

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 28, 2022

NEW ISSUE - BOOK-ENTRY ONLY

RATINGS:
S&P: AA+
Moody's: A1
 See "MISCELLANEOUS-Ratings" herein.

In the opinion of Pope Flynn, LLC, Bond Counsel to the District, under existing law, assuming continuing compliance by the District with certain covenants and the accuracy of certain representations, interest on the Series 2022 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. Such income is, however, taken into account in determining the annual adjusted financial statement income of certain applicable corporations (as defined in Section 59(k) of the Internal Revenue Code of 1986, as amended) for the purpose of determining the application of the 15% minimum tax imposed on the adjusted financial statement of such corporations for tax years beginning after December 31, 2022. In the opinion of Bond Counsel, the Series 2022 Bonds and the interest thereon are exempt from all State, county, municipal, school district, and other taxes and assessments imposed within the State of South Carolina, except estate, transfer, and certain franchise taxes. See "LEGAL MATTERS" herein for a description of these and other tax considerations.



\$71,085,000*
SOUTH ISLAND PUBLIC SERVICE DISTRICT, SOUTH CAROLINA
WATERWORKS AND SEWER SYSTEM
IMPROVEMENT REVENUE BONDS,
SERIES 2022

Dated: Date of Issuance

Due: April 1, as shown below

The \$71,085,000* South Island Public Service District, South Carolina Waterworks and Sewer System Improvement Revenue Bonds, Series 2022 (the "Series 2022 Bonds"), will be issued as fully registered bonds in denominations of \$5,000 and integral multiples thereof initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2022 Bonds under a book-entry only system, as described herein. So long as the Series 2022 Bonds are held in book-entry form, beneficial owners of Series 2022 Bonds will not receive physical delivery of bond certificates. Interest on the Series 2022 Bonds is payable initially on April 1, 2023 and semiannually thereafter on April 1 and October 1 of each year through maturity or prior redemption. U.S. Bank National Association is serving as Trustee, Registrar and Paying Agent with respect to the Series 2022 Bonds.

THE SERIES 2022 BONDS ARE SUBJECT TO OPTIONAL [AND MANDATORY] REDEMPTION PRIOR TO MATURITY AS MORE FULLY DESCRIBED HEREIN. See "THE SERIES 2022 BONDS-Redemption" herein.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS

<u>Due</u> <u>April 1</u>	<u>Principal</u> <u>Amount*</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>No. ¹</u>	<u>Due</u> <u>April 1</u>	<u>Principal</u> <u>Amount*</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>No. ¹</u>
2025	\$ 575,000				2039	\$2,660,000			
2026	610,000				2040	2,790,000			
2027	635,000				2041	2,930,000			
2028	670,000				2042	3,075,000			
2029	700,000				2043	3,230,000			
2030	735,000				2044	3,390,000			
2031	775,000				2045	3,560,000			
2032	810,000				2046	3,740,000			
2033	1,985,000				2047	3,925,000			
2034	2,085,000				2048	4,125,000			
2035	2,185,000				2049	4,330,000			
2036	2,295,000				2050	4,545,000			
2037	2,410,000				2051	4,775,000			
2038	2,530,000				2052	5,010,000			

The Series 2022 Bonds are being issued by the South Island Public Service District, South Carolina (the "District") to provide funds to (i) defray the costs of certain improvements to the System (as defined herein), and (ii) pay costs relating to the issuance of the Series 2022 Bonds. See "PLAN OF FINANCE" herein.

The Series 2022 Bonds are being issued under the authority of the Constitution and laws of the State of South Carolina, including Chapter 17 of Title 6, Code of Laws of South Carolina 1976, as amended (the "Enabling Act") and pursuant to an amended and restated bond resolution adopted by the South Island Public Service District Commission (the "Commission"), the governing body of the District, on March 23, 2010, and a series resolution adopted by the Commission on August 23, 2022. The Series 2022 Bonds are payable from and secured by a pledge of and lien on the Net Revenues (as defined herein) of the System, as well as a contractual lien on the System pursuant to the Enabling Act, on a parity with the Parity Bonds (as defined herein) and any Additional Bonds (as defined herein) hereafter issued. See "SECURITY FOR THE SERIES 2022 BONDS" herein.

The Series 2022 Bonds shall not constitute an indebtedness of the District within the meaning of any provision, limitation or restriction of the Constitution or the laws of the State of South Carolina, other than those provisions authorizing indebtedness payable solely from a revenue-producing project not involving revenues from any tax or license. The District is not obligated to pay any of the Series 2022 Bonds or the interest thereon except from the Net Revenues, and neither the full faith and credit nor the taxing power of the District shall be deemed to be pledged to the payment of the Series 2022 Bonds. See "SECURITY FOR THE SERIES 2022 BONDS" herein.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Series 2022 Bonds are offered when, as, and if issued by Stephens Inc., on behalf of itself and as representative of Truist Securities, Inc. (together, the "Underwriters"), pursuant to the terms of a Bond Purchase Agreement, subject to the approval of legality by Pope Flynn, LLC, Columbia, South Carolina, Bond Counsel to the District. Pope Flynn, LLC is also acting as disclosure counsel to the District in connection with the offering of the Series 2022 Bonds. Certain legal matters will be passed upon for the Underwriters by Murray Barnes Finister LLP, Atlanta, Georgia, and for the District by Burr & Forman LLP, Hilton Head Island, South Carolina. First Tryon Advisors, Charlotte, North Carolina serves as Municipal Advisor to the District. It is expected that the Series 2022 Bonds will be available in definitive form for delivery through the facilities of DTC in New York, New York, on or about October 19, 2022, against payment therefor.

Stephens Inc.

TRUIST

Dated: October __, 2022.

* Preliminary, subject to change.

¹ CUSIP is a registered trademark of the American Bankers Association ("ABA"). CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of the ABA by FactSet Research Systems Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Series 2022 Bonds and the District makes no representation with respect to such numbers nor undertakes any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2022 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2022 Bonds.

This Preliminary Official Statement and the information contained herein are subject to change, completion or amendment without notice. The Series 2022 Bonds may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances will this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor will there be any sale of the Series 2022 Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

SOUTH ISLAND PUBLIC SERVICE DISTRICT, SOUTH CAROLINA

**2 Genesta Street
Hilton Head Island, South Carolina 29928**

COMMISSIONERS

Alan H. Jackson, Chairman
James A. Vaughn, Vice Chairman
Tom DeMint
Gary G. Gaynor
Eleanor Lightsey
Pamela M. Ovens
John T. Phalen
James N. Richardson, Jr.

GENERAL MANAGER OF THE DISTRICT

Papu Tafao

COUNSEL TO THE DISTRICT

Burr & Forman LLP
Hilton Head Island, South Carolina

BOND AND DISCLOSURE COUNSEL

Pope Flynn, LLC
Columbia, South Carolina

CERTIFIED PUBLIC ACCOUNTANTS

Nichols, Cauley & Associates, LLC
Dublin, Georgia

UNDERWRITERS' COUNSEL

Murray Barnes Finister LLP
Atlanta, Georgia

This Official Statement does not constitute an offering of any security other than the original offering of the Series 2022 Bonds identified on the front cover hereof. No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2022 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities under the Federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Except for information with respect to U.S. Bank National Association (the “Trustee”), the Trustee has not provided, or undertaken to determine the accuracy of, any of the information contained in this Official Statement, and makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information, (ii) the validity of the Series 2022 Bonds, or (iii) the tax-exempt status of the interest on the Series 2022 Bonds.

First Tryon Advisors (the “Municipal Advisor”) is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

Upon execution and delivery, the Series 2022 Bonds will not be registered under the Securities Act of 1933, as amended (the “1933 Act”), or any state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed upon the accuracy or adequacy of this Official Statement or approved the Series 2022 Bonds for sale, and any representation to the contrary is a criminal offense.

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, this document, as the same may be supplemented or corrected by the District from time to time, may be treated as an “official statement” with respect to the Series 2022 Bonds that is deemed final as of the date hereof (or of any such supplement or correction) by the District.

CERTAIN INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT MAY HAVE BEEN OBTAINED FROM SOURCES OTHER THAN RECORDS OF THE DISTRICT AND, WHILE BELIEVED TO BE RELIABLE, IS NOT GUARANTEED AS TO COMPLETENESS OR ACCURACY. THE INFORMATION AND EXPRESSIONS OF OPINION IN THIS OFFICIAL STATEMENT ARE SUBJECT TO CHANGE, AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE UNDER SUCH DOCUMENT SHALL CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE DISTRICT OR THE SYSTEM.

Reference herein to laws, rules, regulations, agreements, reports and other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made therein. Where full texts have not been included as appendices to the Official Statement, they will be furnished upon request.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

This Official Statement contains forecasts, projections and estimates, including, but not limited to, the information under the heading “DISTRICT FINANCIAL INFORMATION – Projected Debt Service Coverage” and in Appendix B – “2022 UTILITY REVENUE SUFFICIENCY STUDY,” 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,” “budgets” and analogous expressions are intended to identify forward-looking statements as defined in the 1933 Act, 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. The District 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 District’s expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

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SUMMARY STATEMENT

The following Summary Statement is qualified in its entirety by the more detailed information and financial statements contained elsewhere in this Official Statement and the Appendices hereto (collectively, the “Official Statement”). Unless otherwise defined in this Summary Statement, all capitalized terms shall have those meanings ascribed to them in the Official Statement, the Resolutions (as herein defined) and in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS” attached hereto. The offering of the Series 2022 Bonds to potential investors is made only by means of this entire Official Statement, and no person is authorized to detach this Summary Statement from the Official Statement or to otherwise use it without the entire Official Statement.

The Issuer	The South Island Public Service District, South Carolina (the “District”) is a special purpose district created by the Beaufort County Council, the governing body of Beaufort County, South Carolina on October 28, 1996, through the consolidation of two public service districts, Forest Beach Public Service District and Sea Pines Public Service District. The District provides water, sewer and reclaimed water services to its customers within its service area through its combined waterworks and sewer system (the “System”). The District is operated and managed by the South Island Public Service District Commission. See “THE DISTRICT AND THE SYSTEM.”
The Series 2022 Bonds	The Series 2022 Bonds will be dated and bear interest from the date of issuance. It is expected that the Series 2022 Bonds will be available for delivery through the facilities of The Depository Trust Company in New York, New York, on or about October 19, 2022.
Interest Payments	Interest on the Series 2022 Bonds is payable on each April 1 and October 1, commencing April 1, 2023.
Maturities	The Series 2022 Bonds mature serially on April 1, 20__ through 20 __[, and as term bonds due April 1, 20 __] as indicated on the front cover hereof.
Redemption	<p>The Series 2022 Bonds maturing on or after April 1, 2033 shall be subject to redemption prior to maturity, at the option of the District on and after April 1, 2032, in whole or in part (and if in part, by lot within a maturity) as further set forth in “THE SERIES 2022 BONDS–Redemption–Optional Redemption.”</p> <p>[The Series 2022 Bonds maturing April 1, 20__ are subject to mandatory redemption prior to maturity, as further set forth in “THE SERIES 2022 BONDS – Redemption – Mandatory Sinking Fund Redemption” herein.]</p>
Source of Payment	The Series 2022 Bonds are secured by a pledge of the Net Revenues of and a contractual lien upon the System on a parity in all respects with the pledge and lien securing the District’s Series 2012 Bonds and its Series 2017 Bonds (each as defined herein), and any additional bonds issued on a parity with the Series 2012 Bonds, the Series 2017 Bonds and the Series 2022 Bonds. See “SECURITY FOR THE SERIES 2022 BONDS.”
Purposes of the Issue	The Series 2022 Bonds are being issued by the District (i) to defray the cost of certain improvements to the System (as defined herein), and (ii) to pay the costs relating to the issuance of the Series 2022 Bonds. See “INTRODUCTION–Purpose” and “PLAN OF FINANCE.”
Tax Status of Interest on the Series 2022 Bonds	In the opinion of Pope Flynn, LLC, Bond Counsel to the District, under existing law, assuming continuing compliance by the District with certain covenants and the accuracy of certain representations, interest on the Series 2022 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. Such income is, however, taken into account in determining the annual adjusted financial statement income of certain applicable corporations (as defined in Section 59(k) of the Internal Revenue Code of 1986, as amended) for the purpose of determining the application of the 15% minimum tax imposed on the adjusted financial statement of such corporations for tax years beginning after December 31, 2022. In the opinion of Bond Counsel, the Series 2022 Bonds and the interest thereon are exempt from all State, county, municipal, school district, and other taxes and assessments imposed within the State of South Carolina, except estate, transfer, and certain franchise taxes. See “LEGAL MATTERS” herein for a description of these and other tax considerations.

Professionals	<p>Pope Flynn, LLC, Columbia, South Carolina, is serving as Bond Counsel and disclosure counsel to the District. Certain legal matters will be passed upon for the District by its counsel, Burr & Forman LLP, Hilton Head Island, South Carolina, and for the Underwriters by their counsel, Murray Barnes Finister LLP, Atlanta, Georgia. The audited financial statements of the District for the fiscal year ended June 30, 2022, included as Appendix A to this Official Statement, have been audited by Nichols, Cauley & Associates, LLC, Dublin, Georgia. Raftelis Financial Consultants, Inc., whose report entitled “2022 Utility Revenue Sufficiency Study” is included as Appendix B to this Official Statement, has acted as rate consultant to the District in connection with the offer and sale of the Series 2022 Bonds. The Underwriters are Stephens Inc., Atlanta, Georgia and Truist Securities, Inc., Charlotte, North Carolina. U.S. Bank National Association, Columbia, South Carolina, is serving as Trustee, Registrar and Paying Agent.</p>
Authority for the Issuance	<p>The Series 2022 Bonds are issued pursuant to the provisions of the Constitution and laws of the State of South Carolina, including particularly Title 6, Chapter 17, Code of Laws of South Carolina 1976, as amended, and the Resolutions. See “INTRODUCTION–Authorization.”</p>
Continuing Disclosure	<p>The District has undertaken, pursuant to a covenant to comply with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended, for the benefit of holders and beneficial owners of the Series 2022 Bonds, to provide annually certain financial information and operating data including audited financial statements relating to the District by not later than 210 days after the end of each of the District’s fiscal years, commencing with the fiscal year ended June 30, 2023 (the “Annual Information”), and to provide notices of the occurrence of certain enumerated events. The Annual Information will be filed by or on behalf of the District with the Municipal Securities Rulemaking Board’s (the “MSRB”) Electronic Municipal Market Access (“EMMA”) system. Notice of certain events will also be provided by or on behalf of the District to the MSRB through EMMA. See “MISCELLANEOUS–Continuing Disclosure” and Appendix F–“FORM OF CONTINUING DISCLOSURE CERTIFICATE.”</p>
General	<p>This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of this Official Statement will be deposited with the MSRB, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. Copies of the Preliminary Official Statement and the Official Statement and other relevant documents and information regarding the documents are available from the Underwriters through Mr. Lyman Wray, Stephens Inc., 3344 Peachtree Road, Suite 1650, Atlanta, Georgia, 30326, telephone 404-461-5115 or Ms. KayDee Hoard, Truist Securities, Inc., 3333 Peachtree Road NE, Floor 11, Atlanta, Georgia 30326, telephone 706-491-5946.</p> <p>The Official Statement, including the cover pages and the attached Appendices, contains specific information relating to the Series 2022 Bonds, the District and the System and other information pertinent to this issue. See “THE DISTRICT AND THE SYSTEM,” “DISTRICT FINANCIAL INFORMATION” and Appendix A–“AUDITED FINANCIAL STATEMENTS FOR THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2022” for financial information relating to the District, Appendix B–“2022 UTILITY REVENUE SUFFICIENCY STUDY” for information with respect to the projected sufficiency of the District’s rates to pay debt service on the Series 2012 Bonds, the Series 2017 Bonds and the Series 2022 Bonds, and Appendix D–“ECONOMIC AND DEMOGRAPHIC DATA FOR THE TOWN OF HILTON HEAD ISLAND AND BEAUFORT COUNTY” for certain demographic information relating to the District.</p> <p>All information included herein has been provided by the District except where attributed to other sources. The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such reference or summary is qualified in its entirety by reference to each such document, statute, report or other instrument.</p>

\$71,085,000*
SOUTH ISLAND PUBLIC SERVICE DISTRICT, SOUTH CAROLINA
WATERWORKS AND SEWER SYSTEM
IMPROVEMENT REVENUE BONDS,
SERIES 2022

INTRODUCTION

This Official Statement of the South Island Public Service District, South Carolina (the “District”), which includes the cover pages hereof and the appendices hereto, provides information relating to the District and its \$71,085,000* principal amount Waterworks and Sewer System Improvement Revenue Bonds, Series 2022 (the “Series 2022 Bonds”). The District is a special purpose district of the State of South Carolina (the “State”) which resulted from the consolidation, pursuant to an ordinance of Beaufort County Council (the “Council”) enacted on October 28, 1996, of two existing public service districts – Forest Beach Public Service District and Sea Pines Public Service District. The Series 2022 Bonds, the Parity Bonds and any Additional Bonds (as such terms are hereinafter defined) are referred to herein as the “Bonds.” Included in this Official Statement are brief descriptions of the Series 2022 Bonds and the security therefor, the District’s combined waterworks and sewer system (the “System”), the District and the surrounding area and the resolutions pursuant to which the Series 2022 Bonds are authorized and issued by the District. Also included is certain financial information relating to the System. All summaries of documents herein are qualified by reference to such documents in their entirety. Capitalized terms used herein without specific definition are used as defined in Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS–DEFINITIONS.”

Authorization

The Series 2022 Bonds are issued pursuant to the Constitution and laws of the State, including particularly Title 6, Chapter 17, Code of Laws of South Carolina 1976, as amended (the “Enabling Act”), an amended and restated bond resolution adopted by the South Island Public Service District Commission (the “Commission”), the governing body of the District, on March 23, 2010 (the “Bond Resolution”) and a series resolution adopted by the Commission on August 23, 2022 (the “2022 Series Resolution” and, together with the Bond Resolution, the “Resolutions”). Certain provisions of the Resolutions are more particularly described in Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS.”

Purpose

The Series 2022 Bonds are being issued by the District (i) to defray the cost of certain improvements (the “Projects,” as such term is more particularly defined herein) to the System, and (ii) to pay the costs relating to the issuance of the Series 2022 Bonds. See “PLAN OF FINANCE.” The outstanding portions of the District’s \$9,050,000 original principal amount Waterworks and Sewer System Improvement Revenue Bonds, Series 2012 (the “Series 2012 Bonds”) and its \$8,835,000 original principal amount Waterworks and Sewer System Refunding Revenue Bonds, Series 2017 (the “Series 2017 Bonds”) are referred to herein as the “Parity Bonds”.

* Preliminary, subject to change.

THE SERIES 2022 BONDS

Form and Denomination

The Series 2022 Bonds will be dated the date of issuance thereof, and will bear interest in the amounts and at the rates per annum set forth on the front cover page of this Official Statement (calculated on the basis of a 360-day year of twelve 30-day months), payable on April 1 and October 1 of each year (the “Bond Payment Dates”) beginning April 1, 2023. The Record Date (as defined in Appendix C) for each such payment of interest shall be on March 15 and September 15 immediately preceding the Bond Payment Date. The Series 2022 Bonds will mature on April 1 in the years and in the principal amounts set forth on the front cover page of this Official Statement. The Series 2022 Bonds will be issued in fully registered form without coupons, in denominations of \$5,000 (or integral multiples thereof) not exceeding the principal amount of the Series 2022 Bonds maturing in each year, in the name of the registered owner as set forth on the registration books of the District maintained at the corporate trust office of U.S. Bank National Association (the “Trustee”). As part of its duties as Trustee, U.S. Bank National Association will also act as registrar (in such capacity, the “Registrar”) and paying agent (in such capacity, the “Paying Agent”) with respect to the Series 2022 Bonds.

The Series 2022 Bonds initially will be held in a book-entry only system administered by The Depository Trust Company, New York, New York (“DTC”), whose nominee, Cede & Co., will be the initial registered owner of the Series 2022 Bonds. Principal of and redemption premium, if any, and interest on, the Series 2022 Bonds held in book-entry form shall be payable as described herein in “THE SERIES 2022 BONDS–Book-Entry Only System.”

If the book-entry only system is discontinued, interest payments on the Series 2022 Bonds shall be paid by check or draft mailed from the office of the Trustee, or in the case of a person who is a holder of \$1,000,000 or more in aggregate principal amount of the Series 2022 Bonds, by wire transfer to an account within the continental United States upon timely written request of such holder made prior to the applicable Record Date. Principal and redemption premium, if any will be payable on the respective maturity dates or redemption dates upon presentation and surrender thereof at the corporate trust office of the Trustee.

Redemption

Optional Redemption. The Series 2022 Bonds maturing on or after April 1, 2033 are subject to redemption prior to maturity, at the option of the District on and after April 1, 2032, in whole or in part at any time, in such manner as will be determined by the District, and by lot (or by such DTC procedure as is customary if the book-entry only system is still in effect) within a maturity, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date.

Mandatory Redemption. The Series 2022 Bonds maturing on April 1, 20__ are subject to mandatory redemption at a redemption price equal to the principal amount thereof, plus accrued interest thereon to the redemption date, through the operation of a sinking fund on April 1 of each of the following years and in the following amounts:

<u>Year</u>	<u>Amount</u>
	\$

*Final Maturity

[At its option, to be exercised on or before the 45th day next preceding any sinking fund redemption date, the District may (a) deliver to the Trustee for cancellation Series 2022 Bonds of the appropriate maturity in any aggregate principal amount desired or (b) receive a credit in respect of its sinking fund redemption obligation for any Series 2022 Bonds of the appropriate maturity which prior to said date have been redeemed (otherwise than by mandatory sinking fund redemption) and cancelled by the Trustee and not theretofore applied as a credit against any prior mandatory sinking fund redemption obligation. Each Series 2022 Bond so delivered or previously redeemed shall be credited by the Trustee at 100% of the principal amount thereof on the obligation on such sinking fund redemption date and any excess shall be credited on future sinking fund redemption obligations, and the principal amount of such Series 2022 Bonds to be redeemed by operation of the sinking fund shall be accordingly reduced.]

