<u>98.4</u>	<u>99.9</u>	(1.5)
<b>Total liabilities</b>	113.2	113.0	0.2
 Total deferred inflows of resources	 6.4	 7.1	 (9.9)
 Net position			
Net investment in capital assets	284.0	268.9	5.6
Restricted	0.4	0.3	33.3
Unrestricted	<u>7.7</u>	<u>14.3</u>	(46.2)
<b>Total net position</b>	<u>\$292.1</u>	<u>\$283.5</u>	3.0

OWASA's assets plus deferred outflows exceeded liabilities plus deferred inflows by \$292.1 million at June 30, 2023, compared to \$283.5 million at June 30, 2022. OWASA's overall financial position strengthened between FY 2022 and 2023 as net position increased by \$8.6 million. Total assets increased during the same period by \$1.8 million. These trends reflect investments in infrastructure improvements funded through a combination of cash and debt.

Net capital assets comprised about 97% of total assets for 2023. These capital assets are essential in providing water and wastewater services to customers and are not available for future spending. The resources needed to repay the related debt must be provided by other sources. At June 30, 2023, these other unrestricted resources totaled \$7.7 million and may be used for any lawful purpose.



Non-current liabilities increased by approximately \$1.5 million during the same period reflecting increases in low-interest loans from the state of North Carolina net of principal payments on long-term debt.

OWASA anticipates continued increases in net position arising from its planned capital improvements program and projected excess of revenues and contributions over expenditures.

<b>Orange Water and Sewer Authority</b> <b>Revenues, Expenses and Change in Net Position</b> <b>(\$ Millions)</b>			
	<b>Fiscal Year Ended</b>		<b>Percentage of</b>
	<b><u>2023</u></b>	<b><u>2022</u></b>	<b>Change</b>
<b>Operating revenues</b>			
Drinking water	\$21.4	\$18.9	13.2%
Wastewater	20.4	18.0	13.3
Reclaimed water	0.4	0.5	(20.0)
Other	<u>0.4</u>	<u>0.6</u>	(33.3)
Total operating revenues	42.6	38.0	12.1
Operating expenses	<u>37.9</u>	<u>34.3</u>	10.5
<b>Operating income</b>	4.7	3.7	27.0
<b>Non-operating revenues</b>			
System development fees	0.8	0.8	0.0
Amortization of bond and lease revenue	0.9	1.0	(10.0)
Interest	0.7	0.0	
Cell phone tower rental	0.4	0.4	0.0
Grants	0.1	0.3	(66.7)
Miscellaneous	<u>0.0</u>	<u>0.1</u>	(100.0)
Total non-operating revenues	2.9	2.6	11.5
<b>Non-operating expenses</b>			
Interest	2.8	3.2	(12.5)
Cost of issuance	<u>0.3</u>	<u>0.0</u>	
Total non-operating expenses	<u>3.1</u>	<u>3.2</u>	(3.1)
Net non-operating	<u>(0.2)</u>	<u>(0.6)</u>	(66.7)
<b>Income before contributions</b>	4.5	3.1	45.2
Capital contributions	<u>4.1</u>	<u>0.9</u>	355.6
<b>Increase (decrease) in net position</b>	8.6	4.0	115.0
Net position, July 1	<u>283.5</u>	<u>279.5</u>	1.4
Net position, June 30	<u>\$292.1</u>	<u>\$283.5</u>	3.0

The above condensed two-year comparison of Revenues, Expenses and Change in Net Position, combined with the following discussion provides additional insight regarding changes in net position.

- **Operating Revenues:** OWASA is not empowered to levy or collect taxes, nor does OWASA receive funding from the taxing authorities within its service area. OWASA's operations, capital improvements program and debt service are funded almost entirely from fees charged to customers for water, wastewater, and reclaimed water services, and other related services. As a result, OWASA's revenue stream is impacted by fluctuations in demand for services and other economic factors.

Revenues derived from water, wastewater, and reclaimed water services are comprised of two components; a fixed monthly service charge based on the size of the installed water meter and a monthly volume usage (commodity) charge per thousand gallons of water consumed. The wastewater commodity charge is measured based on water consumption. However, for single-family residential customers, the wastewater commodity charge incorporates the assumption that not all water consumed is returned to the wastewater system. Wastewater billings for residential customers are capped at 15,000 gallons per month. All rates, fees and charges are calculated under a cost-of-service rate-making methodology.

In FY 2023, drinking water volume sales averaged 5.9 million gallons per day (mgd); the average for 2022 was 5.8 mgd.

Drinking water demand remains much lower than long-term historical trends and reflects OWASA's and its customers' continued commitment to water conservation, the conservation signal delivered through the increasing block rate and seasonal pricing structures for single-family residential and nonresidential customers, respectively, and the use of reclaimed water by the University of North Carolina. Operating revenues for FY 2023 were about 12.1% greater than the previous year or \$42.6 million.

- **Operating Expenses:** Operating expenses were \$37.9 million or about 10.5% greater than FY 2022. Operating expenses include a \$12.1 million charge for depreciation and a \$93,000 charge for post-employment benefits. OWASA's ability to meet operating expenses and adequately cover debt service remained positive.
- **Non-Operating Revenues (Expenses):** Non-operating revenues are comprised primarily of system development fees, interest earnings, and rents. System development fees are calculated to recover from new customers a share of the cost of system capacity when a new connection is made to the system. Non-operating expenditures are made up primarily of interest expense on debt and amortization of bond expenses.

System development fee revenue was approximately \$812,000 in FY 2023: about 1.4% greater than FY 2022. Interest earned in FY 2023 totaled about \$685,000. Investments remained in safe and liquid secured deposits.

- **Capital Contributions:** Capital contributions totaled approximately \$4.1 million for the year and were comprised of construction costs of developer dedicated facilities. Contributions in aid of construction in the form of dedicated service lines are classified as contributions after net income. Although OWASA receives such contributions annually, these transactions are not cash or cash equivalents and are not included in the budget under the modified accrual method.

## Capital Assets

Each year, OWASA expands or places into service new and renewed capital assets. Capital assets net of depreciation as of the end of FY 2023 was about \$370.4 million, a decrease of approximately \$12.1 million from FY 2022. The net decrease consisted of additions totaling \$23.8 million and a reduction due to depreciation of \$11.7 million. The asset additions included the rehabilitation or replacement of various water and wastewater mains and improvements to the Jones Ferry Road Water Treatment Plant and the Mason Farm Wastewater Treatment Plant.

The majority of OWASA's capital expenditures over the next 15 years is expected to be invested in replacing and rehabilitating existing assets. System capacity is expected to be sufficient to meet the community's needs well into the future. Please refer to page 24 for additional information on capital assets.

Orange Water and Sewer Authority Capital Assets (\$ Millions)			
	Fiscal Year Ended		Percentage of
	<u>2023</u>	<u>2022</u>	Change
Land	\$17.8	\$17.8	0.0%
Construction in progress	30.6	48.4	(36.8)
Water treatment and distribution	127.3	109.7	16.0
Wastewater collection and treatment	175.3	162.1	8.1
Fixtures and equipment	18.3	19.6	(6.6)
Right-to-use assets	<u>1.1</u>	<u>0.6</u>	83.3
Total	<u>\$370.4</u>	<u>\$358.2</u>	3.4

### Debt Administration

OWASA policy stipulates that at least 30% of capital improvements projects be funded with cash from operations. At June 30, 2023 and 2022, OWASA's outstanding bond and loan debt totaled \$86.7 million, \$89.6 million respectively, net of applicable premiums, discounts and deferred refunding costs. These amounts consist of a low-interest and interest-free loans from the state of North Carolina, and water and wastewater system revenue refunding bonds issued in fiscal years 2014, 2018, 2019, 2020, and 2021. At year end, OWASA owed an accrued debt service liability of approximately \$3.9 million. This amount was credited in full to the trustee restricted bond service account as of June 30, 2023.

OWASA's credit ratings for its bonds are AAA by Standard & Poor's, Aa1 by the Moody's, AA+ by Fitch Ratings. These ratings reflect OWASA's strong fiscal policy and standards and are considered excellent for an entity that does not have taxing authority.

Please refer to page 25 in the Notes to Financial Statements section for greater detail on OWASA's outstanding debt obligations.

### Economic Factors

OWASA's location in Orange County, North Carolina includes a number of factors that benefit the organization and, thereby, its customers.

- The University of North Carolina at Chapel Hill (UNC) is OWASA's largest customer and accounts for approximately 20% of total drinking water sales.
- The Carrboro-Chapel Hill economy benefits from the size and strength of UNC and UNC Healthcare: public entities that serve the entire state. The University continues to actively plan and develop new facilities and infrastructure.
- There are no major industries in the service area that are subject to significant changes in economic conditions.
- Orange County's unemployment rate has historically been better than the state and national average.

OWASA encourages water conservation through public education, voluntary and mandatory water use restrictions, and pricing structures. Reduced water use through conservation provides many benefits to the community including extending the life of OWASA's water supply and system capacity. The organization continues to strive to improve efficiencies and reduce costs to limit rate increases without adversely impacting services levels.

### **FY 2024 Budget Highlights**

OWASA's Board of Directors approved a budget that includes a 9% increase in the rates charged for monthly water and sewer services.

Last year, we projected that we would need to implement a 7% rate increase in FY 2024. Several factors led to the need for a larger rate increase to fund the FY 2023 budget.

- Drinking water sales remain flat.
- Inflation and supply chain issues continue to impact costs.
- Significant investments in our drinking water treatment process are required to meet proposed new regulations concerning per- and polyfluoroalkyl substances (PFAS).

The FY 2024 budget for Operating expenses is about 14% greater than the original FY 2023 budget. Capital improvement expenditures are budgeted to be approximately \$16.1 million.

### **Requests for Information**

This report is designed to provide an overview of Orange Water and Sewer Authority's finances. Questions concerning any of the information found in this report or requests for additional information may be directed to the Director of Finance and Customer Service, 400 Jones Ferry Road, Carrboro, North Carolina 27510-2001.

## **Financial Statements**

The financial statements of OWASA have been audited by certified public accountants for the fiscal year ended June 30, 2023. Copies of these financial statements containing the unqualified report of the independent certified public accountants are available online at [owasa.org](http://owasa.org) or in the office of Stephen Winters, CPA, Deputy Executive Director, 400 Jones Ferry Road, Carrboro, North Carolina 27510, (919) 537-4230. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to OWASA for its Annual Comprehensive Financial Report for the fiscal year ended June 30, 2023 (the most recent award year). To receive this award, the highest form of recognition in governmental financial reporting, a governmental unit must publish a financial report which complies with both generally accepted accounting principles and applicable legal requirements.

The following financial statements are the basic financial statements of OWASA and the notes thereto, lifted from the audited Annual Comprehensive Financial Report of OWASA for the fiscal year ended June 30, 2023.

This page intentionally left blank.

# ORANGE WATER AND SEWER AUTHORITY

## STATEMENT OF NET POSITION PROPRIETARY FUND JUNE 30, 2023

	<u>2023</u>
<b>Assets:</b>	
Current assets:	
Cash and cash equivalents	\$ 19,236,323
Receivables:	
Trade accounts (net of allowances for uncollectible accounts of approximately \$220,000 for 2023)	4,244,179
Other receivables	1,723,152
Inventory, materials, and supplies	2,190,874
Leases receivable	207,523
Prepaid expenses	340,095
Restricted cash and cash equivalents:	
Cash and cash equivalents	1,133,893
Cash and cash equivalents, trustee	<u>3,894,769</u>
Total current assets	<u>32,970,808</u>
Non-current assets:	
Restricted cash and cash equivalents	355,658
Lease receivable, non-current	424,237
Capital assets:	
Non-depreciable	48,445,990
Depreciable	<u>321,967,938</u>
Total capital assets, net of accumulated depreciation and amortization	<u>370,413,928</u>
Total non-current assets, net	<u>371,193,823</u>
Total assets	<u>404,164,631</u>
<b>Deferred Outflows of Resources:</b>	
Contributions to pension plan in current fiscal year	1,156,175
Pension deferrals	3,284,933
Contributions to OPEB plan in current fiscal year	320,062
OPEB deferrals	2,575,370
Deferred charge on refunding	<u>280,805</u>
Total deferred outflows of resources	<u>7,617,345</u>

*The accompanying notes are an integral part of the financial statements.*

# ORANGE WATER AND SEWER AUTHORITY

## STATEMENT OF NET POSITION PROPRIETARY FUND JUNE 30, 2023

	<u>2023</u>
<b>Liabilities:</b>	
Current liabilities:	
Payable from current assets:	
Trade and construction contracts payable	3,915,274
Accrued expenses	480,491
Payable from restricted cash and cash equivalents:	
Accrued interest	709,950
Customer deposits and advances	1,489,551
Current maturity of note payable	1,113,284
Current maturity of bonds payable	6,167,608
Current portion of compensated absences	522,456
Current maturity of lease liabilities	67,783
Current maturity of subscription liabilities	69,038
Current maturity of OPEB liabilities	<u>263,768</u>
Total current liabilities	<u>14,799,203</u>
Non-current liabilities:	
Note payable	15,558,294
Bonds payable	62,815,060
Compensated absences	174,152
Lease liabilities	846,446
Subscription liabilities	48,584
Net pension liability	6,896,084
Total OPEB liability	<u>12,084,265</u>
Total non-current liabilities	<u>98,422,885</u>
Total liabilities	<u>113,222,088</u>
<b>Deferred Inflows of Resources:</b>	
Leases	657,911
Pension deferrals	93,232
OPEB deferrals	<u>5,696,850</u>
Total deferred inflows of resources	<u>6,447,993</u>
<b>Net Position:</b>	
Net investment in capital assets	284,008,636
Restricted for capital reserve	355,658
Unrestricted	<u>7,747,601</u>
Total net position	<u>\$ 292,111,895</u>

*The accompanying notes are an integral part of the financial statements.*



# ORANGE WATER AND SEWER AUTHORITY

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUND FOR THE YEAR ENDED JUNE 30, 2023

	<u>2023</u>
<b>Operating Revenues:</b>	
Water	\$ 21,407,013
Wastewater	20,368,662
Service initiation fees	16,585
Reclaimed water	436,884
Other	<u>372,756</u>
Total operating revenues	<u>42,601,900</u>
<b>Operating Expenses:</b>	
Water supply and treatment	5,832,875
Water distribution	4,697,054
Wastewater treatment	5,819,613
Wastewater collection	1,540,164
General and administrative	7,767,815
Depreciation and amortization	12,135,862
Other post-employment benefits	<u>92,980</u>
Total operating expenses	<u>37,886,363</u>
Operating income (loss)	<u>4,715,537</u>
<b>Non-Operating Revenues (Expenses):</b>	
System development fees	812,400
Investment income, net of fair value of investments adjustment	684,832
Interest expense	(2,778,038)
Amortization of bond expense	939,784
Gain (loss) on disposal of capital assets	4,604
Grants	38,417
Cell phone tower rental	409,672
Miscellaneous	13,629
Costs of issuance	<u>(272,584)</u>
Total non-operating revenues (expenses)	<u>(147,284)</u>
Income (loss) before capital contributions	<u>4,568,253</u>
<b>Capital Contributions:</b>	
Capital grants and contributions	640,000
Contributions in aid of construction	<u>3,428,631</u>
Total capital contributions	<u>4,068,631</u>
Change in net position	8,636,884
<b>Net Position:</b>	
Beginning of year - July 1	<u>283,475,011</u>
End of year - June 30	<u><u>\$ 292,111,895</u></u>

*The accompanying notes are an integral part of the financial statements.*

# **ORANGE WATER AND SEWER AUTHORITY**

## **STATEMENT OF CASH FLOWS PROPRIETARY FUND FOR THE YEAR ENDED JUNE 30, 2023**

	<u><b>2023</b></u>
<b>Cash Flows from Operating Activities:</b>	
Receipts from customers	\$ 41,773,446
Payments to suppliers	(11,424,054)
Payments to employees	(12,967,576)
Other receipts	<u>473,277</u>
Net cash provided (used) by operating activities	<u>17,855,093</u>
 <b>Cash Flows from Non-Capital Financing Activities:</b>	
Non-operating grants	<u>120,000</u>
 <b>Cash Flows from Capital and Related Financing Activities:</b>	
Acquisition and construction of capital assets	(20,394,452)
Proceeds from disposal of capital assets	4,604
Costs of issuance	(272,584)
Lease payments received	404,539
Principal paid on bond maturities and other long-term debt	(6,392,686)
Interest paid on bond maturities and other long-term debt	(2,881,610)
System development fees received	812,400
Proceeds from issuance of debt	<u>3,850,544</u>
Net cash provided (used) by capital and related financing activities	<u>(24,869,245)</u>
 <b>Cash Flows from Investing Activities:</b>	
Interest and dividends on investments	<u>684,832</u>
 Net increase (decrease) in cash and cash equivalents	(6,209,320)
 <b>Cash and Cash Equivalents:</b>	
Beginning of year - July 1	<u>30,829,963</u>
 End of year - June 30	<u><u>\$ 24,620,643</u></u>

*The accompanying notes are an integral part of the financial statements.*

# ORANGE WATER AND SEWER AUTHORITY

## STATEMENT OF CASH FLOWS PROPRIETARY FUND FOR THE YEAR ENDED JUNE 30, 2023

	<u>2023</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>	
Operating income (loss)	\$ 4,715,537
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	12,135,862
(Gain) loss on sale of property, plant, and equipment	131,665
Changes in assets and liabilities:	
(Increase) decrease in trade accounts receivable	(143,322)
(Increase) decrease in other receivables	(312,376)
(Increase) decrease in inventory	(306,278)
(Increase) decrease in prepaid expenses	(85,909)
(Increase) decrease in deferred outflows of resources for OPEB	569,584
(Increase) decrease in deferred outflows of resources for pensions	(1,583,354)
Increase (decrease) in trade and construction contracts payable	979,378
Increase (decrease) in customer deposits	100,521
Increase (decrease) accrued expenses	73,470
Increase (decrease) compensated absences	6,299
Increase (decrease) in net pension liability	5,020,801
Increase (decrease) in deferred inflows of resources for pensions	(2,650,336)
Increase (decrease) in deferred inflows of resources for OPEB	2,137,376
Increase (decrease) in other post-employment benefits	(2,933,825)
Net cash provided (used) by operating activities	<u>\$ 17,855,093</u>
<b>Non-Cash Capital and Related Financing Activities:</b>	
Property, plant, and equipment contributed by private developers	\$ 3,428,631
Lease receivable	257,019
Subscription assets acquired in exchange for a subscription liability	186,337
Right-to-use assets acquired in exchange for a lease liability	394,251
Total non-cash capital and related financing activities	<u>\$ 4,266,238</u>

*The accompanying notes are an integral part of the financial statements.*

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

### 1. Summary of Significant Accounting Policies

The accounting policies of Orange Water and Sewer Authority conform to generally accepted accounting principles as they apply to governments. The following is a summary of the more significant accounting policies:

#### A. Reporting Entity

Orange Water and Sewer Authority (the “Authority”) was created pursuant to Chapter 162A of the North Carolina General Statutes by the Board of Commissioners of Orange County and the Town Councils of the Town of Chapel Hill and Town of Carrboro in June 1975, as a public entity, politic and corporate, for the purpose of acquiring, consolidating, improving, and operating the existing water and sewer systems serving the above governmental jurisdictions and certain contiguous areas. The Authority is a separate governmental unit granted independent authority by the North Carolina General Statutes to allow the Authority’s Board of Directors to set rates, fees, and charges without oversight, supervision, or direction from any other state or local entity or agency.

Because the Town Council of Chapel Hill appoints a majority of the Authority’s Board of Directors and may remove them without cause, the Authority falls within the definition of a “Component Unit” provided in applicable accounting standards. For this reason, the Authority’s financial data is incorporated into the Annual Comprehensive Financial Report of the Town of Chapel Hill.

#### B. Basis of Presentation

The business-type activities are financed in whole or in part by fees charged to external parties. All activities of the Authority are considered business-type activities.

*Fund Financial Statements.* The fund financial statements provide information about the Authority’s funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions. The Authority has one fund category - proprietary funds.

#### Enterprise Fund

The Enterprise Fund is used to account for those operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Authority operates as a singular enterprise fund.

The Enterprise Fund is considered a major fund for the year ended June 30, 2023.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

### C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Authority are maintained during the year using the modified accrual basis of accounting.

*Proprietary Fund Financial Statements.* The proprietary fund financial statements are reported using the economic resources measurement focus. The proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's Enterprise Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### D. Budgetary Data

Annual budgets are adopted on a basis consistent with provisions of the North Carolina Local Government Budget and Fiscal Control Act, which is the modified accrual method of accounting. All annual appropriations lapse at fiscal year-end.

The Authority begins developing its budget in the second quarter of each year and the Board of Directors approves the budget in early June after public hearings are held.

Budgeted revenues are reflected by source and budgeted expenses by department. On a periodic basis, as required by changing conditions, the budgeted amounts are amended. The budgeted amounts shown in the supplemental schedules reflect the governing board's amendments through the fiscal year-end. Expenditures may not legally exceed appropriations at the object level.

### E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity

#### Deposits and Investments

All deposits of the Authority are made in Board-designated official depositories and are secured as required by G.S. 159-31.

The Authority may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Authority may establish time deposit accounts such as money market accounts and certificates of deposit.

State law [G.S. 159-30] authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the state of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high-quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust ("NCCMT").

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

The Authority's investments with a maturity of more than one year at acquisition and non-money market investments are reported at cost or amortized cost, which approximates their fair value as determined by quoted market prices. The NCCMT Government Portfolio, an SEC-registered (2a-7) money market fund, is measured at fair market value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

### Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

### Restricted Assets

Certain proceeds of the Authority's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Position, because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Customer deposits held by the Authority before any services were supplied are restricted to the service for which the deposits were collected. Capital reserve amounts are restricted for future maintenance and repairs.

<b>Orange Water and Sewer Authority Restricted Cash</b>	
<b>Business-Type Activities:</b>	<b>2023</b>
Bond service	\$ 3,894,769
Capital reserve	355,658
Customer deposits	1,133,893
Total business-type activities	<u>\$ 5,384,320</u>

### Receivables

All trade receivables are shown net of an allowance for uncollectibles. Trade receivables are determined to be uncollectible based on collection history for similar customers. The Authority grants credit to residential, business and industrial customers, substantially all of whom are local to the Orange County, North Carolina, area.

### Allowance for Doubtful Accounts

The Authority historically experiences uncollectible accounts, and accounts receivable is shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years. The allowance was \$220,000 at June 30, 2023.

### Lease Receivable

The Authority's lease receivables are measured at the present value of lease payments expected to be received during the lease terms. Under the lease agreements, the Authority may receive variable lease payments that are dependent upon the lessee's revenue. The variable payments are recorded as an inflow of resources in the period the payments in received.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

A deferred inflow of resources is recorded for the lease. The deferred inflows of resources are recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivables. The deferred inflows of resources are amortized on a straight-line basis over the term of the lease.

### Inventory and Prepaid Items

Materials and supplies are valued at average cost and are held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the Statement of Net Position and expensed as the items are used.

### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair market value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment are depreciated using the straight-line method by groups or classes of property over the following expected service lives:

	<u>Years</u>
Water treatment and distribution	20-60
Sewer collection and treatment	40-60
Fixtures and equipment	5-20

Assets under capitalized lease obligations are recorded at the discounted present value of the future minimum lease payments at the inception of the respective leases. The amounts capitalized are being amortized by the straight-line method over the lesser of the term of the lease or the estimated life of the asset. Amortization of these assets is included in depreciation expense.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

### Right-to-Use Assets

The Authority has recorded right-to-use assets as a result of implementing GASB 87. The right-to-use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right-to-use assets are amortized on a straight-line basis over the life of the related lease.

The Authority has recorded the right-to-use subscription assets related to subscription-based information technology arrangements (SBITAs) as a result of implementing GASB 96. The right to use subscription assets are initially measured at an amount equal to the initial measurement of the subscription liability plus payments made to the SBITA vendor before commencement of the subscription term, plus capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. The right-to-use subscription assets are amortized on a straight-line basis over the life of the related SBITA.

### Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net assets that applies to future periods and so will not be recognized as an expense or expenditure until then. The Authority has several items that meet these criteria, an unamortized loss on bond defeasance for water and sewer refunding bonds, pension related deferrals, contributions made to the pension plan in the current fiscal year, contributions made to the OPEB plan in the current fiscal year, and OPEB related deferrals. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net assets that applies to future periods and so will not be recognized as revenue until then. The Authority has three items that meet these criteria in the current year – leases, pension related deferrals, and OPEB related deferrals.

### Compensated Absences

It is the Authority's policy to permit employees to accumulate earned, but unused, vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the Authority does not have a policy to pay any amounts when employees separate from service with the Authority. All vacation pay is accrued when incurred in the financial statements. At June 30, 2023, the Authority had recorded a liability for accrued vacation and the salary-related payments of \$696,608.

### Long-Term Debt

Long-term debt is reported net of applicable bond premium or discount, which are deferred and amortized over the life of the bonds using the effective interest method.



# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

### Net Position

Net position in the proprietary fund financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Net position classified as net investment in capital assets, consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted for Capital Reserve* – represents a portion of net position that is restricted by revenue source for future maintenance and capital.

Unrestricted net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

### F. Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with the Authority’s principal ongoing operations, which is the sale of water and treatment of wastewater for its customers. The Authority also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expense for the Authority includes the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### G. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

### H. Defined Benefit Cost-Sharing Pension Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the Local Governmental Employees’ Retirement System (LGERS) and additions to/deductions from LGERS fiduciary net positions have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Authority’s employer contributions are recognized when due and the Authority has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the state-administered defined benefit pension plans. Investments are reported at fair value.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

### 2. Detail Notes On All Funds

#### Assets

#### Deposits

All of the Authority's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Authority's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Authority, these deposits are considered to be held by their agents in the Authority's name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Authority, or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Authority, under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Authority has no policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce standards for minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Authority complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2023, the Authority's deposits had a carrying amount of \$5,732,320 and a bank balance of \$6,767,484. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$6,517,484 in deposits was covered by collateral held under the Pooling Method. The Authority had cash on hand of \$1,800 at June 30, 2023.

#### Cash Equivalents

At June 30, 2023, the Authority's cash equivalents balance was as follows:

Investment Type	Valuation	Fair Value	Less Than 6 Months
	Measurement Method		
NC Capital Management Trust - government portfolio	Fair Value Level 1	<u>\$ 18,886,523</u>	<u>\$18,886,523</u>

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1 debt securities are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

*Interest Rate Risk.* The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* The Authority's policy regarding credit risk is that funds shall not be exposed to undue or unreasonable risk. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations ("NRSROs"). The Authority's investment in the NCCMT government portfolio carried a credit rating of AAAM by Standard & Poor's and AAA-mf by Moody's Investors Service as of June 30, 2023.