Notice of Redemption. For so long as a book-entry only system for the Series 2022 Bonds is in place, the redemption and the notice of redemption of the Series 2022 Bonds shall be accomplished as described in “THE SERIES 2022 BONDS-Book-Entry Only System.”

If the book-entry only system is discontinued and if any of the Series 2022 Bonds, or portions thereof, are called for redemption, the Trustee or the Registrar shall give notice to the holders of the Series 2022 Bonds to be redeemed, in the name of the District. If less than all of the Series 2022 Bonds are to be redeemed, such notice shall specify the respective portions of the principal amount to be redeemed. Such notice shall be given by mailing a copy by first class mail, postage prepaid, between 30 and 60 days prior to the date fixed for redemption to the registered owner of each Series 2022 Bond or portion thereof to be redeemed, at the address shown on the Register (hereinafter defined) maintained by the Trustee; provided, however, the failure to give any such notice by mail, or any defect in the notice mailed to the registered owner of any Series 2022 Bond, shall not affect the proceedings for the redemption of any other Series 2022 Bond. If less than all the Series 2022 Bonds of any maturity are called for redemption, the Series 2022 Bonds, or portions thereof, to be redeemed shall be selected at random by lot by the Trustee.

The obligation of the Trustee to give the notice of redemption shall not be conditioned upon the prior payment to the Trustee or the Paying Agent of money or the delivery to the Trustee or Paying Agent of Authorized Investments or Government Obligations (as such terms are defined in Appendix C) sufficient to pay the redemption price of the Series 2022 Bonds to which such notice relates or the interest thereon to the redemption date.

If at the time of mailing of notice of redemption, there shall not have been deposited with the Trustee or Paying Agent moneys sufficient to redeem all the Series 2022 Bonds or portions thereof called for redemption, which moneys are or will be available for redemption of such Series 2022 Bonds, such notice is required to state that it is conditional on the deposit of the redemption moneys with the Trustee or Paying Agent not later than the opening of business on the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

Registration, Transfers and Exchanges

Series 2022 Bonds Subject to the Book-Entry Only System. The District has arranged for books of registration and transfer (the “Register”) of the Series 2022 Bonds to be maintained by the Registrar. For as long as DTC acts as security depository for the Series 2022 Bonds, the registration, transfer and exchange of ownership interests in the Series 2022 Bonds shall be accomplished by book entries made by DTC and the Direct Participants and, where applicable, the Indirect Participants, as described in “THE SERIES 2022 BONDS–Book-Entry Only System.”

Series 2022 Bonds Not Subject to the Book-Entry Only System. Should the Series 2022 Bonds no longer be held in book-entry-only form, each Series 2022 Bond shall be evidenced by a bond certificate in fully registered form and transferable only upon the registration books of the District kept for that purpose and maintained by the Registrar, by the holder thereof in person or by his duly authorized attorney upon surrender thereof and an assignment with a written instrument of transfer satisfactory to the Trustee or the Registrar, as the case may be, duly executed by the holder or his duly authorized attorney (and payment of the charges, if any, prescribed in the Resolutions). Upon the registration or transfer of any Series 2022 Bond, the District shall cause to be issued in the name of the transferee a new Series 2022 Bond of the same aggregate principal amount, maturity and interest rate as the surrendered Series 2022 Bond. There is no charge for the transfer or exchange of any Series 2022 Bond or Bonds; however, the Trustee may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid in respect thereof. Neither the District nor the Trustee or the Registrar, as the case may be, shall be required to effect any transfer or exchange of any Series 2022 Bond or Series 2022 Bonds between any Record Date and the succeeding Bond Payment Date, during the period beginning 15 days prior to any selection of Series 2022 Bonds for redemption and ending upon the mailing of any notice of redemption, nor after the mailing of any notice of redemption with respect to the Series 2022 Bonds so called for redemption.

The Series 2022 Bonds, upon surrender thereof at the office of the Trustee or the Registrar, as the case may be, with a written instrument of transfer satisfactory to the Trustee or the Registrar, duly executed by the holder or his duly authorized attorney, may, at the option of the holder and upon payment by such holder of any charges made pursuant to the Bond Resolution, be exchanged for an equal aggregate principal amount of the Series 2022 Bonds of like maturity and interest rate of any other authorized denominations.

The District, the Trustee and the Registrar or Paying Agent may deem and treat the person in whose name any Series 2022 Bond shall be registered as the absolute owner of such Series 2022 Bond, whether such Series 2022 Bond shall be overdue or not, for all purposes including the payment of or on account of the principal, premium, if any, or interest thereon and any such payment made to a registered owner shall be valid and effectual to satisfy and discharge the liability upon such Series 2022 Bond to the extent of the sum so paid; and none of the District, the Trustee and any Registrar or Paying Agent shall be affected by any notice to the contrary.

Book-Entry Only System

DTC will initially act as securities depository for the Series 2022 Bonds. The Series 2022 Bonds will be issued as fully-registered bonds 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 Series 2022 Bond certificate will be issued for each maturity and will be deposited with DTC.

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 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. DTCC is owned by the users of its regulated subsidiaries. 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 Global Ratings rating of: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org (which are not intended to be active hyperlinks).

Purchases of Series 2022 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2022 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2022 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 purchase. 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 Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2022 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 certificates representing their ownership interests in Series 2022 Bonds, except in the event that use of the book-entry system for the Series 2022 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2022 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 2022 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2022 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2022 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 Participants and Indirect Participants to Beneficial Owners 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 Series 2022 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2022 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Series 2022 Bonds may wish to ascertain that the nominee holding the Series 2022 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 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 2022 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2022 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2022 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds (if any) and principal and interest payments on the Series 2022 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 the District, the Trustee or the Paying Agent on each payable date in accordance with their respective holdings shown on DTC's records. Payments by 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 Participant and not of DTC, the Trustee, the Paying Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District and the Trustee or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2022 Bonds at any time by giving reasonable notice to the District and the Trustee. In addition, the District may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In the event of a discontinuation of the book-entry only system, the Trustee will register and deliver to the Beneficial Owners Series 2022 Bond certificates in authorized denominations.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

NEITHER THE DISTRICT NOR THE TRUSTEE OR PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2022 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 2022 BONDS UNDER THE TERMS OF THE RESOLUTIONS; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2022 BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC.

SECURITY FOR THE SERIES 2022 BONDS

Pledged Revenues

The Series 2022 Bonds, the Parity Bonds and any Additional Bonds, together with the interest thereon, are payable solely from and shall be secured by a pledge of and lien upon the Net Revenues of the System, as well as a contractual lien upon the System. See “–Additional Lien” herein. As defined in the Bond Resolution, “Net Revenues” means:

(1) all receipts and revenues (except customers’ deposits) derived from the operation of the System including service fees (tap-in-fees, connection fees and availability fees); all proceeds from the sale or other disposition of any property owned directly or beneficially by the District in connection with the operation of the System; all interest and other income received by the District, directly or indirectly from the investment of any moneys or accounts relating to the System, excluding, however, investment income restricted to a purpose inconsistent with the payment of operating expenses or debt service, and specifically excluding (whether or not so restricted) interest earned on any construction fund or construction account created with the proceeds of borrowing by the District; and all other unencumbered money to which the District may become entitled from any source whatsoever, but specifically excluding government grants and aids-to-construction and all receipts from ad valorem property taxes (collectively, the “Gross Revenues”); less

(2) Operation and Maintenance Expenses (as defined in Appendix C).

So long as the Series 2022 Bonds, the Parity Bonds and any Additional Bonds are Outstanding, all revenues of the System shall be received by the District and, as required by the Enabling Act, applied only as provided in the proceedings providing for the issuance of Bonds. The Net Revenues are required to be accounted for separately from all other moneys of the District on the books of records and accounts.

Additional Lien

For the further protection of the Bondholders (as defined in Appendix C) of the Bonds, the District has granted a contractual lien upon the System pursuant to the Enabling Act, which is equal to the statutory lien allowed under the Revenue Bond Act for Utilities, Section 6-21-330, Code of Laws of South Carolina 1976, as amended, and granted by the Bond Resolution as provided in the Enabling Act. Such lien does not permit the Trustee or any Bondholder to compel the sale of the System or any portion thereof.

Limited Obligations

The Series 2022 Bonds shall not constitute an indebtedness of the District within the meaning of any provision, limitation or restriction of the Constitution or the laws of the State of South Carolina, other than those provisions authorizing indebtedness payable solely from a revenue-producing project not involving revenues from any tax or license. The District is not obligated to pay any of the Series 2022 Bonds or the interest thereon except from the Net Revenues, and neither the full faith and credit nor taxing power of the District shall be deemed to be pledged to the payment of the Series 2022 Bonds.

Rate Covenant

The District specifically covenants and agrees to maintain rates and charges for all services furnished by the System which shall at all times be sufficient:

(1) to provide for the punctual payment of the principal of and interest on all Bonds and all Junior Lien Bonds (as defined in Appendix C) that may from time to time be Outstanding;

(2) to maintain the Debt Service Funds (hereinafter defined) and provide for the punctual payment of the principal of and interest on the Bonds;

- (3) to maintain the Debt Service Reserve Funds (hereinafter defined) in the manner prescribed in the Bond Resolution;
- (4) to provide for the payment of Operation and Maintenance Expenses;
- (5) to build and maintain a reserve for depreciation of the System, for contingencies and for improvements, betterments and extensions to the System other than those necessary to maintain the same in good repair and working order;
- (6) to pay all amounts owing under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated in the Bond Resolution; and
- (7) to discharge all obligations imposed by the Enabling Act and by the Bond Resolution.

The District also covenants and agrees in the Bond Resolution that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the System which until the Effective Date (as defined in Appendix C) will, and after the Effective Date, will be reasonably expected to, yield annual Net Earnings in the current Fiscal Year equal to at least the sum of (i) 120% of the Annual Principal and Interest Requirement for all Series (as such terms are defined in Appendix C) of Bonds Outstanding in such Fiscal Year, plus (ii) 100% of the amount necessary to make payment of any amounts owing in such Fiscal Year under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit provided in satisfaction of the Reserve Requirement for a particular Series of Bonds, plus (iii) 100% of the principal and interest on Junior Lien Bonds, or the capital costs pursuant to the provisions of long-term contracts which the District has entered into in order to provide water and sewer services to the areas included within its service area, due in such Fiscal Year, plus (iv) 100% of any required payment into a Debt Service Reserve Fund due in such Fiscal Year.

Prior to the beginning of each Fiscal Year, the District is required to adopt an Annual Budget (as defined in Appendix C) including amended rate schedules for such Fiscal Year which shall set forth in reasonable detail the estimated revenues and operating expenses and other expenditures of the System for such Fiscal Year and which shall include appropriations for the estimated operating expenses and the amount to be deposited during such Fiscal Year in the Depreciation and Contingent Fund (hereinafter defined). The District may at any time adopt an amended Annual Budget for the remainder of the then current Fiscal Year.

Promptly upon any material change in the circumstances which were contemplated at the time such rates and charges were most recently reviewed, but not less frequently than once in each Fiscal Year, the District shall review the rates and charges for its services and shall promptly revise such rates and charges as necessary to comply with the foregoing requirement.

Additional Bonds

The District may issue from time to time additional Bonds on a parity as to the pledge of and lien on the Net Revenues securing the Parity Bonds and the Series 2022 Bonds (“Additional Bonds,” as such term is more particularly defined in Appendix C hereto), for the purposes of: (a) obtaining funds for the expansion and improvement of the System, including the recoupment of funds already so expended; (b) providing funds for the payment of any bond anticipation note or notes that may have been issued in anticipation of the issuance and sale of Bonds; (c) refunding bonds or other obligations issued to provide land or facilities which are or are to become a part of the System or which are or were payable in whole or in part from revenues of the System; (d) funding a Debt Service Reserve Fund or restoring the value of the cash and securities in a Debt Service Reserve Fund to an amount equal to the applicable Reserve Requirement (as defined in Appendix C) and reimbursing amounts owed to any providers of surety bonds, lines of credit, insurance policies or letters of credit; and (e) paying the costs of issuance of Bonds, including any credit enhancement incurred by the District therefor. The issuance of such Additional Bonds is subject to certain provisions set forth in the Bond Resolution, as described in Appendix C—“SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS—THE BOND RESOLUTION—Authorization of Bonds in a Series and Conditions to Issuance.”

Junior Lien Bonds and Special Facilities Bonds

The Bond Resolution provides that the District may at any time, and without limitation and free of all conditions, issue Junior Lien Bonds and Special Facilities Bonds (as defined in Appendix C) on the terms and conditions set forth therein. See Appendix C hereto under the caption “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS–THE BOND RESOLUTION–Additional Obligations.”

Lease Financing Agreements

The District shall have at all times the right to enter into capital leases or other lease financing agreements secured by a lien on the property, plant and equipment comprising a part of the System; provided, however, that the aggregate principal amount of such obligations outstanding at any time shall not exceed 10% of the property, plant and equipment of the System less accumulated depreciation as shown on the audited balance sheet of the District for the most recent Fiscal Year for which audited financial statements are available.

Establishment and Flow of Funds

The Bond Resolution provides for the creation of a general revenue fund (the “General Revenue Fund”), a debt service fund with respect to each Series of Bonds (each a “Debt Service Fund”), and a depreciation and contingent fund (the “Depreciation and Contingent Fund”). In addition, the Bond Resolution allows, but does not require, each series resolution to establish a debt service reserve fund with respect to that Series of Bonds (each a “Debt Service Reserve Fund”). No Reserve Requirement or Debt Service Reserve Fund has been established for the Series 2022 Bonds.

General Revenue Fund. The General Revenue Fund, which shall be kept under the complete control and custody of the District, shall be maintained so as to reflect accurately the Gross Revenues of the System and the Net Earnings. All Gross Revenues shall be deposited in the General Revenue Fund and the District shall establish, from an accounting standpoint, proper records of receipts and disbursements for the General Revenue Fund. Under the Enabling Act and the Bond Resolution, the District is not required to establish a separate fund from which Operation and Maintenance Expenses are paid and, in absence of such a fund, moneys on deposit in the General Revenue Fund shall be used for the payment of the Operation and Maintenance Expenses. For a more detailed description of the funding requirements and flow of funds with respect to the foregoing funds and accounts, see Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS–THE BOND RESOLUTION–Funds, Accounts and Other Payments.”

Moneys on deposit in the General Revenue Fund shall be used first to pay the Operation and Maintenance Expenses as such are budgeted in the Annual Budget and interest due on amounts advanced by a provider of a surety bond, line of credit, insurance policy or letter of credit obtained by the District in connection with the satisfaction of a Reserve Requirement for a particular Series of Bonds as described under the heading “–*Debt Service Reserve Funds*” herein. Dispositions from the General Revenue Fund shall be made in the following order of priority: (1) 15 days prior to each Bond Payment Date, to each Debt Service Fund to pay principal, redemption premium, if any, and interest on each Series of Bonds as described in “–*Debt Service Funds*” herein, (2) after valuing the amount of money and securities on deposit in any Debt Service Reserve Fund 15 days prior to each Bond Payment Date, to such Debt Service Reserve Fund the amount necessary to make the amount of money and securities then on deposit therein equal to the Reserve Requirement, (3) 15 days prior to each Bond Payment Date, to the Depreciation and Contingent Fund one-half of the sum which has been currently determined by the District to be the estimated requirements therefor for the then current Fiscal Year, (4) to the payment of Junior Lien Bonds, and (5) for the maintenance or improvement, or payment of debt payable from the revenues, of the System or for the payment of Special Facilities Bonds or for any other lawful purpose, as determined from time to time by the District.

Debt Service Funds. The Bond Resolution requires the establishment of a separate Debt Service Fund for each Series of Bonds. Each Debt Service Fund is intended to provide for the ratable payment of the principal of, redemption premium, if any, and interest on its respective Series of Bonds as the same shall become due. Withdrawals from such Debt Service Fund shall be made only by the Trustee who shall transmit to each Bondholder, at such times as may be appropriate, the sums required to pay the principal of, redemption premium, if any, and interest on the respective Series of Bonds.

The Bond Resolution provides that there will be deposited into each Debt Service Fund, on the fifteenth day prior to each Bond Payment Date the aggregate amount of interest and the aggregate amount of the principal of the respective Series of Bonds becoming due and payable (whether at stated maturity or by sinking fund installment) on such Bond Payment Date. All earnings from moneys in a particular Debt Service Fund shall become a part of such Debt Service Fund and shall be credited against payments which otherwise would be required to be made from the General Revenue Fund.

Debt Service Reserve Funds. A series resolution may (but is not required to) provide for the establishment of a Debt Service Reserve Fund for any Series of Bonds. Each Debt Service Reserve Fund so established shall be maintained in an amount equal to the respective Reserve Requirement, if any, for the applicable Series of Bonds. Funds in a particular Debt Service Reserve Fund will be available to secure only the payment of the Series of Bonds for which such fund has been established. See Appendix C under the caption “THE BOND RESOLUTION—Funds, Accounts and Other Payments.” No Debt Service Reserve Fund has been established for the Series 2022 Bonds.

Depreciation and Contingent Fund. The purpose of the Depreciation and Contingent Fund established under the Bond Resolution is to provide a reasonable reserve for depreciation of the System, for contingencies and for improvements, betterments, and extensions of the System. Money in this Fund shall be used solely: (a) for the purpose of restoring depreciated or obsolete items of the System; (b) for improvements, betterments, and extensions to the System, other than for those things which are reasonably necessary to maintain the System in good repair and working order; (c) to defray the cost of unforeseen contingencies and extraordinary repairs; (d) to prevent defaults of Bonds and Junior Lien Bonds; and (e) for optional redemption of Bonds or Junior Lien Bonds. Withdrawals from this fund shall be made by or on order of the District.

Amendments to Bond Resolution

As set forth in Appendix C, the 2022 Series Resolution provides for certain amendments to the Bond Resolution to be effective on the Effective Date (the “Bond Resolution Amendments”). By their purchase of the Series 2022 Bonds, the purchasers thereof shall be deemed to have consented to the Bond Resolution Amendments for all purposes of the Bond Resolution. See Appendix C—“SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS—Amendments to Become Effective on the Effective Date.”

Enforceability of Remedies

The remedies available to the owners of the Series 2022 Bonds upon an Event of Default under the Resolutions are in many respects dependent upon regulatory and judicial actions that are in many instances subject to discretion and delay. Under existing laws and judicial decisions, the remedies provided for in the Resolutions may not be readily available or may be limited. Legal opinions to be delivered concurrently with the delivery of the Series 2022 Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Series 2022 Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the enforcement of creditors’ rights generally and by equitable remedies and proceedings generally and to limitations on legal remedies against agencies of the State.

PLAN OF FINANCE

Sources and Uses of Funds

The proceeds of the Series 2022 Bonds are expected to be applied to defray a portion of the costs of the Project and to pay costs of issuance of the Series 2022 Bonds. The following table sets forth the estimated sources and uses of funds in connection with the sale of the Series 2022 Bonds:

Sources

Par Amount of the Series 2022 Bonds
[Net] Original Issue [Premium/Discount]
Total Sources

Uses

Deposit to 2022 Construction Fund
Costs of Issuance⁽¹⁾
Total Uses

⁽¹⁾Includes Underwriters' discount, Trustee fees, printing costs, counsel fees and expenses and accounting fees.

The Project

As part of its annual planning process, the District develops a capital improvement plan based on its projected five-year capital needs. The capital improvement plan is reviewed and revised each fiscal year. Pursuant to the current capital improvement plan (the "Capital Plan"), the District expects to spend approximately \$111,000,000 on capital assets and projects over the term of the Capital Plan, most of which are the improvements to the water system due to saltwater intrusion. See "THE DISTRICT AND THE SYSTEM—General Discussion of Planning and Service Areas; Other Area Providers" and "—Water and Wastewater Facilities" and "DISTRICT FINANCIAL INFORMATION—Capital Plan."

The 2022 Series Resolution provides that the Project comprises (a) the design, construction and installation of replacements and additions to the District's system of water pipelines (the "Pipeline Projects," as such term is more particularly defined herein), including distribution and raw water pipelines, in preparation for the addition of new water supply improvements, (b) repairing or replacing the District's existing Cretaceous Aquifer well ("Cretaceous Well #1"), (c) the pre-construction engineering for a new reverse osmosis plant (the "New R.O. Plant"), (d) the construction of an additional Cretaceous Aquifer well ("Cretaceous Well #2"), (e) the design, construction and equipping of a new high service water pump station, (f) cellular water meter replacements across the System, (g) the installation of an alternate disinfection system at the District's waste water treatment plant (the "WWTP"), and (h) other capital improvements to the System deemed by the District to be necessary and desirable (such improvements to the System being referred to herein collectively as the "Project"). The Project comprises the first of two phases of the implementation of the Capital Plan.

The estimated cost of the portions of the Project listed in (a) through (g) of the preceding paragraph is \$73,437,470. To date, the District has received construction bids for (a) portions of the Pipeline Projects, (b) repair of Cretaceous Well #1, (c) design and construction of Cretaceous Well #2, and (d) design and construction of the new high service water pump station, with a combined cost of \$37,443,479. The District expects to receive bids for the remaining components of the Project as construction progresses, and no assurance can be given that actual costs of construction of the remaining Project elements will not exceed current estimates. To the extent that the costs of the Project exceed the District's estimates, the District intends to fund those costs through proceeds of Additional Bonds anticipated to be issued in 2024, funded reserves and internally-generated funds. Any cost increases beyond the District's current estimates may impact the anticipated principal amount and timing of issuance of the Additional Bonds. See "DISTRICT FINANCIAL INFORMATION—Capital Plan" for more information relating to the Project and the Capital Plan.

THE DISTRICT AND THE SYSTEM

Creation of the District

The District is the product of the consolidation in 1996 of two public service districts (the “Consolidation”) previously established on the southern end of Hilton Head Island (the “Island”) in South Carolina: Forest Beach Public Service District (“Forest Beach”) and Sea Pines Public Service District (“Sea Pines”). The Island is located off the southeastern coast of South Carolina in Beaufort County (the “County”), approximately 100 miles southwest of Charleston and 30 miles northeast of Savannah, Georgia. The Island is approximately 15 miles long and five miles wide (at its widest point), making it the largest sea island between Long Island, New York and the Florida Keys. The entire Island is within the corporate limits of the Town of Hilton Head Island (the “Town”). The Town provides no water or wastewater treatment services. The South Carolina Constitution prohibits the provision of waterworks or sewer service by a municipality unless approved by a referendum. No such referendum has been held within the Town. Development of the Island began over 50 years ago and has continued at a steady pace. The areas within the District are fully developed, with build-out completed in 2020.

Ten water and sewer providers originally provided service to the Island. As development matured on the Island, and in response to more stringent wastewater treatment requirements and increasing demands on the Island’s primary water supply, the Upper Floridan Aquifer, a movement began to consolidate water and sewer systems on the Island into larger and more efficient entities. Over the last several years, the smaller utilities have been acquired by larger public utilities, resulting now in three public utilities: Hilton Head No. 1 Public Service District (“Hilton Head PSD”), Broad Creek Public Service District (“Broad Creek PSD”), and the District. The District serves the areas previously served by four of the original ten utilities: Forest Beach, Sea Pines, Plantation Utilities (Wexford) and Long Cove Utilities.

Forest Beach was created pursuant to the provisions of Act No. 481 of the Acts and Joint Resolutions of the General Assembly of the State of South Carolina for the year 1961, as amended (the “Forest Beach Act”). The Forest Beach Act authorized the Forest Beach Public Service District Commission (the “Forest Beach Commission”) to construct and operate a waterworks system for both domestic and commercial use and for fire protection purposes, to take such action as shall be required to prevent and control beach erosion and to construct and operate a sewage disposal system. The Forest Beach Act specifically authorized the Forest Beach Commission to construct a wastewater treatment facility with Sea Pines and to enter into agreements with the governing body of Sea Pines for the joint ownership, operation and use of sewage treatment and disposal facilities.

Sea Pines was created pursuant to the provisions of Act No. 1158 of the Acts and Joint Resolutions of the General Assembly of the State of South Carolina for the year 1964, as amended (the “Sea Pines Act”). The Sea Pines Act authorized the Sea Pines Public Service District Commission (the “Sea Pines Commission”) to construct and operate a waterworks system, a wastewater treatment with an effluent disposal system, bridle/bicycle paths, trails and other recreational facilities, a medical clinic facility, and to acquire and operate facilities for fire protection. Sea Pines acquired Long Cove Utilities and Plantation Utilities (Wexford) prior to the consolidation of Sea Pines and Forest Beach.

As of August 9, 1996, the Forest Beach Commission and the Sea Pines Commission entered into the Plan of Consolidation of Forest Beach Public Service District and Sea Pines Public Service District into South Island Public Service District (the “Consolidation Plan”). Upon petition from the two commissions, the Council, the governing body of the County, acting pursuant to the provisions of Article 3, Chapter 11, Title 6, Code of Laws of South Carolina 1976, as amended (the “Consolidation Law”), consolidated Forest Beach and Sea Pines and after a public hearing, Forest Beach and Sea Pines were consolidated as of October 28, 1996, the effective date of the consolidation ordinance.

Operation of the District

The District is operated, managed and governed by a nine-member Commission. Commissioners are appointed by the Governor of the State of South Carolina upon the recommendation of the local legislative delegation. The Commission determines the operating policies as well as reviews and approves all budgetary matters of the District. The current members of the Commission, their occupations, date of original appointment and date of expiration of term of office, are shown in the following table. There is currently one vacant position on the Commission.

<u>Name</u>	<u>Occupation</u>	<u>Date of Original Appointment</u>	<u>Date of Expiration of Term of Office</u>
Alan H. Jackson, Chairman	Landscape Architect	10/18/1994	07/01/2024
James A. Vaughn, Vice Chairman	Retired	11/20/1989	07/01/2022*
Tom DeMint	Commercial Real Estate	07/01/2008	07/01/2023
Gary G. Gaynor	Certified Public Accountant	07/01/2008	07/01/2023
Eleanor Lightsey	Real Estate Broker	07/01/2016	07/01/2025
Pamela M. Ovens	Boat Captain	10/23/1996	07/01/2025
John T. Phalen	Food and Beverage Manager	07/01/2009	07/01/2024
James N. Richardson, Jr.	Real Estate Developer	07/01/2006	07/01/2024

*Term renewal pending; serves until successor chosen and qualified.

The Chairman of the Commission is Alan H. Jackson. Mr. Jackson graduated from the University of Georgia School of Environmental Design with a Bachelor’s Degree in Landscape Architecture, Land Planning and Engineering and has worked as a landscape architect on Hilton Head Island for many years. Mr. Jackson has served the District as a commissioner for over 27 years, with the last three of those years served as the Chairman.

The General Manager of the District is Papu Tafao. Mr. Tafao has served as General Manager of the District since July 2021. Mr. Tafao was hired by the District in 1996 as a Wastewater Operator and served the District in the roles of Senior Operator from 1998 – 2002, Wastewater Treatment Plant Supervisor from 2002-2012, Environmental Compliance and Information Technology Manager from 2012-2017 and Operations Manager from 2020 – 2021. Mr. Tafao attended Clemson University School of Engineering as well the U.S. Navy Nuclear Power School taking courses in nuclear physics and mathematics.

The Operations Manager of the District is Eddie Nettles. Mr. Nettles has served as Operations Manager since June 2021. Mr. Nettles was hired by the District in 1987 as an Installation and Repair Technician and became a Reverse Osmosis operator in 2000. Mr. Nettles served the District in the role of Reverse Osmosis Plant Supervisor from 2011-2021.

The District’s Finance Director is Tamara Munson. Ms. Munson has been with the District since September 2019 and is a Certified Public Accountant in South Carolina. Prior to that Ms. Munson was the Chief Financial Officer for a local Georgia county government and a governmental financial statement auditor for a certified public accounting firm. Ms. Munson holds a Bachelor’s Degree in Accounting from Georgia Southwestern, a Bachelor’s Degree in Finance from Campbell University and a Master’s Degree in Leadership and Business Management from Georgia Southern.

General Discussion of Planning and Service Areas; Other Area Providers

The District services the southern third of the Island, primarily the areas known locally as Sea Pines Resort, North and South Forest Beach, Shipyard Plantation, Wexford Plantation and Long Cove Club. The District is bordered on the east and south by the Atlantic Ocean, on the southwest and west by the Calibogue Sound and on the north by the service area of Broad Creek PSD (the “District Service Area”). The District Service Area is approximately 13.8 square miles in area. Broad Creek PSD serves the middle of the Island, primarily Palmetto Dunes Resort and Shelter Cove. Hilton Head PSD serves the properties on the Island located north of Broad Creek PSD. The District provides water and wastewater services to approximately 32,000 customers. As of June 30, 2022, there were 9,040 metered accounts, of which 8,181 were residential/multi-family, 824 were commercial and 35 were hotel/motel. There are no industrial customers. A map showing the portions of the Island served by the District is on the following page.



When the Island was first developed, the Island's sole source of potable water was wells drilled into the Upper Floridan Aquifer. In March 1985, the Hilton Head Island Water Management Task Force (the "Task Force"), comprised of representatives of local, public and private utilities, State agencies and local governments, was formed to address the Island's long-term water supply needs. In its Water Management Plan for Hilton Head Island (the "Water Management Plan"), the Task Force evaluated alternative sources of water for a total replacement supply, and recommended developing two strategies: (a) drilling wells into the deeper Cretaceous Aquifer and using membrane technology (reverse osmosis), and (b) using surface water from the Savannah River with conventional treatment.

Based in part on studies showing that continued usage of the Upper Floridan Aquifer would eventually result in saltwater intrusion from the northeast and affect the current potable water supply from the Upper Floridan Aquifer, the South Carolina Water Resources Commission (the "SCWRC") in 1995 limited the Island's total water withdrawal from the Upper Floridan Aquifer to 9.5 MGD, beginning July 1, 1999. See "*Water and Wastewater Facilities–Water Facilities.*"

The Task Force retained Thomas & Hutton Engineering Co. ("Thomas & Hutton") in June 1992 to study the use of the Cretaceous Aquifer to supplement the withdrawals from the Upper Floridan Aquifer. Thomas & Hutton developed a cost model and concluded that a supplemental water source from the Cretaceous Aquifer water source using membrane treatment was the most feasible and cost-effective alternative. The Town commissioned a study to drill a test well into the Cretaceous Aquifer to obtain water quality and quantity information. The results indicated that using the Cretaceous Aquifer water along with reverse osmosis treatment would provide a cost effective, viable water supply.

Hilton Head PSD and Broad Creek PSD are supplementing withdrawals from the Upper Floridan Aquifer with water from the Savannah River, treated to potable water standards, and piped to the Island by the Beaufort-Jasper Water and Sewer Authority and a reverse osmosis water treatment plant which is supplied by three groundwater wells, which are drilled into the Middle Floridan Aquifer.

The District opted to pursue the use of the Cretaceous Aquifer and use membrane treatment to supplement the existing Floridan well supply. This decision resulted in the District being less reliant on outside sources while also utilizing an efficient and cost-effective alternative.

Because most of the natural bodies of water on the Island flow into marshes, which are ecologically sensitive, regulatory authorities have stringently regulated the quantity and quality of wastewater discharges on the Island. Rapid development placed a severe strain on the ability of the District to upgrade its infrastructure in a timely manner to process the increased wastewater flows and in October 1982 a moratorium was placed on the issuance of building permits on the Island by the State regulatory authority, the South Carolina Department of Health and Environmental Control. The moratorium was lifted in October 1983 when the then four designated management agencies (Hilton Head PSD, Hilton Head Plantation Utilities, Inc. (subsequently absorbed into Hilton Head PSD), Sea Pines and Broad Creek PSD) developed an island-wide plan (the "Wastewater Plan") for the collection, treatment and reuse of wastewater on the Island. The Wastewater Plan divided the Island into four treatment zones, with each management agency responsible for one of these zones.

The Wastewater Plan provided that all wastewater effluents be treated to tertiary standards that would produce a safe supply of water for irrigation on golf courses, landscaped areas, highway rights-of-way and residential lawns. Additionally, a wet weather disposal area was designed and constructed to discharge excess reclaimed water into a 104-acre natural wetland restoration area in Sea Pines. This wetland restoration area is the oldest natural wetland restoration project in the Southeast and has been a model for many other similar wetland projects. The State regulatory agencies approved, and the governing boards of all four designated management agencies adopted, the Wastewater Plan.

Water and Wastewater Facilities

Water Facilities. The District currently provides potable and irrigation water from 12 wells drilled into the Upper Floridan Aquifer, one well drilled into the Middle Floridan Aquifer and one deep well drilled into the Cretaceous Aquifer. The Cretaceous well water is pumped from the ground at a depth of 3,832 feet and is then treated by a 2.9 million gallon per day reverse osmosis plant (the "R.O. Plant"). The R.O. Plant began operations in October 2001 and was subsequently upgraded in 2004 and 2005. In addition to the wells, the District operates three elevated storage tanks (each has a 300,000-gallon capacity), one two-million gallon ground storage tank, two 150-million gallon aquifer storage

and recovery (“ASR”) facilities, approximately 850,000 linear feet of water lines ranging in size from one to 12 inches in diameter, and 2,505 shut off valves, 9,040 individual water meters and 1,102 fire hydrants. Water service is available to all parcels of property presently located within the boundaries of the District.

Under the District’s current operating permits, the District may withdraw 3,520.256 million gallons of potable water annually, of which 1,695.256 million gallons can be withdrawn from the Upper Floridan Aquifer, 1,825 million gallons can be withdrawn from the Cretaceous Aquifer and 526 million gallons can be withdrawn from the Middle Floridan Aquifer. These limitations are significantly higher than the District’s historical peak demands on the potable water system. See “–Usage” herein.

The District retained Carollo Engineers (in association with URS/BP Barber, ASR Systems, LLC and Groundwater Management Associates) to evaluate the long-term viability of the Upper Floridan Aquifer and to prepare a Water Supply Master Plan, which was completed in June 2011 (the “2011 Water Supply Master Plan”). The 2011 Water Supply Master Plan demonstrated that over the next 40 years, the District would be faced with the potential loss of the entire Upper Floridan Aquifer water supply due to the saltwater intrusion. The 2011 Water Supply Master Plan studied the anticipated rate of saltwater intrusion, loss of Upper Floridan Aquifer supply wells and subsequently identified various projects to be completed through 2050.

As a result of the conclusions reached in the 2011 Water Supply Master Plan, the District completed its two ASR facilities, each capable of storing up to 150 million gallons (“MG”) of water, to offset the anticipated loss of existing Upper Floridan Aquifer wells due to saltwater intrusion. In addition, the Middle Floridan well was constructed at the R.O. Plant to provide reliable backup capacity.

The 2011 Water Supply Master Plan was updated by Carollo Engineers in 2019 (the “2019 Water Plan Update”). The 2019 Water Plan Update analyzed the anticipated loss of Upper Floridan Aquifer water supply by the District over a 50-year planning horizon, and identified various capital projects to be undertaken by the District in the short term (prior to 2035) and during the remaining term of the planning horizon. The Capital Plan is intended to address the capital improvements recommended in the short-term as well as certain identified wastewater projects.

The projects described in the 2019 Water Plan Update are part of an overall 50-year strategy intended to replace this lost capacity and continue to provide necessary amounts of potable water that meet all State and Federal requirements for the long term. See “DISTRICT FINANCIAL INFORMATION–Capital Plan.”

Wastewater and Reclaimed Water Facilities. The District operates the 5.0 million gallons per day (“MGD”) WWTP, which provides tertiary treated reclaimed water using aerobic digestion and sludge dewatering. The WWTP was constructed in 1984 and has been continuously upgraded as needed. The current treatment capacity of the WWTP is anticipated to meet all future demands of the District. The District also operates and maintains 95 pump stations, approximately 605,616 linear feet of gravity sewer lines (ranging in size from four to 14 inches in diameter), and 131,571 linear feet of force main (ranging in size up to 12 inches in diameter).

The District operates and maintains a 5.0 MGD reclaimed water distribution system consisting of a 5.0 MG storage tank, a pumping system controlled by programmable logic controllers, a distribution system and 126,263 linear feet of reclaimed water lines. The reclaimed water system serves 6.5 golf courses, 100 commercial irrigation customers and a wet weather discharge system into a 104-acre natural wetland restoration area. When excess reclaimed water is not used for irrigation purposes, the reclaimed water flows by gravity out into the wetland area.

The District maintains two discharge permits for the WWTP. One permit allows for the distribution of the reclaimed water, which is used by the golf courses and other commercial irrigation customers. The other permit is a National Pollutant Discharge Elimination System permit, which regulates the reclaimed water that is discharged into the 104-acre wetland area.

Usage

The following table shows the System's total annual and daily average potable water flows, peak daily flows and peak monthly flows for the years ended December 31, 2017 through 2021 and for the eight-month period ended August 31, 2022. Such amounts reflect gallons pumped by the District and not actual gallons sold to customers.

<u>Year</u>	<u>Total Annual Flow (MG)</u>	<u>Daily Average Flow (MG)</u>	<u>Peak Daily Flow (MG)⁽¹⁾</u>	<u>Peak Monthly Flow (MG)</u>
2017	2,014.182	5.518	10.677	238.593
2018	2,135.738	5.851	10.756	215.990
2019	2,103.395	5.763	10.885	214.379
2020	2,286.640	6.265	9.078	203.082
2021	2,141.718	6.637	10.412	231.235
2022 ⁽²⁾	1,540.826	6.367	9.408	242.125

⁽¹⁾The rated capacity of all wells is 17.3 MG per day.

⁽²⁾Based on measured flows through August 31, 2022.

The following table shows the System's total annual and daily average flows of treated wastewater, and the average amounts reclaimed and discharged to wetlands, for the years ended December 31, 2017 through 2021 and for the eight-month period ended August 31, 2022.

<u>Year</u>	<u>Annual Reclaimed Water Flows (MG)</u>	<u>Daily Average Reclaimed Flow (MG)</u>	<u>Annual Wetland Flow (MG)</u>	<u>Daily Average Wetland Flow (MG)</u>	<u>Total Annual Reclaimed and Wetland Flow (MG)</u>	<u>Total Daily Average Flow (MG)</u>	<u>Peak Daily Flow (MG)⁽¹⁾</u>
2017	510.525	1.398	472.320	1.294	982.845	2.692	3.477
2018	526.501	1.442	494.449	1.355	1,020.950	2.797	3.410
2019	519.500	1.423	472.851	1.295	992.351	2.719	4.760
2020	524.956	1.438	491.581	1.347	1,016.537	2.785	4.088
2021	563.057	1.543	457.942	1.255	1,021.000	2.797	4.086
2022 ⁽²⁾	361.624	1.494	297.362	1.229	658.986	2.723	4.873

⁽¹⁾The rated capacity of all wastewater treatment facilities is 5.0 MG per day.

⁽²⁾Based on measured flows through August 31, 2022.

Ten Largest Customers

Set forth below is information relating to the ten largest water customers of the System for the fiscal year ended June 30, 2022.

Ten Largest Water Customers

<u>Customer</u>	<u>Business</u>	<u>Annual Billing</u>	<u>Percentage of Fiscal 2022 Water Revenues⁽¹⁾</u>
Marriott Grande Ocean	Hotel/Resort	\$ 122,847	1.47%
Evian	Villa Complex	95,808	1.15
Sonesta	Hotel/Resort	92,987	1.12
Seabrook	Retirement Complex	90,735	1.09
Seaside	Villa Complex	90,176	1.08
Treetops	Villa Complex	67,082	0.80
Outdoor Resorts	Campground	55,431	0.67
Marriott Vacation Club Monarch	Hotel/Resort	54,925	0.66
Coral Sands	Villa Complex	53,318	0.64
Waterside	Villa Complex	52,393	0.63
Total		<u>\$775,702</u>	<u>9.31%</u>

⁽¹⁾Total water revenues in Fiscal Year 2022 were \$8,327,597.

Set forth below is information relating to the ten largest sewer customers of the System for the fiscal year ended June 30, 2022.

Ten Largest Sewer Customers

<u>Customer</u>	<u>Business</u>	<u>Annual Billing</u>	<u>Percentage of Fiscal 2022 Sewer Revenues⁽¹⁾</u>
Marriott Grande Ocean	Hotel/Resort	\$105,644	1.87%
Seaside	Villa Complex	93,341	1.66
Sonesta	Hotel/Resort	85,804	1.52
Outdoor Resorts	Campground	73,481	1.30
Treetops	Villa Complex	66,969	1.19
Waterside	Villa Complex	57,645	1.02
Seabrook	Retirement Complex	57,086	1.01
Evian	Villa Complex	51,335	0.91
Marriott Vacation Club-Monarch	Hotel/Resort	48,957	0.87
Coral Sands	Villa Complex	48,165	0.85
Total		<u>\$688,427</u>	<u>12.20%</u>

⁽¹⁾Total sewer revenues in Fiscal Year 2022 were \$5,639,066.

All water and sewer customers pay minimum water and sewer charges. Thus usage does not, in many instances, directly correspond to the revenues derived from a particular customer.

Customers

The following table shows the number of service connections and net number of new taps, reflecting the amount of customers, within the District for the fiscal years shown.

<u>Fiscal Year Ended June 30,</u>	<u>Number of Service Connections⁽¹⁾</u>	<u>Net Number of New Taps</u>	<u>Number of Customers in Service Area⁽²⁾</u>
2018	8,989	22	29,948
2019	9,051	62	30,104
2020	9,064	30	30,179
2021	9,139	68	30,350
2022	9,161	47	30,507

⁽¹⁾The number of service connections generally includes both water and sewer connections. There are approximately 801 irrigation-only accounts that are included in the total.

⁽²⁾Because many of the District's accounts are master-metered, one tap can serve many condo units or offices. The South Carolina Department of Health and Environmental Control uses a population equivalent multiplier for Beaufort County to determine the total number of customers of the District. For fiscal years 2018-2022 the multiplier was 3.33.

Ratemaking

The District periodically increases rates based on the cost of service and projected earnings of the District. The rate structure includes base charge for all customers by type (*i.e.* residential, commercial) charged on a monthly basis and an additional volumetric charge based on actual water use. The volumetric charge is based on a rate charged per 1,000 gallons of water used. Rates are examined annually in connection with the District's annual budget preparation and any rate adjustments generally take effect on July 1. The District's rates are not subject to approval by any governmental or regulatory body.