### Receivables

Receivables, net of allowance for uncollectible accounts, at June 30, 2023 were as follows:

	<u>2023</u>
Utility accounts receivable	\$ 4,244,179
Grants receivable	702,074
Other receivable	<u>1,021,078</u>
Total receivables, net	<u><u>\$ 5,967,331</u></u>

### Leases Receivable

In October 2021, the Authority entered into a 60-month lease as lessor with a cell phone carrier. An initial lease receivable was recorded in the amount of \$266,371. Under the lease, the cell phone carrier pays the Authority \$55,000 annually through 10/19/2026 in exchange for a license to a portion of the property located at 609 Piney Mountain Road, Chapel Hill, NC for placement of cellular equipment. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 1.62%, which is the calculated Incremental Borrowing Rate. As of June 30, 2023, the value of the lease receivable is \$159,795 and the value of the deferred inflow of resources was \$159,823. During fiscal year 2023, the Authority recognized \$53,274 of lease revenue and \$3,424 of interest revenue under the lease.

In December 2022, the Authority entered into a 60-month lease as lessor with a cell phone carrier. An initial lease receivable was recorded in the amount of \$257,019. Under the lease, the cell phone carrier pays the Authority \$55,000 annually through 12/14/2027 in exchange for a license to a portion of the property located at 609 Piney Mountain Road, Chapel Hill, NC for placement of cellular equipment. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 3.5%, which is the calculated Incremental Borrowing Rate. As of June 30, 2023, the value of the lease receivable is \$202,019 and the value of the deferred inflow of resources was \$205,615. During fiscal year 2023, the Authority recognized \$78,904 of lease revenue under the lease and \$0 of interest revenue under the lease.

# **ORANGE WATER AND SEWER AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023**

In February 2022, the Authority entered into a 60-month lease as lessor with a cell phone carrier. An initial lease receivable was recorded in the amount of \$262,809. Under the lease, the cell phone carrier pays the Authority \$55,000 annually through 2/14/2027 in exchange for a license to a portion of the property located at 251 Manning Drive, Chapel Hill, NC for placement of cellular equipment. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 2.32%, which is the calculated Incremental Borrowing Rate. As of June 30, 2023, the value of the lease receivable is \$157,630 and the value of the deferred inflow of resources was \$157,685. During fiscal year 2023, the Authority recognized \$52,562 of lease revenue and \$4,821 of interest revenue under the lease.

In April 2019, the Authority entered into a 60-month lease as lessor with a cell phone carrier. An initial lease receivable was recorded in the amount of \$116,169. Under the lease, the cell phone carrier pays the Authority \$60,500 annually through 3/31/2024 in exchange for a license to a portion of the property located at 609 Piney Mountain Road, Chapel Hill, NC for placement of cellular equipment. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 2.76%, which is the calculated Incremental Borrowing Rate. As of June 30, 2023, the value of the lease receivable is \$0 and the value of the deferred inflow of resources was \$0. During fiscal year 2023, the Authority recognized \$58,084 of lease revenue and \$1,625 of interest revenue under the lease.

In July 2018, the Authority entered into a 60-month lease as lessor with a cell phone carrier. An initial lease receivable was recorded in the amount of \$110,000. Under the lease, the cell phone carrier pays the Authority \$55,000 annually through 7/31/2023 in exchange for a license to a portion of the property located at 251 Manning Drive, Chapel Hill, NC for placement of cellular equipment. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 0.0%, which is the calculated Incremental Borrowing Rate. As of June 30, 2023, the value of the lease receivable is \$0 and the value of the deferred inflow of resources was \$0. During fiscal year 2022, the Authority recognized \$55,000 of lease revenue under the lease.

In July 2018, the Authority entered into a 60-month lease as lessor with a cell phone carrier. An initial lease receivable was recorded in the amount of \$110,000. Under the lease, the cell phone carrier pays the Authority \$55,000 annually through 7/1/2023 in exchange for a license to a portion of the property located at 251 Manning Drive, Chapel Hill, NC for placement of cellular equipment. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 0.0%, which is the calculated Incremental Borrowing Rate. As of June 30, 2023, the value of the lease receivable is \$0 and the value of the deferred inflow of resources was \$0. During fiscal year 2023, the Authority recognized \$55,000 of lease revenue under the lease.

In August 2020, the Authority entered into a 60-month lease as lessor with a cell phone carrier. An initial lease receivable was recorded in the amount of \$224,646. Under the lease the cell phone carrier pays the Authority \$55,000 annually. Commencing August 1, 2020, and each year thereafter, the license fee will increase by 2.0% over the license paid in the previous year. This will continue through 8/1/2025 in exchange for a license to a portion of the property located at 251 Manning Drive, Chapel Hill, NC for placement of cellular equipment. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 1.14%, which is the calculated Incremental Borrowing Rate. As of June 30, 2023, the value of the lease

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

receivable is \$112,316 and the value of the deferred inflow of resources was \$134,788. During fiscal year 2023, the Authority recognized \$44,929 of lease revenue and \$1,910 of interest revenue under the lease.

Year Ending June 30	Lease Receivables		
	Principal Payments	Interest Payments	Total
2024	\$ 207,523	\$ 14,597	\$ 222,120
2025	211,878	10,242	222,120
2026	159,219	5,781	165,000
2027	53,140	1,860	55,000
Total	<u>\$ 631,760</u>	<u>\$ 32,480</u>	<u>\$ 664,240</u>

### Capital Assets

A summary of changes in the Authority's capital assets follows:

	Balance July 1, 2022	Increases	Decreases	Transfers	Balance June 30, 2023
<b>Non-Depreciable Assets:</b>					
Land	\$ 17,844,022	\$ -	\$ -	\$ -	\$ 17,844,022
Construction in progress	48,401,404	19,061,703	-	(36,861,139)	30,601,968
Total non-depreciable assets	<u>66,245,426</u>	<u>19,061,703</u>	<u>-</u>	<u>(36,861,139)</u>	<u>48,445,990</u>
<b>Depreciable Assets:</b>					
Water treatment and distribution	192,676,770	2,435,023	-	19,224,443	214,336,236
Sewer collection and treatment	253,022,397	1,390,798	-	17,273,737	271,686,932
Fixtures and equipment	59,882,879	935,559	(553,835)	301,860	60,566,463
Right-to-use lease equipment	220,471	13,538	-	-	234,009
Right-to-use lease solar equipment	465,989	380,713	-	-	846,702
Subscription assets	-	186,337	-	-	186,337
Total depreciable assets	<u>506,268,506</u>	<u>5,341,968</u>	<u>(553,835)</u>	<u>36,800,040</u>	<u>547,856,679</u>
<b>Less Accumulated Depreciation and Amortization:</b>					
Water treatment and distribution	83,013,654	4,071,307	-	-	87,084,961
Sewer collection and treatment	90,883,038	5,459,078	-	-	96,342,116
Fixtures and equipment	40,275,833	2,455,010	(483,269)	-	42,247,574
Right-to-use lease equipment	44,983	48,763	-	-	93,746
Right-to-use lease solar equipment	18,640	33,868	-	-	52,508
Subscription assets	-	67,836	-	-	67,836
Total accumulated depreciation and amortization	<u>214,236,148</u>	<u>\$ 12,135,862</u>	<u>\$ (483,269)</u>	<u>\$ -</u>	<u>225,888,741</u>
Total depreciable assets	<u>292,032,358</u>				<u>321,967,938</u>
Capital assets, net	<u>\$ 358,277,784</u>				<u>\$ 370,413,928</u>

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

### Construction Commitments

The Authority is committed under various contracts for the completion of water and wastewater treatment facilities and other water and sewer projects. Management estimates the cost to complete these contracts to be approximately \$9,126,121 at June 30, 2023.

### Net Investment in Capital Assets

The total net investment in capital assets is composed of the following elements:

	<u>2023</u>
Capital assets, net	\$ 370,413,928
Total debt, gross	(86,686,097)
Deferred charge related to debt	<u>280,805</u>
Net investment in capital assets	<u><u>\$ 284,008,636</u></u>

### Right-to-Use Lease Assets

The Authority has recorded eight right-to-use lease assets. The assets are right-to-use assets for lease equipment. The related leases are discussed in the leases subsection of the liabilities section of this note. The right-to-use lease assets are amortized on a straight-line basis over the terms of the related leases.

### Liabilities

#### Long-Term Obligations

Long-term debt as of June 30, 2023 consists of the following:

	<u>2023</u>
<b>Revenue Bonds:</b>	
Revenue bonds payable, Series 2020 Revenue Bonds, in the amount of \$9,500,000, issued April 7, 2020, with coupon rates of 5.0%, final maturity June 2026; net of unamortized premium of \$343,036 at June 30, 2023	\$ 4,865,000
Revenue bonds payable, Series 2019 Revenue Bonds, in the amount of \$16,640,000, issued November 15, 2019, with coupon rates of 3.0% and 5.0%, final maturity June 2044; net of unamortized premium of \$1,530,553 at June 30, 2023	15,410,000
Revenue bonds payable, Series 2018 Refunding Revenue Serial bonds, in the amount of \$18,075,000, issued April 10, 2018, with a coupon rate of 2.3%, final maturity July 2029, net of unamortized premium of \$754,828 at June 30, 2023	15,315,000
Revenue bonds payable, Series 2014 Refunding Revenue Serial bonds, in the amount of \$15,695,000, issued December 18, 2014, with coupon rates of 3.0% and 5.0%, final maturity July 2031, net of unamortized premium of \$514,732 at June 30, 2023	10,690,000
Revenue bonds payable, Series 2021 Water and Sewer System Revenue Bonds, in the amount of \$18,840,000, issued April 8, 2021, with coupon rates of 5.0%, final maturity June 2046; net of unamortized premium of \$1,209,518 at June 30, 2023	<u>18,350,000</u>
	<u><u>\$ 64,630,000</u></u>

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

The revenue bonds are secured by pledged water and sewer customer revenues, net of specified operating expenses to repay revenue bonds. In the event of a default, the Authority agrees to pay to the purchaser, on demand, interest on any and all amounts due and owing by the Authority under the related agreements.

	<u>2023</u>
<b>Notes Payable Direct Borrowing:</b>	
Note payable to NCDEQ in the amount of \$6,560,000 issued October 4, 2014, interest at 0%, Federal Revolving loan, beginning May 2015, payable in annual installments of \$328,000, with a final payment due in May 2034	\$ 3,608,000
Note payable to NCDEQ in the amount of \$1,056,000 issued July 28, 2018, interest at 1.53%, DWSRF loan, beginning May 2019, payable in annual installments of \$52,800, with a final payment due in May 2038	741,419
Note payable to NCDEQ in the amount of \$3,028,700 issued June 17, 2019, interest at 1.53%, DWSRF loan, beginning November 2020, due in annual installments, varying, with a final payment due in May 2040	2,388,560
Note payable to NCDEQ in the amount of \$1,658,000 issued September 12, 2017, interest at 1.53%, State Reserve Loan, beginning May 2021, due in annual installments, varying, with a final payment due in May 2040	1,409,301
Note payable to NCDEQ in the amount of \$1,525,000 issued August 1, 2017, interest at 1.53%, State Reserve Loan, beginning November 2020, due in annual installments, varying, with a final payment due in May 2040	1,285,419
Note payable to NCDEQ in the amount of \$670,156 issued April 7, 2020, interest at 1.42%, DWSRF loan, beginning May 2021, due in annual installments, varying, with a final payment due in May 2040	2,291,520
Note payable to NCDEQ in the amount of \$6,132,000 issued June 3, 2019, interest at 1.53%, Federal Revolving loan, beginning May 2020, payable in annual installments of \$266,429, with a final payment due in May 2039	4,262,869
Note payable to NCDEQ in the amount of \$1,071,000 issued July 27, 2019, interest at 1.53%, Federal Revolving loan, beginning May 2020, payable in annual installments of \$53,550, with a final payment due in May 2039	<u>684,490</u>
	<u>\$ 16,671,578</u>

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

The Authority's outstanding notes from direct borrowings related to business-type activities is not secured by a pledge of the faith and credit of the state of North Carolina or of the Authority but is payable solely from the revenues of the project or benefited systems, or other available funds. The note contains provisions that an event of default would result in (1) any other monies due to the Authority from the state may be withheld by the state and applied to the payment of the outstanding note.

Bonds payable maturities are as follows:

<b>Year Ending June 30</b>	<b>Maturities</b>	<b>Amortization of Premiums and Deferred Refunding Losses</b>	<b>Total</b>	<b>Interest</b>
2024	\$ 5,320,000	\$ 812,507	\$ 6,132,507	\$ 2,408,513
2025	5,645,000	673,572	6,318,572	2,137,638
2026	5,980,000	522,601	6,502,601	1,850,512
2027	4,495,000	421,307	4,916,307	1,578,051
2028	4,660,000	341,923	5,001,923	1,395,775
2029-2033	16,925,000	860,062	17,785,062	4,360,638
2034-2038	8,215,000	286,615	8,501,615	2,317,988
2039-2043	9,350,000	132,603	9,482,603	1,181,937
2044-2045	4,040,000	20,673	4,060,673	158,505
Total	<u>\$ 64,630,000</u>	<u>\$ 4,071,863</u>	<u>\$ 68,701,863</u>	<u>\$ 17,389,557</u>

Notes payable – direct borrowing maturities are as follows:

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2024	\$ 1,113,284	\$ 156,072	\$ 1,269,356
2025	1,110,824	144,797	1,255,621
2026	1,112,104	134,788	1,246,892
2027	1,113,397	124,960	1,238,357
2028	1,114,703	115,105	1,229,808
2029-2033	5,593,583	426,576	6,020,159
2034-2038	4,316,303	191,274	4,507,577
2039-2043	1,197,380	14,738	1,212,118
Total	<u>\$ 16,671,578</u>	<u>\$ 1,308,310</u>	<u>\$ 17,979,888</u>



# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

### Advance Refunding

On December 18, 2014, the Authority issued \$15,695,000 of Series 2014 revenue bonds to provide resources that were placed in an irrevocable trust to be used for all future debt service payments of \$16,430,000 of Series 2006 revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Position. The reacquisition price exceeded the net carrying amount of the old debt by \$561,010. This amount is being amortized over the life of the refunded debt, which is shorter than the life of the new debt issued. This advanced refunding was undertaken to reduce total debt service payments over the next 17 years by \$1,984,121 and resulted in an economic gain of \$1,596,310.

On April 7, 2020, the Authority issued \$9,500,000 of Series 2020 revenue bonds to provide resources that were placed in an irrevocable trust to be used for all future debt service payments of \$10,350,000 of Series 2010 revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Position. This advanced refunding was undertaken to reduce total debt service payments over the next 6 years by \$1,091,381 and resulted in an economic gain of \$1,024,076.

Long-term liability activity for the year ended June 30, 2023 is as follows:

	<u>Balance</u> <u>July 1, 2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2023</u>	<u>Due Within</u> <u>One Year</u>
Direct borrowings	\$ 14,060,466	\$ 3,850,544	\$ 1,239,432	\$ 16,671,578	\$ 1,113,284
<b>Bonds Payable:</b>					
Revenue bonds	69,635,000	-	5,005,000	64,630,000	5,320,000
For issuance premiums	5,327,553	-	974,885	4,352,668	847,608
Lease liabilities	622,727	371,041	79,539	914,229	67,783
Subscription liabilities	-	186,337	68,715	117,622	69,038
Compensated absences	690,309	639,765	633,466	696,608	522,456
Net pension liability (LGERS)	1,875,283	5,020,801	-	6,896,084	-
Total OPEB liability	15,281,858	-	2,933,825	12,348,033	263,768
Total	<u>\$107,493,196</u>	<u>\$ 10,068,488</u>	<u>\$ 10,934,862</u>	<u>\$ 106,626,822</u>	<u>\$ 8,203,937</u>

The Authority has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$64,630,000 in revenue bonds issued in 2014, 2018, 2019, 2020, and 2021. Proceeds from the bonds were used for rehabilitation or expansion of the Authority's water and sewer systems. Annual principal and interest payments are expected to require less than 22% of net revenues. Principal and interest on the bonds are payable through 2046, solely from the water and sewer customer net revenues. The total principal and interest remaining to be paid on the bonds is \$82,019,555. Principal and interest paid in the year ended June 30, 2023 was \$7,668,512 and total customer net revenues was \$42,601,900. There is no unused line of credit.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

The Authority is in compliance with the covenants to rates, fees, rentals, and charges in the bond order Section 7.04 Rate Covenant, authorizing the issuance of the Water and Sewer Revenue bonds, Series 2014, 2018, 2019, 2020, and 2021. The bond order requires the debt service coverage ratio to be no less than the greater of (I) 120% of the debt service requirements for parity indebtedness and (ii) 100% of the debt service requirements for parity indebtedness and subordinated indebtedness for such fiscal year.

The debt service coverage ratio calculation for the year ended June 30, 2023 is as follows:

Operating revenues	\$ 42,601,900
System development fees	812,400
Operating expenses*	<u>25,930,105</u>
Income available for debt service	<u>\$ 17,484,195</u>
Debt service on parity indebtedness - principal and interest paid	<u>\$ 7,668,512</u>
Debt service coverage ratio - parity indebtedness	<u>228%</u>
Subordinated indebtedness debt service - principal and interest paid	<u>\$ 1,550,286</u>
Debt service coverage ratio - parity and subordinated indebtedness	<u>190%</u>

\*Per rate covenants, this does not include depreciation, amortization, interest expense, or OPEB.

### Leases

The Authority has entered into agreements to lease certain equipment. The lease agreements qualify as other than short-term leases under GASB 87 and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

In April 2019, the Authority entered into an agreement to lease printing equipment which requires 60 monthly payments of \$507. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 2.8%, which is the stated rate in the lease agreement, and has an ending balance of \$4,509 at year end. As a result of the lease, the Authority has recorded a right-to-use asset with a net book value of \$4,397 on June 30, 2023.

In December 2021, the Authority entered into an agreement to lease postage equipment which requires 20 monthly payments of \$916. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 1.3%, which is the stated rate in the lease agreement, and has an ending balance of \$12,365 at year end. As a result of the lease, the Authority has recorded a right-to-use asset with a net book value of \$12,248 on June 30, 2023.

# **ORANGE WATER AND SEWER AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023**

In March 2021, the Authority entered into an agreement to lease printing equipment which requires 60 monthly payments of \$3,213. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 1.3%, which is the stated rate in the lease agreement, and has an ending balance of \$113,420 at year end. As a result of the lease, the Authority has recorded a right-to-use asset with a net book value of \$112,110 on June 30, 2023.

In January 2021, the Authority entered into an agreement to lease solar energy equipment which requires 26 annual payments of \$7,280. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 3.2%, which is the stated rate in the lease agreement, and has an ending balance of \$117,198 at year end. As a result of the lease, the Authority has recorded a right-to-use asset with a net book value of \$117,661 on June 30, 2023.

In September 2020, the Authority entered into an agreement to lease solar energy equipment which requires 25 annual payments of \$13,000. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 2.4%, which is the stated rate in the lease agreement, and has an ending balance of \$226,764 at year end. As a result of the lease, the Authority has recorded a right-to-use asset with a net book value of \$221,875 on June 30, 2023.

In January 2021, the Authority entered into an agreement to lease solar energy equipment which requires 25 annual payments of \$5,260. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 2.7%, which is the stated rate in the lease agreement, and has an ending balance of \$88,916 at year end. As a result of the lease, the Authority has recorded a right-to-use asset with a net book value of \$89,174 on June 30, 2023.

In December 2022, the Authority entered into an agreement to lease solar energy equipment which requires 25 annual payments of beginning at \$18,000 and escalating every five years to eventually reach \$25,500 in years 21 through 25. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 3.5%, which is the stated rate in the lease agreement, and has an ending balance of \$339,503 at year end. As a result of the lease, the Authority has recorded a right-to-use asset with a net book value of \$365,485 on June 30, 2023.

In November 2022, the Authority entered into an agreement to lease mailing equipment which requires 20 quarterly payments of \$734. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 3.5%, which is the stated rate in the lease agreement, and has an ending balance of 11,554 at year end. As a result of the lease, the Authority has recorded a right-to-use asset with a net book value of \$11,507 on June 30, 2023.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

Year Ending June 30	Business-Type Activities		
	Principal Payments	Interest Payments	Total
2024	\$ 67,783	\$ 25,477	\$ 93,260
2025	64,499	24,199	88,698
2026	65,754	22,945	88,699
2027	26,417	21,893	48,310
2028	24,618	21,156	45,774
2029-2033	132,594	94,606	227,200
2034-2038	164,461	72,739	237,200
2039-2043	201,802	45,398	247,200
2044-2047	166,301	12,319	178,620
Total	<u>\$ 914,229</u>	<u>\$ 340,732</u>	<u>\$ 1,254,961</u>

### Subscriptions

The Authority has entered into subscription agreements for the use of technology applications. The subscription agreements qualify as other than short-term subscriptions under GASB 96 and, therefore, have been recorded at the present value of the future minimum subscriptions payments as of the date of their inception.

In July 2022, the Authority entered into an agreement to use software which requires three annual payments of \$8,536, \$8,523, and \$8,444. There are no variable payment components of the agreement. The subscription liability is measured at a discount rate of 3.5%, which is the stated rate in the lease agreement, and has an ending balance of \$16,971 at year end. As a result of the agreement, the Authority has recorded a right to use asset with a net book value of \$17,005 on June 30, 2023.

In July 2022, the Authority entered into an agreement to use software which requires three annual payments of \$15,770, \$15,960, and \$15,960. There are no variable payment components of the agreement. The subscription liability is measured at a discount rate of 3.5%, which is the stated rate in the lease agreement, and has an ending balance of \$30,319 at year end. As a result of the agreement, the Authority has recorded a right to use asset with a net book value of \$30,726 on June 30, 2023.

In April 2023, the Authority entered into an agreement to use software which requires four annual payments of \$7,560. There are no variable payment components of the agreement. The subscription liability is measured at a discount rate of 3.5%, which is the stated rate in the lease agreement, and has an ending balance of \$21,180 at year end. As a result of the agreement, the Authority has recorded a right to use asset with a net book value of \$22,992 on June 30, 2023.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

In September 2020, the Authority entered into an agreement to use software which requires 48 annual payments of \$3,180, escalating at two percent per year. There are no variable payment components of the agreement. The subscription liability is measured at a discount rate of 3.5%, which is the stated rate in the lease agreement, and has an ending balance of \$49,152 at year end. As a result of the agreement, the Authority has recorded a right to use asset with a net book value of \$47,778 on June 30, 2023.

Year Ending June 30	Business-Type Activities		
	Principal Payments	Interest Payments	Total
2024	\$ 69,038	\$ 3,498	\$ 72,536
2025	41,280	1,407	42,687
2026	7,304	256	7,560
Total	<u>\$ 117,622</u>	<u>\$ 5,161</u>	<u>\$ 122,783</u>

### Pension Plan Obligations

#### Local Governmental Employees' Retirement System

*Plan Description.* The Authority is a participating employer in the state-wide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the state of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The LGERS is included in the Annual Comprehensive Financial Report (ACFR) for the State of North Carolina. The state's ACFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

*Benefits Provided.* LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Authority employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Authority's contractually required contribution rate for the year ended June 30, 2023, was 12.14% of compensation for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Authority were \$1,156,175, for the year ended June 30, 2023.

*Refunds of Contributions* – Authority employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions, or any other benefit provided by LGERS.

### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2023, the Authority reported a liability of \$6,896,084 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021. The total pension liability was then rolled forward to the measurement date of June 30, 2022 utilizing update procedures incorporating the actuarial assumptions. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2023, the Authority's proportion was 0.12224% (measured as of June 30, 2022), which was a decrease of 0.00004% from its proportion as of June 30, 2022 (measured as of June 30, 2021).

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

For the year ended June 30, 2023, the Authority recognized pension expense of \$1,943,286. At June 30, 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 297,146	\$ 29,133
Changes of assumptions	688,074	-
Net difference between projected and actual earnings on pension plan investments	2,279,227	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	20,486	64,099
Employer contributions subsequent to the measurement date	1,156,175	-
Total	<u>\$ 4,441,108</u>	<u>\$ 93,232</u>

\$1,156,175 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30</b>	<b>Amount</b>
2024	\$ 1,008,994
2025	848,815
2026	248,025
2027	1,085,867
Total	<u>\$ 3,191,701</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.25 to 8.25 percent, including inflation and productivity factor
Investment rate of return	6.50 percent, net of pension plan investment expense, including inflation

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

The plan currently uses mortality tables that vary by age, gender, employee group (i.e., general, law enforcement officer) and health status (i.e., disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. public plan population. The mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience prepared as of December 31, 2019 and adopted by the Board of Trustees on January 28, 2021.

Future ad hoc cost of living adjustment amounts are not considered to be substantively automatic and are, therefore, not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis.

These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2022 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real</u>
		<u>Rate of Return</u>
Fixed income	29.0%	1.1%
Global equity	42.0%	6.5%
Real estate	8.0%	5.9%
Alternatives	8.0%	7.5%
Opportunistic fixed income	7.0%	5.0%
Inflation sensitive	<u>6.0%</u>	2.7%
Total	<u>100%</u>	

The information above is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, and is part of the asset, liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.25%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized.



# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

*Discount Rate.* The discount rate used to measure the total pension liability was 6.50%. This discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits payments to determine the total pension liability.

*Sensitivity of the Authority's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate.* The following presents the Authority's proportionate share of the net pension liability (asset) calculated using the discount rate of 6.50 percent, as well as what the Authority's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
	<b><u>(5.50%)</u></b>	<b><u>Discount</u></b>	<b><u>Rate (6.50%)</u></b>
			<b><u>(7.50%)</u></b>
Authority's proportionate share of the net pension liability (asset)	<u>\$ 12,446,539</u>	<u>\$ 6,896,084</u>	<u>\$ 2,322,182</u>

*Pension Plan Fiduciary Net Position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Annual Comprehensive Financial Report (ACFR) for the state of North Carolina.

### **Other Post-Employment Benefits (OPEB)**

*Plan Description.* The Authority administers a single-employer, defined benefit plan (the OPEB plan) that provides health and life insurance benefits to eligible retirees. The Authority has the authority to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria in Paragraph 4 of GASB Statement No. 75.

*Benefits Provided.* If hired prior to September 1, 2019, an employee who retires with 30 or more years of service, or is at least age 60 with at least 10 years of service may continue in the Authority's group health plan until death. Eligible retirees are also provided life insurance coverage of \$5,000. Retiree cost sharing is as follows: For retirees age 60 with 10 to 15 years of service, the retiree pays 50% of the retiree premium. For retirees age 60 with 15 to 20 years of service, the retiree pays 25% of the retiree premium. For retirees age 60 with 20 or more years of service, the retiree pays 0% of the retiree premium. There is no spousal coverage provided. The Authority may amend the benefit provisions at any time. Coverage for all retirees who are eligible for Medicare will be transferred to a Medicare Supplemental plan after qualifying for Medicare. A separate stand-alone report is not issued.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

If hired after September 1, 2019, employees are required to contribute to a Retirement Health Savings (RHS) account. Employees will contribute 2% each pay period up to \$1,050 per plan year. The Authority will contribute \$35 per pay period up to \$956 per year. The employer contribution and the employee \$1,000 per plan year will increase annually by the Board approved Cost of Labor Adjustment.