On June 28, 2022, the Commissioners of the District adopted a revised rate schedule for the District effective on July 1, 2022 and as set forth below, which increased water and sewer base rates by approximately 12% and 8%, respectively. The revised rates were recommended in a rate study undertaken in 2021 (the "2021 Rate Study") by Raftelis Financial Consultants, Inc. (the "Rate Consultant"), which recommended rate increases to be effective for fiscal years 2022, 2023, 2024 and 2025. As set forth in "*2022 Rate Study*," the Rate Consultant, in an additional rate study undertaken in 2022 (the "2022 Rate Study"), projected additional rate increases for fiscal years 2026 and 2027.

Water Rates – Base Charges. The following table displays the monthly base charge for water service by customer type within the District.

<u>Customer Type</u>	<u>Monthly Base Charge</u>
Hotel/Motel Room ⁽¹⁾	\$ 8.78
Single and Multi-Family Residential	14.06
Commercial and Restaurant	42.17
Reclaimed Water and Irrigation	14.06

⁽¹⁾Hotel/motel accounts are billed based on number of rooms.

Volumetric Water Charges. In addition to the base charge above, the District charges an additional volumetric charge based on a water customer's usage of the System's resources. The following table displays the monthly volumetric charge by customer type within the District.

<u>Rate Type</u>	<u>Volumetric Charge (per 1,000 gallons)</u>
Residential and Irrigation Rates ⁽¹⁾	
Tier 1 Rate (0-6,000 gallons)	\$1.25
Tier 2 Rate (6,001-12,000 gallons)	2.84
Tier 3 Rate (12,001-20,000 gallons)	3.98
Tier 4 Rate (above 20,000 gallons)	5.47
Restaurant Rate	2.84
Reclaimed Water Rate	1.21

⁽¹⁾Residential rates apply to single-family, multi-family, hotel/motel and all non-restaurant commercial customer accounts.

Water Tap Fees. The District charges homeowners and businesses an initial tap fee in order for them to receive service from the District. Fees for taps larger than those shown on the table are negotiated, and special installation requests are assessed an extra charge. The current fees have been in effect since July 1, 2019.

3/4" Meter	\$1,150.00
1" Meter	1,250.00
1-1/2" Meter ⁽¹⁾	1,300.00
2" Meter ⁽¹⁾	1,700.00
Hotel, Motel, Multi-Family, Commercial ⁽²⁾	500.00/unit plus meter cost

⁽¹⁾Any meter 1-1/2" or larger must include a customer-provided backflow prevention device and may incur additional charges.

⁽²⁾Per additional unit. Each separate building, shop or unit served by a master meter is considered a "unit".
Note: Additional taps are \$400 or more per tap, plus the water tap fee.

Sewer Base Rates. The following table displays the monthly base charge for sewer service by customer type within the District.

<u>Customer Type</u>	<u>Monthly Base Charge</u>
Hotel/Motel Room ⁽¹⁾	\$ 9.64
Single and Multi-Family Residential	15.42
Commercial and Restaurant	46.27

⁽¹⁾Hotel/motel accounts are billed based on number of rooms.

Volumetric Sewer Charges. In addition to the base charge above, the District charges an additional volumetric charge based on a sewer customer’s usage of the System’s resources. The following table displays the monthly volumetric charge by customer type within the District.

<u>Rate Type</u>	<u>Volumetric Charge (per 1,000 gallons)</u>
Standard Sewer Rate ⁽¹⁾	\$2.08
Restaurant Sewer Rate	4.17

⁽¹⁾Standard sewer rates apply to single-family, multi-family, hotel/motel and all non-restaurant commercial customer accounts.

Sewer Tap Fees. The District charges homeowners and businesses tap fees in order to receive sewer service from the District. The existing tap fee structure, which has been in effect since July 1, 2005, is as follows:

Single-Family	\$1,000.00/unit
Multi-Family	700.00/unit
Hotel, Motel or Campground	700.00/unit or site
Restaurants and Bars (per 50 seats or less)	2,000.00
Office, Retail, Other Commercial Establishments	1,000.00/unit

Aid to Construction Fees. At present, the District requires developers to provide aid to construction fees in order to defray the cost of providing expanded service to the area to be developed. There are no aid to construction fees for the water system. The aid to construction fee for the sewer system is \$6.00/gallon of projected flow into the wastewater collection system.

2022 Rate Study. As discussed in more detail in the 2022 Utility Revenue Sufficiency Study attached as Appendix B, the Rate Consultant in the 2022 Rate Study confirmed the recommended percentage rate increases effective for fiscal years 2024 and 2025 from the 2021 Rate Study and projected additional water service rate increases to be effective for fiscal years 2026 and 2027. The rate increases would be intended to allow the District to realize revenues at forecasted levels, to meet debt service coverage requirements, fund the Capital Plan from District funding at forecasted levels, satisfy operation and maintenance requirements and maintain revenues at minimum targeted levels. The recommended and projected rate increases are illustrated in the table below.

<u>Fiscal Year</u>	<u>Water⁽¹⁾</u>	<u>Sewer⁽¹⁾</u>
2024 ⁽²⁾	12.00%	8.00%
2025 ⁽²⁾	12.00	8.00
2026 ⁽³⁾	5.00	0.00
2027 ⁽³⁾	5.00	0.00

⁽¹⁾Overall water and sewer revenues to increase by percentages shown. Reclaimed water rate revenues are projected to increase at the same rate as shown for water.

⁽²⁾The rate adjustments shown in fiscal years 2024 and 2025 are recommended effective July 1, 2023 and July 1, 2024, respectively. These proposed rate adjustments are consistent with the rates recommended for this period in the 2021 Rate Study.

⁽³⁾The water rate adjustments shown in fiscal years 2026 and 2027, which would be effective July 1, 2025 and 2026, respectively, are projected but not recommended by the Rate Consultant at this time since the timing and cost of future capital improvements and other factors may affect the projected rate adjustments.

All changes and modifications to the District’s rates, including those recommended or projected by the Rate Consultant as set forth above, are subject to approval at the discretion of the Commission after an advertised public hearing.

Comparative Charges

The District's current residential water and sewer rates and those of comparable providers in the area for a median consumption level of 6,000 gallons per month are as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Beaufort-Jasper Water and Sewer Authority	\$31.51	\$55.56	\$87.07
Broad Creek PSD	14.04	37.08	51.12
Hilton Head PSD	25.32	30.50	55.82
The District	21.56	27.90	49.46

Note: Broad Creek PSD and Hilton Head PSD levy *ad valorem* taxes to support operations. The rates shown above only reflect direct user rates, and exclude amounts levied by way of *ad valorem* taxes.

Charges and Collections

Water and sewer service bills are computed on a monthly basis for all users. Customers who do not pay their bills by the due date are charged a \$15.00 penalty and sent a second bill. If the second bill is not paid, the water service is disconnected. Service is restored only when the bill is paid in full and a \$75.00 reconnect fee is paid.

Environmental Matters

Operation of the System is subject to regulation by certain Federal, State and local authorities. Federal and State standards that currently regulate and control operation of the System may change from time to time as a result of continuing legislative, regulatory and judicial action. Therefore, there is no assurance that the facilities comprising the System currently in operation, under construction, about to be acquired or otherwise contemplated, will always remain subject to the regulations currently in effect, or will always be in compliance with future regulations.

An inability to comply with various governmental regulations and standards could result in reduced operating levels or the issuance of a consent order which, if not complied with, could cause the complete shutdown of those facilities not in compliance. Furthermore, compliance with such governmental regulations and standards may substantially increase capital and operating costs.

The District believes that it is currently in compliance with all regulatory requirements and that requirements and conditions of all permits required to operate the System have been satisfied.

Employees, Employee Relations and Employee Benefits

Employees and Employee Relations. As of June 30, 2022, the District had 32 full-time employees, and had four vacancies. The employees are not unionized and there is currently no movement to unionize known to the District. The Manager of the District is of the opinion that employee relations are very good.

Defined Benefit Pension Plan. The District is a member of the South Carolina Retirement System (the "Retirement System"). The Retirement System is administered and managed by the South Carolina Public Employee Benefit Authority ("PEBA"), which was created on July 1, 2012. PEBA has an 11-member Board of Directors appointed by the Governor of the State of South Carolina and the General Assembly leadership, which serves as co-trustee and co-fiduciary of the retirement systems and trust funds. By law, the State Fiscal Accountability Authority, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Retirement System and serves as co-trustee of the Retirement System. The Comprehensive Annual Financial Report of the Retirement System and other pension trust funds administered by PEBA is available on PEBA's Retirement Benefits' website at www.retirement.sc.gov (which is not intended to be an active hyperlink).

The contributory retirement plan provided through the Retirement System requires employees of the District to participate in and contribute to the Retirement System. An employee member of the Retirement System with an

effective date of membership prior to July 1, 2012 is a Class Two member and an employee member of the Retirement System on or after July 1, 2012 is a Class Three member. A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 credited years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirements that the total of a member's age and the member's creditable service equals at least 90 years, or at age 65 or older.

The employer contribution rate is established in accordance with Section 9-1-1085, Code of Laws of South Carolina 1976, as amended, which first came into existence by the Retirement System Funding and Administration Act of 2017 and last amended by Act 135 and a subsequent budget proviso. In accordance with that statutory schedule, as modified, the employer contribution rate in effect for the fiscal year 2022 (ended June 30, 2022) was 16.56% and is scheduled to increase by 1.00% of pay for each of the next two fiscal years until an ultimate employer contribution rate of 18.56% of pay is attained for fiscal year 2024. Additionally, the legislation specifies that the maximum amortization period is 26 years as of July 1, 2021 and the maximum amortization period will decrease by one year in each of the next six years until reaching a maximum 20-year funding period on July 1, 2027. The employer contribution rate determined by an actuarial valuation must be sufficient to maintain an amortization period that does not exceed 20 years each year thereafter. Finally, the PEBA Board is not permitted to decrease the employer and member contribution rates until the funded ratio of the plan is at least 85%. If new legislation is enacted between the valuation date and the date the contribution rate becomes effective, the PEBA Board may adjust the calculated rate before certifying them, in order to reflect this new legislation. Such adjustments are based on information supplied by the actuary.

Required employee contribution rates for fiscal year 2022 were 9.00% of earnable compensation for Class Two and Class Three members. The required employer contribution rates for fiscal year 2022 were 16.41% of earnable compensation for Class Two and Class Three members and .15% of earnable compensation to fund employer incidental death benefits. The District's contribution to the Retirement System in fiscal year 2022 for Class Two and Class Three members was 16.41% earnable compensation. As of June 30, 2022, the District reported a liability of \$4,344,894 representing its proportionate share of the Retirement System's net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation prepared on July 1, 2020 by Gabriel, Roeder, Smith & Company. The District's proportion of the net pension liability was based on a projection of the District's historical employer contributions and, at June 30, 2021, the District's share was 0.020077%.

See Note 3 to the audited financial statements attached as Appendix A hereto for additional information concerning the Retirement System.

Other Post-Employment Benefits Plan. The South Carolina Other Retirement Benefits Employer Program (the "OPEB Program") was established November 19, 2008, to provide to South Carolina governmental employers a mechanism for pre-funding other post-employer benefit ("OPEB") liabilities. The OPEB Program provides for payment of health and welfare benefits for qualified recipients, and covers retired employees and eligible dependents as determined by each participating local employer. The benefit provisions, such as the benefit provided and the policies for receiving such benefits are determined by each participating employer. All permanent employees of the District participate through benefits offered by the District (the "District's OPEB Plan") in the OPEB Program. Under the District's OPEB Plan, employees who retire with at least 28 years of service at retirement or have attained age 60 are eligible to remain on the District's health, dental and vision plans. Disabled retirees must meet the same requirements as non-disabled retirees. Retirees who are eligible to continue benefits will have all or a portion of the medical and dental premiums for base or standard coverages paid by the District based on service group. If a more expensive plan is elected, the retiree must contribute the difference between the premiums. The District contributes to the OPEB Program annually an actuarially determined amount for Program expenses based upon the District's level of participation. For the year ended June 30, 2022, the District's contribution was \$186,048. Pursuant to GASB Statement No. 74, the District is required to measure and report its Net OPEB liability annually. The District's Net OPEB liability as of June 30, 2022 of \$1,431,206 was measured as of December 31, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2020, with the actuary using standard techniques to roll forward the liability to the measurement date. See Note 3 to the audited financial statements attached as Appendix A hereto for more information with respect to the District's OPEB Plan and associated liability.

Insurance

The District maintains insurance relating to the District's assets through the State Fiscal Accountability Authority Office of South Carolina Insurance Reserve Fund and one private insurance company. The District maintains property and casualty insurance on the System as follows: 100% of the replacement value of the System assets (currently \$81,865,164). There is a \$500 deductible for each claim. General liability insurance is also maintained by the District through the South Carolina Insurance Reserve Fund, with a coverage limit of \$1,000,000 for each occurrence with a \$250 deductible. The District also maintains coverage for flood and earthquake, data processing, building and personal property, inland marine, and automobile comprehensive, collision and liability. The District also has a crime policy and fidelity bond through a private insurance company. The District participates in the State Accident Fund, a fully-insured plan, in providing workers' compensation coverage for all employees.

The Constitution and statutes of the State, as interpreted by the General Assembly in promulgating the South Carolina Tort Claims Act (Sections 15-78-10 *et seq.*, Code of Laws of South Carolina 1976, as amended, the "Tort Claims Act") provide, generally, that it is the public policy of the State that, while historically governmental entities have been exempt from tort liability, total immunity is not in the public interest, nor is unlimited liability. The Tort Claims Act waives sovereign immunity of governmental bodies for tort liability while also providing specific, enumerated exceptions in certain circumstances; generally, a claim of immunity from liability for damages for negligent or intentional tortuous actions must be raised by affirmative defense. The Tort Claims Act also imposes limits on the amount of damages which may be received from a governmental entity by one person, or for one accident, and provides that no punitive damages may be recovered. Immunity is provided for a number of discretionary governmental acts, and is not waived for certain other actions. In addition, the District may not be able to rely upon the defense of sovereign immunity and may be subject to liability in the event of suits alleging causes of action founded upon various Federal laws, such as suits filed pursuant to 42 U.S.C. § 1983, alleging deprivation of Federal constitutional or statutory rights of an individual and suits alleging anti-competitive practices and violations of Federal antitrust laws by the District in the exercise of its delegated powers. Moreover, the District may be subject to certain State claims under the South Carolina Whistleblower Act, Sections 8-27-10 through -50, Code of Laws of South Carolina 1976, as amended, and under any other acts in which an express waiver of sovereign immunity is granted.

Risk Management and Disaster and Cost Recovery Plans

The District has many programs in place to help mitigate risk. Some of these plans include a Process Safety Management Plan and a Risk Management Plan for the use and storage of chlorine and sulfur dioxide, Standard Operating Procedures which delineate operating procedures under many different emergency situations, a Disaster Plan and a Cost Recovery Plan. Specifically, the District has an emergency preparedness and recovery plan which delineates standard operating procedures for natural disasters, including hurricanes, and has developed a Hurricane Plan which governs operational responses to hurricane-related events. The District also maintains an ongoing safety awareness and training program in order to comply with State and Federal OSHA requirements.

The District's administrative building complies with International Building Codes 2006, which means it can withstand 130 mph winds, has impact resistant glass and doors, is built above the flood plain, and has structural systems in place to handle excessive wind loads. The District occupied the administrative building in October 2011.

The District had a vulnerability assessment performed and as part of the assessment, the District developed a comprehensive emergency response plan. Also, as part of the vulnerability assessment, the District developed a Disaster and Cost Recovery Plan. As part of the Disaster and Cost Recovery Plan, after a hurricane, a team from Jacobs Engineering Group Inc. (formerly CH2M HILL), an international engineering, procurement, construction, and operations company that has projects in more than 40 countries, will come to the District to assess damage and submit claims to Federal Emergency Management Agency and the South Carolina Insurance Reserve Fund. The Disaster and Cost Recovery Plan implemented a computerized maintenance management system to track labor, equipment and contractor costs during preparation for and response to a disaster, a geographic information system to provide mapping of all linear assets, and an electronic document management system, includes an asset valuation and an update of replacement cost every five years, and requires annual personnel training for disaster cost recovery services. The Disaster and Cost Recovery Plan also identifies the personnel responsible for, and tasks of the cost recovery team related to, damage assessment and cost estimates. These plans were implemented prior to the evacuations for Hurricane Matthew and Hurricane Irma and allowed the District's staff to restore water and sewer services to their customers rapidly. The

District has agreements in place to retain Jacobs Engineering to perform damage assessments to the infrastructure, coordinate with insurance adjusters and submit claims to the Insurance Reserve Fund and the Federal Emergency Management Agency. The plans worked very well and allowed the District to recover quickly from the storms.

The District has a Supervisory Control and Data Acquisition System in place, so that most of its automated operations can be accessed remotely from any laptop.

Consolidation of Special Purpose Districts

Pursuant to Section 6-11-410 *et seq.*, Code of Laws of South Carolina 1976, as amended, the governing bodies of the counties of the State are authorized to enlarge, diminish and consolidate the boundaries of the special purpose districts located within their respective boundaries and to consolidate two or more special purpose districts located within their respective boundaries. Pursuant to such authorization and as described hereinabove, the Beaufort County Council in 1996 consolidated Sea Pines and Forest Beach at the request of the governing bodies of the two special purpose districts. Governing bodies of counties may also take such action without the consent of the special purpose districts so affected.

Several years ago, discussions were held both before the town council of the Town and before the Beaufort County Council regarding further consolidation of the remaining three special purpose districts on the Island. Presently, no action is planned. Should the District become consolidated with one or more of the other special purpose districts located on the Island, its obligations would become obligations of the successor district pursuant to Section 6-11-620, Code of Laws of South Carolina 1976, as amended, unless the governing bodies of the consolidating districts petitioned the Beaufort County Council that for the purposes of discharging any existing indebtedness, such existing districts continue as viable political entities under the government of the commission of the consolidated district and only the revenues of such existing district would secure such district's revenue bonds.

Legislation Affecting the District

Legislation was adopted in the 1998 Session of the South Carolina General Assembly which permits the governing body of a special purpose district which currently has an appointed governing body (such as the District) to be elected, upon petition of 15% of the qualified electors of the special purpose district. This amendment further provides for a procedure of staggered elections for members. Once a majority of members have been elected, the governing body then may call for a referendum on the question of imposing ad valorem taxes for operation and maintenance if the special purpose district is authorized to impose such taxes.

State law provides for a procedure for dissolving special purpose districts. This procedure requires that prior to circulation of a petition for dissolution (which must be signed by 40% of the qualified electors in the district), a successor service provider must agree to provide all services and also be responsible to fully pay or defease all outstanding bonds of the district. If a petition obtains the requisite number of signatures, a referendum then must be held at which two-thirds of the qualified electors voting must approve the dissolution.

DISTRICT FINANCIAL INFORMATION

Five-Year Operating History

Financial Information with Respect to the District – Fiscal Years 2018 through 2022. A summary of revenue and expenses of the District for the fiscal years ended June 30, 2018 through 2022 is provided in the following table. This summary for fiscal years 2018 through 2022 has been derived from the audited financial statements of the District, copies of which are available from the District upon request. The audited financial statements for the year ended June 30, 2022 were audited by Nichols, Cauley & Associates, LLC and attached hereto as Appendix A to this Official Statement. Although the information for fiscal years 2018 through 2022 was derived from audited financial statements, no representation is made that the information is comparable from year to year, or that the information as shown by itself presents fairly the operations of the District for the periods shown.

	Fiscal Year Ended June 30,				
	2018	2019	2020	2021	2022
Operating revenues					
Water charges	\$ 6,238,065	\$ 6,277,647	\$ 6,445,072	\$ 6,794,317	\$ 8,327,597
Sewer charges	4,707,917	4,726,869	4,835,586	5,070,393	5,639,066
Reclaimed water sales	373,142	383,747	395,158	445,503	461,310
Tap-in fee, reconnection and impact charges	250,800	98,500	131,482	208,939	152,962
Other	234,516	138,743	95,589	269,925	176,641
Total operating revenues	11,804,440	11,625,506	11,902,887	12,789,077	14,757,576
Operating expenses					
Water and sewer system expenses	3,096,393	3,341,015	3,494,287	3,617,215	3,421,882
Treatment plant operations	1,847,352	1,607,668	1,611,489	1,689,708	1,625,717
Administrative expenses	2,177,998	2,226,797	2,569,305	2,562,246	2,701,822
Depreciation	3,302,338	3,294,679	3,378,521	3,467,576	4,079,748
Total operating expenses	10,424,081	10,470,159	11,053,602	11,336,745	11,829,169
Operating income	1,380,359	1,155,347	849,285	1,452,332	2,928,407
Non-operating revenues (expenses)					
Intergovernmental	-	-	29,954	-	-
Tower lease revenue	443,156	464,713	442,567	465,180	447,679
Interest income	138,757	297,049	214,011	18,541	60,136
Bond premium	86,413	118,877	163,093	138,738	126,862
Interest expense	(401,439)	(435,775)	(409,087)	(384,800)	(360,187)
Amortization of deferred loss	(34,500)	(59,229)	(55,720)	(55,720)	(55,720)
Bond issuance costs	(228,990)	-	-	-	-
Gain on disposal of property and equipment	-	-	-	19,947	-
Net income before contributions	1,383,756	1,540,982	1,234,103	1,654,218	3,147,177
Capital contributions	193,770	7,188	74,986	132,118	78,296
Change in net position	1,577,526	1,548,170	1,309,089	1,786,336	3,225,473
Net position as restated, beginning of the year	54,695,294	56,272,820	57,820,990	59,130,079	60,993,172 ⁽¹⁾
Net position, end of year	\$56,272,820	\$57,820,990	\$59,130,079	\$60,916,415	\$64,218,645

⁽¹⁾The District recognized an additional lease liability and related deferred inflows of \$76,757 in connection with its adoption of GASB Statement No. 87, and restated its beginning position for this fiscal year by a corresponding amount.

Management’s Discussion and Analysis

As of June 30, 2022, the District had \$13.2 million in reserves in cash and cash equivalents available for operations. The Commission is committed to having operating reserves of a minimum of 180 days of operating revenues which, based upon fiscal year 2022 results of operations, is an amount equal to approximately \$7.4 million. In the event of a natural disaster, such reserves would permit the District to operate for a minimum of six months prior to other funding becoming available.

Operating Income. As indicated in the tabular information above for the five most recently completed fiscal years, the Operating Income of the District has increased over the last two years, primarily due to rate increases implemented in fiscal year 2022 in preparation for significant capital improvement projects. The District also continues efforts to improve efficiencies and closely monitor expenses.

Non-Operating Revenues. Tower lease revenues, which are not taken into account in determining Gross Revenues, have trended higher due to built-in escalators in the lease agreements. Interest income from deposits decreased significantly in 2021 and 2022 primarily due to the market rates and the use of cash reserves for capital projects; however, the implementation of GASB 87 in fiscal year 2022 resulted in an overall increase in interest earnings.

Total Net Position. The District’s total Net Position has increased between \$1.3 and \$3.2 million each of the last five fiscal years. With a stable customer base, appropriate rates, conservative budgeting and strong management, the District has been able to gradually increase its total Net Position and remains in a strong financial position.

The District maintains formal financial policies, including cash on hand maintenance levels, preparation of quarterly financial statements and documentation of financial trends, annual capital improvement plan updates, and policies governing debt, management, investments, internal controls, risk management and procurement.

Historical Debt Service Coverage Ratios

The following table shows the historical net revenues and expenditures for the District for the fiscal years ended June 30, 2018 through 2022. For purposes of this summary, Gross Revenues, Operation and Maintenance Expenses and Net Earnings have been determined in accordance with the provisions of the Bond Resolution. Debt service is based upon actual debt service on the Parity Bonds and other applicable revenue debt.

	Fiscal Year Ended June 30,				
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Gross Revenues	\$11,943,198	\$11,922,555	\$12,146,852	\$12,807,618	\$14,817,712
Operation and Maintenance Expense ⁽¹⁾	7,121,740	7,175,480	7,675,081	7,869,169	7,749,421
Net Earnings	4,821,458	4,747,075	4,471,771	4,938,449	7,068,291
Debt Service	1,184,829	1,162,650	1,160,150	1,130,900	1,131,500
Debt Service Coverage	4.07x	4.08x	3.85x	4.37x	6.25x

⁽¹⁾Excludes depreciation and other expense items which are not included in Operation and Maintenance Expense under the Bond Resolution.

Projected Debt Service Coverage

The following table, which projects coverage on Parity Bonds and the Series 2022 Bonds on a fiscal year basis, is derived from the “2022 Utility Revenue Sufficiency Study” delivered to the District by the Rate Consultant, and attached to this Official Statement as Appendix B. For purposes of this summary, Gross Revenues, Operation and Maintenance Expenses and Net Earnings have been determined in accordance with the provisions of the Bond Resolution. Reference is made to the 2022 Utility Revenue Sufficiency Study for a full and complete statement of its terms, including, but not limited to, the assumptions and basis of the projections therein.

Description	2023	2024 ⁽¹⁾	2025 ⁽¹⁾	2026 ⁽²⁾	2027 ⁽²⁾
Gross Revenues	\$15,853,350	\$17,403,100	\$19,070,200	\$19,564,900	\$20,088,700
Operation and Maintenance Expenses ⁽³⁾	9,033,700	9,578,300	9,996,500	10,331,600	11,009,900
Net Earnings	6,400,700	7,460,800	8,819,700	9,089,300	9,044,800
Debt Service ⁽⁴⁾	2,730,663	4,684,450	5,773,188	6,399,750	6,785,500
Debt Service Coverage	2.34	1.59	1.53	1.42	1.33

⁽¹⁾Gives effect to, and assumes timely implementation of, recommended water and sewer rate increases in fiscal years 2024 and 2025.

⁽²⁾Gives effect to, and assumes timely implementation of, projected water rate increases in fiscal years 2026 and 2027.

⁽³⁾Excludes depreciation and other expense items which are not included in Operation and Maintenance Expense under the Bond Resolution.

⁽⁴⁾Includes debt service on the Series 2022 Bonds and a proposed issuance of \$23,500,000 in Additional Bonds in 2024 at assumed average rates of 4.70% per annum.

The projections in the above table are forward-looking in nature, and there can be no assurance that the projections will be realized or that actual results will not differ materially from those projected, primarily because certain components of revenues and expenses are dependent on future results of operations and are beyond the control of the District. The 2022 Utility Revenue Sufficiency Study contains, among other things, a discussion of the assumptions underlying the projections above, as well as projections based upon several alternative scenarios reflecting lower than expected System revenues. The 2022 Utility Revenue Sufficiency Study should be read in full prior to making an investment decision. See “MISCELLANEOUS–Rate Consultant” and Appendix B–“2022 UTILITY REVENUE SUFFICIENCY STUDY.”

Debt Service Requirements

The following table sets forth, on a fiscal year basis, the debt service on the Parity Bonds and the Series 2022 Bonds.

<u>Ending June 30,</u>	<u>Outstanding Parity Bonds</u>	<u>Series 2022 Bonds</u>			<u>Total Debt Service</u>
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2023	\$ 1,131,250				
2024	1,130,200				
2025	1,133,300				
2026	1,129,500				
2027	1,130,750				
2028	1,129,750				
2029	1,131,150				
2030	1,131,000				
2031	1,129,950				
2032	1,133,000				
2033	-				
2034	-				
2035	-				
2036	-				
2037	-				
2038	-				
2039	-				
2040	-				
2041	-				
2042	-				
2043	-				
2044	-				
2045	-				
2046	-				
2047	-				
2048	-				
2049	-				
2050	-				
2051	-				
2052	-				
Total	\$11,309,850				

Note: Totals may not add due to rounding.

Capital Plan

Capital Plan Projects. The Capital Plan includes both projects recommended in the 2019 Water Plan Update and several wastewater projects. Except for components of the Capital Plan for which construction bids have been received, all indicated costs are estimated.

The 2019 Water Plan Update was undertaken to revisit the 2011 Water Supply Master Plan and to consider an additional water source to replace Upper Floridan Aquifer wells and the necessary distribution piping upgrades related to the source. The 2019 Water Plan Update considered the cost and practicality of various alternate sources and evaluated

their operational aspects. Based upon the evaluation, the District identified the Cretaceous Aquifer as the additional water source, and determined to undertake the construction of a new Cretaceous Aquifer well and the New R.O. Plant, a new high-service pump station at the existing R.O. Plant, and several pipeline upgrades through and around the Sea Pines area. The 2019 Water Plan Update divided the recommended projects into those to be undertaken in the short term (prior to 2035) and in the later years of the planning horizon. The short-term projects in the 2019 Water Plan Update, and the wastewater projects which comprise the Capital Plan, are summarized below.

- Pipeline Projects. The Pipeline Projects include (a) approximately 34,345 feet of new 12-inch and 16-inch drinking water lines, 16,200 feet of new 10-inch reverse osmosis concentrate lines, and 12,850 feet of new 16-inch raw water lines. The estimated costs of the Pipeline Projects, including engineering and right-of-way acquisition costs, is \$38,954,200.
- Water Supply Projects. This project includes the site preparation work and drilling of a new Upper Floridan Aquifer well and a new Cretaceous Well # 2. The Upper Floridan Aquifer well will be approximately 250 feet deep and the Cretaceous Well #2 will be approximately 3,800 feet deep. This project includes the drilling and development of both wells. This project also includes a new storage tank and irrigation pump station for the Wexford Community golf course. The estimated cost of this project, including engineering costs, is \$10,272,400.
- High Service Pump Station. The District's existing high service pump station is more than 30 years old and in need of replacement. The new pump station will pump finished water (blended water from the reverse osmosis plants and Upper Floridan Aquifer water) into the District's distribution system. This project includes a new building, pumping system and demolition of the existing system. The estimated cost of the new high service pump station is \$4,247,400.
- New R.O. Plant. The New R.O. Plant will treat water drawn from Cretaceous Well #2. This project includes the reverse osmosis trains, controls, pumps, yard piping, auxiliary buildings (disinfection, electrical, storage, chemical etc.), Upper Floridan Aquifer well controls building, emergency generator system and cooling towers. The estimated cost of \$4,203,700 represents a portion of the engineering costs only to be funded with proceeds of the Series 2022 Bonds. The remaining project costs, totaling \$30,447,300 are anticipated to be funded through a combination of funded reserves, internally-generated funds and the proceeds of a Series of Additional Bonds anticipated to be issued in 2024. Total project anticipated costs are \$34,651,000.
- Repair/Replace Cretaceous Well No. 1. Around September of 2021, Cretaceous Well #1 gravel material was showing in the well's discharge. It was determined a bridge-type packer was necessary to isolate the area where the gravel was coming into the casing screen. This project includes the engineering, testing, camera work and labor involved in the packer repair. The estimated cost of the Cretaceous Well # 1 project is \$5,177,200.
- Cellular Meter Replacement Project. Upgrade of existing radio meter system to cellular. The District reads approximately 9,000 meters per month. Currently the monthly readings results in an average of 250 service calls per month. By upgrading to cellular, the District should be able to handle most of the service calls remotely, saving on man-hours. The estimated cost of the cellular meter replacement project is \$4,152,100.
- Alternate Disinfection. The Wastewater Treatment Plant uses chlorine gas for disinfection and sulfur dioxide for de-chlorination. The District is looking to replace the use of chlorine gas by going to an alternate method (bleach system or peracetic acid). This will remove the chlorine safety requirements under the Risk Management Plan and eliminate or reduce the size of the de-chlorination system. The estimated cost of the alternate disinfection project is \$4,182,000.
- Abandonment of Upper Floridan Aquifer Wells. Expenses of demolition of abandoned Upper Floridan Aquifer well structures. The estimated cost of demolition is \$358,800.
- Lift Station Upgrades. Equipment and piping upgrade of two existing Sea Pines lift stations, including electrical controls. The estimated cost of the lift station upgrades is \$672,600.

- Sewage Forcemain from Sea Pines Pump Station #3 to Sea Pines Pump Station #2. Piping and manhole upgrades along the force main from Sea Pines Lift Station #3 to Sea Pines Lift Station #2. The estimated cost of the sewage forcemain to be paid from the Series 2022 Bonds is \$1,179,600, with the remaining \$1,441,800 being paid from funded reserves, for a total project cost of \$2,621,400.
- Other projects and capital asset purchases included in the Capital Plan total \$5,672,300, with anticipated funding coming from funded reserves and internally-generated funds. This total includes multiple line replacements, manhole rehabilitation project, rerouting of a forcemain, R.O. Plant membrane replacement, and annual vehicle and equipment needs.

For funding purposes, the Capital Plan has been divided into two phases; the first to be financed with the proceeds of the Series 2022 Bonds and available funds of the District, and the second phase to be funded with a Series of Additional Bonds to be issued in 2024 and other available funds of the District.

Longer-Term Projects. The 2019 Water Plan Update also identified water supply needs over the medium (through 2045) and longer (through 2060) terms through which the District’s entire Upper Floridan Aquifer water supply may be replaced with water drawn from the Cretaceous Aquifer or an alternate source. The time by which these additional supply projects will be necessary, if at all, will be dependent on the rate at which the Floridan Aquifer wells fail, and whether the District continues the supply replacement strategy through the term of the 2019 Water Plan Update. The medium-term projects would include the expansion of the New R.O. Plant to a 4.4 MGD capacity, construction of a third Cretaceous Aquifer well, and the construction of two new 150 MG ASR wells. The longer-term projects would include an additional two ASR wells.

Future Debt

Depending on the rate of saltwater intrusion into the Upper Floridan Aquifer, which is continuously monitored by the District and its consultants, certain capital expenditures (such as those anticipated in connection with the Capital Plan) may need to be accelerated. It is anticipated that Additional Bonds will be issued to fund a portion of the balance of the Capital Plan in 2024.

Recent Capital Improvements

Over the past five years the following projects were completed under the capital improvements program and funded from District revenues:

- In August 2017, the tertiary filters at the WWTP were supplemented with new media, backwash controls, blowers and controls building at a total cost of \$1.74 million.
- In July 2019, the District completed an upgrade of the Aeration System with four new blowers and blower controls. As part of this project an additional solids conveyor was installed for the existing centrifuge dewatering system at a total cost of \$1.4 million.
- In January 2021, the District completed the construction of a Granular Activated Carbon system at the Forest Beach Beachwalk Upper Floridan Well at a total cost of \$1.2 million.
- In June 2021, the District completed the construction of an additional centrifuge dewatering system to serve as a back-up to the existing dewatering system. It included a new centrifuge, conveyor, and electrical control centers at a total cost of \$6.5 million.

Operating Budget

The District operates on a July 1 to June 30 fiscal year. Budgetary preparations generally begin at the end of the third quarter of each fiscal year. After the Commission reviews the third quarter expense summary, the District’s management evaluates the current operating costs, manpower needs, capital needs and anticipated additional expenses for the ensuing fiscal year. The District’s management prepares and submits a preliminary budget to the Commission for

its review, discussion, revision (as necessary) and approval. Set forth below are the operating budgets of the District for the fiscal years ending June 30, 2022 and June 30, 2023.

	2022			2023
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	
Operating Revenues				
Water charges	\$ 6,999,600	\$ 8,327,597	19.0%	\$ 7,850,000
Sewer charges	5,177,500	5,639,066	8.9	5,600,000
Tap fees, water	40,000	94,412	136.0	50,000
Tap fees, sewer	20,000	39,000	95.0	40,000
Reclaimed water sales	400,000	461,310	15.3	400,000
Penalties & other fees	52,000	138,215	165.8	90,000
Miscellaneous	25,000	57,976	131.9	35,000
Total Operating Revenues	<u>12,714,100</u>	<u>14,757,576</u>	<u>16.1</u>	<u>14,065,000</u>
Operating Expenses				
Water operations	2,476,471	2,164,601	-12.6	2,676,129
Sewer operations	1,316,023	1,257,281	-4.5	1,572,535
Treatment plant operations	1,544,559	1,625,717	5.3	1,732,634
Administrative expenses	2,876,624	2,701,822	-6.1	3,052,310
Depreciation	3,600,000	4,079,748	13.3	4,500,000
Total Operating Expenses	<u>11,813,677</u>	<u>11,829,169</u>	<u>0.1</u>	<u>13,533,608</u>
Operating Income (Loss)	<u>900,423</u>	<u>2,928,407</u>	<u>225.2</u>	<u>531,392</u>
Non-Operating Revenues (Expenses)				
Tower lease revenues	473,950	447,679	-5.5	473,950
Interest income	15,000	60,136	300.9	12,000
Bond premium amortization	126,862	126,862	0.0	114,599
Interest expense - bonds	(631,500)	(360,187)	-43.0	(1,064,550)
Amortization of deferred loss on bonds	(55,720)	(55,720)	0.0	(18,574)
Net Non-Operating Revenues (Expenses)	<u>(71,408)</u>	<u>218,770</u>	<u>-406.4</u>	<u>(482,575)</u>
Contributed Capital	-	78,296		40,000
Change in Net Position	<u>\$ 829,015</u>	<u>\$ 3,225,473</u>		<u>\$ 88,817</u>

INVESTMENT CONSIDERATIONS

The following discussion is intended only as a summary of certain risk factors relating to an investment in the Series 2022 Bonds. This summary is not intended to be an exclusive summary of factors to be considered in connection with making an investment in the Series 2022 Bonds. In order for potential investors to identify risk factors and make an informed investment decision, they should thoroughly review this entire Official Statement and the Appendices hereto and confer with their own tax and financial advisors when considering a purchase of the Series 2022 Bonds.

COVID-19 Pandemic

The coronavirus disease 2019 (“COVID-19”) pandemic that has affected the United States and the world since early 2020 led to efforts to quarantine and physically separate individuals in order to reduce the spread of the SARS-CoV-2 virus. The state of emergency, stay at home and shelter in place declarations and other public health orders initially issued by federal, state and local governments to contain the COVID-19 pandemic in the United States caused economic activity to contract sharply and abruptly across all regions of the country during the second quarter of 2020, and resulted in unprecedented increases in unemployment claims, impairment of the supply chain, and dramatic decreases in business activity. Economic, employment and business conditions have improved since the peak of the pandemic, and the availability of vaccines and the federal recovery and legislation have supported the recovery of the U.S. economy. Nonetheless, the emergence of new variants of the SARS-CoV-2 virus and the effectiveness of current vaccines to prevent the spread of these new variants and the possibility of the emergence of new contagious pathogens present continuing risks for the U.S. economy which cannot be predicted at this time.

The District did not experience a material adverse impact on its business operations or financial position as a result of the COVID-19 pandemic, and as of the date of this Official Statement, it is not expected that the effects of the COVID-19 pandemic will materially adversely affect the ability of the District to perform its obligations. However, no assurance can be given that future pandemic or epidemic conditions will not materially adversely affect the ability of the District’s vendors, contractors, service providers, suppliers or counterparties to perform their obligations to the District or will not impair the District’s ability to perform its obligations or to timely complete the Capital Plan.

Hurricanes and Climate Change

Given the coastal location of the District, services provided by the District are subject to disruption due to the occurrence of a hurricane or other weather phenomena. The District, in accordance with the requirements of the Bond Resolution, is insured against any physical loss or damage in an amount that it believes to be sufficient, although such insurance would not cover any loss of revenue due to interruption of service to customers or diminution in customer use of services. To prepare for emergencies like hurricanes, the District has implemented and periodically tests a Hurricane Plan. The purpose of these procedures is to set forth the District’s objectives and strategies for managing the protection and restoration of its water and wastewater systems in the event of an emergency or disaster. As hurricane season approaches, all employees are consistently trained, and the District is placed on a high level of preparedness. The District is also a member of the South Carolina Water/Wastewater Agency Response Network (SCWARN), which is a network of utilities across South Carolina. Together they leverage resources during recovery efforts and participate in region-wide hurricane preparedness exercises.

The District’s facilities have previously suffered damage from hurricanes and tropical storms; however, except for short-term service interruptions, such storms have not materially affected the operations or revenues of the District. The District’s Hurricane Plan, among other things, establishes protective measures to be effected with respect to the District’s facilities in case of a hurricane strike. The District also maintains a Disaster and Cost Recovery Plan which is intended to assist in the management of hurricane preparedness and recovery efforts. To the extent that the District’s facilities are damaged, or the District’s operations are interrupted for any material period due to hurricane or other weather-related catastrophe, such damage or interruption could materially adversely affect the revenues of the District.

In addition, a considerable part of the District Service Area is in low lying areas, which may be susceptible to tidal flooding if and to the extent the sea level rises. The District takes an adaptive management approach to climate change, similar to many federal agencies, in its project planning process. With respect to the District’s operations and service area, to date, the high tidal events, other than those attributable to hurricanes and tropical storms, have not notably impaired operations or transportation corridors or caused material property damage. The District expects to be

able to continue to manage its operations and construction activities to minimize the future effects of these occurrences, believing that it has the necessary capacity to adapt to these occurrences. However, no assurance can be given that the effects of sea level rise will not adversely affect the revenues of the District.

Hazard Insurance

The District maintains insurance relating to the System through the South Carolina Insurance Reserve Fund. The District maintains property and casualty insurance on the System as follows: 100% of the replacement value of the above ground water and wastewater assets (approximately \$81,865,164). Water and sewer system structures made of concrete are not insured because these structures are designed and constructed to withstand natural and manmade disasters. On an annual basis, the District reviews the replacement values, which are based on actual updated costs of the assets. The District also maintains coverage for floods and earthquakes, as well as heavy equipment, trailers, pumps and generators, mobile and communication equipment, electronic data and media, boilers and machinery, and automobile liability. There can be no assurance that the proceeds of insurance or other sources of funds available to the District for purposes of replacing, repairing, rebuilding, or restoring all or any portion of the District's facilities that may be damaged or destroyed will be sufficient for such replacement, repair, rebuilding or restoration.

Saltwater Intrusion in Upper Floridan Aquifer

The Capital Plan is being undertaken primarily to address the ability of the District to continue to provide potable drinking water in adequate volumes to its water customers in light of the current and expected saltwater intrusion affecting the Upper Floridan Aquifer. The District currently operates 12 wells which draw from the Upper Floridan Aquifer and has abandoned (due to saltwater intrusion) two other wells, and anticipates that another two to three wells are subject to failure from saltwater intrusion within the next five to ten years. While the observed rate of saltwater intrusion into the Upper Floridan Aquifer has been reasonably consistent with the findings of the various engineering studies which have been undertaken since the completion by the Task Force of the Water Management Plan, there can be no assurance that, due to changing environmental conditions or otherwise, the rate of saltwater intrusion will not accelerate. It is anticipated that the Capital Plan, together with the eventual expansion of the New R.O. Plant to its full design capacity, will address the risks to the District of Upper Floridan Aquifer saltwater intrusion for a period of 50 years. However, delays in the completion of the Capital Plan or acceleration in the rate of saltwater intrusion may materially adversely affect the District's operations and financial conditions and may require additional capital expenditures in excess of what is currently anticipated.