All active full-time employees are eligible for membership. At June 30, 2022, the plan membership consisted of:

<b>Members</b>	
Retirees and dependents receiving benefits	47
Active members	125
Total	172

### **Total OPEB Liability**

The Authority's total OPEB liability of \$12,348,033 was measured as of June 30, 2022 and was determined by an actuarial valuation as of June 30, 2021.

*Actuarial Assumptions and Other Inputs.* The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.5 percent
Real wage growth	0.75 percent
Wage inflation	3.25 percent
Salary increases	3.25 - 8.41 percent, average, including inflation
Municipal Bond Index Rate	
Prior measurement date	2.16 percent
Measurement date	3.54 percent
Healthcare cost trend rates	Pre-Medicare - 7.00% for 2021 decreasing to an ultimate rate of 4.50% by 2031
	Medicare - 5.125% for 2021 decreasing to an ultimate rate of 4.50% by 2024

The discount rate used to measure the total OPEB liability is based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

### Changes in the Total OPEB Liability

<b>Total OPEB Liability:</b>	
Balance at July 1, 2022	<u>\$ 15,281,858</u>
Changes for the year:	
Service cost at end of year	453,621
Interest	336,927
Difference between expected and actual experience	1,927
Changes of assumptions or other inputs	(3,450,839)
Benefit payments and implicit subsidy credit	<u>(275,461)</u>
Net change in total OPEB liability	<u>(2,933,825)</u>
Balance at June 30, 2023	<u><u>\$ 12,348,033</u></u>

Changes in assumptions and other inputs reflect a change in the discount rate from 2.16% to 3.54%.

Mortality rates were based on the Pub-2010 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2019.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2015 – December 31, 2019, adopted by the LGERS Board.

The remaining actuarial assumptions (e.g., initial per capita costs, healthcare cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2021 valuation were based on a review of recent plan experience done concurrently with the June 30, 2021 valuation.

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate.* The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.54 percent) or 1-percentage-point higher (4.54 percent) than the current discount rate:

	<b>1% Decrease (2.54%)</b>	<b>Current Discount Rate (3.54%)</b>	<b>1% Increase (4.54%)</b>
Total OPEB liability	<u>\$ 14,723,581</u>	<u>\$ 12,348,033</u>	<u>\$ 10,491,762</u>

*Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates.* The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
Total OPEB liability	<u>\$ 10,315,739</u>	<u>\$ 12,348,033</u>	<u>\$ 14,995,865</u>

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

### OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2023, the Authority recognized OPEB expense of \$92,980. At June 30, 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 9,846	\$ 2,238,111
Changes of assumptions or other inputs	2,565,524	3,458,739
Contributions made to the OPEB plan in the current year	<u>320,062</u>	<u>-</u>
Total	<u><u>\$ 2,895,432</u></u>	<u><u>\$ 5,696,850</u></u>

\$320,062 reported at deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ending June 30, 2024. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2024	\$ (697,568)
2025	(608,295)
2026	(478,864)
2027	(370,461)
2028	(662,286)
Thereafter	<u>(304,006)</u>
Total	<u><u>\$ (3,121,480)</u></u>

### Other Employment Benefits

The Authority has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, state-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Authority, the Authority does not determine the number of eligible participants. The Authority

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the state. Separate rates are set for employees not engaged in law enforcement and law enforcement officers. The Authority considers these contributions to be immaterial.

### Deferred Outflows and Inflows of Resources

The Authority has several deferred outflows and deferred inflows of resources comprised of the following:

	<u>2023</u>
<b>Deferred Outflows:</b>	
Contributions to pension plan in current fiscal year	\$ 1,156,175
Pension deferrals	3,284,933
Contributions to OPEB plan in current fiscal year	320,062
OPEB deferrals	2,575,370
Deferred charge on refunding	280,805
Total	<u>\$ 7,617,345</u>
<b>Deferred Inflows:</b>	
Leases	\$ 657,911
Pension deferrals	93,232
OPEB deferrals	5,696,850
Total	<u>\$ 6,447,993</u>

### 3. Risk Management and Commitments

*Risk Management.* The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority has property, general liability, workers' compensation, and employee health coverage. Claims have not exceeded coverage in any of the past three fiscal years. The Authority's property insurance does have a flood coverage endorsement. Coverage is provided in zones B, C and X. There is a \$5M single occurrence and yearly aggregate limit and the deductible is \$50k for a single occurrence.

In accordance with G.S. 159-29, the Authority's employees that have access to \$100 or more at any given time of the Authority's funds are performance bonded through a commercial surety bond. As of June 30, 2023, the Finance Officer was bonded for \$200,000. Effective with the bond renewal on July 1, 2023, the Authority increased the bonding for the Finance Officer to \$1,000,000 in order to comply with S.L. 2022-53, Section 9(a). The remaining employees that have access to funds are bonded under a blanket bond for \$200,000.

*Commitments.* The Authority is committed under various contracts for the completion of water and wastewater treatment facilities and other water and sewer projects. Management estimates the cost to complete these contracts to be approximately \$15,562,056 at June 30, 2023.

# ORANGE WATER AND SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

### 4. Net Position

At June 30, 2023, the Board of Directors had approved the use of the unrestricted net position for the following purposes:

	<u>2023</u>
Operating reserve	<u>\$ 7,747,601</u>

### 5. Summary Disclosure of Significant Contingencies

#### Federal and State-Assisted Programs

The Authority has received proceeds from federal and state grants. Periodic audits of these grants are required, and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provisions have been made in the accompanying financial statements for the refund of grant monies.

### 6. Implementation of GASB 96

For the year ended June 30, 2023, the financial statements include the adoption of GASB Statement No. 96, *Subscription-Based information Technology Arrangements*. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right-to-use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset.

# ORANGE WATER AND SEWER AUTHORITY

## OTHER POST-EMPLOYMENT BENEFITS REQUIRED SUPPLEMENTARY INFORMATION LAST SIX FISCAL YEARS

### Schedule of Changes in the Total OPEB Liability and Related Ratios

Total OPEB Liability	2023	2022	2021
Service cost at end of year	\$ 453,621	\$ 619,739	\$ 407,705
Interest	336,927	378,143	459,812
Changes in benefit terms	-	(132,920)	-
Difference between expected and actual experience	1,927	(2,942,246)	(37,771)
Changes of assumptions or other inputs	(3,450,839)	1,016,893	3,227,040
Benefit payments and implicit subsidy credit	(275,461)	(295,482)	(295,107)
Net change in total OPEB liability	(2,933,825)	(1,355,873)	3,761,679
Total OPEB liability - beginning	15,281,858	16,637,731	12,876,052
Total OPEB liability - ending	\$ 12,348,033	\$ 15,281,858	\$ 16,637,731
Covered-employee payroll	\$ 7,816,728	\$ 7,816,728	\$ 7,704,086
Total OPEB liability as a percentage of covered-employee payroll	157.97%	195.50%	215.96%

### Notes to Schedule:

*Changes of Assumptions:* Changes of assumptions and other inputs reflect the effects of changes on the discount rate of each period. The following are the discount rates used in each period:

Fiscal Year	Rate
2023	3.54%
2022	2.16%
2021	2.21%
2020	3.50%
2019	3.89%
2018	3.56%

There were no assets accumulated in a trust that meets the criteria of GASB codification P22.101 or P52.101 to pay related benefits for the OPEB plan.

**ORANGE WATER AND SEWER AUTHORITY**

**OTHER POST-EMPLOYMENT BENEFITS  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST SIX FISCAL YEARS**

<b>Schedule of Changes in the Total OPEB Liability and Related Ratios</b>			
<b>Total OPEB Liability</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Service cost at end of year	\$ 445,581	\$ 473,531	\$ 537,550
Interest	488,973	449,217	396,831
Changes in benefit terms	-	-	-
Difference between expected and actual experience	(387,860)	10,631	23,866
Changes of assumptions or other inputs	(97,373)	(719,076)	(1,282,089)
Benefit payments and implicit subsidy credit	(283,833)	(242,282)	(240,928)
Net change in total OPEB liability	165,488	(27,979)	(564,770)
Total OPEB liability - beginning	12,710,564	12,738,543	13,303,313
Total OPEB liability - ending	\$ 12,876,052	\$ 12,710,564	\$ 12,738,543
Covered-employee payroll	\$ 7,704,086	\$ 7,751,275	\$ 7,751,275
Total OPEB liability as a percentage of covered-employee payroll	167.13%	163.98%	164.34%



**ORANGE WATER AND SEWER AUTHORITY**

**PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST TEN FISCAL YEARS \***

	<b>Local Governmental Employees' Retirement System</b>				
	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Authority's proportion of the net pension liability (asset) (%)	0.12224%	0.12228%	0.12713%	0.12175%	0.12572%
Authority's proportion of the net pension liability (asset) (\$)	\$ 6,896,084	\$ 1,875,283	\$ 4,542,897	\$ 3,324,897	\$ 2,982,507
Authority's covered payroll	\$ 9,148,654	\$ 8,877,118	\$ 8,780,335	\$ 8,396,386	\$ 8,171,152
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	75.38%	21.12%	51.74%	39.60%	36.50%
Plan fiduciary net position as a percentage of the total liability**	84.14%	95.51%	88.61%	90.86%	91.63%

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

\*\* This will be the same percentage for all participant employers in the LGERS plan.

**ORANGE WATER AND SEWER AUTHORITY**

**PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST TEN FISCAL YEARS \***

	<b>Local Governmental Employees' Retirement System</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Authority's proportion of the net pension liability (asset) (%)	0.12711%	0.12882%	0.11995%	0.12040%	11.89000%
Authority's proportion of the net pension liability (asset) (\$)	\$ 1,941,888	\$ 2,733,991	\$ 538,330	\$ (709,819)	\$ 1,433,202
Authority's covered payroll	\$ 8,194,045	\$ 6,980,328	\$ 7,352,374	\$ 7,297,821	\$ 6,909,854
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	23.70%	39.17%	7.32%	( 9.73%)	20.74%
Plan fiduciary net position as a percentage of the total liability**	94.18%	91.47%	98.09%	102.64%	94.35%

**ORANGE WATER AND SEWER AUTHORITY**

**CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST TEN FISCAL YEARS**

<b>Local Governmental Employees' Retirement System</b>					
	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Contractually required contribution	\$ 1,156,175	\$ 1,042,033	\$ 963,041	\$ 790,230	\$ 655,451
Contributions in relation to the contractually required contribution	<u>1,156,175</u>	<u>1,042,033</u>	<u>963,041</u>	<u>790,230</u>	<u>655,451</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 9,523,679	\$ 9,148,654	\$ 8,877,118	\$ 8,780,335	\$ 8,396,386
Contributions as a percentage of covered payroll	12.14%	11.39%	10.85%	9.00%	7.81%

**ORANGE WATER AND SEWER AUTHORITY**

**CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST TEN FISCAL YEARS**

<b>Local Governmental Employees' Retirement System</b>					
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Contractually required contribution	\$ 617,219	\$ 598,984	\$ 510,262	\$ 519,888	\$ 516,608
Contributions in relation to the contractually required contribution	<u>617,219</u>	<u>598,984</u>	<u>510,262</u>	<u>519,888</u>	<u>516,608</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 8,171,152	\$ 8,194,045	\$ 6,980,328	\$ 7,352,374	\$ 7,297,821
Contributions as a percentage of covered payroll	7.55%	7.31%	7.31%	7.07%	7.08%

## **APPENDIX C**

### **SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

This page intentionally left blank.

## APPENDIX C

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain definitions set forth in the Bond Order and in the Series Resolution and brief summaries of certain material provisions of the Bond Order. Such statements do not purport to be complete and reference is made to the Bond Order for a complete recital of its terms.

“*Act*” means The State and Local Government Revenue Bond Act, the same being Article 5 of Chapter 159 of the General Statutes of North Carolina.

“*Additional Project*” means any addition, acquisition, improvement, betterment or extension of or related to the Water and Sewer System. The term “*Additional Project*” shall not include the Project or any Special Purpose Facilities unless the indebtedness incurred to finance the Special Purpose Facilities has been retired or provision has been made for the payment thereof, and the Authority has determined by resolution to include the Special Purpose Facilities as an Additional Project.

“*Additional Project Account*” means the account in the Construction Fund created and so designated by the Bond Order.

“*Annual Budget*” means the Authority’s budget for a Fiscal Year adopted or in effect pursuant to certain provisions of the Bond Order.

“*Appropriate Consultant*” means one or more independent public accountants or firms or corporations of independent public accountants, or architects or architectural firms or corporations, or engineers or engineering firms or corporations, or professional management consultants or firms or corporations of professional management consultants, or such other independent Persons each of which has a favorable repute at the time employed for skill and experience in its respective area of work for which it is employed by the Authority to perform and carry out the duties imposed on an Appropriate Consultant by the Bond Order.

“*Authority*” or “*OWASA*” means the Orange Water and Sewer Authority, a public body and body politic and corporate of the State of North Carolina, and any successor or successors of the Authority.

“*Authorized Officer*” means the Chairman, the Vice Chairman, the Executive Director, the Director of Finance and Customer Service and any other person authorized by resolution of the Authority to perform the duties imposed on an Authorized Officer by the Bond Order and any Series Resolution whose name is filed pursuant to an Officer’s Certificate with the Trustee for such purpose.

“*Balloon Long-Term Indebtedness*” means fixed or variable rate Long-Term Indebtedness twenty-five percent (25%) or more of the principal payments of which are due in a single twelve-month period, which portion of the principal is not required by the documents pursuant to which such Indebtedness is incurred to be amortized by redemption or prepayment prior to the expiration of such period.

“*Bond*” or “*Bonds*” means the Series 2014 Bonds, the Series 2018 Bonds, the Series 2019 Bonds, the Series 2020 Bonds, the Series 2021 Bonds, the Series 2024 Bonds and any other bonds issued under the Bond Order and secured on a parity with each other and any Parity Debt by the Bond Order.

“*Bond Fund*” means the fund created and designated the Orange Water and Sewer Authority Water and Sewer System Revenue Bonds Bond Fund by the Bond Order.

“*Bond Insurance Policy*” means a municipal bond insurance policy or similar arrangement permitted by the Act and obtained or established in connection with the incurrence of any Parity Indebtedness or Subordinated Indebtedness.

“*Bond Insurer*” means the Person providing a Bond Insurance Policy, as designated in the Series Resolution providing for the issuance of Bonds or in the Parity Debt Resolution providing for the incurrence of Parity Debt.

“*Bond Registrar*” means, with respect to any Series of Bonds, the Bond Registrar at the time serving as such under the Series Resolution relating to such Series, whether the original or a successor Bond Registrar.

“*Bond Year*” means, with respect to the Series 2024 Bonds, the period commencing on June 1 of any year and ending on May 31 of the following year.

“*Business Day*” means a day on which the Trustee, the applicable Bond Registrar and the New York Stock Exchange are open for the purpose of conducting their businesses.

“*Capital Improvements Budget*” means for any Fiscal Year the budget for capital improvements adopted by the Authority in accordance with the Bond Order.

“*Capital Reserve Fund*” means the fund created and designated the Orange Water and Sewer Authority Capital Reserve Fund by the Bond Order.

“*Capital Reserve Fund Requirement*” means such amount as may be determined from time to time by the Authority.

“*Capitalized Interest Account*” means the account in the Bond Fund created and so designated by the Bond Order.

“*Clean Water Revolving Loan and Grant Act*” means Chapter 159G of the General Statutes of North Carolina.

“*Closing*” means the delivery of and payment for the Series 2024 Bonds.

“*Closing Date*” means the date of the Closing.

“*Completion Indebtedness*” means any Long-Term Indebtedness incurred for the purpose of financing the completion of the Project or any Additional Project for which Long-Term Indebtedness has theretofore been incurred in accordance with the provisions of the Bond Order, to the extent necessary to complete the Project or Additional Project, in the manner and scope contemplated at the time that such Long-Term Indebtedness theretofore incurred was originally incurred, and, to the extent the same shall be applicable, in accordance with the general plans and specifications for such Project or Additional Project, as originally prepared with only such changes as have been made in conformance with the documents pursuant to which such Long-Term Indebtedness theretofore incurred was originally incurred.

“*Construction Fund*” means the fund created and designated the Orange Water and Sewer Authority Water and Sewer System Construction Fund by the Bond Order.



“*Cost*”, as applied to the Project or any Additional Project, means, without intending thereby to limit or restrict any proper definition of such word under the provisions of the Act or the Bond Order, all items of cost which are set forth in the Bond Order.

“*Credit Facility*” means a line of credit, letter of credit, standby bond purchase agreement, or similar liquidity or credit facility permitted by the Act (but excluding a Bond Insurance Policy) and established or obtained in connection with the incurrence of any Parity Indebtedness or Subordinated Indebtedness.

“*Credit Provider*” means the Person providing a Credit Facility, as designated in the Series Resolution providing for the issuance of the Bonds or in the Parity Debt Resolution providing for the incurrence of Parity Debt or in the Subordinated Indebtedness Resolution providing for the incurrence of Subordinated Indebtedness; provided, however, that the Credit Provider may not be the Trustee without the prior approval of the Local Government Commission. If and to the extent permitted by law, the Authority may, subject to the prior approval of the Local Government Commission, be a Credit Provider for the sole purpose of providing liquidity support.

“*Current Expenses*” means the Authority’s current expenses for the operation, maintenance and repair of the Water and Sewer System, as determined in accordance with generally accepted accounting principles, except as modified by this definition, including, without limiting the generality of the foregoing,

- (a) all ordinary and usual expenses of operation, maintenance and repair, whether or not annually recurring,
- (b) administrative expenses,
- (c) salaries and other compensation,
- (d) operating lease payments,
- (e) payments to any pension or retirement plan or plans properly chargeable to the Water and Sewer System,
- (f) insurance premiums and expenses,
- (g) engineering, architectural and other professional expenses relating to the operation, maintenance or repair of the Water and Sewer System,
- (h) fees and expenses of the Trustee, any Bond Registrar, Depositary, tender agent or paying agent, legal expenses, Credit Facility fees, remarketing fees and fees of consultants,
- (i) penalty fees and fees or interest on late payments, and
- (j) any other similar-type current expenses required to be paid by the Authority under the Bond Order or by law;

but Current Expenses shall not include:

- (a) any reserves for extraordinary replacements or repairs,
- (b) any allowance for depreciation or any amortization of :financing expense,

(c) any deposits to any fund, account and subaccount created under the Bond Order or any Series Resolution and payments of principal, premium, if any, and interest from such funds, accounts and subaccounts,

(d) any debt service payments or reserves or deposits for debt service payments in respect of Parity Debt or Subordinated Indebtedness, and

(e) any accrued expenses for other post-retirement benefits not resulting in (i) payments of such benefits to current or future retired employees or (ii) deposits of funds into an irrevocable trust for the purpose of making future payments of such benefits to current or future retired employees.

“*Default*” means any Event of Default and any event that, after notice or lapse of time or both, would become an Event of Default.

“*Defaulted Interest*” means any interest on any Bond of any Series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date.

“*Defeasance Obligations*” means (a) noncallable Government Obligations and (b) Defeased Municipal Obligations.

“*Defeased Municipal Obligations*” means obligations of state or local government municipal bond issuers which are rated in the highest rating category by S&P and Moody’s, respectively, provision for the payment of the principal of, premium, if any, and interest on which shall have been made by deposit with a trustee or escrow agent of Government Obligations, the maturing principal of and interest on which, when due and payable, shall provide sufficient money to pay the principal of, premium, if any, and interest on such obligations of state or local government municipal bond issuers. References in this definition to state or local government bond issuers shall mean the State of North Carolina and, subject to such restrictions as the Secretary of the Local Government Commission may impose, North Carolina local government bond issuers, and, to the extent permitted by law, states other than the State of North Carolina and local government bond issuers other than North Carolina local government bond issuers.

“*Depository*” means one or more banks or trust companies or other institutions, including the Trustee, duly authorized by law to engage in the banking business and designated by the Authority as a depository of moneys under the Bond Order.

“*Derivative Agreement*” means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and (v) any other type of contract or arrangement that the Authority determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty. The Authority shall not enter into a Derivative Agreement without the prior approval thereof by the Local Government Commission.

“*Derivative Indebtedness*” means Indebtedness for which the Authority shall have entered into a Derivative Agreement in respect of all or a portion of such Indebtedness.

“*Derivative Period*” means the period during which a Derivative Agreement is in effect.

“*Eminent Domain*” means the eminent domain or condemnation power by which all or any part of the Water and Sewer System may be taken for another public use or any agreement that is reached in lieu of proceedings to exercise such power.

“*Event of Default*” means each of those events of default set forth in the Bond Order and described under the heading “**Events of Default**” herein.

“*Existing Facilities*” means (i) the existing water and sewer utility facilities which were acquired by the Authority pursuant to and are described in the agreements of sale and purchase referred to in the Bond Order and (ii) all improvements to such existing facilities and all other facilities acquired and constructed by the Authority since its acquisition of such existing facilities to the date of adoption of the Bond Order.

“*Fiscal Year*” means the period commencing on the first day of July of any year and ending on the last day of June of the following year or any other twelve-month period designated by the Authority.

“*General Fund*” means the fund created and designated the Orange Water and Sewer Authority General Fund by the Bond Order.

“*Government Obligations*” means direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States of America in either certificated or book-entry form, including (i) stripped Government Obligations stripped by the United States Treasury itself and (ii) interest only portions of obligations issued by Resolution Funding Corporation.

“*Gross Receipts*” means all receipts, revenues, income, proceeds and money received in any period by or for the Authority in respect of the Water and Sewer System, including, but without limiting the generality of the foregoing,

(a) all payments, proceeds, fees, charges and rents, including, without limiting the generality of the foregoing, tap, connection, developer, impact, service availability, plant capacity, sampling and monitoring fees, and all other income derived by or for the Authority for the use of and for the services and facilities furnished by or from the operation or ownership of the Water and Sewer System, and all other income derived by the Authority from the operation or ownership of the Water and Sewer System, and all rights to receive the same whether in the form of accounts receivable, contract rights or other rights, and the proceeds of such rights whether now owned or held or hereafter coming into existence; and

(b) any proceeds of use and occupancy or business interruption insurance;

but there shall not be included in “*Gross Receipts*”:

(a) the proceeds of any gifts, grants, bequests, contributions or donations,

(b) the proceeds from the sale or disposition of all or any part of the Water and Sewer System,

(c) reimbursements received by the Authority of advances made by it in respect of (i) the Project, (ii) any Additional Project, (iii) any refinancing of Indebtedness and (iv) any capital improvements,

(d) the investment income realized on, and the income and gains realized upon the maturity or sale of, securities held by or on behalf of the Authority in any funds, accounts and subaccounts established

by or pursuant to the Bond Order, but only to the extent such income and gains as so realized are required to be deposited to some fund, account or subaccount other than the Revenue Account, the Bond Fund or any other debt service fund or account securing or providing for the payment of Parity Debt as may be provided in the Bond Order or in any Parity Resolution,

(e) to the extent and for so long as such payments are pledged to secure the financing of the same, debt service or other payments made to the Authority in respect of Special Purpose Facilities, except to the extent otherwise provided by the Authority in respect of any such payments,

(f) Net Insurance Proceeds or Net Eminent Domain Proceeds or the proceeds of any other insurance other than any use and occupancy or business interruption insurance,

(g) the proceeds of any appropriation made by any political subdivision in the State or by the State or any State Agency unless the proceeds of any such appropriation are designated, in whole or in part, as Gross Receipts by the Authority,

(h) the income from the investment of Qualified Escrow Funds to the extent such income is applied to the payment of the principal of or the interest on Long-Term Indebtedness which is excluded from the determination of the Long-Term Debt Service Requirement,

(i) the proceeds of any security deposits or moneys received to make refunds to users,

(j) the proceeds of any Indebtedness,

(k) the proceeds of any taxes levied by the Authority, and

(l) any special assessments unless such special assessments are specifically deemed to be Gross Receipts by resolution of the Authority.

*“Holder”* means the holder or owner of Parity Debt or Subordinated Indebtedness.

*“Income Available for Debt Service”* means for any period the Authority’s excess of Revenues over Current Expenses.

*“Indebtedness”* means all obligations incurred or assumed by the Authority in connection with the ownership or operation of the Water and Sewer System:

(a) for payments of principal and interest with respect to borrowed money, including any obligation to repay a Credit Provider for moneys drawn to pay and retire or purchase Indebtedness; and

(b) for payments under leases which are required to be capitalized in accordance with generally accepted accounting principles and under installment or lease purchase or conditional sale contracts;

provided, however, that (i) Indebtedness shall include only such obligations as are payable from Net Receipts and (ii) any obligation to pay a Credit Provider for moneys drawn to purchase, but not pay and retire, Indebtedness shall constitute Indebtedness only to the extent such payments are in excess of any scheduled payments of principal and interest required to be made to such Credit Provider as an Owner or Holder of such Indebtedness.

*“Insurance and Condemnation Award Account”* means the account created and designated the Orange Water and Sewer Authority Water and Sewer System Insurance and Condemnation Award Account by the Bond Order.

*“Insurance Consultant”* means a Person having a favorable reputation in the State for skill and experience in dealing with the insurance requirements of enterprises similar to the Water and Sewer System and in performing the duties to be imposed upon the Insurance Consultant by the Bond Order, including a consultant employed by the North Carolina League of Municipalities meeting such requirements.

*“Interest Account”* means the account in the Bond Fund created and so designated by the Bond Order.

*“Interest Payment Date”* means, with respect to any Series of Bonds, each of the interest payment dates provided for in the Series Resolution authorizing such Series.

*“Interest Payment Date”* means, with respect to the Series 2024 Bonds, December 1, 2024, and each December 1 and June 1 thereafter, to and including the final maturity date of the Series 2024 Bonds.

*“Investment Obligations”* means any investment now or hereafter permitted for investment of funds by the Authority by the General Statutes of North Carolina, including, without limitation, Section 159-30 of the General Statutes of North Carolina, as amended.

*“Local Government Commission”* means the Local Government Commission of North Carolina, a division of the Department of State Treasurer, established by Section 159-3 of the General Statutes of North Carolina, and any successor or successors thereto. Except as otherwise set forth in the Bond Order, when the consent or approval of the Local Government Commission is required by the terms of the Bond Order, such consent or approval may be obtained from the Local Government Commission, the Executive Committee of the Local Government Commission or any authorized representative of the Local Government Commission.