Cost of Capital Plan

The estimated costs of, and the projected schedule for, the Project and the Capital Plan are subject to a number of uncertainties. The ability of the District to complete the Project and the District's other Capital Plan projects may be adversely affected by various factors including: (1) estimating errors, (2) design and engineering errors, (3) changes to the scope of the projects, (4) delays in contract awards, (5) material and/or labor shortages, (6) unforeseen site conditions, (7) adverse weather conditions, (8) contractor defaults, (9) labor disputes, (10) unanticipated levels of inflation, (11) environmental issues, and (12) equipment and material delivery delays contributable to supply chain disruptions. No assurance can be made that the existing projects will not cost more than the current budget for these projects. Any schedule delays or cost increases could result in the need to issue Additional Bonds beyond what is currently contemplated or other indebtedness and may result in increased pressure on customer rates.

Regulatory Concerns

The District continues to operate the System in compliance with all local, state and federal regulations. Under the Safe Drinking Water Act, the U.S. Environmental Protection Agency ("EPA") is proposing future rules for drinking water. The District staff, consultants, and industry associations have evaluated the potential impact of these proposed rules on its current water treatment and distribution system operations and have determined that the District expects to be in compliance with these rules without having to make significant changes to its operations or requiring major capital investment. In addition, the State is regularly evaluating water quality criterion for lakes and streams that could result in additional permit limits for the District's treated wastewater discharges. The District is monitoring the development of

these water quality standards and has designed its larger reclaimed water facilities to meet the new nutrient limits and developed long-term plans to divert flow to facilities which can meet future water quality standards.

Cyber-Security

Computer networks and data transmission and collection are vital to the safe and efficient operation of the District. Despite security measures, proactive employee security training, information technology and infrastructure, the District may be vulnerable to attacks by outside or internal hackers, or breached by employee error, negligence or malfeasance. Any such breach or attack could compromise systems and the information stored thereon. Any such disruption or other loss of information could result in a disruption in the efficiency of the operation of the District and the services provided at the District, thereby adversely affecting the ability of the District to generate revenues.

LEGAL MATTERS

Federal Income Tax Treatment of Interest on the Series 2022 Bonds

On the date of issuance of the Series 2022 Bonds, Pope Flynn, LLC, in its capacity as Bond Counsel to the District (“Bond Counsel”), will render an opinion that, under existing law, assuming continuing compliance with certain covenants made by the District to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended (the “Code”), and the applicable regulations promulgated thereunder (the “Regulations”), and the accuracy of certain representations, interest on the Series 2022 Bonds (i) is excluded from gross income for federal income tax purposes and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax. Such income is, however, taken into account in determining the annual adjusted financial statement income of certain applicable corporations (as defined in Section 59(k) of the Code) for the purpose of determining the application of the 15% minimum tax imposed on the adjusted financial statement of such corporations for tax years beginning after December 31, 2022. (In general, an “applicable corporation” is a corporation whose average annual adjusted financial statement income (*i.e.*, adjusted book income) exceeds \$1 billion for the three-taxable year period ending with the tax year in question.) See “Appendix E–Form of Opinion of Bond Counsel” attached hereto.

The opinion of Bond Counsel is based on current statutes, regulations, judicial decisions, rulings, and other published guidance of the Internal Revenue Service (the “IRS”), covers certain matters not directly addressed by such authorities, and represents Bond Counsel’s judgment as to the proper treatment of the Series 2022 Bonds for federal income tax purposes. Bond Counsel’s opinion is based upon 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 IRS 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 it deems relevant to such opinion.

The opinion of Bond Counsel described above is subject to the condition that the District comply with all requirements of the Code and the Regulations, including, without limitation, certain limitations on the use, expenditure, and investment of the gross proceeds of the Series 2022 Bonds and the obligation to rebate certain earnings on investments of such gross proceeds to the United States Government, that must be satisfied subsequent to the issuance of the Series 2022 Bonds in order for interest thereon to be, or to continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements could cause the inclusion of interest on the Series 2022 Bonds in gross income for federal income tax purposes, in some cases retroactively to the date of issuance of the Series 2022 Bonds. The opinion of Bond Counsel delivered on the date of issuance of the Series 2022 Bonds is conditioned on continuing compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with the requirements subsequent to the issuance of such Series 2022 Bonds.

Other Federal Income Tax Considerations Affecting the Series 2022 Bonds

Prospective purchasers of the Series 2022 Bonds should be aware that ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Bond Counsel expresses no opinion concerning such collateral income tax consequences, and prospective purchasers of Series 2022 Bonds should consult their tax own advisors as to the applicability thereof.

From time to time, there are legislative proposals in Congress which, if enacted into law, could eliminate or reduce the exclusion of the interest on the Series 2022 Bonds from gross income for federal income tax purposes or which might otherwise adversely affect the benefit or marketability of the Series 2022 Bonds. No prediction can be made as to whether any such provisions will be enacted as proposed or concerning other future legislation which, if passed, might affect the tax treatment of interest on the Series 2022 Bonds. Similarly, future clarifications of the Code by the IRS and court proceedings interpreting the Code could likewise affect the treatment of interest on the Series 2022 Bonds, as well as the benefit or marketability of the Series 2022 Bonds. Prospective purchasers of the Series 2022 Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, court proceedings, and IRS actions, as to all of which Bond Counsel expresses no opinion.

The IRS has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS will commence an audit of the Series 2022 Bonds. Bond Counsel's engagement with respect to the Series 2022 Bonds ends with the issuance of the Series 2022 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the holders of the Series 2022 Bonds regarding the tax-exempt status of the Series 2022 Bonds in the event of an audit examination by the IRS.

Under current procedures, parties other than the District and their appointed counsel, including the holders of the Series 2022 Bonds, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees may not be practicable.

Any action of the IRS, including but not limited to selection of the Series 2022 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2022 Bonds, and may cause the District or the holders of the Series 2022 Bonds to incur significant expense, regardless of the ultimate outcome. Under certain circumstances, the District may be obligated to disclose the commencement of an audit under the Continuing Disclosure Certificate (a copy of which is attached as Appendix F to this Official Statement).

[Original Issue Discount]

[Certain Series 2022 Bonds have been sold at an initial offering price which is less than the principal amount thereof payable at maturity ("Discount Bonds"). The difference between the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) at which a substantial amount of each maturity of Discount Bonds is sold and the principal amount payable at maturity constitutes original issue discount.

In the case of Discount Series 2022 Bonds, Bond Counsel is of the opinion that original issue discount, as it accrues, is excluded from gross income for federal income tax purposes and is subject to the alternative minimum tax to the same extent as is interest on the Series 2022 Bonds. Original issue discount accrues in each taxable year over the term of the Discount Bonds under the "constant yield method" described in Regulations interpreting Section 1272 of the Code, with certain adjustments.

The tax basis of Discount Bonds if held by an original purchaser, can be determined by adding to such owner's purchase price of such Discount Bonds the original issue discount that has accrued.

Owners of the Discount Bonds should consult their own tax advisers with respect to all matters relating to such discount.]

[Original Issue Premium]

[Certain Series 2022 Bonds have been sold at an initial offering price which is greater than the amount payable at maturity (“Premium Bonds”). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes original issue premium.

For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Bond.

For purposes of determining the owner’s gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner’s tax basis in the Premium Bond is reduced by the amount of bond premium that is amortized during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the cover of this Official Statement who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

Owners of the Premium Bonds should consult their own tax advisers with respect to all matters relating to such bond premium.]

Reporting and Withholding Requirements

Payments of interest, including payments of tax-exempt interest on the Series 2022 Bonds, are generally subject to IRS Form 1099-INT information-reporting requirements.

An owner of a Series 2022 Bond may be subject to backup withholding at the applicable rate determined by statute with respect to interest paid on the Series 2022 Bonds if such owner, upon issuance of the Series 2022 Bonds, fails to provide to any person required to collect such information pursuant to Section 6049 of the Code with such owner’s taxpayer identification number, furnishes an incorrect taxpayer identification number, fails properly to report interest, dividends, or other “reportable payments” (as defined in the Code), or, under certain circumstances, fails to provide such persons with a certified statement, under penalty of perjury, that such owner is not subject to backup withholding.

These requirements do not affect the exclusion of interest on the Series 2022 Bonds from gross income for federal income tax purposes.

State Tax Exemption

Bond Counsel is of the opinion that, under existing law, the Series 2022 Bonds and the interest thereon are exempt from all taxation by the State, its counties, municipalities, and school districts, except estate, transfer, and certain franchise taxes. Interest paid on the Bonds is currently subject to the tax imposed on banks by Section 12-11-20, Code of Laws of South Carolina 1976, as amended, which is enforced by the South Carolina Department of Revenue as a franchise tax.

The opinion of Bond Counsel is limited to the laws of the State and federal tax laws. No opinion is rendered by Bond Counsel concerning the taxation of the Series 2022 Bonds or the interest thereon under the laws of any other jurisdiction.

Litigation Relating to the Series 2022 Bonds

No litigation is currently pending or, to the knowledge of the District, threatened in any court to restrain or enjoin the issuance or delivery of any of the Series 2022 Bonds or the collection of revenues pledged or to be pledged to pay the principal of and interest on the Series 2022 Bonds, or in any way contesting or affecting the validity of the Series 2022 Bonds, the Bond Resolution or the 2022 Series Resolution or contesting the power or authority of the District to issue the Series 2022 Bonds.

UNITED STATES BANKRUPTCY CODE

The obligation of the District under the Resolutions should be considered with reference to Chapter 9 of the United States Bankruptcy Code, 11 U.S.C. § 901, *et seq.*, as amended (the “Bankruptcy Code”) and other laws affecting creditors’ rights and public instrumentalities generally. Chapter 9 permits a municipality, political subdivision, public agency, or other instrumentality of a state that is insolvent or unable to meet its debts as such debts mature to file a petition in the United States Bankruptcy Court for the purpose of effecting a plan to adjust its debts; directs such a petitioner to file with the court a list of its creditors; provides that the filing of the petition under that Chapter operates as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner but does not limit or impair the power of the State to control a municipality by legislation; directs a petitioner to file a plan for the adjustment of its debts; permits the petitioner in its plan to modify the rights to payment of its creditors; and provides that the plan must be accepted in writing by or on behalf of the creditors of each class of claims holding at least two-thirds in amount and more than one-half in number of the creditors which have accepted or rejected the plan. The plan may be confirmed notwithstanding the negative vote of one or more classes of claims if the court finds that the plan is in the best interest of creditors, is feasible, and is fair and equitable with respect to the dissenting classes of creditors. A petitioner has the right to reinstate or otherwise modify indebtedness under its plan varying from the original maturity schedule of such indebtedness notwithstanding any provision in the documents under which the indebtedness arose relating to the insolvency or financial condition of the debtor before the confirmation of the plan, the commencement of a case under the Bankruptcy Code, or the appointment of or taking possession by a trustee in a case under the Bankruptcy Code or by a receiver or other custodian prior to the commencement of a case under the Bankruptcy Code.

MISCELLANEOUS

Ratings

Standard & Poor’s Global Ratings has assigned a rating of “AA+” and Moody’s Investors Service has assigned a rating of “A1” to the Series 2022 Bonds. Such ratings reflect only the views of such organizations, and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2022 Bonds.

Underwriting

The Series 2022 Bonds are being purchased for reoffering by Stephens Inc., on behalf of itself and as representative of Truist Securities, Inc. (together, the “Underwriters”). The Underwriters have agreed to purchase the Series 2022 Bonds at an aggregate purchase price of \$ _____ (which amount is equal to the par amount of the Series 2022 Bonds, plus [net] original issue premium of \$ _____, less Underwriters’ discount of \$ _____). The initial public offering prices are set forth on the front cover page of this Official Statement. The Underwriters may offer and sell the Series 2022 Bonds to certain dealers and others (including sales for deposit into investment trusts, certain of which may be sponsored or managed by the Underwriters) at a price lower than the offering prices stated on the front cover page hereof. The offering prices may be changed from time to time by the Underwriters without prior notice. The Underwriters are obligated to purchase all of the Series 2022 Bonds, if any are purchased, such obligation being subject to certain conditions.

Truist Securities, Inc. has entered into agreements (the "Distribution Agreements") with certain of its affiliates (the "Retail Affiliates") for the retail distribution of certain municipal securities offerings, including the Series 2022 Bonds. Pursuant to the Distribution Agreements, Truist Securities, Inc. may share a portion of its underwriting compensation, as applicable, with respect to the Series 2022 Bonds with the Retail Affiliates. Truist Securities, Inc. and the Retail Affiliates are subsidiaries of Truist Financial Corporation.

Truist Securities is the trade name for the corporate and investment banking services of Truist Financial Corporation and its subsidiaries. Securities and strategic advisory services are provided by Truist Securities, Inc., member FINRA and SIPC. Lending, financial risk management, and treasury management and payment services are offered by Truist Bank. Deposit products are offered by Truist Bank, Member FDIC. In its normal course of business Truist Bank may currently, or in the future, provide credit, treasury management, or other commercial banking services to the District.

Independent Certified Public Accountants

The financial statements of the District attached as Appendix A hereto have been examined by Nichols, Cauley & Associates, LLC, independent certified public accountants, to the extent and for the periods indicated in its report thereon which appears in Appendix A.

Rate Consultant

The 2022 Utility Revenue Sufficiency Study of the Rate Consultant is attached as Appendix B hereto. Such 2022 Utility Revenue Sufficiency Study was prepared by the Rate Consultant, Raftelis Financial Consultants, Inc., Charlotte, North Carolina. Among other things, the 2022 Utility Revenue Sufficiency Study sets forth certain discussion of the System's customer base, historic financials and projections of operating results primarily based on forecasts of operating revenue and expenses pursuant to the District's approved and projected rate resolutions, fiscal requirements and capital budgets. The Rate Consultant has formed certain opinions and reached certain conclusions with respect to projected growth in customers, usage and revenues of the System, projected operating expenses of the System, and sufficiency of rates to meet debt service requirements of the Parity Bonds and the Series 2022 Bonds. THE 2022 UTILITY REVENUE SUFFICIENCY STUDY FROM THE RATE CONSULTANT MUST BE READ IN ITS ENTIRETY, INCLUDING THE CONSIDERATIONS AND ASSUMPTIONS UPON WHICH IT IS BASED, PRIOR TO A PROSPECTIVE PURCHASER OF THE SERIES 2022 BONDS MAKING AN INVESTMENT DECISION WITH RESPECT THERETO. To the extent that actual conditions differ from those assumed in preparing such forecasted amounts, the actual amounts will vary from those shown therein.

Municipal Advisor

First Tryon Advisors, serves as a municipal advisor (the "Municipal Advisor") to the District. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

Legal Matters

Certain legal matters in connection with the authorization, issuance and sale of the Series 2022 Bonds are subject to the approval of Pope Flynn, LLC, Columbia, South Carolina, Bond Counsel. Pope Flynn, LLC is also acting as disclosure counsel to the District in connection with the offering of the Series 2022 Bonds. Certain legal matters in connection with the Series 2022 Bonds will be passed on for the District by its counsel, Burr & Forman LLP, Hilton Head Island, South Carolina. Certain legal matters in connection with the Series 2022 Bonds will be passed on for the Underwriters by their counsel, Murray Barnes Finister LLP, Atlanta, Georgia.

The various legal opinions to be delivered concurrently with the delivery of the Series 2022 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional

judgment, of the transaction opined upon, or of the future performance of parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Enforceability of Remedies

The remedies available to the owners of the Series 2022 Bonds upon an event of default under the Resolutions are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified by the Federal Bankruptcy Code, the Resolutions and the Series 2022 Bonds may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2022 Bonds (including Bond Counsel's approving opinion) will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of credits enacted before or after such delivery.

Continuing Disclosure

The District will covenant in a Continuing Disclosure Certificate, the form of which is attached hereto as Appendix F, for the benefit of the holders of the Series 2022 Bonds to provide certain financial information and operating data (the "Annual Report") relating to the District and to provide notice of the occurrence of certain enumerated events within ten business days of their occurrence (the "Events Notices"). Such covenant shall only apply so long as the Series 2022 Bonds remain Outstanding under the Resolutions. The Annual Report will be filed by the District with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system as described in the form of the Continuing Disclosure Certificate, as well as any state information depository that is subsequently established in the State of South Carolina (the "State Information Depository"). The Events Notices will be filed by the District with EMMA and with the State Information Depository. The specific nature of the information to be contained in the Annual Report and the Events Notices are described in the form of Continuing Disclosure Certificate, which shall be executed by the District at the time of issuance of the Series 2022 Bonds. These agreements have been made in order to assist the Underwriters in complying with U.S. Securities and Exchange Commission Rule 15c2-12. No party other than the District is obligated to provide, nor is expected to provide, any continuing disclosure information with respect to the Series 2022 Bonds. The District has implemented procedures to ensure that the District will meet its continuing disclosure obligations on a timely basis.

Concluding Statement

All the summaries of the provisions of the Enabling Act, the Series 2022 Bonds, and the Resolutions and all summaries and references to other documents, instruments, and materials not purported to be quoted in full are only brief outlines of certain provisions thereof and are not intended to be and do not constitute complete statements of the Enabling Act or such documents or provisions. Reference is made hereby to the complete documents relating to such matters for the complete terms and provisions thereof, or for the information contained therein. The attached Appendices are integral parts of this Official Statement and should be read in their entirety together with all foregoing statements.

Certain of the information set forth in the Official Statement and in the appendices hereto has been obtained from sources other than the District that are believed to be reliable but is not guaranteed as to accuracy or completeness by the Underwriters or the District.

The agreement between the District and holders of the Series 2022 Bonds is fully set forth in the Resolutions and neither any advertisement for the Series 2022 Bonds nor this Official Statement is to be construed as constituting an agreement with the holders of the Series 2022 Bonds. The execution and delivery of this Official Statement have been duly authorized and this Official Statement has been deemed final by the District.

**SOUTH ISLAND PUBLIC SERVICE DISTRICT,
SOUTH CAROLINA**

Chairman, South Island Public Service District Commission

APPENDIX A

Audited Financial Statements for the District for the Fiscal Year Ended June 30, 2022

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**SOUTH ISLAND PUBLIC SERVICE DISTRICT
HILTON HEAD ISLAND, SOUTH CAROLINA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2022**

SOUTH ISLAND PUBLIC SERVICE DISTRICT
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INDEPENDENT AUDITOR'S REPORT

To the South Island Public Service District
Board of Commissioners
Hilton Head Island, South Carolina

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of South Island Public Service District (the "District"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the District as of June 30, 2022, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are fully described in the Auditor's Responsibilities for Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Atlanta | Calhoun | Canton | Dalton | Dublin
Fayetteville | Kennesaw | Rome | Warner Robins

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note 3, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, as of July 1, 2021. These standards significantly changed the accounting for the District's lease receivables and the related disclosures. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 – 7, the Pension Plan – Schedule of District's Proportionate Share of Net Pension Liability, the Pension Plan – Schedule of District Contributions, the Other Post-Employment Benefits - Schedule of Changes in the District's Net OPEB Liability, and the Other Post-Employment Benefits - Schedule of District Contributions on pages 38 – 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated, September 20, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Richards, Cauley + Associates, LLC

Dublin, Georgia
September 20, 2022

SOUTH ISLAND PUBLIC SERVICE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022

INTRODUCTION

Our discussion and analysis of the financial performance of South Island Public Service District (the District) provides an overview of the District's financial activities for the fiscal year ended June 30, 2022. The intent of this management discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the financial statements and notes to the financial statements to enhance their understanding of the District's actual financial performance. In addition, there is supplementary information following these financial statements, which may be of interest to the reader. This discussion and analysis is intended to serve only as an introduction to the District's financial statements.

OVERALL ANALYSIS

The financial operations of the District remain strong with consistent revenues and ongoing cost monitoring efforts. The following highlights reflect the District's overall financial position.

FINANCIAL HIGHLIGHTS:

- At June 30, 2022 the District's current assets exceeded its current liabilities by \$14,457,875. Of this amount, \$13,199,775 is unrestricted cash and cash equivalents which may be used to meet the District's ongoing obligations.
- For the fiscal year ended June 30, 2022, the District's total net position increased \$3,225,473. Operating revenues increased 15.4% while total operating expenses increased 4.3% from the previous year's amounts.
- Additions to capital assets, including construction in progress, were approximately \$4.4 million in fiscal 2022.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's strategic plan, budget, bond resolutions and other management tools were used for this analysis.

The financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principle applicable to private sector utilities are not used by government utilities. The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position, a statement of cash flows; and notes to the financial statements.

The statement of net position presents the financial position of the District on a full accrual historical cost basis. The statement of net position presents information on all of the District's assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the District is improving or deteriorating.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022

OVERVIEW OF THE FINANCIAL STATEMENTS

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earning event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. The financial statements were prepared by the District's staff from the detailed books and records of the District. The financial statements were audited and adjusted, if material, during the independent external audit process.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2022

FINANCIAL ANALYSIS

Net Position

As noted earlier, net position may serve over time as a useful indicator of the District’s financial position. The District’s total net position at June 30, 2022, was \$64.22 million. Following are the condensed statements of net position of South Island Public Service District as of June 30, 2022 and 2021:

CONDENSED STATEMENTS OF NET POSITION
AS OF JUNE 30, 2022 AND 2021

	2022	2021
Capital assets, net	\$ 65,285,499	\$ 64,964,370
Other assets	16,598,254	13,347,004
Deferred outflows of resources	993,539	1,254,646
Total assets and deferred outflows of resources	\$ 82,877,292	\$ 79,566,020
Current liabilities	\$ 1,366,637	\$ 1,310,696
Noncurrent liabilities	15,092,328	17,186,493
Total liabilities	16,458,965	18,497,189
Deferred inflows of resources	2,199,682	152,416
Net investment in capital assets	55,186,989	53,967,685
Unrestricted net position	9,031,656	7,025,487
Total net position	64,218,645	60,993,172
Total liabilities, deferred inflows of resources and net position	\$ 82,877,292	\$ 79,642,777

The largest portion of the District’s net position (85.9%) reflects its investment in capital assets such as land, buildings, and equipment, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net position (14.1%) may be used to meet the District’s ongoing obligations to customers and creditors. Internally imposed designations of resources are not presented as restricted net position.