*“Long-Term Debt Service Requirement”* means, for any period of twelve (12) consecutive calendar months for which such determination is made, the aggregate of the required deposits to be made in respect of principal and interest (whether or not separately stated) on Outstanding Long-Term Indebtedness during such period, also taking into account:

(a) with respect to Balloon Long-Term Indebtedness which is not amortized by the terms thereof, the amount of principal which would be payable in such period if such principal were amortized from the date of incurrence thereof over a period of thirty (30) years on a level debt service basis at an interest rate equal to the current market rate for a 30-year obligation set forth in an opinion of a banking institution or an investment banking institution knowledgeable in municipal utility finance delivered to the Trustee as the interest rate at which the Authority could reasonably expect to borrow the same by issuing Indebtedness with the same term as assumed above; provided, however, that if the date of calculation is within twelve (12) calendar months of the actual final maturity date of such Indebtedness, the full amount of principal payable at maturity shall be included in such calculation unless a binding commitment by an institutional lender or municipal underwriting firm exists, which binding commitment may contain typical and customary conditions, to provide financing to refinance such Indebtedness and such commitment provides for the refinancing of such Indebtedness on terms which would, if such commitment was implemented, constitute Long-Term Indebtedness, then in such case the payment terms contained in such commitment shall be utilized for purposes of calculating the Long-Term Debt Service Requirement with respect to such Balloon Long-Term Indebtedness;

(b) with respect to Long-Term Indebtedness which is Variable Rate Indebtedness, the interest on such Indebtedness shall be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), except that with respect to Variable Rate Indebtedness proposed to be incurred the interest rate for such Indebtedness for the initial interest rate period shall be the lower of (i) the rate (as certified by a financial institution or investment banking firm acceptable to the Authority) which is equal to the average of the actual interest rates which would have been in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve (12) month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve (12) month period) and (ii) the initial rate to be borne by such Indebtedness and thereafter shall be calculated as set forth above;

(c) with respect to any Credit Facility, to the extent that such Credit Facility has not been used or drawn upon, the principal and interest relating to such Credit Facility shall not be included in the Long-Term Debt Service Requirement; and

(d) with respect to Derivative Indebtedness, the interest on such Indebtedness during any Derivative Period, for so long as the provider of the Derivative Agreement has a long-term credit rating of at least "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody's and S&P and has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by the Authority on such Derivative Indebtedness pursuant to its terms and (y) the amount of interest payable by the Authority under the Derivative Agreement and subtracting (z) the amount of interest payable by the provider of the Derivative Agreement at the rate specified in the Derivative Agreement; provided, however, that to the extent that the provider of any Derivative Agreement does not have a long-term rating of at least "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody's and S&P or is in default thereunder, the amount of interest payable by the Authority shall be the interest calculated as if such Derivative Agreement had not been executed; provided, however, that interest shall be excluded from the determination of Long-Term Debt Service Requirement to the extent the same is provided from the proceeds of the Long-Term Indebtedness or otherwise provided so as to be available for deposit into an account for capitalized interest or similar account not later than the date of delivery of and payment for such Long-Term Indebtedness; and provided further that, notwithstanding the foregoing, the aggregate of the payments to be made with respect to principal and interest on Outstanding Long-Term Indebtedness shall not include principal or interest payable from Qualified Escrow Funds.

*"Long-Term Indebtedness"* means all Indebtedness, including Short-Term Indebtedness if a Credit Facility by a Credit Provider exists to provide financing to retire such Short-Term Indebtedness and such Credit Facility provides for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness, and the current portion of Long-Term Indebtedness, for any of the following:

(a) money borrowed for an original term, or renewable at the option of the Authority for a period from the date originally incurred, of longer than one year;

(b) leases which are required to be capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the Authority for a period from the date originally incurred, of longer than one year; and

(c) installment purchase, installment financing or conditional sale contracts having an original term in excess of one year.

“*Maximum Long-Term Debt Service Requirement*” means the highest Long-Term Debt Service Requirement for the present and any succeeding Fiscal Year.

“*Moody’s*” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “*Moody’s*” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority by notice to the Trustee.

“*Net Eminent Domain Proceeds*” means the gross proceeds paid to the Authority as a final award for the taking by Eminent Domain of any of the Water and Sewer System less payment of attorneys’ and other fees and expenses properly incurred in the collection of such gross proceeds.

“*Net Insurance Proceeds*” means the gross proceeds paid to the Authority as a result of any casualty insurance policy with respect to the Water and Sewer System or as a result of any liability insurance policy less payment of attorneys’ and other fees and expenses properly incurred in the collection of such gross proceeds.

“*Net Receipts*” for any particular period means the excess, if any, of Gross Receipts after the payment of Current Expenses for such period.

“*Officer’s Certificate*” means a certificate signed by an Authorized Officer.

“*Outstanding*”, when used with reference to Bonds, means, as of a particular date, all Bonds theretofore authenticated and delivered under the Bond Order, except:

- (a) Bonds theretofore cancelled by any Bond Registrar or delivered to any Bond Registrar or the Trustee for cancellation;
- (b) Bonds deemed to be no longer Outstanding pursuant to the Bond Order;
- (c) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered under the Bond Order;
- (d) Bonds deemed to have been paid in accordance with the Bond Order; and
- (e) Bonds constituting Put Indebtedness deemed to have been purchased in accordance with the provisions of the applicable Series Resolution in lieu of which other Bonds have been delivered under such Series Resolution.

When used with reference to Parity Debt, “*Outstanding*” means, as of a particular date, all Parity Debt except:

- (a) Parity Debt theretofore cancelled by the Authority;
- (b) Parity Debt for the payment or redemption of which money, Defeasance Obligations, or a combination of both, in an amount sufficient to pay on the date when such Parity Debt is to be paid or redeemed the principal amount of or Redemption Price of, and the interest accruing to such date on, the

Parity Debt to be paid or redeemed, has been deposited with an escrow agent in trust for the Holders of such Parity Debt; Defeasance Obligations shall be deemed to be sufficient to pay or redeem Parity Debt on a specified date if the principal and the interest on such Defeasance Obligations, when due, together with any money left uninvested, will be sufficient to pay on such date the principal amount of or Redemption Price of, and the interest accruing on, such Parity Debt to such date;

(c) Parity Debt in exchange for or in lieu of which other Parity Debt has been delivered under the documentation securing such Parity Debt;

(d) Parity Debt deemed to have been paid in accordance with the defeasance or like provisions of the Parity Debt Resolution providing for the issuance of the Parity Debt; and

(e) Parity Debt constituting Put Indebtedness deemed to have been purchased in accordance with the provisions of the applicable Parity Debt Resolution in lieu of which other Parity Debt has been incurred under the Parity Debt Resolution.

When used with reference to Indebtedness other than Bonds and Parity Debt, “*Outstanding*” means, as of a particular date, all Indebtedness deemed to be outstanding under the documents pursuant to which it was incurred.

“*Owner*” means a Person in whose name a Bond is registered in the registration books provided for in the Bond Order.

“*Parity Debt*” means all Indebtedness incurred by the Authority in respect of the Water and Sewer System and not evidenced by Bonds which is secured on a parity (as so designated in the Parity Debt Resolution) with the Bonds by a pledge, charge and lien upon the Net Receipts as provided in the Bond Order.

“*Parity Debt Resolution*” means the resolution and any other documentation adopted or executed by the Authority providing for the incurrence of Parity Debt. If Parity Indebtedness is to be the subject of a Credit Facility providing for repayments for draws under the Credit Facility on a parity basis, then the term Parity Debt Resolution shall include any reimbursement agreement or similar repayment agreement executed and delivered by the Authority in connection with the provision of a Credit Facility for any Series of Bonds or any Parity Debt.

“*Parity Indebtedness*” means the Bonds and Parity Debt.

“*Parity Reserve Account*” means the account in the Bond Fund created and so designated by the Bond Order.

“*Parity Reserve Account Requirement*” means the least of (i) the Maximum Long-Term Debt Service Requirement for all Parity Indebtedness secured by the Parity Reserve Account, (ii) one hundred twenty-five percent (125%) of the average annual Long-Term Debt Service Requirement for all Parity Indebtedness secured by the Parity Reserve Account and (iii) ten percent (10%) of the stated principal amount of all Parity Indebtedness secured by the Parity Reserve Account; provided, however, that if any Series of Bonds or Parity Debt secured by the Parity Reserve Account has original issue discount or premium that exceeds two percent (2%) of the stated redemption price at maturity plus any original issue premium attributable exclusively to underwriter’s compensation, the initial offering prices to the public shall be used in lieu of the stated principal amount for purposes of the ten percent (10%) limitation. The Parity Reserve Account Requirement may be composed of cash, Investment Obligations or Reserve Alternative Instruments, or any combination of the foregoing, as the Authority may determine.



*“Parity Resolution”* means a Series Resolution or a Parity Debt Resolution, or both, as the case may be, authorizing the issuance of a Series of Bonds or the incurrence of Parity Debt.

*“Permitted Encumbrances”* means, in addition to any charge created or permitted by the Bond Order upon the Water and Sewer System or any part thereof or on the Net Receipts:

(a) liens for taxes or other governmental charges or levies not delinquent or that are being contested in good faith, by appropriate proceedings, by the Authority;

(b) covenants, easements, encumbrances, defects of title, reservations, restrictions, and conditions existing at the time of delivery of the Series 2001 Bonds and defects, irregularities, encumbrances, easements, including easements for roads and public utilities and similar easements, rights of way, mineral conveyances, mineral reservations, and clouds on title, none of which in the written opinion of counsel to the Authority, a copy of which is filed with the Trustee, materially impairs the use of the property affected thereby for its intended purposes;

(c) mechanics’, workers’, repairmen’s, architects’, engineers’, surveyors’, or carriers’ liens or other similar liens provided that the same shall be discharged in the ordinary course of business and without undue delay or the validity of the same shall be contested in good faith, by appropriate proceedings with any pending execution thereof appropriately stayed;

(d) liens upon the Property, Plant and Equipment of the Water and Sewer System securing indebtedness of the Authority; provided, however, that the principal amount of indebtedness so secured, excluding indebtedness secured by liens upon or security interests in rolling stock, shall not exceed ten percent (10%) of the net Property, Plant and Equipment of the Water and Sewer System as shown on the audited financial statements of the Authority for the most recent Fiscal Year for which such audited financial statements are available; and

(e) other liens, charges and encumbrances upon the Property of the Water and Sewer System, provided that an Officer’s Certificate is first delivered to the Trustee to the effect that the loss of the Property subject to such lien, charge or encumbrance would not materially impair the revenue-producing capabilities of the Water and Sewer System or the operating efficiency of the Water and Sewer System.

*“Person”* includes corporations, limited liability companies, firms, associations, partnerships, joint ventures, joint stock companies, trusts, unincorporated organizations, and public bodies, as well as natural persons.

*“Principal Account”* means the account in the Bond Fund created and so designated by the Bond Order.

*“Project”* means the improvements to the Water and Sewer System acquired and constructed from the proceeds of the Series 2001 Bonds as more particularly described in the Series Resolution for the Series 2001 Bonds.

*“Project Account”* means the account in the Construction Fund created and so designated by the Bond Order.

*“Property”* means any and all rights, titles and interests in and to any and all property of the Authority, whether real or personal, tangible or intangible and wherever situated.

*“Property, Plant and Equipment”* means all Property of the Authority which is property, plant and equipment under generally accepted accounting principles.

*“Put Indebtedness”* means fixed or variable rate Long-Term Indebtedness twenty-five percent (25%) or more of the principal of which may, at the option of the Owner or Holder thereof, be tendered to the Authority, the Trustee, a Depositary or a paying agent or other fiduciary, or an agent of any of the foregoing, for payment or purchase at one time.

*“Qualified Escrow Funds”* means amounts deposited in a segregated escrow fund or other similar fund or account in connection with the issuance of Long-Term Indebtedness which fund or account is required by the documents establishing such fund or account to be applied toward the Authority’s payment obligations with respect to principal or interest on (a) the Long-Term Indebtedness which is incurred under the documents establishing such fund or account or (b) Long-Term Indebtedness which is incurred prior to the establishment of such fund or account.

*“Redemption Account”* means the account in the Bond Fund created and so designated by the Bond Order.

*“Redemption Price”* means, with respect to any Indebtedness or portion thereof, the principal amount of such Indebtedness or portion called for redemption plus the applicable premium, if any, payable upon redemption thereof.

*“Reserve Alternative Instrument”* means an unconditional insurance policy or surety bond or irrevocable letter of credit or guaranty deposited in the Parity Reserve Account or a Special Reserve Account in lieu of or in partial substitution for the deposit of cash and Investment Obligations in satisfaction of the Parity Reserve Account Requirement or a Special Reserve Account Requirement. The Reserve Alternative Instrument shall be payable (upon the giving of notice as required thereunder) to remedy any deficiency in the appropriate subaccounts in the Interest Account, the Principal Account and the Sinking Fund Account in order to provide for the timely payment of interest and principal (whether at maturity or pursuant to Sinking Fund Requirements therefor). Subject to the provisions of any Parity Resolution, the provider of a Reserve Alternative Instrument shall be (a) an insurer that has been assigned either (A) one of the two highest policyholder ratings accorded insurers by A.M. Best & Co. or any comparable service or (B) for bonds insured by the provider of the Reserve Alternative Instrument, a rating by Moody’s and S&P in one of the two highest rating categories (without regard to gradations, such as “plus” or “minus” or numerical qualifiers, within such categories) or (b) a commercial bank, insurance company or other financial institution the bonds payable or guaranteed by which have been assigned a rating by Moody’s and S&P in one of the two highest rating categories (without regard to gradations, such as “plus” or “minus” or numerical qualifiers, within such categories).

*“Revenue Account”* means the account created and designated the Orange Water and Sewer Authority Water and Sewer System Revenue Account by the Bond Order.

*“Revenues”* means revenues of the Water and Sewer System, as determined in accordance with generally accepted accounting principles, including, without limiting the generality of the foregoing, tap, connection, developer, impact, service availability, plant capacity, sampling and monitoring fees; provided, however, that no determination of revenues shall take into account (1) any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets, (2) any unrealized gains or losses on investments, regardless of the treatment of such unrealized gains or losses under generally accepted accounting principles, and (3) the value of any Derivative Agreement or any

payments made by the counterparty to the Derivative Agreement in accordance with the terms of such Derivative Agreement; and provided further that revenues shall not include:

- (a) any gifts, grants, bequests, contributions or donations,
- (b) reimbursements to the Authority of advances made by it in respect of (i) the Project, (ii) any Additional Project, (iii) any refinancing of Indebtedness and (iv) any capital improvements,
- (c) the investment income realized on, and the income and gains realized upon the maturity or sale of, securities held by or on behalf of the Authority in any funds, accounts and subaccounts established by, or pursuant to the Bond Order, but only to the extent such income and gains are required to be deposited to some fund, account or subaccount other than the Revenue Account, the Bond Fund or any other debt service fund or account securing Parity Debt as may be provided in the Bond Order or in any Parity Resolution,
- (d) to the extent and for so long as such payments are pledged to secure the financing of the same, debt service or other payments made to the Authority in respect of Special Purpose Facilities,
- (e) Net Insurance Proceeds or Net Eminent Domain Proceeds or the proceeds of any other insurance other than any use and occupancy or business interruption insurance,
- (f) the proceeds of any appropriation made by any political subdivision in the State or by the State or any State Agency to the Authority unless the proceeds of any such appropriation are designated by the Authority, in whole or in part, as Gross Receipts and as Revenues within the meaning of this definition,
- (g) the income from the investment of Qualified Escrow Funds to the extent such income is applied to the payment of the principal of or the interest on Long-Term Indebtedness which is excluded from the determination of the Long-Term Debt Service Requirement,
- (h) the proceeds of any security deposits or moneys received to make refunds to users,
- (i) the proceeds of any Indebtedness,
- (j) the proceeds of any taxes levied by the Authority, and
- (k) any special assessments unless such special assessments are specifically deemed to be Revenues by resolution of the Authority.

“S&P” means S&P Global Ratings, its successors and assigns, and if S&P shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority by notice to the Trustee.

“*Securities Depository*” means The Depository Trust Company, or other recognized securities depository selected by the Authority, which maintains a book-entry system in respect of a Series of Bonds, and shall include any substitute for or successor to the securities depository initially acting as Securities Depository.

“*Securities Depository Nominee*” means, as to any Securities Depository, such Securities Depository or the nominee of such Securities Depository in whose name there shall be registered on the registration books maintained by the Bond Registrar the Bond certificates to be delivered to such Securities

Depository or its custodian during the continuation with such Securities Depository of participation in its book-entry system.

“*Security Deposits Account*” means the Orange Water and Sewer Authority Security Deposits Account, a special account created and designated by the provisions of the Bond Order.

“*Serial Bonds*” means the Bonds of any Series that are stated to mature in consecutive annual installments.

“*Series*”, whenever used in the Bond Order with respect to Bonds, means all of the Bonds designated as being of the same series.

“*Series Certificate*” means a certificate or certificates executed by the Chair, the Vice-Chair, the Executive Director or the Director of Finance and Customer Service of the Authority evidencing the determinations or other actions taken by him pursuant to the authority granted in the Series Resolution for the Series 2024 Bonds.

“*Series Resolution*” means a resolution of the Authority authorizing any particular Series of Bonds.

“*Series 2001 Bonds*” means the Authority’s Water and Sewer System Revenue Bonds, Series 2001, none of which are currently outstanding.

“*Series 2014 Bonds*” means the Authority’s Water and Sewer System Revenue Refunding Bonds, Series 2014.

“*Series 2018 Bonds*” means the Authority’s Water and Sewer System Revenue Refunding Bonds, Series 2018.

“*Series 2019 Bonds*” means the Authority’s Water and Sewer System Revenue Bonds, Series 2019.

“*Series 2020 Bonds*” means the Authority’s Water and Sewer System Revenue Refunding Bonds, Series 2020.

“*Series 2021 Bonds*” means the Authority’s Water and Sewer System Revenue Bonds, Series 2021.

“*Series 2024 Additional Project Account*” means the account created and so designated by the Series Resolution for the Series 2024 Bonds, which account constitutes an Additional Project Account within the meaning of the Bond Order.

“*Series 2024 Bonds*” means the Authority’s Water and Sewer System Revenue Bonds, Series 2024.

“*Series 2024 Subaccount of the Interest Account*” means the subaccount created and so designated by the Series Resolution for the Series 2024 Bonds.

“*Series 2024 Subaccount of the Principal Account*” means the subaccount created and so designated by the Series Resolution for the Series 2024 Bonds.

“*Series 2024 Subaccount of the Redemption Account*” means the subaccount created and so designated by the Series Resolution for the Series 2024 Bonds.

“*Series 2024 Subaccount of the Sinking Fund Account*” means the subaccount created and so designated by the Series Resolution for the Series 2024 Bonds.

*“Short-Term Indebtedness”* means all Indebtedness incurred for borrowed money other than the current portion of Long-Term Indebtedness for any of the following:

- (a) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less;
- (b) leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and
- (c) installment purchase, installment financing or conditional sale contracts having an original term of one year or less.

*“Sinking Fund Account”* means the account in the Bond Fund created and so designated by the provisions of the Bond Order.

*“Sinking Fund Requirement”* means, with respect to any Series of Bonds, the Sinking Fund Requirement provided in the Series Resolution relating to such Series.

*“Special Purpose Facilities”* means any additions, acquisitions, improvements, betterments, land, buildings, structures or other facilities, including equipment, acquired or constructed, and the preparation and grading of land, relating to the Water and Sewer System which are financed by the issuance of obligations which are issued in compliance with the provisions of the Bond Order described under the heading **“Financing of Special Purpose Facilities”** below but are not, directly or indirectly, secured by or payable from Gross Receipts or Net Receipts or issued under or secured by the provisions of the Bond Order, nor is the operation and maintenance of such Special Purpose Facilities payable as a Current Expense.

*“Special Reserve Account”* means a special debt service reserve account, if any, created by a Parity Resolution as a debt service reserve account only for the particular Parity Indebtedness authorized thereby.

*“Special Reserve Account Requirement”* means the amount required to be placed or maintained in a Special Reserve Account as may be required by the Parity Resolution creating such Account. The Special Reserve Account Requirement may be composed of cash, Investment Obligations or Reserve Alternative Instruments or any combination of the foregoing, as the Authority may determine.

*“State”* means the State of North Carolina.

*“State Clean Water Bond Program”* means the program established by the State for the purpose of providing loans, from proceeds of general obligation bonds of the State, to municipalities for water and wastewater capital projects.

*“State Revolving Loan Fund Program”* means the program established by the Clean Water Revolving Loan and Grant Act providing a source of funding for loans to municipalities for water and wastewater capital projects.

*“Subordinated Indebtedness”* means Indebtedness the terms of which shall provide that it shall be subordinate and junior in right of payment to the prior payment in full of Parity Indebtedness to the extent and in the manner set forth below:

In the event (a) of any insolvency or bankruptcy proceedings, and any receivership, liquidation, reorganization, arrangement or other similar proceedings in connection therewith, relative to the Authority or to the Water and Sewer System, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the Authority whether or not involving insolvency or bankruptcy; (b) any Subordinated Indebtedness is declared or otherwise becomes due and payable before its stated maturity because of the occurrence of an event of default occurring under the documents pursuant to which such Subordinated Indebtedness was incurred; or (c) any Event of Default under the Bond Order shall occur and be continuing and (1) written notice of such default shall have been given to the Authority and (2) judicial proceedings shall be commenced in respect of such Event of Default within 180 days in the case of a default in payment of principal or interest on Parity Indebtedness and within 90 days in the case of any other default after the giving of such notice, then, for so long as any action described in clause (a), (b) or (c) above shall not have been remedied or cured in the opinion of the Trustee, the owners of Parity Indebtedness shall be entitled to receive payment in full of all principal, premium and interest on all Parity Indebtedness before the owners of the Subordinated Indebtedness are entitled to receive any payment on account of principal of or interest on the Subordinated Indebtedness, and to that end the owners of Parity Indebtedness shall be entitled to receive for application in payment thereof any payment or distribution of any kind or character, whether in cash or property or securities, which may be payable or deliverable in any such proceedings in respect of the Subordinated Indebtedness after giving effect to any concurrent payment or distribution in respect to such Parity Indebtedness.

*“Subordinated Indebtedness Resolution”* means the resolution and any other documentation adopted or executed by the Authority providing for the incurrence of Subordinated Indebtedness. If the Subordinated Indebtedness is to be the subject of a Credit Facility, the Credit Facility must provide for repayments on a subordinated basis and the term Subordinated Indebtedness Resolution shall include any reimbursement agreement or similar repayment agreement executed and delivered by the Authority in connection with the provision of a Credit Facility for any Subordinated Indebtedness.

*“Term Bonds”* means the Bonds of any Series, other than Serial Bonds, that are designated as such in the Series Resolution for such Series.

*“Total Operating Revenues”* means, as to any period of time, total operating revenues of the Water and Sewer System as determined in accordance with generally accepted accounting principles.

*“Trustee”* means the Trustee serving as such under the Bond Order, whether original or successor.

*“Variable Rate Indebtedness”* means any portion of Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate.

*“Water and Sewer System”* means the Existing Facilities, the Project and any Additional Projects.

*“2024 Projects”* consist of the capital costs of extensions, additions, and capital improvements to, or the acquisition, renewal or replacement of capital assets of, or purchasing and installing new equipment for, the Authority’s water and sewer system, including reimbursement of prior expenditures related thereto.

## **Construction Fund**

A special fund is established with the Trustee and designated the *“Orange Water and Sewer Authority Water and Sewer System Construction Fund”* and within the Construction Fund there is established a special account to be known as the *“Project Account”*. The proceeds of any Series of Bonds to be used for providing any Additional Project will be deposited upon the delivery of such Series of Bonds

in a separate Additional Project Account to be created by the Series Resolution providing for the issuance of the Bonds financing such Additional Project.

The money in the Construction Fund will be held by the Trustee in trust and, pending application to the payment of the Cost of the Project or any Additional Project, as the case may be, or transfer as provided in the Bond Order or in the Series Resolution, will, to the extent permitted by law, be subject to a lien and charge in favor of the Owners of Bonds issued with respect to the Project or Additional Project and Outstanding under the Bond Order and will be held for the security of such Owners.

### **Establishment of Funds and Accounts**

In addition to the Construction Fund, the Bond Order establishes the following funds and accounts:

- (a) Orange Water and Sewer Authority Water and Sewer System Revenue Account;
- (b) Orange Water and Sewer Authority Water and Sewer System Revenue Bonds Bond Fund, in which there are established six special accounts to be known as the Capitalized Interest Account, the Interest Account, the Principal Account, the Sinking Fund Account, the Redemption Account and the Parity Reserve Account;
- (c) Orange Water and Sewer Authority Water and Sewer System Insurance and Condemnation Award Account;
- (d) Orange Water and Sewer Authority Capital Reserve Fund; and
- (e) Orange Water and Sewer Authority General Fund.

The Bond Fund and the accounts and subaccounts therein and the Insurance and Condemnation Award Account will be established with and held by the Trustee. The Revenue Account, the Capital Reserve Fund and the General Fund will be established with and held by one or more Depositaries selected by the Authority.

A Parity Resolution may provide for the creation of a Special Reserve Account for the Parity Indebtedness authorized by such Parity Resolution and for the deposit of moneys to and withdrawal from such Account. A Special Reserve Account created for any Series of Bonds will be held and maintained by the Trustee; provided, however, that if a Series of Bonds is placed with the purchaser thereof and not publicly offered, then such purchaser or a Depositary may hold the Special Reserve Account created for such Series of Bonds as provided for in the Series Resolution authorizing the issuance of such Series of Bonds.

A Special Reserve Account created for any Parity Debt may be held and maintained by the Trustee or by a Depositary as the Authority may determine, provided that such Depositary must be acting in the capacity of trustee or fiduciary with respect to the Holder of such Parity Debt.

A Parity Resolution may also provide for the creation of such other funds and accounts as the Authority may determine for the Parity Indebtedness authorized by such Parity Resolution.

The money in the Bond Fund and all of the accounts and subaccounts therein established pursuant to the Bond Order and in the Insurance and Condemnation Award Account will be held in trust and applied as provided in the Bond Order and, pending such application, the money in the subaccounts within the accounts of the Bond Fund established by each Series Resolution with respect to the Series of Bonds

authorized thereby shall be subject to a pledge, charge and lien in favor of the Owners of such Series of Bonds and for the further security of such Owners, and the money in the Parity Reserve Account shall be subject to a pledge, charge and lien in favor of the Owners and Holders of all Bonds and Parity Debt secured thereby and for the further security of all such Owners and Holders, except as otherwise provided in the Bond Order or in a Series Resolution.

Each Series Resolution will provide, to the extent applicable, for the creation of a separate subaccount within the Capitalized Interest Account, the Interest Account, the Principal Account, the Redemption Account and the Sinking Fund Account with respect to each Series of Bonds, which subaccounts will bear the designation of such Series of Bonds. A Series Resolution may provide that the Bonds authorized thereby may be additionally secured by the Parity Reserve Account or a Special Reserve Account or it may provide that there will not be any debt service reserve account in respect of such Series of Bonds. If a Series of Bonds is additionally secured by a Special Reserve Account or is not additionally secured by any debt service reserve account, such Series of Bonds will have no claim on the Parity Reserve Account.