**SOUTH ISLAND PUBLIC SERVICE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

FINANCIAL ANALYSIS

Net Position

Major additions to capital assets during fiscal 2022 included:

- \$452K Update to 2 Sea Pines Lift Stations
- \$242K Reverse Osmosis Plant VFD Replacement
- \$153K Cretaceous Well Rehabilitation
- \$243K Machinery & Equipment

Changes in net position

The District's changes in net position represent a picture in time of the annual activities and their results in shaping a positive or negative effect on operations for the fiscal year. The following table presents the District's changes in net position for the fiscal years ended June 30, 2022 and 2021:

Condensed Statements of Net Position
As of June 30, 2022 and 2021

	2022	2021
Total operating revenues	\$ 14,757,576	\$ 12,789,077
Total operating expenses	11,829,169	11,336,745
Income from operations	2,928,407	1,452,332
Nonoperating revenues, net	218,770	201,886
Increase in net position before capital contributions	3,147,177	1,654,218
Capital contributions	78,296	132,118
Change in net position	3,225,473	1,786,336
Net position, beginning of year	60,993,172	59,130,079
Net position, end of year	\$ 64,218,645	\$ 60,916,415

Total operating revenues in fiscal 2022 increased approximately \$1,968,000 or 15.4% from fiscal 2021 amounts. This increase is primarily attributed to water and sewer rate increases of 14% and 9% respectively, effective July 1, 2021. Total operating expenses in fiscal 2022 increased approximately \$492,000 or 4.3% and is primarily attributed to increased administrative costs due to secession planning, as well as, increased operating costs overall, due to the highly inflationary economic environment.

Request for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information may be addressed to the South Island Public Service District, Finance Director, P.O. Box 5148, Hilton Head Island, South Carolina 29938.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2022

Assets

Current assets

Cash and cash equivalents	\$ 13,199,775
Utility billings receivable, net	1,714,393
Assessment receivable - current portion	8,452
Lease receivable - current portion	374,880
Inventory and prepaid expenses	<u>527,012</u>
Total current assets	<u>15,824,512</u>

Noncurrent assets

Assessments receivable	29,348
Lease receivable	744,394

Capital assets

Land	1,451,424
Property and equipment	140,143,574
Construction in progress	4,053,561
Less: accumulated depreciation and amortization	<u>(80,363,060)</u>

Capital assets, net of accumulated depreciation

	<u>65,285,499</u>
Total noncurrent assets	<u>66,059,241</u>
Total assets	<u>81,883,753</u>

Deferred Outflows of Resources

Related to pension	819,027
Related to OPEB	155,938
Related to bond refinancing	<u>18,574</u>
Total deferred outflows of resources	<u>993,539</u>

SOUTH ISLAND PUBLIC SERVICE DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2022

Liabilities

Current liabilities

Accounts payable	321,851
Unearned revenue	46,324
Accrued liabilities	21,929
Compensated absences - current portion	99,978
Accrued bond interest	85,312
Revenue bond payable - current portion	790,000
Other current liabilities	1,243
Total current liabilities	1,366,637

Noncurrent liabilities

Compensated absences	93,030
Revenue bond payable	9,223,198
Net pension liability	4,344,894
Net OPEB liabilities	1,431,206
Total noncurrent liabilities	15,092,328
Total liabilities	16,458,965

Deferred Inflows of Resources

Related to pension	918,980
Related to OPEB	157,966
Related to leases	1,122,736
Total deferred inflows of resources	2,199,682

Net Position

Net investment in capital assets	55,186,989
Unrestricted net position	9,031,656
Total net position	\$ 64,218,645

The notes to the financial statements are an integral part of this statement.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED
JUNE 30, 2022

Operating Revenue	
Water charges	\$ 8,327,597
Sewer charges	5,639,066
Reclaimed water sales	461,310
Tap-in and reconnection fees	152,962
Other operating revenue	176,641
Total operating revenue	<u>14,757,576</u>
Operating Expenses	
Water and sewer system expenses	3,421,882
Treatment plant operations	1,625,717
Administrative expenses	2,701,822
Depreciation	4,079,748
Total operating expenses	<u>11,829,169</u>
Operating income	<u>2,928,407</u>
Nonoperating Revenues (Expenses)	
Tower lease revenue	447,679
Interest income	60,136
Bond premium amortization	126,862
Interest expense	(360,187)
Amortization of deferred refunding loss	(55,720)
Total nonoperating revenues, net	<u>218,770</u>
Income before contributions	3,147,177
Capital contributions	78,296
Change in net position	<u>3,225,473</u>
Total net position, beginning of year, as restated	<u>60,993,172</u>
Total net position, end of year	<u>\$ 64,218,645</u>

The notes to the financial statements are an integral part of this statement.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
JUNE 30, 2022

Cash Flows from Operating Activities	
Cash received from customers	\$ 15,086,985
Cash payments to suppliers for goods and services	(3,882,362)
Cash payments to employees and related benefits	(3,788,506)
Net cash provided by operating activities	<u>7,416,117</u>
Cash Flows from Noncapital Financing Activities	
Tower lease	<u>467,114</u>
Net cash provided by noncapital financing activities	<u>467,114</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition and construction of capital assets	(4,400,877)
Cash payments on availability assessments	2,100
Bond principal payments	(765,000)
Capital contributions	78,296
Interest paid	(366,500)
Net cash used by capital and related financing activities	<u>(5,451,981)</u>
Cash Flows From Investing Activities	
Interest received	<u>28,315</u>
Net cash provided by investing activities	<u>28,315</u>
Net increase in cash and cash equivalents	2,459,565
Cash and cash equivalents, beginning of year	<u>10,740,210</u>
Cash and cash equivalents, end of year	<u>\$ 13,199,775</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	<u>\$ 2,928,407</u>
Depreciation	4,079,748
(Increase) decrease in current operating assets	
Utility billing receivable	321,325
Prepaid expenses and other assets	4,164
Increase (decrease) in current operating liabilities	
Accounts payable	67,528
Unearned revenue	6,841
Accrued liabilities	11,908
Compensated absences	81,722
Other current liabilities	1,243
Decrease in net pension liability and deferred inflows/outflows	(98,845)
Increase in net OPEB liability and deferred inflows/outflows	<u>12,076</u>
Total adjustments	<u>4,487,710</u>
Net cash provided by operating activities	<u>\$ 7,416,117</u>

The notes to the financial statements are an integral part of this statement.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of South Island Public Service District (District) are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The District exclusively follows the standards set forth by the GASB.

Reporting Entity

South Island Public Service District is a municipal corporation governed by nine commission members who are appointed by the Local Legislative Delegation and approved by the Governor of South Carolina. South Island Public Service District was established for the purpose of providing sanitary drinking water and wastewater treatment service to the residents of Sea Pines and Forest Beach Public Service Districts on Hilton Head Island, South Carolina. Sea Pines Public Service District and Forest Beach Public Service District were merged on October 28, 1996, to form the South Island Public Service District.

The District complies with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. These statements establish standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District does not have any component units as defined by the GASB Statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District operates as a proprietary fund type - enterprise fund whereby operations are financed and operated in a manner similar to a private business enterprise. In governmental accounting, the enterprise fund is used to account for operations as noted above or where the Board of Commissioners has decided that the determination of revenues earned, cost incurred and/or net income is necessary for management accountability.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Because of the ‘businesslike’ characteristics of the District’s operations, the accompanying financial statements use the economic resources measurement focus and the accrual basis of accounting. The accounting objectives of the economic resources measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with their activities are reported. Proprietary fund equity is classified as net position.

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows.

As a means of delivering services to its customers, the District utilizes wells, a water production plant, water distribution systems, wastewater reclamation facilities and wastewater collection systems. To provide the resources that are necessary to pay for the utility services and the related support functions, the District charges its customers user fees which are based on the specific level of services that they are receiving.

Operating revenues and expenses generally result from providing services and delivering goods in connection with the District’s principal ongoing operations. The principal operating revenues are charges to customers for sales and services that are provided to them. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer systems. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting the definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Use of 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Assets, Liabilities and Net Position

Deposits and Investments

For the purposes of the statement of cash flows, the District considers cash on hand (including restricted cash) demand deposits, certificate of deposits and short-term investments with remaining maturities of three months or less when purchased to be cash and cash equivalents.

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool. The District has certain funds invested with the South Carolina State Treasurer's Office which established the South Carolina Local Government Investment Pool (the "Pool") pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs which are under the custody of any county treasurer or any governing body of a political subdivision of the State may be deposited. Investments are stated at fair value, equal to the value of the shares in the pool. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1 per share.

Receivables

Utility billings receivable are stated at face amount, net of an allowance for doubtful accounts. The amount recognized as an uncollectible balance is based on an aging schedule of accounts and historic collection patterns. At June 30, 2022, the allowance for doubtful accounts was \$15,000. Unbilled receivable represents income earned during the current year but not yet billed to the customer.

Inventories and Prepaid Expenses

The inventory of the District consists of materials and supplies to support maintenance work on various water distribution and wastewater collection systems as well as to maintain the vehicles and equipment used in system operations. All inventories are valued using the average cost method.

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items. An example of a prepaid item for the District is property and liability insurance premiums.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Assets, Liabilities and Net Position

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. water distribution systems, sewer collection systems) are reported as components of noncurrent assets in the basic financial statements. Capital assets are generally defined by the District as being those assets with an initial individual cost of more than \$2,000 for administrative assets and \$5,000 for operational assets and an estimated useful life in excess of one year. Capital assets are recorded at cost. Donated property and equipment are recorded at their acquisition value at the date of donation. The District uses subjective factors that include the historic cost and the estimated useful life of the assets when determining if the asset should be capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives of the assets are expensed as incurred.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Classification</u>	<u>Asset Life</u>
Building and improvements	40 years
Water and sewer systems	15-40 years
Treatment plant	15 -40 years
Machinery and equipment	3-7 years

Compensated Absences

It is the District's policy to permit its employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave because the District does not have a policy to pay any amounts when employees separate from service. The unused vacation or annual leave is considered a vested employee benefit.

In recognition of the resulting obligation, the District has accrued a liability for earned but unused vacation leave, having determined that the payment of such compensation is probable and having developed a reasonable estimate based upon current salary costs and annual leave balances at June 30. Employees are allowed to accrue a total of 45 vacation days. Upon retirement or termination, the District will compensate the employee for accumulated vacation days.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Assets, Liabilities and Net Position

Long-Term Obligations

The District has issued revenue bonds to finance capital construction. The outstanding balance is reported as a liability on the statement of net position. The amount of the obligation that is due within one year is shown as a current liability, with the remaining balance reported as a noncurrent liability.

Bond premiums are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium.

The difference between the carrying amount of the debt that has been refunded and the reacquisition price is recognized as a deferred refunding gain or loss and is amortized using the straight-line method over the shorter of the life of the new debt or the life of the old debt had it not been refunded.

Deferred Outflows and Deferred Inflows of Resources

Deferred Outflows of Resources

Deferred outflows of resources, represent a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District reports the deferred loss on bond refunding, pension and OPEB experience differences, pension and OPEB investment earnings differences, pension assumption changes, pension changes in proportionate share, and pension and OPEB contributions subsequent to the measurement date. Pension and OPEB related deferred outflows of resources are discussed further in Note 3.

Deferred Inflows of Resources

Deferred inflows of resources represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports pension and OPEB experience differences, changes in OPEB actuarial assumptions, and changes in proportionate share. These deferred inflows of resources are amortized over the remaining service lives of the plan members. Pension and OPEB related deferred inflows of resources are discussed more in Note 3. The District also reports a deferred inflow related to leases receivable. See Note 2 for additional information.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Assets, Liabilities and Net Position

Net Position

As required by GASB, the District classifies net position into three components; net investment in capital assets, restricted, and unrestricted. These classifications of net position are defined as follows:

- Net investment in capital assets consists of all capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets. If there are significant unspent proceeds at year-end, the reporting of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Instead, that portion of the debt is included in the same net asset component as the unspent proceeds.
- Restricted net position consists of constraints placed on net position through external restrictions imposed by creditors (e.g. debt covenants), grantors, contributors, or laws or regulations of other governments.
- Unrestricted net position consists of all other assets that do not meet the definition of ‘restricted’ or of ‘net investment in capital assets’. Generally, net position represents those financial resources that are available to the District to meet any future obligations that might arise.

NOTE 2 – DETAILED NOTES

Deposits and Investments

Credit risk is the risk that an issuer to an investment will not fulfill its obligation. The District does not have a formal written policy on credit risk.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District does not have a formal written policy on custodial credit risk for deposits.

At June 30, 2022, there were no deposits uninsured or uncollateralized.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 – DETAILED NOTES

Deposits and Investments

The State Treasurer offers participation in the South Carolina Local Government Investment Pool (“SCLGIP”) to political subdivisions of the State. Funds deposited into the SCLGIP by legally qualified entities are used to purchase investment securities as follows:

1. U.S. Government Securities (direct obligations)
2. Federal Agency Securities
3. Repurchase Agreements Secured by U.S. Government Securities and/or Federal Agency Securities
4. A1/P1 Commercial Paper (Moody’s/S&P highest rating)

Funds belonging to any entity that are on deposit with the SCGIP represent participation units in a portfolio comprised of the above referenced securities, and the external investment pool is not rated.

It is policy of the State Treasurer’s Office that no derivatives of the U.S. Government Securities and/or Federal Agency Securities and/or A1/P1 Commercial Paper are to be purchased by or for the South Carolina Local Government Investment Pool. Also, it is the policy of the State Treasurer’s Office that the weighted average maturity (WAM) of the SCLGIP portfolio not to exceed 60 days.

The District has \$8,558,226 in operating funds invested in the SCLGIP. SCLGIP is an investment pool which does not meet the criteria of GASB Statement No. 79 and is thus valued at fair value in accordance with GASB Statement No. 31. As a result, the District does not disclose its investment in the SCLGIP within the fair value hierarchy.

The District has no formal policy relating to the credit risk of investments.

Utility Billings Receivable

The utility billings receivable balance represents amounts due from customers for water and sewer services that have been provided by the District. It includes amounts for services that have been billed prior to June 30 but not received and the estimated amount for water and sewer services that was provided between the last billing date and June 30. With water meters being read on a cyclical basis throughout the year, there is a normal lag time between when the water and sewer services are actually provided and when the customer is billed.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 – DETAILED NOTES

Utility Billings Receivable

The components of the utility billing account receivable balance for June 30, 2022, are as follows:

Outstanding utility bills	\$ 1,274,817
Estimated unbilled services provided	454,576
Total gross utility billing receivable	<u>1,729,393</u>
Less: allowance for doubtful accounts	(15,000)
Net utility billing receivable	<u><u>\$ 1,714,393</u></u>

Assessments Receivable

The District made sewer service available to areas that were previously using septic tanks. In order to defray the costs associated with construction of these sewer lines and expansion of the sewage treatment plant, the District assesses availability fees and treatment capacity fees, which are recognized at the completion of the project. The District offers payment plans ranging from immediate payment of the fees to amortizing the costs over a period of years at interest rates commensurate with rates normally charged to the District for borrowing funds. At June 30, 2022, the District's assessment receivable balance was \$37,800

Lease Receivables

The District is a lessor for noncancellable leases for the placement of cell towers on its water tanks and property. The District recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of the lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The District uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of the lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 – DETAILED NOTES

Capital Assets

Capital asset activity for the District for the year ended June 30, 2022, was as follows:

	<u>Balance at June 30, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2022</u>
Capital assets, not being depreciated				
Land	\$ 1,451,424	\$ -	\$ -	\$ 1,451,424
Construction in progress	956,591	3,892,409	(795,439)	4,053,561
Total capital assets, not being depreciated	<u>2,408,015</u>	<u>3,892,409</u>	<u>(795,439)</u>	<u>5,504,985</u>
Capital assets, being depreciated				
Buildings and improvements	7,257,851	-	-	7,257,851
Water and sewer system	80,923,751	941,413	-	81,865,164
Treatment plant	47,448,176	110,373	-	47,558,549
Machinery and equipment	3,233,889	252,121	(24,000)	3,462,010
Total capital assets, being depreciated	<u>138,863,667</u>	<u>1,303,907</u>	<u>(24,000)</u>	<u>140,143,574</u>
Less accumulated depreciation for				
Buildings	(1,438,496)	(203,883)	-	(1,642,379)
Water and sewer system	(44,256,430)	(2,319,664)	-	(46,576,094)
Treatment plant	(27,835,268)	(1,386,901)	-	(29,222,169)
Machinery and equipment	(2,777,118)	(169,300)	24,000	(2,922,418)
Total accumulated depreciation	<u>(76,307,312)</u>	<u>(4,079,748)</u>	<u>24,000</u>	<u>(80,363,060)</u>
Total capital assets, being depreciated, net	<u>62,556,355</u>	<u>(2,775,841)</u>	<u>-</u>	<u>59,780,514</u>
Total capital assets	<u>\$ 64,964,370</u>	<u>\$ 1,116,568</u>	<u>\$ (795,439)</u>	<u>\$ 65,285,499</u>

Long -Term Liabilities

Revenue Bonds

On December 21, 2017, the District issued Waterworks and Sewer System Refunding Revenue Bonds, Series 2017 in the amount of \$8,835,000 to defray the cost by advance refunding the District's Series 2010 bonds maturing April 1, 2021 through 2030, and Series 2012 bonds maturing April 1, 2025 through 2032, and to pay the costs relating to the issuance of these bonds. The bonds bear interest rates ranging from 2% - 5% and mature in 2032. Interest payments are due semi-annually. The proceeds were deposited into an irrevocable escrow to be used for refunding the portion of the Series 2010 and 2012 bonds referred to above. The refunding provided a reduction in total future debt service payments of \$734,468. The transaction generated an economic gain (difference between the present values of the old and new debt service payments) of \$619,825. The outstanding balance as of June 30, 2022, was \$8,290,000 of which, \$235,000 is payable in the near term.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 – DETAILED NOTES

Long -Term Liabilities

Revenue Bonds

On February 7, 2012, the District issued Waterworks and Sewer System Improvement Revenue Bonds, Series 2012 with an original face value of \$9,050,000 and a premium of \$870,895. The proceeds were used to: 1) finance the construction of aquifer storage and recovery facilities, water distribution piping and reliability improvement measures for the District’s water production and distribution plant and other capital improvements to the combined waterworks and sewer system of the District and 2) pay costs relating to the issuance of the Series 2012 Bonds. The bonds bear interest rates ranging from 2.70% - 3.50% and mature in 2032. Interest payments are due semi-annually. With revenue bonds, the District pledges income derived from the acquired asset to pay debt service. The outstanding balance as of June 30, 2022, was \$1,125,000 of which, \$555,000 is payable in the near term.

With revenue bonds, the District pledges income derived from the acquired asset to pay debt service. The outstanding balance as of June 30, 2022 was \$9,415,000 of which, \$790,000 is payable near term.

As of June 30, 2022, the District was obligated to make payments of principal and interest for the outstanding revenue bonds as follows:

For Fiscal Year Ending	Total Debt		
June 30,	Principal	Interest	Service
2023	\$ 790,000	\$ 341,250	\$ 1,131,250
2024	815,000	315,200	1,130,200
2025	845,000	288,300	1,133,300
2026	875,000	254,500	1,129,500
2027	920,000	210,750	1,130,750
2028-2032	5,170,000	443,663	5,613,663
Totals	<u>\$ 9,415,000</u>	<u>\$ 1,853,663</u>	<u>\$ 11,268,663</u>

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 – DETAILED NOTES

Long -Term Liabilities

Revenue Bonds

Changes in Long-term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2022, was as follows:

	<u>Balance at June 30, 2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2022</u>	<u>Due within one year</u>
Revenue bonds	\$ 10,180,000	\$ -	\$ (765,000)	\$ 9,415,000	\$ 790,000
Premium	725,060	-	(126,862)	598,198	-
Total revenue bonds	10,905,060	-	(891,862)	10,013,198	790,000
Compensated absences	111,286	99,978	(18,256)	193,008	99,978
Total long-term liabilities	<u>\$ 11,016,346</u>	<u>\$ 99,978</u>	<u>\$ (910,118)</u>	<u>\$ 10,206,206</u>	<u>\$ 889,978</u>

NOTE 3 – OTHER INFORMATION

Employee Retirement Systems and Plans

Plan Administrator

The South Carolina Public Employee Benefit Authority (PEBA), created July 1, 2012, and governed by an 11-member Board, is the state agency responsible for the administration and management of the various Retirement Systems and retirement programs of the state of South Carolina, including the State Optional Retirement Program and the S.C. Deferred Compensation Program, as well as the state's employee insurance programs. As such, PEBA is responsible for administering the South Carolina Retirement System (SCRS) five defined benefit pension plans. The Retirement Funding and Administration Act of 2017, which became effective July 1, 2017, increased the employer and employee contribution rates, established a ceiling on the SCRS employee contribution rates, lowered the assumed rate of return, required a scheduled reduction of the funding periods, and addressed various governance issues including the assignment of the PEBA Board as custodian of the retirement trust funds and assignment of the South Carolina Retirement System Investment Commission (SCRSIC) and PEBA as co-trustees of the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the System.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – OTHER INFORMATION

Employee Retirement Systems and Plans

Plan Administrator

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from the System's fiduciary net position have been determined on the accrual basis of accounting as they are reported by the System in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

Plan Description

The SCRS, a cost-sharing multiple-employer defined benefit pension plan, was established July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement and other benefits for teachers and employees of the state and its political subdivisions. SCRS covers employees of state agencies, public school districts, higher education institutions, other participating local subdivisions of government and individuals newly elected to the South Carolina General Assembly at or after the 2012 general election.