The Series 2024 Bonds are not secured by the Parity Reserve Account or a Special Reserve Account and the Authority does not currently have any Series of Bonds secured by the Parity Reserve Account or a Special Reserve Account.

#### **Application of Money in the Revenue Account**

(a) Except as otherwise provided in the Bond Order, all Gross Receipts and all proceeds of any Derivative Agreement will be deposited when received in the Revenue Account.

(b) Current Expenses will be paid by the Authority from and will be a first charge against the Revenue Account; provided, however, that nothing in the Bond Order will prevent the Authority from paying any Current Expenses from any other funds legally available to the Authority for such purpose. The Current Expenses will be paid as the same become due and payable in conformity with the applicable budgetary and payment procedures of the Authority.

(c) At such time or times as are specifically provided for in the Bond Order or in any Parity Resolution or Derivative Agreement, the Authority will withdraw from the Revenue Account the amount necessary to make the deposits required by the provisions of the Bond Order.

(d) Except during the continuation of an Event of Default, the Authority may, in its discretion, after making the deposits required by the Bond Order as described under the heading “**Use of Money for Debt Service Accounts; Other Deposits**” below, transfer in each month any balance remaining in the Revenue Account, in whole or in part, to the General Fund or any other fund or account designated by the Authority, provided that (i) an Authorized Officer shall first certify to the Trustee in an Officer’s Certificate that, in his or her opinion, the transfer of such amount will not have a material adverse effect on the Authority’s ability over the next twelve (12) calendar months to pay the Current Expenses, to make all deposits required under the Bond Order as described under the heading “**Use of Money for Debt Service Accounts; Other Deposits**” below and to meet all other financial obligations imposed by the Bond Order or any Parity Resolution, and (ii) the total amount transferred in any month does not exceed one-twelfth (1/12) of the total amount budgeted to be transferred from the Revenue Account in such Fiscal Year as shown in the Annual Budget multiplied by the number of full months elapsed in such Fiscal Year less any amounts previously transferred from the Revenue Account in such Fiscal Year.

(e) Except during the continuation of an Event of Default, the Authority may, in its discretion, transfer within the thirty (30) days following June 30 of each Fiscal Year any balance remaining in the



Revenue Account on such date, in whole or in part, to the General Fund or any other fund or account designated by the Authority, provided that an Authorized Officer shall first certify to the Trustee in an Officer's Certificate that, in his or her opinion, the transfer of such amount will not have a material adverse effect on the Authority's ability over the next twelve (12) calendar months to pay the Current Expenses, to make all deposits required by the Bond Order as described under the heading "**Use of Money for Debt Service Accounts; Other Deposits**" below and to meet all other financial obligations imposed by the Bond Order or any Parity Resolution.

(f) Any funds transferred from the Revenue Account in accordance with paragraph (d) or (e) above, other than transfers made to any account or subaccount of the Bond Fund or any other fund or account securing or providing for the payment of Parity Debt, shall no longer be subject to the pledge, charge and lien upon the Net Receipts created by the Bond Order.

### **Use of Money for Debt Service Accounts; Other Deposits**

The amount withdrawn from the Revenue Account in accordance with the provisions of the Bond Order described in paragraph (c) under the heading "**Application of Money in the Revenue Account**" above will be applied by the Authority in the following manner and order:

(a)(i) At such time or times as provided in each of the Parity Resolutions, the Authority will deliver (1) to the Trustee, the amounts required by any Series Resolution for deposit in the appropriate subaccounts in the Interest Account, and (2) to the appropriate trustee or Person designated in any Parity Debt Resolution, the amounts required by such Parity Debt Resolution for the payment of interest on such Parity Debt and (ii) if a Derivative Agreement provides for any payments thereunder by the Authority relating to interest on Parity Indebtedness constituting Derivative Indebtedness, then, at such time or times as provided in the Derivative Agreement, the Authority will deliver to the appropriate trustee or Person designated in the Derivative Agreement the amount required by such Derivative Agreement to be paid thereunder by the Authority, provided that if there shall not be sufficient Net Receipts to satisfy all such deposits and payments, such deposits and payments shall be made to the Trustee for deposit to each such subaccount of the Interest Account and to each appropriate trustee or Person designated in such Parity Debt Resolution or Derivative Agreement ratably according to the amount so required to be deposited or paid.

(b) At such time or times as provided in each of the Parity Resolutions, the Authority will deliver (1) to the Trustee, the amounts required by any Series Resolution for deposit in the appropriate subaccounts of the Principal Account and the Sinking Fund Account and (2) to the appropriate trustee or Person designated in any Parity Debt Resolution, the amounts, if any, required by such Parity Debt Resolution for the payment of principal on Parity Debt, whether at maturity or pursuant to an amortization requirement, provided that if there shall not be sufficient Net Receipts to satisfy all such deposits and payments, such deposits and payments shall be made to the Trustee for deposit to each such subaccount of the Principal Account and the Sinking Fund Account and to each appropriate trustee or Person designated in such Parity Debt Resolution ratably according to the amount so required to be deposited or paid.

(c) At such time or times as provided in each of the Parity Resolutions, if the amount in the Parity Reserve Account is less than the Parity Reserve Account Requirement or the amount in any Special Reserve Account is less than the applicable Special Reserve Account Requirement, the Authority will deliver (1) to the Trustee, the amounts required by the Bond Order to make up such deficiency in the Parity Reserve Account and (2) to the Trustee or the appropriate trustee or Person designated in any Series Resolution or Parity Debt Resolution, the amounts required by

such Series Resolution or Parity Debt Resolution to make up any deficiencies in any Special Reserve Account, provided that if there shall not be sufficient Net Receipts to satisfy all such deposits and payments, such deposits and payments shall be made to the Trustee for deposit to the credit of the Parity Reserve Account and to the Trustee or the appropriate trustee or Person designated in each such Series Resolution or Parity Debt Resolution for deposit to the credit of each Special Reserve Account ratably according to the amount so required to be deposited or paid.

(d) So long as installment purchase, lease purchase, conditional sale or other similar types of indebtedness incurred to finance all or any part of the Water and Sewer System are Outstanding, the Authority, in its sole discretion, may pay interest on and principal of such indebtedness, or corresponding installment, lease or other similar type payments, as the same become due and payable.

(e) Beginning on July 25 of each Fiscal Year, commencing July 25, 2002, and thereafter on the 25th day of each month, the Authority will deposit to the credit of the Capital Reserve Fund one-twelfth (1/12) of the difference between (i) the amount on deposit therein at the close of business on the immediately preceding July 24 and (ii) the Capital Reserve Fund Requirement.

Notwithstanding anything in the Bond Order described under this heading to the contrary, failure by the Authority to make any deposits described in subparagraphs (d) and (e) above will not in and of itself be an Event of Default.

On or before the forty-fifth (45) day next preceding any date on which Serial Bonds are to mature or Term Bonds are to be redeemed pursuant to Sinking Fund Requirements therefor or are to mature, the Authority may satisfy all or a portion of its obligation to make the payments described in subparagraphs (a)(i) and (b) above by delivering to the Trustee Serial Bonds maturing or Term Bonds maturing or required to be redeemed on such date. If purchased, the price paid to purchase any such Bond, including accrued interest to the date of purchase, shall not exceed the principal or Redemption Price plus accrued interest to such maturity or redemption date. Upon such delivery, the Authority will receive a credit against amounts required to be deposited into the Interest Account and the Principal Account or Sinking Fund Account, as the case may be, on account of such Bonds with respect to all interest payments for the remainder of the Fiscal Year and in the amount of 100% of the principal amount of any such Serial Bonds or Term Bonds so delivered.

On or before the forty-fifth (45) day next preceding any date on which Parity Debt is to mature or is to be redeemed pursuant to an amortization requirement, the Authority may satisfy all or a portion of its obligation to make the payments described in subparagraphs (a)(i) and (b) above by delivering to the appropriate trustee or Person designated in any Parity Debt Resolution the Parity Debt maturing or required to be so redeemed on such date. If purchased, the price paid to purchase any such Parity Debt, including accrued interest to the date of purchase, shall not exceed the principal or Redemption Price plus accrued interest to such maturity or redemption date. Upon such delivery, the Authority will receive a credit against amounts required to be deposited on account of such Parity Debt with respect to all interest payments for the remainder of the Fiscal Year and in the amount of 100% of the principal amount of any such Parity Debt so delivered.

The Authority may provide in a Subordinated Indebtedness Resolution for a disposition of Net Receipts for the purpose of paying the interest on or principal of Subordinated Indebtedness or in a Derivative Agreement for the making of payments or repayments thereunder on a subordinated basis prior to the deposits described in subparagraphs (d) and (e) above, but only after the making of the deposits or payments described in subparagraphs (a), (b) and (c) above.

The Authority may provide in a Parity Resolution for a disposition of Net Receipts for the purpose of paying amounts owing to a Bond Insurer prior to the deposits described in subparagraphs (d) or (e) above, but only after the making of the deposits or payments described in subparagraphs (a), (b) and (c) above.

#### **Application of Money in Interest Account and Capitalized Interest Account**

Not later than 10:00 A.M. on each Interest Payment Date, date for the payment of Defaulted Interest or date upon which Bonds are to be redeemed, or on such other date as may be specified in the applicable Series Resolution, the Trustee will withdraw from the applicable subaccount in the Interest Account and remit by wire transfer to the Bond Registrar, in Federal Reserve or other immediately available funds, the amounts required for paying interest on the respective Bonds on such Interest Payment Date. The Bond Registrar will remit or set aside the amount due and payable to the Owners as provided in the Series Resolutions.

Unless otherwise provided by a Series Resolution, on the date of issuance of any Series of Bonds, an Authorized Officer will deliver to the Trustee a schedule of transfers to be made from the applicable subaccount of the Capitalized Interest Account to the applicable subaccount of the Interest Account. The Trustee will make such transfers as required by the schedule prepared by an Authorized Officer and filed with the Trustee.

Unless otherwise provided by a Series Resolution, if the Authority fails to deposit with the Trustee the amounts required to be deposited in the Interest Account as provided by the provisions described under the heading **“Use of Money for Debt Service Accounts; Other Deposits”** above, or if the balance in the Interest Account on the Business Day next preceding an Interest Payment Date is insufficient to pay interest becoming due on the Bonds on such Interest Payment Date, the Trustee will notify the Authority of the amount of the deficiency and request the Authority to immediately cure such deficiency. Upon failure of the Authority to cure such deficiency and in any event not later than such Interest Payment Date, the Trustee will transfer an amount sufficient to cure the same, drawing upon funds in the Parity Reserve Account, if the Parity Reserve Account secures such Series of Bonds, or in the Special Reserve Account, if any, securing such Series of Bonds.

#### **Application of Money in Principal Account**

Not later than 10:00 A.M. on each principal payment date, the Trustee will withdraw from the applicable subaccount in the Principal Account and remit by wire transfer to the Bond Registrar, in Federal Reserve or other immediately available funds, the amount necessary to pay the principal of the related Serial Bonds at their respective maturities. The Bond Registrar will remit or set aside the amount due and payable to the Owners as provided in the Series Resolution.

If on any date there is money in the Principal Account and no Serial Bonds are then Outstanding or if on any principal payment date money remains therein after the payment of the principal of Serial Bonds then due, the Trustee will withdraw such money therefrom and will apply the same in the following order: (a) deposit into the Sinking Fund Account the amount then required to be paid thereto by the Authority pursuant to the provisions of the Bond Order described under the heading **“Use of Money for Debt Service Accounts; Other Deposits”** above, (b) deposit or transfer for deposit, if and to the extent determined by the Authority, into the Parity Reserve Account or in one or more Special Reserve Accounts such amounts as may be determined by the Authority in order to make the amounts on deposit therein equal to the Parity Reserve Account Requirement or the Special Reserve Account Requirement, as the case may be, and (c) deliver all remaining amounts to the Authority.

Unless otherwise provided in a Series Resolution, if the Authority fails to deposit with the Trustee the amounts required to be deposited in the Principal Account as provided by the provisions described under the heading “**Use of Money for Debt Service Accounts; Other Deposits**” above, or if the balance in the Principal Account on the Business Day next preceding a principal payment date is insufficient to pay principal coming due on the Serial Bonds on such principal payment date, the Trustee will notify the Authority of the amount of the deficiency and request the Authority to immediately cure such deficiency. Upon failure of the Authority to cure such deficiency and in any event not later than such principal payment date, the Trustee will transfer an amount sufficient to cure the same, drawing upon funds in the Parity Reserve Account, if the Parity Reserve Account secures such Series of Bonds, or in the Special Reserve Account, if any, securing such Series of Bonds.

#### **Application of Money in Sinking Fund Account**

Money held for the credit of the subaccounts in the Sinking Fund Account will be applied to the retirement, purchase, redemption or payment of Term Bonds in the manner provided in the applicable Series Resolution. Unless otherwise provided in a Series Resolution, if the Authority fails to deposit with the Trustee the amount required to be deposited in the Sinking Fund Account as provided by the provisions described under the heading “**Use of Money for Debt Service Accounts; Other Deposits**” above, or if the balance in the Sinking Fund Account on the Business Day next preceding a sinking fund payment date is insufficient to retire Term Bonds on such date as required by a Series Resolution, the Trustee will notify the Authority of the amount of the deficiency and request the Authority to immediately cure such deficiency. Upon failure of the Authority to cure such deficiency and in any event not later than such sinking fund payment date, the Trustee will transfer an amount sufficient to cure the same, drawing upon funds in the Parity Reserve Account, if the Parity Reserve Account secures such Series of Bonds, or in the Special Reserve Account, if any, securing such Series of Bonds.

#### **Application of Money in Redemption Account**

The Trustee will apply money in the Redemption Account to the purchase or redemption of Bonds as provided in the Bond Order.

#### **Deposit and Application of Money in Capital Reserve Fund and General Fund**

Money held for the credit of the Capital Reserve Fund will be used only for the following:

- (a) in the Authority’s sole discretion, to make deposits to the appropriate subaccounts in the Interest Account, the Principal Account and the Sinking Fund Account to remedy any deficiency therein or to pay interest on or the principal of or amortization requirements in respect of any Parity Debt when due, whenever moneys are insufficient for such purposes; and
- (b) to pay all or a portion of the cost of unusual or extraordinary maintenance, repairs, renewals or replacements or capital improvements related to the Water and Sewer System in accordance with the applicable procedures used in the payment of Current Expenses or as provided in the Capital Improvements Budget.

Moneys held for the credit of the General Fund may be used for any lawful purpose of the Authority.

## **Security Deposits Account**

Money received by the Authority as security deposits on account of estimated rates, fees or charges for water and sewer service to assure the payment of such rates, fees or charges will be deposited as received in a Depositary or Depositaries, in the name of the Authority, to the credit of the Security Deposits Account. Any such moneys shall not be deemed to constitute Gross Receipts or Revenues unless and until withdrawn from said account and deposited to the credit of the Revenue Account. Moneys deposited to the credit of said account will be invested pursuant to the provisions of the Bond Order described under the heading “**Investment of Money**” below.

## **Insurance and Condemnation Award Account**

The Trustee will deposit Net Insurance Proceeds or Net Eminent Domain Proceeds into the Insurance and Condemnation Award Account when and as received by the Trustee from the Authority, and they shall be disbursed as described below.

If, as a result of any casualty occurring to at least ten percent (10%) of the Property, Plant and Equipment (net of accumulated depreciation) of the Water and Sewer System or as a result of any taking by Eminent Domain of at least ten percent (10%) of the Property, Plant and Equipment (net of accumulated depreciation) of the Water and Sewer System, the revenue-producing capabilities of the Water and Sewer System will, in the opinion of the Executive Director of the Authority, be materially impaired for a period in excess of one hundred twenty (120) consecutive days, all Net Insurance Proceeds received by the Authority and all Net Eminent Domain Proceeds received by the Authority, as the case may be, will be delivered to the Trustee for deposit in the Insurance and Condemnation Award Account and will be applied, to the extent permitted by law, at the election of the Authority:

(1) to replace, repair, rebuild or restore the Water and Sewer System to substantially the same condition as that which existed prior to such damage, destruction or taking, with such alterations and additions as the Authority may determine and as will not impair or otherwise adversely affect the revenue-producing capability of the Water and Sewer System, provided that prior to the commencement of such replacement, repair, rebuilding or restoration, the Authority is required to deliver to the Trustee a report of a licensed architect or engineer employed by the Authority setting forth (A) an estimate of the total cost of the same, (B) the estimated date upon which such replacement, repair, rebuilding or restoration will be substantially completed, and (C) a statement to the effect that Net Insurance Proceeds or Net Eminent Domain Proceeds, as the case may be, together with other funds made available or to be made available by the Authority, are projected to be sufficient to pay the costs of the replacement, repair, rebuilding or restoration of the Water and Sewer System; or

(2) to the redemption of Bonds or Parity Debt as provided in the Parity Resolutions, provided that Bonds or Parity Debt may be redeemed only if (A) the Water and Sewer System has not been restored to substantially the same condition as prior to such damage, destruction or taking or (B) the licensed architect or engineer employed by the Authority has been unable to make the statement described in clause (1)(C) above; or

(3) to transfer to the General Fund or any other fund or account designated by the Authority if the Water and Sewer System has been restored to substantially the same condition as prior to such damage, destruction or taking with other funds of the Authority or made available to the Authority which were not subject to the lien in favor of the Owners and Holders.

All Net Insurance Proceeds and all Net Eminent Domain Proceeds which the Authority is not required to pay to the Trustee pursuant to the provisions of the Bond Order described above under this heading will be applied in such manner as the Authority believes to be in the best interests of the Authority.

If the Authority elects to apply Net Insurance Proceeds or Net Eminent Domain Proceeds, or cause them to be applied, to replace, repair, rebuild, or restore the Water and Sewer System, as described in clause (1) of the first paragraph under this heading, the Authority will make disbursements from the Insurance and Condemnation Award Account, to the extent practicable, in accordance with the procedures and requirements set forth in the Bond Order for requisitions from the Construction Fund. However, to the extent such Net Insurance Proceeds or Net Eminent Domain Proceeds exceed the cost of such replacement, repair, rebuilding or restoration, the same will be transferred to the General Fund or any other fund or account designated by the Authority.

If the Authority elects to redeem Bonds, the Authority will direct the Trustee to redeem Bonds in accordance with the provisions of the Bond Order and the Series Resolution for any such Bonds and to transfer from the Insurance and Condemnation Award Account to the Redemption Account an amount sufficient to pay the Redemption Price of the Bonds to be redeemed and to the Interest Account an amount that, together with amounts then on deposit therein, is sufficient to pay interest accruing on the Bonds to be redeemed to the date of redemption. If the Authority elects to redeem Parity Debt, the Authority will follow the requirements for such redemption as set forth in the Parity Debt Resolution for such Parity Debt.

Notwithstanding any provision of the Bond Order or any Series Resolution to the contrary, if at any time there are both Bonds Outstanding under the terms of the Bond Order and Parity Debt Outstanding under the terms of one or more Parity Debt Resolutions and the Authority or the Trustee receives Net Insurance Proceeds or Net Eminent Domain Proceeds and the Authority elects to redeem Bonds with the same pursuant to the provisions of the Bond Order described under this heading, then all such Net Insurance Proceeds or Net Eminent Domain Proceeds will be allocated among, and distributed by the Trustee to, the Owners of Bonds in the proportion that the principal amount of all Bonds then Outstanding bears to the principal amount of all Parity Indebtedness then Outstanding and to each Holder of Parity Debt (or to the trustee or any other Person on behalf of the Holder of such Parity Debt as shall be specified to the Trustee) in the proportion that the principal amount of such Parity Debt then Outstanding bears to the principal amount of all Parity Indebtedness then Outstanding, unless such an allocation and distribution has been made prior to the receipt by the Trustee of such Net Insurance Proceeds or Net Eminent Domain Proceeds.

### **Investment of Money**

Money held for the credit of all funds, accounts and subaccounts will be continuously invested and reinvested by the Trustee or the Depositaries, whichever is applicable, in Investment Obligations to the extent practicable. Except as provided in the Bond Order with respect to the disposition of investment income, the particular investments to be made and other related matters in respect of investments will, as to each Series of Bonds, be provided in the applicable Series Resolution. Except as provided in the Bond Order with respect to the Parity Reserve Account, Investment Obligations will mature or be redeemable at the option of the holder thereof not later than the respective dates when the money held for the credit of such funds, accounts and subaccounts will be required for the purposes intended.

At the time that the Parity Reserve Account is first funded in connection with the issuance of a Series of Bonds or the incurrence of Parity Debt, the Authority will determine in the Parity Resolution the maximum number of years of the average life of the Investment Obligations in the Parity Reserve Account, and thereafter such Investment Obligations in the Parity Reserve Account will mature or be redeemable at the option of the Trustee so that all such Investment Obligations in the Parity Reserve Account will have

an average life from the date of such investment of not more than the amount of years so determined by the Authority.

Investment Obligations acquired with money in or credited to any fund, account or subaccount established under the Bond Order shall be deemed at all times to be part of such fund, account or subaccount. Any loss realized upon the disposition or maturity of such Investment Obligations will be charged against such funds, accounts or subaccounts. The interest accruing on any such Investment Obligations and any profit realized upon the disposition or maturity of such Investment Obligations will be credited to such funds, accounts or subaccounts as follows:

<b>FUNDS, ACCOUNTS OR SUBACCOUNTS</b>	<b>CREDITED TO</b>
Project Account of Construction Fund	Project Account of Construction Fund
Revenue Account	Revenue Account
All other funds, accounts and subaccounts	Revenue Account unless otherwise directed by the related Series Resolution

The Trustee will sell or reduce to cash a sufficient amount of such Investment Obligations whenever it is necessary to do so to provide money to make any payment from any such fund, account or subaccount. The Trustee will not be liable or responsible for any loss resulting from any such action.

Whenever a transfer of money between two or more of the funds, accounts or subaccounts established under the Bond Order is permitted or required, such transfer may be made as a whole or in part by transfer of one or more Investment Obligations at a value determined at the time of such transfer in accordance with the Bond Order, provided that the Investment Obligations transferred are those in which money of the receiving fund, account or subaccount could be invested at the date of such transfer.

For purposes of making any investment under the Bond Order, the Trustee or any Depositary may consolidate money held by it in any fund, account or subaccount with money in any other fund, account or subaccount. Transfers from any fund, account or subaccount to the credit of any other fund, account or subaccount provided for in the Bond Order may be effectuated on the books and records of the Trustee, the Authority or any Depositary without any actual transfer of funds or liquidation of investments. Investment Obligations purchased with consolidated funds will be allocated to each fund, account or subaccount on a pro rata basis in accordance with the initial amount so invested from each such fund, account or subaccount.

## **Valuation**

For the purpose of determining the amount on deposit in any fund, account or subaccount, Investment Obligations in which money in such fund, account or subaccount is invested will be valued (a) at face value if such Investment Obligations mature within six (6) months from the date of valuation thereof, and (b) if such Investment Obligations mature more than six (6) months after the date of valuation thereof, at the price at which such Investment Obligations are redeemable by the holder at its option, if so redeemable, or, if not so redeemable, at the lesser of (i) the cost of such Investment Obligations minus the amortization of any premium or plus the amortization of any discount thereon, and (ii) the market value of such Investment Obligations.

All Investment Obligations in all of the funds, accounts and subaccounts created under the Bond Order, except the Revenue Account, the Capital Reserve Fund, the General Fund and the Security Deposits Account, will be valued as of December 31 and the last day of each Fiscal Year. If a valuation is made by

the Trustee, the Trustee will report the result of such valuation to the Authority within thirty (30) days following such valuation. In addition, Investment Obligations will be valued at any time requested by the Authority on reasonable notice to the Trustee (which period of notice may be waived or reduced by the Trustee); provided, however, that the Trustee will not be required to value Investment Obligations more than once in any calendar month.

### **Security for the Bonds and Parity Debt**

As security for the payment of the Bonds and any Parity Debt and the interest thereon and as authorized by the Act, the Authority grants to the Trustee a pledge, charge and lien upon the Net Receipts, subject to the release of said lien as described in paragraphs (d) and (e) under the heading “**Application of Money in the Revenue Account**” above.

In addition, as further security for the payment of each Series of Bonds and the interest thereon, the Authority grants to the Trustee a pledge, charge and lien upon the money and Investment Obligations in the subaccounts within the accounts of the Bond Fund established by the Series Resolution authorizing such Series of Bonds and upon the money and Investment Obligations in any other account or subaccount established by such Series Resolution as security for such Series of Bonds. As further security for the payment of all Bonds and Parity Debt secured by the Parity Reserve Account and the interest thereon, the Authority grants to the Trustee a pledge, charge and lien upon the money and Investment Obligations in the Parity Reserve Account.

### **Payment of Principal, Interest and Premium**

The Authority will cause to be paid, when due, the principal of (whether at maturity, by acceleration, by call for redemption or otherwise) and the premium, if any, and interest on the Bonds and any Parity Debt at the places, on the dates and in the manner provided in the Bond Order and in the Bonds and any Parity Debt and the documentation securing such Bonds and Parity Debt, according to the true intent and meaning thereof.

The Bonds are special obligations payable from Net Receipts and money, Investment Obligations and Reserve Alternative Instruments held in the funds, accounts and subaccounts created by the Bond Order and the income from such Investment Obligations and the investment of such money.

### **Rate Covenant**

(a) The Authority covenants to fix and charge rates, fees, rentals and charges for the use of, and for the services furnished or to be furnished by, the Water and Sewer System, and that from time to time and as often as it shall appear necessary, it shall revise such rates, fees, rentals and charges as may be necessary or appropriate, in order that for each Fiscal Year, the Income Available for Debt Service for such Fiscal Year will be not less than the greater of (i) one hundred twenty percent (120%) of the Long-Term Debt Service Requirement for Parity Indebtedness only for such Fiscal Year and (ii) one hundred percent (100%) of the Long-Term Debt Service Requirement for Parity Indebtedness and Subordinated Indebtedness for such Fiscal Year.

(b) The Authority also covenants to fix and charge rates, fees, rentals and charges for the use of, and for the services furnished or to be furnished by, the Water and Sewer System, and that from time to time and as often as it shall appear necessary, it shall revise such rates, fees, rentals and charges as may be necessary or appropriate, in order that the Gross Receipts will be sufficient in each Fiscal Year thereafter to (i) pay Current Expenses, (ii) make the cash deposits in each Fiscal Year required by the provisions of the Bond Order described in subparagraphs (a), (b) and (c) under the heading “**Use of Money for Debt**



**Service Accounts; Other Deposits**” above and (iii) make the cash deposits in each Fiscal Year required by any Subordinated Indebtedness Resolutions with respect to the payment of interest on and principal of Subordinated Indebtedness.

(c) The Authority covenants that there will be no free services rendered by the Water and Sewer System nor will any preferential rates, fees or charges be established for any users of the Water and Sewer System within the same class and that all users, including political subdivisions and public bodies (local, State and federal), will pay therefor at the established rates, fees and charges; provided, however, that water for the prevention and extinguishment of fires and the flushing of streets and water reasonably necessary for the testing of fire hydrants, the practice of municipal firemen and the flushing and testing of components of the Water and Sewer System may be provided by the Authority without charge and that the Authority may make adjustments to accounts consistent with established business practices for correction of errors, settlement of disputes and credits for prior payments. The cost of providing and maintaining fire hydrants may be recovered through general or specific rates, fees and charges as the Authority may determine in its discretion.

(d) The Authority further covenants that if it fails to comply with the covenants described in paragraphs (a) and (b) above, it will, within thirty (30) days of the receipt by the Authority of the audit report required by the provisions of the Bond Order described under the heading “**Records, Accounts and Audits**” below, request an Appropriate Consultant to make recommendations, if any, as to a revision of the Authority’s rates, fees, rentals and charges, its Current Expenses or the method of operation of the Water and Sewer System in order to satisfy the requirements of the Bond Order described above under this heading. Promptly upon its receipt of the recommendations of the Appropriate Consultant, the Authority will, after giving due consideration to the recommendations, revise its rates, fees, rentals and charges or its Current Expenses or alter its methods of operation, which revisions or alterations need not comply with the Appropriate Consultant’s recommendations but which are projected by the Authority to result in compliance with the covenants described in paragraphs (a) and (b) above. If the Authority shall comply with all of the recommendations of the Appropriate Consultant, failure to comply with the provisions of the Bond Order described in paragraphs (a) and (b) above will not constitute an Event of Default under the provisions of the Bond Order described in clause (g) under the heading “**Events of Default**” below. If the Authority shall determine to revise its rates, fees, rentals and charges or its Current Expenses or alter its methods of operation in any manner that is not in compliance with any of the recommendations of the Appropriate Consultant, failure to comply with the provisions of the Bond Order described in paragraphs (a) and (b) above in the next succeeding Fiscal Year will constitute an Event of Default under the provisions of the Bond Order described in clause (g) under the heading “**Events of Default**” below. Compliance with all of the recommendations of the Appropriate Consultant, if the Authority shall have determined to comply with such recommendations, or compliance with the covenants described in paragraphs (a) and (b) above, if the Authority shall have determined to revise its rates, fees, rentals and charges or its Current Expenses or alter its methods of operation in any manner that is not in compliance with the recommendations of the Appropriate Consultant, will have no effect on any Event of Default other than an Event of Default under the provisions of the Bond Order described in clause (g) under the heading “**Events of Default**” below. In the event of any failure to comply with the provisions of the Bond Order described in paragraphs (a) and (b) above and the failure of the Authority to comply with all of the recommendations of the Appropriate Consultant, and in addition to the remedies elsewhere provided in the Bond Order, the Trustee or the Holders of not less than twenty-five per centum (25%) in aggregate principal amount of the Parity Indebtedness then Outstanding may, and the Trustee shall, upon the request of the Holders of not less than twenty-five per centum (25%) in aggregate principal amount of the Parity Indebtedness then Outstanding and upon being indemnified to its satisfaction, institute and prosecute in a court of competent jurisdiction an appropriate action to compel the Authority to comply with all of the recommendations of the Appropriate Consultant in order to satisfy the requirements of the Bond Order described above under this heading. The Authority covenants that it will adopt and charge rates, fees, rentals and charges and revise its Current

Expenses or the method of operation of the Water and Sewer System in compliance with any final order, decree or judgment entered in any such proceeding or modification thereof.

(e) Notwithstanding any of the provisions of the Bond Order described above under this heading, contracts and agreements for the use of the Water and Sewer System, or any component thereof, in effect on the date of the issuance of the Series 2001 Bonds will not be subject to revision for purposes of compliance with the covenants described in paragraphs (a) and (b) above except in accordance with their terms. Subject to the provisions of the Bond Order described under the heading “**Contracts, Leases and Other Agreements**” below, the Authority may enter into new contracts or agreements or amend or rescind existing contracts or agreements for the use of the Water and Sewer System on such terms and for such periods of time as the Authority shall determine to be proper.

(f) The Authority also covenants to comply with the provisions of any additional rate covenants established or continued by a Parity Debt Resolution or a Subordinated Indebtedness Resolution providing for the issuance of Parity Debt or Subordinated Indebtedness to be issued to the State as part of the State Revolving Loan Fund Program or the State Clean Water Bond Program.

(g) The Authority also covenants to fix and charge rates, fees, rentals and charges for each component of the Water and Sewer System, which rates, fees, rentals and charges shall be reasonable and non-discriminatory.

(h) Subject to the provisions of the Bond Order described under this heading, the Authority further covenants that, so long as the agreements of sale and purchase between the Authority and the State, the Town of Chapel Hill, North Carolina and the Town of Carrboro, North Carolina, which agreements provided for the transfer of the initial facilities of the Water and Sewer System to the Authority, remain in effect, such rates, fees and charges shall be determined and revised in accordance with the provisions of such agreements. Among the provisions of such agreements, the Authority has agreed to charge reasonable rates, based on cost of service, to all classes of users of the Water and Sewer System, except that the sewer utility facilities of The University of North Carolina at Chapel Hill (hereinafter sometimes called the “*University*”) transferred thereunder to the Authority by the State will not be included in any calculation of cost of service to the University; to serve all users within each class impartially and without unjust discrimination or regard to location and to operate the Water and Sewer System at the lowest rates possible consistent with its obligation to provide proper and efficient service. The Authority has also agreed under such agreements that not less than ninety (90) days prior to the proposed effective date of any revision of rates, notice of such revision shall be published by the Authority and filed by the Authority with the University. If the effect of any proposed revision of rates, together with all revisions of rates in the four (4) years next preceding the proposed effective date of such revision, would be to increase in excess of twenty per centum (20%) the rates charged to the University over such period, then the University shall have the right, within thirty (30) days after the receipt of notice of any such proposed revision, to require the Authority to retain an Appropriate Consultant to review such proposed revision in the light of all such revisions within such period and to report to the Authority its analysis of the reasonableness of such proposed revision as applied to the University and each class of user. No such proposed revision shall be adopted by the Authority until such report of the Appropriate Consultant has been made available to the University and reviewed and considered by the Authority. On the effective date of any proposed revision of rates with respect to which the University has requested the Authority to retain an Appropriate Consultant, a new period for the purpose of determining the effect of any further proposed revision of rates, together with all other revisions of rates subsequent to such effective date, shall be deemed to have commenced.

## Insurance

The Authority covenants that it will maintain, or cause to be maintained, a practical insurance program, with reasonable terms, conditions, provisions and costs, which the Authority determines (i) will afford adequate protection against loss caused by damage to or destruction of the Water and Sewer System or any part thereof and (ii) will include reasonable liability insurance on all of the Water and Sewer System for bodily injury and property damage resulting from the construction or operation of the Water and Sewer System. All such insurance policies will be carried in a responsible insurance company or companies authorized and qualified to assume the risks thereof.

If the Authority obtains an opinion of an Insurance Consultant, who does not sell, directly or indirectly, any insurance to the Authority, stating that:

(a) the insurance, or any part or parts thereof, the Authority proposes to obtain in order to comply with its covenant to insure is not available at a reasonable cost, and

(b) the amounts and types of insurance which the Authority has obtained or the provision for Qualified Self Insurance (as hereinafter defined) which the Authority has made to provide protection against the risk or risks mentioned above equivalent to the protection then being relied upon by utilities of similar size and type or the protection determined by the Authority in its reasonable judgment to be adequate for the Water and Sewer System,

(c) then the maintenance of such amounts and types of insurance or the provision for Qualified Self Insurance will constitute compliance with such covenant to insure. The term “*Qualified Self Insurance*” means any program of self insurance or use of an insurance company or association controlled by the Authority, either singly or with others, or in which the Authority has a material interest (a “*captive insurance company*”), regarding which the Authority has received a written evaluation of an Insurance Consultant or an independent actuarial consultant having a favorable reputation for skill and experience for such work, which evaluation must include an opinion of such consultant that the use of such self insurance or captive insurance company program will not diminish substantially the Gross Receipts and that adequate reserves for such program are either maintained with an independent corporate trustee or otherwise held with appropriate safeguards to ensure their availability. Any self-insurance program of the Authority carried to comply with the above-mentioned insurance requirements will be in written form and, together with the written evaluation regarding self-insurance mentioned above, filed with the Trustee. Such program must (a) provide actuarially sound reserves, (b) be reviewed annually by an insurance advisor, who may sell insurance to the Authority, or a registered actuary in light of claims made in order to determine the adequacy of any such reserves and (c) provide upon the termination of such program for adequate reserves for, or insurance coverage of, any potential retained liability in respect of the period of self-insurance.

All such policies will be for the benefit of the Authority, will be made payable to the Authority and will remain with the Authority, and the Authority will have the sole right to receive the proceeds of such insurance and to collect and receipt for claims thereunder. Net Insurance Proceeds will be applied in accordance with the provisions of the Bond Order described under the heading “**Insurance and Condemnation Award Account**” above.

Notwithstanding any of the provisions of the Bond Order described above under this heading, the Authority will not be required to amend or otherwise change any of the insurance provisions of its contracts, leases and other agreements in effect on the date of the issuance of the Series 2001 Bonds for the purpose of complying with the provisions of the Bond Order described above under this heading and, with respect

to any contract, lease or other agreement entered into by the Authority after the date of the issuance of the Series 2001 Bonds, the Authority may provide for policies which are payable to the parties of such contract, lease or other agreement as their interests may appear and may provide that the proceeds be applied in such manner as the Authority shall, in its opinion, believe to be in the best interest of the Authority. The Authority may require evidence of the existence of such policies and notice of cancellation in lieu of the possession of such policies.

### **Records, Accounts and Audits**

The Authority will keep the funds, accounts, subaccounts, money and investments of the Water and Sewer System separate from all other funds, accounts, money and investments, if any, of the Authority and will keep accurate records and accounts of all items of costs and of all expenditures relating to the Water and Sewer System and of the revenues collected and the application of such revenues. Such records and accounts will be open to the inspection of the Trustee.

The Authority will cause its accountant to prepare and deliver to the Authority within one hundred twenty (120) days after the close of such Fiscal Year an audit of the Authority's books and accounts. Reports of each such audit will be filed with the Local Government Commission and the Trustee, and copies of each such report will be mailed to each Owner or Holder requesting the same in writing and will be made available for inspection at the office of the Authority. Each such audit report will be accompanied by an opinion of the accountant stating that the examination of the financial statements was conducted in accordance with generally accepted auditing standards and stating whether such financial statements present fairly the financial position of the Authority and the results of its operations and a statement of cash flows for the period covered by such audit report in conformity with generally accepted accounting principles applied on a consistent basis.

If for any reason beyond its control, the Authority is unable to obtain the foregoing opinion as to compliance with generally accepted accounting principles, the Authority shall be deemed to be in compliance with the provisions of the Bond Order described under this heading if it is taking all reasonable and feasible action to obtain such opinion in subsequent Fiscal Years, and if, in lieu of a statement as to compliance and conformity, such opinion states the reasons for such noncompliance or non-conformity.

Each audit report will be accompanied by a special report of the Authority's accountant or contain additional data setting forth in respect of such Fiscal Year a calculation to determine compliance with the provisions of the Bond Order described under the heading "**Rate Covenant**" above.

### **Payment of Charges and Covenant Against Encumbrances**

Except as provided in the Bond Order, the Authority shall not create or suffer to be created any lien or charge upon the Water and Sewer System or any part thereof, or on the Net Receipts, except for Permitted Encumbrances. The Authority shall discharge or cause to be discharged, or shall make adequate provision to satisfy and discharge, within sixty (60) days after the same become due and payable, all lawful costs, expenses, liabilities and charges relating to the maintenance, repair, replacement or improvement of the properties constituting the Water and Sewer System and the operation of the Water and Sewer System and lawful claims and demands for labor, materials, supplies or other objects that might by law become a lien upon the Water and Sewer System or Net Receipts if unpaid. Nothing contained in the Bond Order as described under this heading shall require the Authority to pay or cause to be discharged, or make provision for the payment, satisfaction and discharge of, any lien, charge, cost, liability, claim or demand so long as the validity thereof is contested in good faith and by appropriate legal proceedings.

## Covenants Against Sale and Exceptions Thereto

The Authority covenants that, except as permitted by the provisions of the Bond Order described under this heading and the heading “**Contracts, Leases and Other Agreements**” below, it will not sell, exchange or otherwise dispose of the Water and Sewer System or any part thereof.

The Authority may from time to time sell, exchange or otherwise dispose of any equipment, motor vehicles, machinery, fixtures, apparatus, tools, instruments or other movable property if it determines that such articles are no longer needed or are no longer useful in connection with the Water and Sewer System, and the proceeds thereof shall be applied for any lawful purpose of the Authority.

The Authority may from time to time sell, exchange or otherwise dispose of (but not lease, contract or agree for the use thereof except as permitted under the provisions of the Bond Order described under the heading “**Contracts, Leases and Other Agreements**” below) any other Property of the Water and Sewer System if, in addition to obtaining an opinion of nationally recognized bond counsel to the effect that such sale, exchange or disposition of Property of the Water and Sewer System would not adversely affect the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes, if it determines by resolution:

- (a) that such Property is no longer needed or is no longer useful in connection with the Water and Sewer System, or
- (b) that the sale, exchange or other disposition thereof would not materially adversely affect the operating efficiency of the Water and Sewer System and would not materially reduce Net Receipts, or
- (c) that the sale, exchange or other disposition thereof would not materially adversely affect the ability of the Authority to comply with the rate covenant described under the heading “**Rate Covenant**” above for the current and next succeeding Fiscal Year and there is delivered to the Trustee evidence (including, but not limited to, an Officer’s Certificate) reasonably satisfactory to the Trustee that such sale, exchange or disposition would not result in the ratings of any Parity Indebtedness being suspended or downgraded below “investment grade” by Moody’s or S&P, and provided further that such sale, exchange or disposition would be for a consideration of not less than fair market value;

and the proceeds, if any, of any such sale, exchange or disposition shall be applied to the replacement of the properties so sold, exchanged or disposed of or shall be deposited to the credit of the subaccount or subaccounts of the Bond Fund or to pay interest on or principal of Parity Debt as the Authority may determine.

If the fair market value of any item of real or personal property to be sold, exchanged or otherwise disposed of in any Fiscal Year in accordance with the provisions of the Bond Order described under this heading shall be in excess of 3% of net Property, Plant and Equipment of the Water and Sewer System calculated in accordance with generally accepted accounting principles, or if the fair market value of any such item together with the fair market value of all other such items so disposed of in such Fiscal Year shall aggregate in excess of 3% of net Property, Plant and Equipment of the Water and Sewer System calculated in accordance with generally accepted accounting principles, then no such disposal shall be effected without first obtaining the written approval of an Appropriate Consultant of the determinations to be made by the Authority with respect to such disposition under the provisions of the Bond Order described under this heading.

Notwithstanding the provisions of the Bond Order described above, nothing in the provisions of the Bond Order described under this heading shall be construed as limiting the ability of the Authority to sell, exchange or otherwise dispose of any parcel of land now owned or hereafter acquired by the Authority, and any such sale, exchange or other disposition may be effected without satisfying any of the other conditions of the Bond Order described under this heading for the sale, exchange or disposition of Property of the Water and Sewer System, if, on or prior to the date of such sale, exchange or disposition, the Authority shall be granted such property rights, rights-of-way, easements, franchises, reservations or interests in such parcel as shall be sufficient for the needs and purposes of the Authority in such parcel. The Authority may use the proceeds from any such sale, exchange or disposition for any lawful purpose of the Authority.

### **Additional Projects; Additions to the Water and Sewer System**

All buildings, structures and items of personal property that are constructed, placed or installed in or upon the properties constituting the Water and Sewer System as an addition or improvement to, as a substitute for, or in renewal, replacement or alteration of, any buildings, structures, and personal property constituting part of the Water and Sewer System, and all real property acquired as an addition to, in replacement of, or as a substitute for real property constituting a part of the Water and Sewer System shall thereupon become part of the Water and Sewer System.

### **Contracts, Leases and Other Agreements**

The Authority may lease, as lessor, all or any part of the Water and Sewer System, or contract or agree for the performance by others, of operations or services on or in connection with the Water and Sewer System or any part thereof, for any lawful purpose, provided, that:

- (a) the Authority shall remain fully obligated and responsible under the Bond Order to the same extent as if such lease, contract or agreement, or any amendment or rescission thereof, had not been executed, and
- (b) the obligation of the Authority under such lease, contract or agreement shall not impair the performance of the Authority's obligations under the Bond Order.

### **Financing of Special Purpose Facilities**

Nothing in the Bond Order express or implied shall be construed as prohibiting the Authority, if then authorized or permitted by law, from financing the acquisition or construction of any Special Purpose Facilities.

No Special Purpose Facilities may be financed by the Authority unless there shall be filed with the Authority:

- (a) an opinion of counsel to the Authority to the effect that the Special Purpose Facilities or the indebtedness or other obligations incurred to finance such Special Purpose Facilities are not, directly or indirectly, secured by or payable from Net Receipts or issued under or secured by the provisions of the Bond Order and that the financing of the Special Purpose Facilities will not conflict with or constitute on the part of the Authority a breach of or default under any of the covenants or provisions of the Bond Order,
- (b) a statement, signed by an Appropriate Consultant, to the effect that in its opinion the acquisition or construction of such Special Purpose Facilities will not materially adversely

affect the Income Available for Debt Service or impair the operating efficiency of the Water and Sewer System, and

(c) a statement, signed by an Appropriate Consultant, to the effect that in its opinion the estimated gross revenues to be received from the operation of the Special Purpose Facilities will be sufficient to pay the estimated operating and maintenance expenses of such Special Purpose Facilities, any debt service or reserve requirements with respect thereto and any other necessary related costs and expenses.

If Special Purpose Facilities are financed by the Authority, the Authority shall put in place necessary measures in order to account for, and keep separate and apart from Gross Receipts and Current Expenses, the gross revenues received from the operation of such Special Purpose Facilities as well as the operating and maintenance expenses of such Special Purpose Facilities, any debt service or reserve requirements with respect thereto and any other necessary related costs and expenses.

### **Limitation on Parity Indebtedness**

Subject to the conditions provided by the Bond Order, the Authority will have the right to incur Parity Indebtedness, subsequent to the issuance of the Series 2001 Bonds, for any purpose for which Bonds may be issued under the Bond Order, as follows:

(a) Long-Term Indebtedness constituting Parity Indebtedness may be incurred if prior to incurrence, one of the following conditions is met:

(i) there is delivered to the Trustee an Officer's Certificate to the effect that, taking into account all Outstanding Long-Term Indebtedness constituting Parity Indebtedness (excluding any Long-Term Indebtedness constituting Parity Indebtedness to be refunded by the Long-Term Indebtedness to be incurred) and the Long-Term Indebtedness constituting Parity Indebtedness proposed to be incurred as if it had been incurred at the beginning of the most recent Fiscal Year for which audited financial statements are available preceding the date of incurrence of such Long-Term Indebtedness, the Income Available for Debt Service for such Fiscal Year was not less than 1.20 times the Maximum Long-Term Debt Service Requirement with respect to all Outstanding Long-Term Indebtedness constituting Parity Indebtedness and the Long-Term Indebtedness proposed to be incurred; provided, however, that if the rates, fees and charges for the Water and Sewer System have been revised and such revised rates, fees and charges are or will be in effect prior to or concurrently with the incurrence of the Long-Term Indebtedness constituting Parity Indebtedness then to be incurred, the Authorized Officer may add to such Income Available for Debt Service an estimate of the additional Income Available for Debt Service, as determined in accordance with the provisions of the Bond Order, that would have been included in the calculation of such Income Available for Debt Service, in the judgment of such Authorized Officer, if such rates, fees and charges had been in effect at the beginning of such Fiscal Year; or

(ii) there is delivered to the Trustee both of the following:

(A) an Officer's Certificate to the effect that the Income Available for Debt Service for the most recent Fiscal Year preceding the date of incurrence of such proposed Long-Term Indebtedness constituting Parity Indebtedness for which audited financial statements are available was not less than 1.20 times the Long-Term Debt Service Requirement for such Fiscal Year with respect to all Outstanding Long-Term Indebtedness constituting Parity Indebtedness excluding the Long-Term Indebtedness proposed to be incurred; provided, however, that if the rates, fees and charges for the use of the Water and

Sewer System have been revised and such revised rates, fees and charges are or will be in effect prior to or concurrently with the incurrence of such Long-Term Indebtedness, the Authorized Officer may add to such Income Available for Debt Service an estimate of the additional Income Available for Debt Service, as determined in accordance with the provisions of the Bond Order, that would have been included in the calculation of such Income Available for Debt Service, in the judgment of such Authorized Officer, if such rates, fees and charges had been in effect at the beginning of such Fiscal Year; and

(B) an Officer's Certificate showing that the forecasted Income Available for Debt Service, which forecast may take into consideration rates to become effective prior to or during such period, estimates of usage, inflation factors and any other factors deemed by the signer to be relevant, for the first two Fiscal Years next succeeding (1) the date on which capitalized interest, if any, provided from the proceeds of the Long-Term Indebtedness constituting Parity Indebtedness proposed to be incurred or any other source to pay interest on such Long-Term Indebtedness is expended, in the case of acquisition or construction of any Additional Project, or (2) the date on which such Long-Term Indebtedness is incurred, in any other case, is at least 1.20 times the Long-Term Debt Service Requirement with respect to all Outstanding Long-Term Indebtedness constituting Parity Indebtedness (excluding any Long-Term Indebtedness constituting Parity Indebtedness proposed to be refunded by the Long-Term Indebtedness constituting Parity Indebtedness proposed to be incurred) and the Long-Term Indebtedness constituting Parity Indebtedness to be incurred for each of such Fiscal Years; or

(iii) there is delivered to the Trustee an Officer's Certificate to the effect that for the most recent Fiscal Year preceding the incurrence of such proposed Long-Term Indebtedness constituting Parity Indebtedness for which audited financial statements are available, the proposed Long-Term Indebtedness to be incurred under the Bond Order as described in this clause (iii), together with any other Long-Term Indebtedness constituting Parity Indebtedness incurred under the Bond Order as described in this clause (iii) and then Outstanding, does not exceed ten percent (10%) of Total Operating Revenues for such Fiscal Year.

(b) Completion Indebtedness constituting Parity Indebtedness may be incurred without limitation; provided, however, that prior to the incurrence of such Completion Indebtedness, the Authority shall furnish to the Trustee (i) a certificate of a licensed architect or engineer estimating the costs of completing the facilities for which such Completion Indebtedness is to be incurred and (ii) an Officer's Certificate certifying that the amount of such Completion Indebtedness to be incurred will be sufficient, together with other funds, if applicable, to complete construction of the facilities as estimated by the architect or engineer in respect of which such Completion Indebtedness is to be incurred.

(c) Long-Term Indebtedness constituting Parity Indebtedness may be incurred for the purpose of refunding all or any part of any Outstanding Long-Term Indebtedness constituting Parity Indebtedness so as to render it no longer Outstanding if prior to incurrence thereof an Officer's Certificate is delivered to the Trustee (i) determining that the proceeds of such Long-Term Indebtedness, together with interest earnings on the Defeasance Obligations to be acquired and other available funds, will be sufficient to pay the principal of and interest and any premium on the Long-Term Indebtedness to be refunded to the redemption or maturity date or dates and the expenses incident to the refunding, and (ii) stating that either (A) the Maximum Long-Term Debt Service Requirement for any Fiscal Year thereafter on account of all Long-Term Indebtedness constituting Parity Indebtedness to be Outstanding after the issuance of such Long-Term Indebtedness to accomplish the refunding and after the refunding of such Long-Term Indebtedness will not exceed by more than ten percent (10%) the Maximum Long-Term Debt Service Requirement on account of all Long-Term Indebtedness constituting Parity Indebtedness Outstanding immediately prior to the issuance of such Long-Term Indebtedness to accomplish such refunding, including



the Long-Term Indebtedness to be refunded, or (B) the incurrence of such Long-Term Indebtedness to accomplish the refunding will satisfy the requirements of the Bond Order described in paragraph (a) above.

(d) Short-Term Indebtedness constituting Parity Indebtedness may be incurred if, immediately after the incurrence of such Short-Term Indebtedness, the principal amount of all Short-Term Indebtedness Outstanding constituting Parity Indebtedness does not exceed twenty-five percent (25%) of the Revenue Account balance for the most recent Fiscal Year preceding the date of incurrence of such Short-Term Indebtedness for which audited financial statements are available; provided, however, that for a period of not less than twenty (20) consecutive calendar days in each Fiscal Year, no such Short-Term Indebtedness shall be Outstanding.

(e) Put Indebtedness constituting Parity Indebtedness may be incurred if prior to the incurrence of such Put Indebtedness (i) the conditions described in paragraph (a), (b) or (c) above are met and (ii) a Credit Facility exists to provide financing sufficient to pay the purchase price of such Put Indebtedness on any date on which the Owner or Holder of such Put Indebtedness may demand payment thereof pursuant to the terms of such Put Indebtedness.

Whenever the provisions of the Bond Order described in paragraph (a) or (d) above require a certification for the most recent Fiscal Year preceding the date of incurrence of the Parity Indebtedness in question for which audited financial statements are available, the Authority may, in its discretion, provide for a special audit and a certification based upon such special audit, in lieu of the audit for such Fiscal Year, provided such special audit covers twelve (12) consecutive calendar months of the eighteen (18) full consecutive calendar months preceding the date of incurrence of the Indebtedness in question.

#### **Limitation on Subordinated Indebtedness**

Subject to the conditions provided by the Bond Order, the Authority will have the right to incur Subordinated Indebtedness, subsequent to the issuance of the Series 2001 Bonds, for any purpose for which Bonds may be issued under the Bond Order, as follows:

(a) Long-Term Indebtedness constituting Subordinated Indebtedness may be incurred if prior to incurrence, one of the following conditions is met:

(i) there is delivered to the Trustee an Officer's Certificate to the effect that, taking into account all Outstanding Long-Term Indebtedness constituting Parity Indebtedness and Subordinated Indebtedness (excluding any Long-Term Indebtedness to be refunded by the Long-Term Indebtedness proposed to be incurred) and the Long-Term Indebtedness constituting Subordinated Indebtedness proposed to be incurred as if it had been incurred at the beginning of the most recent Fiscal Year for which audited financial statements are available preceding the date of incurrence of such Long-Term Indebtedness, the Income Available for Debt Service for such Fiscal Year was not less than 1.00 times the Maximum Long-Term Debt Service Requirement with respect to all Outstanding Long-Term Indebtedness constituting Parity Indebtedness and Subordinated Indebtedness and the Long-Term Indebtedness proposed to be incurred; provided, however, that if the rates, fees and charges for the use of the Water and Sewer System have been revised and such revised rates, fees and charges are or will be in effect prior to or concurrently with the incurrence of such Long-Term Indebtedness, the Authorized Officer may add to such Income Available for Debt Service an estimate of the additional Income Available for Debt Service, as determined in accordance with the provisions of the Bond Order, that would have been included in the calculation of such Income Available for Debt Service, in the judgment of such Authorized Officer, if such rates, fees and charges had been in effect at the beginning of such Fiscal Year; or

(ii) there is delivered to the Trustee both of the following:

(A) an Officer's Certificate to the effect that the Income Available for Debt Service for the most recent Fiscal Year preceding the date of incurrence of the Long-Term Indebtedness constituting Subordinated Indebtedness proposed to be incurred for which audited financial statements are available was at least 1.00 times the Long-Term Debt Service Requirement for such Fiscal Year with respect to all Outstanding Long-Term Indebtedness constituting Parity and Subordinated Indebtedness, excluding the Long-Term Indebtedness proposed to be incurred; provided, however, that if the rates, fees and charges for the use of the Water and Sewer System have been revised and such revised rates, fees and charges are or will be in effect prior to or concurrently with the incurrence of such Long-Term Indebtedness, the Authorized Officer may add to such Income Available for Debt Service an estimate of the additional Income Available for Debt Service, as determined in accordance with the provisions of the Bond Order, that would have been included in the calculation of such Income Available for Debt Service, in the judgment of such Authorized Officer, if such rates, fees and charges had been in effect at the beginning of such Fiscal Year; and

(B) an Officer's Certificate showing that the forecasted Income Available for Debt Service, which forecast may take into consideration rates to become effective prior to or during such period, estimates of usage, inflation factors and any other factors deemed by the signer to be relevant, for the first two Fiscal Years next succeeding (1) the date on which capitalized interest, if any, provided from the proceeds of the proposed Long-Term Indebtedness to be incurred or any other source to pay interest on the proposed Long-Term Indebtedness is expended, in the case of the acquisition or construction of any Additional Project, or (2) the date on which the proposed Long-Term Indebtedness is incurred, in any other case, is at least 1.00 times the Long-Term Debt Service Requirement with respect to all Outstanding Long-Term Indebtedness constituting Parity Indebtedness and Subordinated Indebtedness (excluding any Long-Term Indebtedness to be refunded by the proposed Long-Term Indebtedness) and the proposed Long-Term Indebtedness for each of such Fiscal Years; or

(iii) there is delivered to the Trustee an Officer's Certificate to the effect that for the most recent Fiscal Year preceding the incurrence of such proposed Long-Term Indebtedness constituting Subordinated Indebtedness for which audited financial statements are available, the proposed Long-Term Indebtedness to be incurred under the Bond Order as described in this clause (iii), together with any other Long-Term Indebtedness constituting Subordinated Indebtedness incurred under the Bond Order as described in this clause (iii) and then Outstanding, does not exceed ten percent (10%) of Total Operating Revenues for such Fiscal Year.

(b) Completion Indebtedness constituting Subordinated Indebtedness may be incurred without limitation; provided, however, that prior to the incurrence of such Completion Indebtedness, the Authority shall furnish to the Trustee (i) a certificate of a licensed architect estimating the cost of completing the facilities for which such Completion Indebtedness is to be incurred and (ii) an Officer's Certificate to the effect that the amount of such Completion Indebtedness to be incurred will be sufficient, together with other funds, if applicable, to complete construction of the facilities in respect of which such Completion Indebtedness is to be incurred.

(c) Long-Term Indebtedness constituting Subordinated Indebtedness may be incurred for the purpose of refunding all or any part of any Outstanding Long-Term Indebtedness constituting Subordinated Indebtedness so as to render it no longer Outstanding if prior to incurrence thereof, an Officer's Certificate is delivered to the Trustee (i) determining that the proceeds of such Long-Term Indebtedness, together with

interest earnings on the Defeasance Obligations to be acquired and other available funds, will be sufficient to pay the principal of and interest and any redemption premium on the Long-Term Indebtedness to be refunded to the redemption or maturity date or dates and the expenses incident to the refunding, and (ii) stating that either (A) the Maximum Long-Term Debt Service Requirement for any Fiscal Year thereafter on account of all Long-Term Indebtedness constituting Subordinated Indebtedness to be Outstanding after the incurrence of such Long-Term Indebtedness to accomplish the refunding and after the refunding of such Long-Term Indebtedness will not exceed by more than ten percent (10%) the Maximum Long-Term Debt Service Requirement on account of all Long-Term Indebtedness constituting Subordinated Indebtedness Outstanding immediately prior to the incurrence of such Long-Term Indebtedness to accomplish such refunding, including the Long-Term Indebtedness to be refunded, or (B) the incurrence of such Long-Term Indebtedness to accomplish the refunding will satisfy the requirements of the Bond Order described in paragraph (a) above; and

(d) Long-Term Indebtedness constituting Subordinated Indebtedness may be incurred for the purpose of refunding all or any part of any Outstanding Long-Term Indebtedness constituting Parity Indebtedness so as to render it no longer Outstanding if prior to incurrence thereof an Officer's Certificate is delivered to the Trustee determining (i) that the proceeds of such Long-Term Indebtedness, together with interest earnings on the Defeasance Obligations to be acquired and other available funds, will be sufficient to pay the principal of and interest and any redemption premium on the Long-Term Indebtedness to be refunded to the redemption or maturity date or dates and the expenses incident to the refunding, and (ii) stating that either (A) the Maximum Long-Term Debt Service Requirement for any Fiscal Year thereafter on account of all Long-Term Indebtedness constituting Parity Indebtedness and Subordinated Indebtedness to be Outstanding after the issuance of such Long-Term Indebtedness to accomplish the refunding and the refunding of such Long-Term Indebtedness will not be greater by more than ten percent (10%) than the Maximum Long-Term Debt Service Requirement on account of all Long-Term Indebtedness constituting Parity Indebtedness and Subordinated Indebtedness Outstanding immediately prior to the issuance of such Long-Term Indebtedness to accomplish such refunding, including the Long-Term Indebtedness to be refunded, or (B) the incurrence of such Long-Term Indebtedness to accomplish the refunding will satisfy the requirements of the Bond Order described in paragraph (a) above.

(e) Short-Term Indebtedness constituting Subordinated Indebtedness may be incurred if, immediately after the incurrence of such Short-Term Indebtedness, the outstanding principal amount of all Short-Term Indebtedness constituting Subordinated Indebtedness does not exceed twenty-five percent (25%) of the Revenue Account balance for the most recent Fiscal Year preceding the date of incurrence of such Short-Term Indebtedness for which audited financial statements are available; provided, however, that for a period of not less than twenty (20) consecutive calendar days in each Fiscal Year, no such Short-Term Indebtedness shall be Outstanding.

(f) Put Indebtedness constituting Subordinated Indebtedness may be incurred if prior to the incurrence of such Put Indebtedness (i) the conditions described in paragraph (a), (b), (c) or (d) above are met and (ii) a Credit Facility exists to provide financing sufficient to pay the purchase price of such Put Indebtedness on any date on which the Owner or Holder of such Put Indebtedness may demand payment thereof pursuant to the terms of such Put Indebtedness.

Whenever the provisions of the Bond Order described in paragraph (a) or (e) above requires a certification for the most recent Fiscal Year preceding the dates of incurrence of the Subordinated Indebtedness in question for which audited financial statements are available, the Authority may, in its discretion, provide for a special audit and a certification based upon such special audit, in lieu of the audit for such Fiscal Year, provided such special audit covers twelve (12) full consecutive calendar months of the eighteen (18) full consecutive calendar months preceding the date of incurrence of the Subordinated Indebtedness in question.

## Events of Default

Each of the following events is an “*Event of Default*” under the Bond Order with respect to Bonds and Parity Debt:

(a) payment of the principal of and the redemption premium, if any, on any of the Bonds is not made when the same are due and payable, either at maturity or by redemption or otherwise;

(b) payment of the interest on any of the Bonds is not made when the same is due and payable;

(c) final judgment for the payment of money in excess of \$500,000 is rendered against the Authority as a result of the ownership, control or operation of the Water and Sewer System, and any such judgment is not discharged within one hundred twenty (120) days from the entry thereof or an appeal is not taken therefrom or from the order, decree or process upon which or pursuant to which such judgment shall have been granted or entered, in such manner as to stay the execution of or levy under such judgment, order, decree or process or the enforcement thereof;

(d) the Authority (i) becomes insolvent or the subject of insolvency proceedings; or (ii) is unable, or admits in writing its inability, to pay its debts as they mature; or (iii) makes a general assignment for the benefit of creditors or to an agent authorized to liquidate any substantial amount of its property; or (iv) files a petition or other pleading seeking reorganization, composition, readjustment, or liquidation of assets, or requesting similar relief; or (v) applies to a court for the appointment of a receiver for it or for the whole or any part of the Water and Sewer System other than Special Purpose Facilities; or (vi) except as described under the heading “**Remedies**” below, has a receiver or liquidator appointed for it or for the whole or any part of the Water and Sewer System other than Special Purpose Facilities (with or without the consent of the Authority) and such receiver is not discharged within ninety (90) consecutive days after his appointment; or (vii) becomes the subject of an “order for relief” within the meaning of Title 11 of the United States Code; or (viii) files an answer to a creditor’s petition admitting the material allegations thereof for liquidation, reorganization, readjustment or composition or to effect a plan or other arrangement with creditors or fail to have such petition dismissed within sixty (60) consecutive days after the same is filed against the Authority;

(e) a court of competent jurisdiction assumes custody or control of the Authority or of the whole or any substantial part of its property under the provisions of any other law for the relief or aid of debtors, and such custody or control is not terminated within ninety (90) days from the date of assumption of such custody or control;

(f) receipt by a trust officer of the Trustee of written notice from the Holder of any Parity Debt that (i) the payment of the principal of and the redemption premium, if any, on such Parity Debt has not been made when the same have become due and payable, either at maturity or by redemption or otherwise, (ii) the payment of the interest on such Parity Debt has not been made when the same has become due and payable or (iii) any other event of default has occurred and is continuing under such Parity Debt or the Parity Debt Resolution relating to such Parity Debt; or

(g) the Authority defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bond Order, and such default continues for thirty (30) days after receipt by the Authority of a written notice from the Trustee specifying such default and requesting that it be corrected, provided that if prior to the expiration

of such 30-day period the Authority institutes action reasonably designed to cure such default, no “*Event of Default*” shall be deemed to have occurred upon the expiration of such 30-day period for so long as the Authority pursues such curative action with reasonable diligence.

### **Acceleration**

Upon the happening and continuance of any Event of Default, then and in every such case the Trustee may, and upon the written request of the Owners or Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds and Parity Debt then Outstanding shall, by a notice in writing to the Authority, declare the principal of all Bonds and Parity Debt then Outstanding (if not then due and payable) to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable, anything contained in the Bonds, the Parity Debt, the Bond Order or any Parity Resolution to the contrary notwithstanding; provided, however, that Parity Debt may not be accelerated unless the terms and provisions of the Parity Debt Resolution authorizing the incurrence of such Parity Debt provide for the acceleration of such Parity Debt in accordance with the terms and provisions of the Bond Order as described under this heading. At any time after the principal of the Bonds and Parity Debt shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Bond Order, moneys shall have accumulated sufficient to pay the principal of all matured Bonds and Parity Debt and all arrears of interest, if any, upon all Bonds and Parity Debt then Outstanding (except the principal of any Bonds and Parity Debt not then due and payable by their terms and the interest accrued on such Bonds and Parity Debt since the last interest payment date) and sufficient to satisfy the sinking fund requirement, if any, for any Term Bonds and Parity Debt then Outstanding, for the then current Fiscal Year, and the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and all other amounts then payable by the Authority shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee or the Bond Registrar and every other default known to the Trustee in the observance or performance of any covenant, condition, agreement or provision contained in the Bonds, any Parity Debt, the Bond Order or any Parity Resolution (other than a default in the payment of the principal of such Bonds and Parity Debt then due and payable only because of a declaration of acceleration) shall have been remedied to the satisfaction of the Trustee, then and in every such case the Trustee may, and upon the written request of the Owners and Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds and Parity Debt not then due and payable by their terms and then Outstanding shall, by written notice to the Authority, rescind and annul such declaration and its consequences, but no such rescission or annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

### **Remedies**

Upon the happening and continuance of any Event of Default, then and in every such case the Trustee may proceed, and upon the written request of the Owners or Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds and Parity Debt then Outstanding shall proceed, subject to the requirement of prior indemnification of the Trustee, to protect and enforce its rights and the rights of the Owners or Holders of the Bonds and Parity Debt under applicable laws and the Bond Order by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained in the Bond Order or in aid or execution of any power granted in the Bond Order or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, chosen by the Trustee, shall deem most effectual to protect and enforce such rights. If the Trustee receives a request from the Owners and Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds and Parity Debt then Outstanding that is contrary to the request made of the Trustee pursuant to the provisions of the Bond Order described in the first sentence of this paragraph, the Trustee shall not be required to

pursue such remedial action until requested to do so by the Owners or Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds and Parity Debt then Outstanding.

In the enforcement of any remedy under the Bond Order, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any Event of Default becoming, and at any time remaining, due from the Authority for principal, interest or otherwise under any of the provisions of the Bond Order or of the Bonds and Parity Debt and unpaid, with interest on overdue payments of principal at the rate or rates of interest specified in such Bonds and Parity Debt, together with any and all costs and expenses of collection and of all proceedings under the Bond Order and under such Bonds and Parity Debt, without prejudice to any other right or remedy of the Trustee or of the Owners or Holders of the Bonds and Parity Debt, and to recover and enforce any judgment or decree against the Authority, but solely as provided in the Bond Order and in such Bonds and Parity Debt, for any portion of such amounts remaining unpaid and interest, costs and expenses as provided in the Bond Order and described above, and to collect (but solely from moneys in the funds and accounts pledged to secure the Bonds and Parity Debt under the provisions of the Bond Order and any Series Resolution or Parity Debt Resolution and any other moneys available for such purpose) in any manner provided by law, the moneys adjudged or decreed to be payable.

Whenever there shall have been commenced or shall be pending any litigation, in any court having jurisdiction thereof, to which the Authority shall be a party, affecting or involving the Water and Sewer System or the operation thereof, or the Gross Receipts, or the wrongful performance or failure to perform any of the terms and conditions of the Bond Order or any Series Resolution, and if an Event of Default shall occur or shall have occurred and be continuing, then, unless the same shall then be prohibited under applicable law, the court having jurisdiction of such litigation may appoint a receiver to administer and operate the Water and Sewer System on behalf of the Authority, with full power to pay and to provide for the payment of principal of and interest on the Parity Indebtedness as the same shall become due, whether at maturity, through operation of the Bond Fund, by acceleration or otherwise, out of the funds and accounts available therefor under the Bond Order, and the Current Expenses of the Water and Sewer System, to apply Gross Receipts derived from such operation in accordance with the provisions of the Bond Order, any Series Resolution and any Parity Debt Resolution, and to take such action to the extent permitted by law to cause to be remedied any Event of Default which shall occur or shall have occurred and be continuing; and with such other powers, subject to the direction of said court, as are accorded to receivers in general equity cases and under the applicable provisions of the laws of the State; provided, that the power of such receiver to make provisions for the payment of principal of and interest on the Parity Indebtedness as aforesaid shall not be construed as including the power to pledge the general credit of the Authority to the payment of the Parity Indebtedness or interest thereon. Any appointment of a receiver under the provision of the Bond Order described above shall not, by itself, constitute a separate Event of Default.

In addition to any remedies available to the Trustee under the Bond Order and under State and federal law, upon the occurrence of an Event of Default, the Trustee may, and upon the written request of the Owners and Holders of not less than a majority in aggregate principal amount of Parity Indebtedness then Outstanding shall:

- (a) require the Authority to endorse all checks and other negotiable instruments representing Gross Receipts to the order of the Trustee immediately upon the receipt thereof and to deliver such endorsed instruments daily to the Trustee,
- (b) notify any or all account debtors of the Authority to pay any amounts representing Gross Receipts, when due and owing, directly to the Trustee, as Trustee, at the address set forth in the Bond Order, and

(c) require the Authority to deliver to the Trustee all money and Investment Obligations held by the Authority or any Depository in the Revenue Account.

The endorsement and delivery requirements and the payment of Gross Receipts directly to the Trustee as described above in this paragraph will continue until the Event of Default has been cured to the satisfaction of the Trustee.

The disposition of Gross Receipts held by the Trustee pursuant to the provisions of the Bond Order described under this heading is subject to the provisions of the Bond Order described under the heading “**Application of Moneys in the Revenue Account**” above governing the disposition of Gross Receipts to the same extent as if the Authority had deposited such Gross Receipts in the Revenue Account. Notwithstanding anything contained in the Bond Order to the contrary, the disposition of Gross Receipts held by the Trustee pursuant to the provisions of the Bond Order described under this heading for the payment of Current Expenses shall be in the Trustee’s sole discretion.

### **Pro Rata Application of Funds**

Anything in the Bond Order to the contrary notwithstanding, if at any time the money deposited with the Trustee pursuant to the provisions of the Bond Order described under the heading “**Use of Money for Debt Service Accounts; Other Deposits**” above or pursuant to any remedial action is not sufficient to pay the interest on or the principal of the Bonds and Parity Debt as the same become due and payable (either by their terms or by acceleration of maturities under the provisions of the Bond Order described under the heading “**Acceleration**” above), such money, together with any money then available or thereafter becoming available for such purposes shall be applied as follows:

(a) if the principal of all Bonds and Parity Debt shall not have become or shall not have been declared due and payable, all such money shall be applied as follows:

**FIRST:** to the payment to the persons entitled thereto of all installments of interest on Bonds and Parity Debt then due and payable in the order in which such installments became due and payable and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment, ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in such Bonds and Parity Debt;

**SECOND:** to the payment to the persons entitled thereto of the unpaid principal of any Bonds and Parity Debt that shall have become due and payable (other than Bonds and Parity Debt deemed to have been paid pursuant to the provisions of the Bond Order described under the heading “**Defeasance**” below), in the order of their due dates, with interest on the overdue principal at a rate equal to the rate on such Bonds and Parity Debt, and, if the amount available shall not be sufficient to pay in full the principal of Bonds and Parity Debt due and payable on any particular date, then to the payment ratably according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference; and

**THIRD:** to the payment of the interest on and the principal of Bonds and Parity Debt, to the purchase and retirement of Bonds and Parity Debt, and to the redemption of Bonds and Parity Debt, all in accordance with the provisions of the Bond Order and any Parity Resolution.

(b) If the principal of all Bonds and Parity Debt shall have become or shall have been declared due and payable, all such money shall be applied to the payment of principal and interest then due upon such Bonds and Parity Debt, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond or Parity Debt over any other Bond or Parity Debt, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

(c) If the principal of all Bonds and Parity Debt shall have been declared due and payable and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Bond Order described under the heading “**Acceleration**” above, then, subject to the provisions of the Bond Order described in paragraph (b) above in the event that the principal of all Bonds and Parity Debt shall later become due and payable or be declared due and payable, the money then remaining on deposit with the Trustee and thereafter accruing shall be applied in accordance with the provisions of the Bond Order described in paragraph (a) above.

Whenever money is to be applied by the Trustee pursuant to the provisions of the Bond Order described under this heading, (a) such money shall be applied by the Trustee at such times and from time to time as the Trustee in its sole discretion shall determine, having due regard for the amount of money available for such application and the likelihood of additional money becoming available for such application in the future, (b) setting aside such money as provided in the Bond Order in trust for the proper purpose shall constitute proper application by the Trustee, and (c) the Trustee shall incur no liability whatsoever to the Authority, to any Owner or Holder or to any other Person for any delay in applying any such money so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the Bond Order as may be applicable at the time of application by the Trustee. Whenever the Trustee exercises such discretion in applying such money, it shall fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date and shall not be required to make payment to the Owner of any Bond or the Holder of any Parity Debt until such Bond or Parity Debt is surrendered to the Trustee for appropriate endorsement or for cancellation if fully paid.

### **Control of Proceedings; Restrictions Upon Action; Notice of Default**

Anything in the Bond Order to the contrary notwithstanding, the Owners or Holders of a majority in aggregate principal amount of Bonds and Parity Debt at any time Outstanding shall have the right, subject to prior indemnification of the Trustee, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Bond Order, provided that such direction shall be in accordance with law and the provisions of the Bond Order.

No Owner or Holder shall have any right to institute any suit, action or proceeding in equity or at law on any Bond or Parity Debt or for the execution of any trust under the Bond Order or for any other remedy under the Bond Order unless such Owner or Holder previously shall (a) have given to the Trustee written notice of the Event of Default on account of which suit, action or proceeding is to be instituted, (b) have requested the Trustee to take action after the right to exercise such powers or right of action, as the case may be, shall have accrued, (c) have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Bond Order or to institute such action, suit or proceedings in its or their name, and (d) have offered to the Trustee reasonable security and satisfactory indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of



indemnity are declared by the Bond Order in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Bond Order or to any other remedy under the Bond Order. Notwithstanding the provisions of the Bond Order described above and without complying therewith, the Owners or Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds and Parity Debt then Outstanding may institute any such suit, action or proceeding in their own names for the benefit of all Owners or Holders. It is understood and intended that, except as otherwise above described, no one or more Owners or Holders shall have any right in any manner whatsoever by his or their action to affect, disturb or prejudice the security of the Bond Order or to enforce any right thereunder except in the manner provided in the Bond Order and for the benefit of all Owners and Holders and that any individual rights of action or other right given to one or more of such Owners or Holders by law are restricted by the Bond Order to the rights and remedies provided therein.

The Trustee shall mail to (a) the Local Government Commission, (b) all Owners at their addresses as they appear on the registration books and (c) all Holders who shall have filed their names with the Trustee for such purpose, written notice of the occurrence of any Event of Default within thirty (30) days after the Trustee has notice, pursuant to the provisions of the Bond Order, that any such Event of Default shall have occurred; provided, however that, except upon the happening of an Event of Default described in clauses (a), (b) and (f)(i) and (ii) under the heading “**Events of Default**” above, the Trustee may withhold such notice to the Owners and Holders if in its opinion such withholding is in the interest of the Owners and Holders. The Trustee shall not be subject to any liability to the Local Government Commission or any Owner or Holder by reason of its failure to mail any such notice.

### **Concerning the Trustee**

Prior to the occurrence of any Event of Default and after the curing of all such Events of Default that may have occurred, the Trustee shall perform such duties and only such duties of the Trustee as are specifically set forth in the Bond Order. Upon the occurrence and during the continuation of any Event of Default, the Trustee shall use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person’s own affairs.

No provision of the Bond Order or any Parity Resolution shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(a) prior to any Event of Default under the Bond Order, and after the curing of any Event of Default that may have occurred:

(i) the duties and obligations of the Trustee shall be determined solely by the express provisions of the Bond Order, and the Trustee shall not be liable except for the performance of such duties and obligations of the Trustee as are specifically set forth in the Bond Order, and no implied covenants or obligations shall be read into the Bond Order against the Trustee, and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the accuracy of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to it conforming to the requirements of the Bond Order, but in the case of any such certificate or opinion by which any provision of the Bond Order is specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not it conforms to the requirements of the Bond Order; and

(b) at all items, regardless of whether or not any such Event of Default shall exist:

(i) the Trustee shall not be liable for any error of judgment made in good faith by a responsible officer or officers of the Trustee unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts, and

(ii) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners and Holders of not less than twenty-five percent (25%) or a majority, as the Bond Order shall require, in aggregate principal amount of the Bonds and Parity Debt then Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any power conferred upon the Trustee under the Bond Order.

The Trustee shall be under no obligation to institute any suit or to take any remedial proceeding (including, but not limited to, the appointment of a receiver or the acceleration of the maturity date of all Bonds and Parity Debt under the Bond Order) or to enter any appearance or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of any of the trusts created by the Bond Order or in the enforcement of any rights and powers thereunder, until it shall be indemnified to its satisfaction against any and all costs and expenses, outlays and counsel fees and other reasonable disbursements, and against all liability.

Except upon the happening of any Event of Default specified in clauses (a), (b) and (f) under the heading “**Events of Default**” above, the Trustee shall not be obliged to take notice or be deemed to have notice of any Event of Default under the Bond Order unless specifically notified in writing of such Event of Default by the Authority or the Owners and Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds and Parity Debt then Outstanding.

The Trustee may resign and thereby become discharged from the trusts created by the Bond Order, by notice in writing given to the Authority, and mailed, postage prepaid, at the Trustee’s expense, to each Owner and Holder, not less than sixty (60) days before such resignation is to take effect, but such resignation shall take effect immediately upon the appointment of a new Trustee under the Bond Order if such new Trustee shall be appointed before the time limited by such notice and shall then accept the trusts thereof.

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, (i) executed by the Owners and Holders of not less than a majority in aggregate principal amount of Bonds and Parity Debt then Outstanding and filed with the Authority, or (ii) so long as no Event of Default shall have occurred and be continuing and subject to the prior written consent of the Local Government Commission, an order adopted or an instrument executed by the Authority, not less than sixty (60) days before such removal is to take effect as stated in such instrument or instruments.

The Trustee may also be removed at any time for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provisions of the Bond Order with respect to the duties and obligations of the Trustee by any court of competent jurisdiction upon the application of the Authority or the Owners and Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds and Parity Debt then Outstanding.

### **Supplemental Orders**

The Authority may, from time to time and at any time, adopt orders supplemental to the Bond Order (which supplemental orders shall thereafter form a part of the Bond Order) as shall be substantially consistent with the terms and provisions of the Bond Order and, in the opinion of the Trustee, who may

rely upon a written opinion of counsel, shall not materially and adversely affect the interest of the Owners and Holders:

- (a) to cure any ambiguity or formal defect or omission, to correct or supplement any provision in the Bond Order that may be inconsistent with any other provision therein, to make any other provisions with respect to matters or questions arising under the Bond Order, or to modify, alter, amend, add to or rescind, in any particular, any of the terms or provisions contained in the Bond Order, or
- (b) to grant or to confer upon the Trustee, for the benefit of the Owners or Holders, any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners, the Holders or the Trustee, or
- (c) to add to the provisions of the Bond Order other conditions, limitations and restrictions thereafter to be observed, or
- (d) to add to the covenants and agreements of the Authority in the Bond Order other covenants and agreements thereafter to be observed by the Authority or to surrender any right or power therein reserved to or conferred upon the Authority, or
- (e) to permit the qualification of the Bond Order under any federal statute now or hereafter in effect or under any state Blue Sky law, and, in connection therewith, if the Authority so determines, to add to the Bond Order or any supplemental order such other terms, conditions and provisions as may be permitted or required by such federal statute or Blue Sky law, or
- (f) to provide for the issuance of Bonds in bearer form, or
- (g) to provide for the issuance or maintenance of Bonds under a book-entry system.

The Owners and Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds and Parity Debt then Outstanding shall have the right, from time to time, anything contained in the Bond Order to the contrary notwithstanding, to consent to and approve the adoption of such supplemental orders as are deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Bond Order or in any supplemental order; provided, however, that nothing contained in the Bond Order shall permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bond or Parity Debt without the consent of the Owner of such Bond or the Holder of such Parity Debt, (b) a reduction in the principal amount of any Bond or Parity Debt or the redemption premium or the rate of interest thereon without the consent of the Owner of such Bond or the Holder of such Parity Debt, (c) the creation of a lien upon or a pledge of Net Receipts other than the lien and pledge created by the Bond Order without the consent of the Owners of all Bonds Outstanding and the Holders of all Parity Debt Outstanding, (d) a preference or priority of any Bond or Parity Debt over any other Bond or Parity Debt without the consent of the Owners of all Bonds Outstanding and the Holders of all Parity Debt Outstanding, (e) a reduction in the aggregate principal amount of the Bonds and Parity Debt required for consent to such supplemental order without the consent of the Owners of all Bonds Outstanding and the Holders of all Parity Debt Outstanding, or (f) the modification of the rights of the Local Government Commission under the Bond Order without the consent of the Local Government Commission.

If at any time the Authority determines that it is necessary or desirable to adopt any supplemental order for any of the purposes described in the preceding paragraph, the Trustee shall cause notice of the proposed adoption of the supplemental order to be mailed, postage prepaid, to all Owners at their addresses

as they appear on the registration books and to all Holders in accordance with the related Parity Debt Resolution. Such notice shall briefly set forth the nature of the proposed supplemental order and shall state that copies thereof are on file at the corporate trust office of the Trustee for inspection by all Owners and Holders. The Trustee shall not, however, be subject to any liability to any Owner or Holder by reason of its failure to cause such notice to be mailed, and any such failure to cause such notice to be mailed and any such failure shall not affect the validity of such supplemental order when consented to and approved as provided in the Bond Order.

Whenever, at any time within five (5) years after the date of the mailing of such notice, the Authority delivers to the Trustee an instrument or instruments in writing purporting to be executed by the Owners or Holders of not less than fifty-one percent (51%) in aggregate principal amount of Bonds and Parity Debt then Outstanding, which instrument or instruments shall refer to the supplemental order described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, such supplemental order may be adopted by the Authority, or, if theretofore adopted by the Authority, take effect, in substantially such form, without liability or responsibility to any Owner or Holder whether or not such Owner or Holder shall have consented thereto.

### **Defeasance**

When:

(a) the Bonds and any Parity Debt shall have become due and payable in accordance with their terms or otherwise as provided in the Bond Order, and the whole amount of the principal and the interest and premium, if any, so due and payable upon all Bonds and Parity Debt shall be paid, or

(b) if the Bonds and any Parity Debt shall not have become due and payable in accordance with their terms, the Trustee or the Bond Registrar shall hold sufficient (i) money or (ii) Defeasance Obligations, or a combination of money and Defeasance Obligations, the principal of and the interest on which, when due and payable, will provide sufficient money to pay the principal of, and the interest and redemption premium, if any, on all Bonds and Parity Debt then Outstanding to the maturity date or dates of such Bonds and Parity Debt or to the date or dates specified for the redemption thereof, as verified by a nationally recognized independent certified public accountant or other Appropriate Consultant, and, if Bonds or any Parity Debt are to be called for redemption, irrevocable instructions to call the Bonds or Parity Debt for redemption shall have been given by the Authority to the Trustee, and

(c) sufficient funds shall also have been provided or provision made for paying all other obligations payable under the Bond Order by the Authority,

then and in that case the right, title and interest of the Trustee in the funds, accounts and subaccounts mentioned in the Bond Order shall thereupon cease, determine and become void and the Bond Order shall be discharged.

All money and Defeasance Obligations held by the Trustee (or the Bond Registrar) pursuant to the provisions of the Bond Order described under this heading shall be held in trust and applied to the payment, when due, of the obligations payable therewith.

### **SUMMARY OF CERTAIN PROVISIONS OF THE AGREEMENTS OF SALE AND PURCHASE**

The Authority entered into a Water Utility Agreement of Sale and Purchase dated August 9, 1976 and a Sewer Utility Agreement of Sale and Purchase dated August 9, 1976 with the State on behalf of the

University of North Carolina at Chapel Hill (the “*University*”), a Water Utility Agreement of Sale and Purchase dated August 2, 1976 and a Sewer Utility Agreement of Sale and Purchase dated August 2, 1976 with the Town of Carrboro, North Carolina and a Sewer Utility Agreement of Sale and Purchase dated July 29, 1976 with the Town of Chapel Hill, North Carolina, which agreements of sale and purchase provided for the conveyance to OWASA of the water and sewer utility facilities then owned and operated by the University and such towns.

Under such agreements of sale and purchase, the Authority agreed that in operating the Water and Sewer System it will charge reasonable rates, based on cost of service, to all classes of users of the Water and Sewer System, that it will serve all users within each class impartially and without unjust discrimination, that no differential in rates shall be based on the location of a customer of the Water and Sewer System and that it will operate the Water and Sewer System at the lowest rates possible consistent with its obligation to provide proper and efficient service. The rates established by the Authority shall be subject to revision in accordance with and pursuant to the Bond Order from time to time and without limitation to the extent that any such revision shall be required in order to comply with the covenants contained in the Bond Order with respect to the generation of revenues or net revenues of the Authority and the rates, fees and charges to be levied by the Authority in order to comply with such covenants and, further, to the extent that any such revision shall be deemed necessary and appropriate by the Authority.

Not less than 90 days prior to the proposed effective date of any such revision of rates, notice of such revision shall be published by the Authority and filed by the Authority with the University. If the effect of any proposed revision of rates, together with all revisions of rates in the four years preceding the proposed effective date of such revision, would be to increase in excess of 20% the rates charged to the University over such period, then the University shall have the right, within 30 days after the receipt of notice of any such proposed revision, to require the Authority to retain a rate consultant or consulting firm of national repute to review such proposed revision in the light of all of such revisions within such period and to report to the Authority its analysis of the reasonableness of such proposed revision as applied to the University and each class of user. No such proposed revision shall be adopted by the Authority until such report of the rate consultant or consulting firm has been made available to the University and reviewed and considered by the Authority. On the effective date of any proposed revision of rates with respect to which the University has requested the Authority to retain a rate consultant or consulting firm, a new period for the purpose of determining the effect of any further proposed revision of rates, together with all other revisions of rates subsequent to such effective date, shall be deemed to have commenced.

Subject to the provisions of the Bond Order, the Authority will adopt and maintain, as long as it supplies water and sewer service to the University, the Towns of Chapel Hill and Carrboro and the surrounding area, a basic policy with respect to the extension of water and sewer mains which provides, to the extent possible, that the ultimate cost of any extension will be borne by those primarily benefiting from such extension.

Certain other provisions of the respective agreements of sale and purchase are summarized as follows:

#### **Water Utility Agreement of Sale and Purchase with the State**

The University shall not be subject to an acreage fee or any similar fee with respect to a new connection made to a water main that is a part of the facilities transferred to the Authority until the floor area of improvements to the University constructed within the area exempt from such fees shall exceed 14.8 million square feet. For the connection of improvements to the University within the area exempt from such fees after the floor area of improvements to the University served by the Authority shall exceed 14.8 million

square feet, the University shall pay to the Authority acreage, availability or similar fees in accordance with the Authority's regular schedule of rates, fees and charges, as the same may be amended from time to time.

The Authority will furnish the University, for as long as the University shall desire, potable water meeting certain purity standards in such quantity as may be required by the University to meet its needs, provided that the Authority may limit the quantity of water normally furnished to the University if furnishing such water together with all other water normally furnished by the Authority on reasonable demand to the general public within the water service area would unreasonably burden the efficient operation of the Water and Sewer System and, in the event of an extended shortage of water, the supply of water furnished to the University is reduced in the same proportion as the supply to other customers of the Authority is reduced. Certain emergencies or catastrophes will excuse the Authority from such provision for such reasonable period of time as is necessary to restore service. The Authority will use its best efforts to increase the capacity of the Water and Sewer System as may be required so that it will not be necessary to exercise such right of limitation.

The University will satisfy the potable water requirements of its facilities within the Authority's service area by purchasing water from the Authority and will not construct an alternate water supply nor purchase water from another supplier, unless the Authority is unable to furnish the University an adequate supply under the conditions specified in the preceding paragraph, in which event the University may obtain an alternate supply by whatever means available to it for such period as the Authority is unable to furnish an adequate supply. In the event the Authority is unable to furnish the University an adequate supply for the reasons specified above and the University desires to supplement its supply and is only able to do so by purchase from another supplier, the Authority agrees that such additional supply may be furnished to the University over or through its water system. The University will not have the right to sell or resell water to another user except to the extent necessary to carry out the University's normal business requirements.

The Authority agrees and gives its unequivocal assurance and pledge to develop and provide the augmented water supply facilities necessary to meet the long term needs of the area previously served by the University's water utility facilities. Such facilities shall consist of the Cane Creek Reservoir and related facilities, as defined and recommended in the Hazen and Sawyer Engineers report entitled "*Water Supply for Chapel Hill, North Carolina*", dated August 1969, or any alternative facilities as shall be fully agreed to and approved by the University, which approval shall not be unreasonably withheld.

The State will lease to the Authority, among other leases in connection with its water utility agreement of sale and purchase with the Authority and subject to certain conditions, a certain area of land and the dam impounding University Lake and the pumping station located thereon. Such lease is for a term of 40 years, may be renewed for two successive terms of 40 years each and will terminate at such time as University Lake ceases to be used for the purpose of providing water to the University, the Towns of Chapel Hill and Carrboro and the surrounding water service area or upon the sale or transfer by the Authority of its water supply facilities to any party. The Authority will reimburse the State or the University for any ad valorem or property taxes assessed against and due on the real property on which University Lake and the impounding dam are situated, the land area owned by the University constituting the University Lake Watershed and the dam, pumping station and any improvements thereto for so long as such property is maintained as a protected watershed in its natural state.

#### **Sewer Utility Agreement of Sale and Purchase with the State**

The University shall not be subject to an acreage fee or any similar fee with respect to a new connection made to a sewer main that is a part of the facilities transferred to the Authority until the floor area of improvements to the University constructed within the area exempt from such fees shall exceed 14.8 million square feet. For the connection of improvements to the University within the area exempt from such

fees after the floor area of improvements to the University served by the Authority shall exceed 14.8 million square feet, the University shall pay to the Authority acreage, availability or similar fees in accordance with the Authority's regular schedule of rates, fees and charges, as the same may be amended from time to time. The sewer utility facilities transferred to the Authority shall not be included in any calculation of cost of service to the University.

The Authority will, to the best of its ability and in good faith, make every reasonable effort to reserve for the use of the University 2,250,000 gallons per day of the capacity of the sewage treatment facility previously owned jointly by the University and the Town of Chapel Hill. The University conveyed this sewage treatment plant to the Authority on the condition that it be used only for sewage treatment, pumping or other related activities. If the Authority cannot demonstrate to the University at the time of cessation of such permitted uses that it intends to resume such uses within five years or, after so demonstrating, the Authority does not in fact resume using such facility for the permitted uses, then the University may elect to terminate such conveyance.

### **Sewer Utility Agreement of Sale and Purchase with the Town of Chapel Hill**

Among the terms and conditions of the conveyance to it of the sewer utility facilities of the Town of Chapel Hill, the Authority agrees to provide and maintain such sewage collection and treatment facilities as may be required under applicable laws and regulations to meet the reasonable needs of the Town. The Authority will not impede the residential or industrial growth and development of the Town by arbitrary or capricious discrimination in its sewer utility expansion policies and, in the event the extension of sewer service to an area proposed to be annexed by the Town is required by law as a condition to such annexation, the Authority will use its best efforts to extend sewer service to such area.

The Authority agrees to notify in writing and confer with a representative of the governing body of the Town before approval or implementation of any expansion program for its sewer utility facilities.

The Town agrees to grant to the Authority a franchise for the operation of a water and sewer system within its corporate limits for a period of 60 years.

The Town may extend sewer utility facilities within its corporate limits only with the express consent of the Authority, which shall not be unreasonably withheld. The expense of any such extension shall be borne by the Town and any recovery thereof by the Town through assessment or otherwise shall be the property of the Town. Any such extension shall be conveyed to the Authority upon the agreement of the Authority to maintain the same.

### **Water and Sewer Utility Agreements of Sale and Purchase with the Town of Carrboro**

Among the terms and conditions of the conveyance to it of the water and sewer utility facilities of the Town of Carrboro, the Authority agrees to provide and maintain such water and sewer utility facilities as may be required under applicable laws and regulations to meet the reasonable needs of the Town. The Authority will not impede the residential or industrial growth and development of the Town by arbitrary or capricious discrimination in its utility expansion policies and, in the event the extension of water or sewer service to an area proposed to be annexed by the Town is required by law as a condition to such annexation, the Authority will use its best efforts to extend water or sewer service to such area.

The Authority agrees to notify in writing and confer with a representative of the governing body of the Town before approval or implementation of any expansion program for its water or sewer utility facilities.

The Town agrees to grant to the Authority a franchise for the operation of a water and sewer system within its corporate limits for a period of 60 years.

The Town may extend water or sewer utility facilities within its corporate limits only with the express consent of the Authority, which shall not be unreasonably withheld. The expense of any such extension shall be borne by the Town and any recovery thereof by the Town through assessment or otherwise shall be the property of the Town. Any such extension shall be conveyed to the Authority upon the agreement of the Authority to maintain the same.



## **APPENDIX D**

### **THE NORTH CAROLINA LOCAL GOVERNMENT COMMISSION**

This page intentionally left blank.

**THE NORTH CAROLINA LOCAL GOVERNMENT COMMISSION**

The Local Government Commission (the “Commission”) is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue and five others by appointment (three by the Governor, one by the General Assembly upon recommendation of the President Pro Tempore of the Senate and one by the General Assembly upon recommendation of the Speaker of the House of Representatives). The State Treasurer serves as Chairman and selects the Secretary of the Commission, who heads the administrative staff serving the Commission.

A major function of the Commission is the approval, sale and delivery of substantially all North Carolina local government bonds and notes. A second key function is monitoring certain fiscal and accounting standards prescribed for units of local government by The Local Government Budget and Fiscal Control Act. In addition, the Commission furnishes, upon request, on site assistance to units of local government concerning existing financial and accounting systems as well as aid in establishing new systems. Further, educational programs and materials are provided for local officials concerning finance and cash management.

Before any unit of local government can incur bonded indebtedness, the proposed bond issue must be approved by the Commission. In determining whether to give such approval the Commission may consider, among other things, the unit’s debt management procedures and policies, its compliance with The Local Government Budget and Fiscal Control Act and its ability to service the proposed debt. All general obligation issues are customarily sold on the basis of formal sealed bids submitted at the Commission’s offices in Raleigh and are subsequently delivered to the successful bidder by the Commission. The Commission maintains records for all units of local government of principal and interest payments coming due on bonded indebtedness in the current and future years and monitors the payment by the units of local government of debt service through a system of monthly reports.

As a part of its role in assisting and monitoring the fiscal programs of units of local government, the Commission attempts to ensure that the units of local government follow generally accepted accounting principles, systems and practices. The Commission’s staff also counsels the units of local government in treasury and cash management, budget preparation and investment policies and procedures. Educational programs, in the form of seminars or classes, are also provided by the Commission in order to accomplish these tasks. The monitoring of the financial systems of units of local government is accomplished through the examination and analysis of the annual audited financial statements and other required reports. The Local Government Budget and Fiscal Control Act requires each unit of local government to have its accounts audited annually by a certified public accountant or by an accountant certified by the Commission as qualified to audit local government accounts. A written contract must be submitted to the Secretary of the Commission for his approval prior to the commencement of the audit.

The Commission has the statutory authority to impound the books and records of any unit of local government and assume full control of all its financial affairs (a) when the unit defaults on any debt service payment or, in the opinion of the Commission, will default on a future debt service payment if the financial policies and practices of the unit are not improved or (b) when the unit persists, after notice and warning from the Commission, in willfully or negligently failing or refusing to comply with the provisions of The Local Government Finance Act. When the Commission takes action under this authority, the Commission is vested with all of the powers of the governing board of the unit of local government as to the levy of taxes, expenditure of money, adoption of budgets and all other financial powers conferred upon such governing board by law.

In addition, if a unit of local government fails to pay any installment of principal or interest on its outstanding debt on or before its due date and remains in default for 90 days, the Commission may take such action as it deems advisable to investigate the unit's fiscal affairs, consult with its governing board and negotiate with its creditors in order to assist the unit in working out a plan for refinancing, adjusting or compromising such debt. When a plan is developed that the Commission finds to be fair and equitable and reasonably within the ability of the unit of local government to meet, the Commission will enter an order finding that the plan is fair, equitable and within the ability of the unit to meet and will advise the unit to take the necessary steps to implement such plan. If the governing board of the unit declines or refuses to do so within 90 days after receiving the Commission's advice, the Commission may enter an order directing the unit to implement such plan and may apply for a court order to enforce such order. When a refinancing plan has been put into effect, the Commission has the authority (a) to require any periodic financial reports on the unit's financial affairs that the Secretary deems necessary and (b) to approve reject the unit's annual budget ordinance. The governing board of the unit of local government must also obtain the approval of the Secretary of the Commission before adopting any annual budget ordinance. The power and authority granted to the Commission as described in this paragraph will continue with respect to a defaulting unit of local government until the Commission is satisfied that the unit has performed or will perform the duties required of it in the refinancing plan and until agreements made with the unit's creditors have been performed in accordance with such plan.

**APPENDIX E**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

This page intentionally left blank.

## APPENDIX E

### PROPOSED FORM OF OPINION OF BOND COUNSEL

[Letterhead of Parker Poe Adams & Bernstein LLP]

June \_\_, 2024

Orange Water and Sewer Authority  
Carrboro, North Carolina

The Bank of New York Mellon Trust Company, N.A.  
Jacksonville, Florida

***\$14,525,000***  
***Orange Water and Sewer Authority***  
***Water and Sewer System Revenue Bonds,***  
***Series 2024***

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and delivery by the Orange Water and Sewer Authority (the “*Authority*”) of \$14,525,000 aggregate principal amount of its Water and Sewer System Revenue Bonds, Series 2024 (the “*Bonds*”). The Authority is a public body and body politic and corporate of the State of North Carolina (the “*State*”), is authorized under the provisions of the North Carolina Water and Sewer Authorities Act, as amended, and The State and Local Government Revenue Bond Act, as amended (collectively, the “*Acts*”), to acquire, lease, construct, reconstruct, improve, extend, enlarge, equip, repair, maintain and operate water and sewer systems or any part thereof within Orange County, North Carolina, to issue revenue bonds of the Authority to pay the cost of such water and sewer systems, and to issue revenue and revenue refunding bonds, subject to the approval of the North Carolina Local Government Commission.

The Bonds are issuable only as fully registered bonds and will be numbered, will bear interest payable at the rates and at the times, and will be subject to redemption, all as provided in (1) the Amended and Restated Bond Order adopted by the Authority, acting by and through its Board of Directors, on September 13, 2001, as further amended by a Supplemental Order adopted on October 28, 2010 (collectively, the “*Bond Order*”), and (2) the Series Resolution adopted by the Authority, acting by and through its Board of Directors, on May 9, 2024 (the “*Series Resolution*”), as supplemented or amended in accordance therewith.

All capitalized terms not defined herein have the meanings given to such terms in the Bond Order and the Series Resolution.

The Bonds are being issued to (1) finance the capital costs of extensions, additions, and capital improvements to, or the acquisition, renewal or replacement of capital assets of, or purchasing and installing new equipment for, the Authority’s water and sewer system, including reimbursement of prior expenditures related thereto, each of which constitutes an Additional Project under the Bond Order, and (2) pay certain fees and expenses incurred in connection with the sale and issuance of the Bonds.

In connection with the issuance of the Bonds, we have examined the following: (a) the Acts; (b) certified copies of the Bond Order and Series Resolution and (c) such other laws, documents, instruments, proceedings and opinions as we have deemed relevant in rendering this opinion. We have also examined a specimen Bond.

From such examination, we are of the opinion that, under existing law:

1. The Authority is a public body and body politic and corporate of the State. Pursuant to the Acts, the Authority is empowered to issue the Bonds for the purposes set forth in the Bond Order and to adopt and perform its obligations under the Bond Order and the Series Resolution.

2. The Bond Order and the Series Resolution have been duly adopted by the Authority and are valid and binding on, and enforceable against, the Authority. All right, title and interest of the Authority in and to the Net Receipts (as defined in the Bond Order) have been validly pledged and assigned to the Trustee, and the Bond Order creates a valid pledge which it purports to create of the Net Receipts for the purposes and on the conditions permitted by the Bond Order.

3. The Bonds have been duly and validly authorized and issued in accordance with the Bond Order and the Series Resolution and represent valid, binding and enforceable special obligations of the Authority. The Bonds are entitled to the benefits and security of the Bond Order and the Series Resolution for the payment thereof in accordance with the terms of the Bond Order and the Series Resolution.

4. The Bonds are special obligations of the Authority secured by a pledge, charge and lien upon Net Receipts, as defined in the Bond Order. The Authority is not obligated to pay the principal of or the interest on the Bonds except, as provided in the Bond Order, from Net Receipts or certain other money made available therefor under the Bond Order, and neither the faith and credit nor the taxing power of the State or any political subdivision thereof, including the Authority, is pledged for the payment of the principal of, premium, if any, or interest on the Bonds, and no owner of the Bonds has the right to compel the exercise of the taxing power by the State or any of its political subdivisions, including the Authority, or the forfeiture of any of their respective properties in connection with any default on the Bonds except as provided in the Bond Order and the Series Resolution.

5. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal individual alternative minimum tax; provided, however, such interest is taken into account in determining the annual adjusted financial statement income of certain corporations (as defined in Section 59(k) of the Internal Revenue Code of 1986, as amended (the “Code”)) for the purpose of computing the alternative minimum tax imposed on corporations for tax years beginning after December 31, 2022. The opinion set forth in the preceding sentence is subject to the condition that the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest on the Bonds be, or continue to be, excludable from gross income for federal income tax purposes. The Authority covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of the issuance of the Bonds. We express no opinion regarding other federal tax consequences of the ownership of or the receipt, accrual or amount of interest with respect to the Bonds.

6. Interest on the Bonds is exempt from State of North Carolina income taxation.



The rights of the owners of the Bonds and the enforceability of the Bonds, the Bond Order and the Series Resolution may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium, liquidation, readjustment of debt and other similar laws affecting creditors' rights and remedies generally, and by general principles of equity, whether such principles are considered in a proceeding at law or in equity.

Our services as Bond Counsel in connection with the issuance of the Bonds have been limited to rendering the opinions expressed above based on our review of such proceedings and documents as we deem necessary to approve the validity of the Bonds and the tax-exempt status of interest thereon. In rendering the foregoing opinions, we have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities and have not verified the accuracy or truthfulness thereof. We have also assumed the genuineness of the signatures appearing upon such public records and certifications, documents and other proceedings.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Preliminary Official Statement or the Official Statement (collectively, the "*Official Statement*"), or any other offering material relating to the Bonds (except to the extent, if any, stated in the Official Statement) and we express no opinion herein relating thereto (excepting only the matters set forth as our opinion in the Official Statement and the section entitled "**TAX TREATMENT**") or as to the financial resources of the Authority, or the ability of the Authority to make the payments required under the Bond Order and the Series Resolution, that may have been relied on by anyone in making the decision to purchase Bonds.

This opinion is delivered to you and for your benefit in connection with the above transaction; it may not be relied on by you for any other purposes and may not be relied on by, nor may copies be provided to, any other person, firm, corporation or other entity without our prior written consent.

Respectfully submitted,

**PARKER POE ADAMS & BERNSTEIN LLP**

This page intentionally left blank.

## **APPENDIX F**

### **DTC'S BOOK-ENTRY-ONLY SYSTEM**

This page intentionally left blank.

## DTC's Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2024 Bonds. The Series 2024 Bonds will be delivered as fully-registered certificates registered in the name of Cede & Co., DTC's partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered bond for each maturity of the Series 2024 Bonds will be registered in the name of Cede & Co., as nominee for DTC, each in the aggregate principal amount of such maturity and will be deposited with DTC. SO LONG AS CEDE & CO. THE REGISTERED OWNER OF THE SERIES 2024 BONDS, AS DTC'S PARTNERSHIP NOMINEE, REFERENCES HEREIN TO THE OWNERS OR REGISTERED OWNERS OF THE SERIES 2024 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2024 BONDS.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 100 countries that DTC's direct participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Series 2024 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2024 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2013 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2024 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive physical certificates representing their ownership interests in Series 2024 Bonds, except in the event that use of the book-entry system for the Series 2024 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2024 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2024 Bonds with DTC and

their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual identities of the Beneficial Owners of the Series 2024 Bonds; DTC's records reflect only the identities of the Direct Participants to whose accounts the Series 2024 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct and Indirect Participants to Beneficial Owners of the Series 2024 Bonds will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2024 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2024 Bonds, such as redemptions, tenders, defaults and proposed amendments to the security documents. For example, Beneficial Owners of the Series 2024 Bonds may wish to ascertain that the nominee holding the Series 2024 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2024 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2024 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to OWASA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting and voting rights to those Direct Participants to whose accounts the Series 2024 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2024 Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from OWASA or the Bond Registrar on each payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participants and not of DTC, the Bond Registrar or OWASA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal and interest to DTC (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of OWASA or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursements of such payments to the Beneficial Owners will be the responsibility of the Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2024 Bonds at any time by giving reasonable notice to OWASA or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, Series 2013 Bond certificates will be printed and delivered.

OWASA may decide to discontinue participation in the system of book-entry-only transfer through DTC (or a successor securities depository). In that event, physical Series 2013 Bond certificates will be printed and delivered to DTC.

The information in this Appendix F concerning DTC and DTC's book-entry system has been obtained from DTC, and OWASA takes no responsibility for accuracy thereof.

OWASA cannot and do not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners of the Series 2024 Bonds (a) payments of principal of and interest on the Series 2024 Bonds, (b) confirmations of their ownership interests in the Series 2024 Bonds or (c) redemption or other notices sent to DTC or Cede & Co., its partnership nominee, as the registered owner of the Series 2024 Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

OWASA HAS NO RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OR ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OR ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON THE SERIES 2024 BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS OF THE SERIES 2024 BONDS UNDER THE TERMS OF THE BOND ORDER AND THE 2024 SERIES RESOLUTION; AND (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER.

This page intentionally left blank.