PEBA issues a Comprehensive Annual Financial Report containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The Comprehensive Annual Financial Report is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and, therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under the SCRS is as follows. Generally, all employees of covered employers are required to participate in and contribute to the System as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the System with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the System with an effective date of membership on or after July 1, 2012, is a Class Three member.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – OTHER INFORMATION

Employee Retirement Systems and Plans

Benefits Provided

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary. A brief summary of the benefit terms for the SCRS is as follows. A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of 1% or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. If the scheduled employee and employer contributions provided in statute, or the rates last adopted by the board, are insufficient to maintain the amortization period set in statute, the board shall increase employer contribution rates as necessary.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – OTHER INFORMATION

Employee Retirement Systems and Plans

Contributions

After June 30, 2017, if the most recent annual actuarial valuation of the System for funding purposes shows a ratio of the actuarial value of System assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than 85%, then the board, effective on the following July 1st, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 85%. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than 85%, then effective on the following July 1st, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 85%.

The Retirement System Funding and Administration Act establishes a ceiling on employee contribution rates at 9% for SCRS. The employer contribution rates will continue to increase annually by 1% through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56% for SCRS. The amortization period is scheduled to be reduced one year for each of the next ten years to a 20 year amortization period.

Required employee contribution rates for fiscal year 2021-2022 are as follows:

Employee Class Two	9.00% of earnable compensation
Employee Class Three	9.00% of earnable compensation

Required employer contribution rates for the fiscal year 2021-2022 are as follows:

Employee Class Two	16.41% of earnable compensation
Employee Class Three	16.41% of earnable compensation
Employer Incidental Death Benefit	.15% of earnable compensation

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – OTHER INFORMATION

Employee Retirement Systems and Plans

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

At June 30, 2022, the District reported a liability of \$4,344,894 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2020, with actuarial roll forward procedures used to the measurement date. The District's proportion of the net pension liability was based on a projection of the District's historical employer contributions. As of the June 30, 2021 measurement date, the District's proportion was 0.020077%, a decrease of 0.001588% from the prior year.

For the year ended June 30, 2022, the District recognized pension expense of \$272,771 and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 74,011	\$ 5,864
Net difference between projected and actual investment earnings	-	631,153
Changes in proportionate share and differences between employer contributions and proportionate share of total plan employer contributions	135,895	281,963
Changes in assumptions	237,825	-
Contributions subsequent to measurement date	371,296	-
Total	<u>\$ 819,027</u>	<u>\$ 918,980</u>

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – OTHER INFORMATION

Employee Retirement Systems and Plans

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

\$371,296 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement period ending June 30,	
2023	\$ (22,225)
2024	(71,430)
2025	(141,426)
2026	(236,168)
2027	-
Thereafter	-

Actuarial Assumptions and Methods

Actuarial valuations of the ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2019.

The June 30, 2021, total pension liability (TPL), net pension liability (NPL), and sensitivity information shown in this report were determined by our consulting actuary, Gabriel Roeder Smith & Company (GRS) and are based on an actuarial valuation performed as of July 1, 2020. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2021, using generally accepted actuarial principles. There was no legislation enacted during the 2021 legislative session that had a material change in the benefit provisions for any of the systems. In FY 2021 the Board adopted updated demographic assumptions. Also, the General Assembly permitted the investment return assumption at July 1, 2021 to decrease from 7.25% to 7.00%, as provided by Section 9-16-335 in South Carolina State Code.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – OTHER INFORMATION

Employee Retirement Systems and Plans

Actuarial Assumptions and Methods

Actuarial assumptions:

Investment rate of return	7.00%
Projected salary increases	3.0% to 11.0% (varies by service)
Includes inflation at	2.25%
Benefits adjustments	Lesser of 1% or \$500 annually

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2020 Public Retirees of South Carolina Mortality table (2020 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using 80% of Scale UMP projected from the year 2020.

Assumptions used in the determination of the June 30, 2021, TPL for males is 2020 PRSC Males multiplied by 97% and for females is 2020 PRSC Females multiplied by 107%.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 20-year capital market assumptions. The long-term expected rates of return represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2021 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7 percent assumed annual investment rate of return used in the calculation of the TPL includes a 4.75 percent real rate of return and a 2.25 percent inflation component.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – OTHER INFORMATION

Employee Retirement Systems and Plans

Long-Term Expected Rate of Return

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long-term Expected Portfolio Real Rate of Return</u>
Public Equity	46.00%	6.87%	3.16%
Bonds	26.00%	0.27%	0.07%
Private Equity	9.00%	9.68%	0.87%
Private Debt	7.00%	5.47%	0.39%
Real Assets			
Real Estate	9.00%	6.01%	0.54%
Infrastructure	<u>3.00%</u>	5.08%	<u>0.15%</u>
Total expected real return	<u>100.00%</u>		5.18%
Inflation for actuarial purposes			<u>2.25%</u>
Total expected nominal return			<u>7.43%</u>

Discount Rate

The discount rate used to measure the TPL was 7 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – OTHER INFORMATION

Employee Retirement Systems and Plans

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table represents the collective net pension liability of the participating employers calculated using the discount rate of 7.00%, as well as what employers’ net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.00%) or 1.00% higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
District's proportionate share of the net pension liability	\$ 5,691,302	\$ 4,344,894	\$ 3,225,795

Other Post-Employment Benefits Other Than Pensions (OPEB)

Plan Administration and Benefits

The South Carolina Other Retirement Benefits Employer Program (Program) was established November 19, 2008, to provide a mechanism for pre-funding OPEB liabilities. All permanent employees of the District participate in the South Carolina Other Retirement Benefits Employer Program, an agent multiple-employer trust. The Trust’s Board of Trustees has fiduciary responsibility for the investment of monies and administration of the Program pursuant to the Trust agreement and bylaws. The Program provides for payment of health and welfare benefits for qualified recipients. The plan covers retired employees and eligible dependents as determined by each participating local employer. The benefit provisions, such as the benefit provided and the policies for receiving such benefits are determined by each participating employer. A Comprehensive Annual Financial Report containing financial statements and required supplementary information for the Program is issued and publicly available by writing the Risk Management Services, Municipal Association of South Carolina, P.O. Box 12109, Columbia, SC 29211.

Plan Membership

Membership of the Program consisted of the following at December 31, 2020, the date of the latest actuarial valuation:

Inactive employees or beneficiaries		
Currently receiving benefits		9
Active employees		33
Total		42

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – OTHER INFORMATION

Other Post-Employment Benefits Other Than Pensions (OPEB)

Contributions

Employees who retire with at least 28 years of service at retirement or have attained age 60 are eligible to remain on the District’s health, dental and vision plans. Disabled retirees must meet the same requirements as non-disabled retirees.

Retirees who are eligible to continue benefits will have all or a portion of the medical and dental premiums paid by the District based on the service groups as follows:

<u>Service Group</u>	<u>Portion Paid by the District</u>
Less than 20 years	0%
20 years	50%
21 - 24 years	75%
25 years or more	100%

The District contributes toward vision premiums based on the coverage in effect at the time of their retirement according to the percentages above.

For medical coverage, the District will pay the premium portions described above based on the Standard Plan only. For dental coverage, the District will pay the same portion of the premium for the Dental and Dental Plus plans. If a more expensive plan is elected, the retiree must contribute the difference between the premiums.

The District has agreed to contribute the actuarially determined employer contribution and expenses. For the year ended June 30, 2022, the District made contributions of \$137,685 during the plan year.

Net OPEB Liability of the District

The District’s net OPEB liability was measured as of December 31, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2020, with the actuary using standard techniques to roll forward the liability to the measurement date.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – OTHER INFORMATION

Other Post-Employment Benefits Other Than Pensions (OPEB)

Net OPEB Liability of the District

Actuarial assumptions. The total OPEB liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate:	Based upon the long-term expected rate of return
Long-term expected rate of return on OPEB investments	4.75% net of investment expenses, including inflation
Healthcare cost trend rate	7.00% - 4.50%, Ultimate Trend rate by 2031 (Pre-Medicare) 5.25% - 4.50%, Ultimate Trend rate by 2025 (Medicare)
Inflation rate	2.25%
Salary increase	3.00% - 9.5%, including inflation
Participation rate	20% Less than 20 years of service 50% 20 years of service 90% 21 - 24 years of service 100% 25 years or more of service 20% Spouse coverage

Mortality rates were based on the PUB-2010 Mortality Tables for Employees with a 135% multiplier to better reflect anticipated experience and provide a margin for future improvements.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the December 31, 2020 valuation were based on the results of the 2020 actuarial experience study adopted by SCRS.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the December 31, 2020 valuation were based on a review of recent plan experience done concurrently with the December 31, 2020 valuation.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – OTHER INFORMATION

Other Post-Employment Benefits Other Than Pensions (OPEB)

Net OPEB Liability of the District

Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges should be 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 then adding expected inflation. The capital market assumptions developed by the investment consultant may cover a shorter investment horizon and may not be useful in setting the long-term rate of return for funding OPEB plans which are likely to cover a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

As of the most recent adoption of the current long-term rate of return by the Program, the target asset allocation for each major asset class, as provided by the Plan, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Portfolio Real Rate of Return</u>
US Government Agency	57.50%	4.50%
US Government MBS/CMO/CMBS	40.00%	525.00%
Cash and Short Duration (Net)	2.50%	2.50%
Total	<u>100.00%</u>	

Note: In accepting the long-term expected return for the Plan, the actuary performed a high level review of the information provided by the Plan. Our review indicates the long-term expected rate of return assumption of 4.75% is reasonable.

Discount Rate

The discount rate used to measure the TOL as of the Measurement Date was 4.75%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB74. The projection's basis was an actuarial valuation performed as of December 31, 2020. In addition to the actuarial methods and assumptions of the December 31, 2020 actuarial valuation, the following actuarial methods and assumptions were used in the projection of cash flows:

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – OTHER INFORMATION

Other Post-Employment Benefits Other Than Pensions (OPEB)

Discount Rate

- Total payroll for the initial projection year consists of the payroll of the active membership present on the valuation date. In subsequent projection years, total payroll was assumed to increase annually using the payroll growth assumptions.
- In all future years, the employer continues to contribute at least the average contribution for the last five years to the Trust and direct payment of benefits to plan members as the benefits come due. The employer is assumed to have the ability and willingness to make contributions to the Trust and benefit payments from its own resources for all periods in the projection.
- Projected assets do not include employer contributions that fund the estimated service costs of future employees.
- Cash flows occur mid-year.

Based on these assumptions, the Program's Fiduciary Net Position (FNP) was projected to not be depleted.

The FNP projections are based upon the Program's financial status on the valuation date, the indicated set of methods and assumptions, and the requirements of GASB Statement No. 74. As such, the FNP projections are not reflective of the cash flows and asset accumulations that would occur on an ongoing program basis, reflecting the impact of future members. Therefore, the results of this test do not necessarily indicate whether or not the fund will actually run out of money, the financial condition of the Program, or the Program's ability to make benefit payments in future years.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – OTHER INFORMATION

Other Post-Employment Benefits Other Than Pensions (OPEB)

Changes in the Net OPEB Liability of the District

The changes in the components of the net OPEB liability of the District for the year ended June 30, 2022, were as follows:

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances at 6/30/2021	<u>\$2,417,945</u>	<u>\$ 960,975</u>	<u>\$ 1,456,970</u>
Changes for the year:			
Service cost	97,842	-	97,842
Interest	113,414	-	113,414
Differences between expected and actual experience	22,445	-	22,445
Changes of assumptions or other inputs	(106,487)	-	(106,487)
Contributions - employer	-	186,048	(186,048)
Net investment income	-	(28,508)	28,508
Benefit payments and implicit subsidy credit	(61,280)	(61,280)	-
Contributions made subsequent to the measurement date	-	-	-
Administrative expense	-	(4,562)	4,562
Net changes	<u>65,934</u>	<u>91,698</u>	<u>(25,764)</u>
Balances at 6/30/2022	<u><u>\$2,483,879</u></u>	<u><u>\$ 1,052,673</u></u>	<u><u>\$ 1,431,206</u></u>

The required schedule of changes in the District's net OPEB liability and related ratios immediately following the notes to the financial statements presents multi-year trend information about whether the value of plan assets is increasing or decreasing over time relative to the total OPEB liability.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – OTHER INFORMATION

Other Post-Employment Benefits Other Than Pensions (OPEB)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.75%) or 1-percentage-point higher (5.75%) than the current discount rate:

	1% Decrease (3.75%)	Current Discount Rate (4.75%)	1% Increase (5.75%)
Net OPEB Liability	\$ 1,950,951	\$ 1,431,206	\$ 1,029,584

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the District, as well as what the District's net 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

	1% Decrease	Current	1% Increase
Net OPEB Liability	\$ 964,642	\$ 1,431,206	\$ 2,063,772

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revisions as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of June 30, 2022, and the current sharing pattern of costs between employer and inactive employees.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – OTHER INFORMATION

Other Post-Employment Benefits Other Than Pensions (OPEB)

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

For the year ended June 30, 2022, the District recognized OPEB expense of \$171,381. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 23,659	\$ 22,067
Changes in assumptions	-	135,899
Net difference between projected and actual earnings on plan investments	65,062	-
Contributions subsequent to the measurement date	<u>67,217</u>	<u>-</u>
Total	<u>\$ 155,938</u>	<u>\$ 157,966</u>

The District contributions subsequent to the measurement date of \$67,217 reported as deferred outflows of resources will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2023. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:	
2023	\$ 1,774
2024	(2,450)
2025	(2,929)
2026	(2,365)
2027	(17,832)
Thereafter	(45,443)

SOUTH ISLAND PUBLIC SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 – OTHER INFORMATION

Risk Management

The District is exposed to various risks of loss related to torts including theft of, damage to, and destruction of assets, errors and omissions and natural disasters. The District is a member of the State of South Carolina Insurance Reserve Fund, a public entity risk pool currently operating as a common risk management and insurance program for local governments. The District pays an annual premium to the State Insurance Reserve Fund for its general insurance. The State Insurance Reserve Fund is self-sustaining through member premiums and reinsures through commercial companies for certain claims. The District incurred no material uninsured claims during the fiscal year 2022. Management does not believe any provision for unasserted claims is necessary.

Prior Period Adjustments

The District has determined that a restatement of the beginning net position is required to report implementation of GASB Statement No. 87 *Leases*. This adjustment resulted in a change to the beginning net position for the District as follows:

Net position, as previously reported	\$ 60,916,415
Recognition of lease receivable and related deferred inflows of resources in accordance with GASB Statement No. 87	<u>76,757</u>
Net position, as restated	<u><u>\$ 60,993,172</u></u>

SOUTH ISLAND PUBLIC SERVICE DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN – SCHEDULE OF DISTRICT’S PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEARS ENDED JUNE 30,

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the collective net pension liability	0.020077%	0.021665%	0.021059%	0.019791%	0.020887%	0.019409%	0.020220%	0.021140%	0.021140%
District's proportionate share of the collective net pension liability	\$4,344,894	\$5,535,816	\$4,808,668	\$4,434,564	\$4,702,000	\$4,145,734	\$3,834,820	\$3,639,607	\$3,791,762
District's covered payroll	\$1,965,259	\$2,008,781	\$1,933,865	\$1,700,618	\$2,050,912	\$2,107,394	\$1,879,506	\$1,895,858	\$1,868,936
District's proportionate share of the collective net pension liability as a percentage of its covered payroll	221.09%	275.58%	248.66%	260.76%	229.26%	196.72%	204.03%	191.98%	202.88%
Plan fiduciary net position as a percentage of the total pension liability	60.70%	50.70%	54.40%	54.10%	53.30%	52.91%	56.99%	59.90%	N/A

N/A - Information was not readily available

* The amounts presented for each fiscal year were determined as of 6/30 of the previous year.

Note to the Schedule:

This schedule is intended to show 10 years of information. Additional years will be added as they become available.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN – SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEARS ENDED JUNE 30,

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 353,135	\$ 376,091	\$ 375,771	\$ 323,783	\$ 278,104	\$ 243,614	\$ 207,874	\$ 206,648	\$ 203,714
Contributions in relation to the contractually required contribution	<u>371,296</u>	<u>352,815</u>	<u>375,771</u>	<u>323,783</u>	<u>278,104</u>	<u>243,614</u>	<u>207,874</u>	<u>206,648</u>	<u>203,714</u>
Contribution deficiency (excess)	<u>\$ (18,161)</u>	<u>\$ 23,276</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 1,965,259	\$ 2,008,781	\$ 1,933,865	\$ 1,700,618	\$ 2,050,912	\$ 2,107,394	\$ 1,879,506	\$ 1,895,858	\$ 1,868,936
Contributions as a percentage of covered payroll	18.89%	17.56%	19.43%	19.04%	13.56%	11.56%	11.06%	10.90%	10.90%

Note to the Schedule:

This schedule is intended to show 10 years of information. Additional years will be added as they become available.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
OPEB PLAN – SCHEDULE OF CHANGES IN THE DISTRICT’S NET OPEB LIABILITY
FOR THE YEARS ENDED JUNE 30,

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability					
Service cost	\$ 97,842	\$ 94,992	\$ 89,273	\$ 86,673	\$ 84,149
Interest on total OPEB liability	113,414	106,495	104,114	97,533	91,240
Differences between expected and actual experience	22,445	4,110	(31,807)	(433)	662
Changes of assumptions or other inputs	(106,487)	-	(58,962)	-	-
Benefit payments	(61,280)	(58,616)	(46,511)	(43,984)	(43,140)
Net change in total OPEB liability	<u>65,934</u>	<u>146,981</u>	<u>56,107</u>	<u>139,789</u>	<u>132,911</u>
Total OPEB liability - beginning	2,417,945	2,270,964	2,214,857	2,075,068	1,942,157
Total OPEB liability - ending (a)	<u>\$ 2,483,879</u>	<u>\$ 2,417,945</u>	<u>\$ 2,270,964</u>	<u>\$ 2,214,857</u>	<u>\$ 2,075,068</u>
Plan fiduciary net position					
Contributions - employer	\$ 186,048	\$ 137,685	\$ 151,352	\$ 147,900	\$ 138,476
Net investment income	(28,508)	44,496	33,406	9,351	14,121
Benefit payments	(61,280)	(58,616)	(46,511)	(43,984)	(43,140)
Administrative expenses	(4,562)	(1,000)	(3,290)	-	(13,996)
Net change in plan fiduciary net position	<u>91,698</u>	<u>122,565</u>	<u>134,957</u>	<u>113,267</u>	<u>95,461</u>
Plan fiduciary net position - beginning	960,975	838,410	703,453	590,186	494,725
Plan fiduciary net position - ending (b)	<u>\$ 1,052,673</u>	<u>\$ 960,975</u>	<u>\$ 838,410</u>	<u>\$ 703,453</u>	<u>\$ 590,186</u>
District's net OPEB liability - ending (a) - (b)	<u>\$ 1,431,206</u>	<u>\$ 1,456,970</u>	<u>\$ 1,432,554</u>	<u>\$ 1,511,404</u>	<u>\$ 1,484,882</u>
Plan fiduciary net position as a percentage of the total OPEB liability	42.38%	39.74%	36.92%	31.76%	28.44%
Covered employee payroll	\$ 2,090,892	\$ 2,082,539	\$ 2,082,539	\$ 2,223,785	\$ 2,050,912
Net OPEB liability as a percentage of covered employee payroll	68.45%	69.96%	68.79%	67.97%	72.40%

Note to the Schedule:

The schedule will present 10 years of information once it is accumulated.

SOUTH ISLAND PUBLIC SERVICE DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
OPEB PLAN – SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEARS ENDED JUNE 30,

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 162,503	\$ 158,980	\$ 154,008	\$ 149,197	\$ 139,087
Contributions in relation to the actuarially determined contribution	<u>186,048</u>	<u>137,685</u>	<u>151,352</u>	<u>147,900</u>	<u>138,476</u>
Contribution deficiency (excess)	<u>\$ (23,545)</u>	<u>\$ 21,295</u>	<u>\$ 2,656</u>	<u>\$ 1,297</u>	<u>\$ 611</u>
Covered employee payroll	\$ 2,090,892	\$ 2,082,539	\$ 2,082,539	\$ 2,223,785	\$ 2,050,912
Contributions as a percentage of covered employee payroll	8.90%	6.61%	7.27%	6.65%	6.57%

Notes to the Schedule:

(1) Actuarial Assumptions

Valuation Date	July 1, 2015 - July 1, 2020
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	5-Year Smoothed Market Value
	80% to 120% Corridor
Assumed Rate of Return on Investments	4.75%, net of investment expenses, including inflation
Projected Salary Increases	3.00% to 9.25%, including 2.25% for inflation
Amortization Method	Level Percentage of Payroll, closed
Remaining Amortization Period	30 years
Health Care Cost Trends:	
Pre-Medicare	7.00% decreasing to an ultimate rate of 4.5% by 2031
Medicare	5.25% decreasing to an ultimate rate of 4.5% by 2031

(2) The schedule will present 10 years of information once it is accumulated.

APPENDIX B

2022 Utility Revenue Sufficiency Study

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SOUTH ISLAND PUBLIC
SERVICE DISTRICT

**2022 Utility Revenue Sufficiency Study –
FINAL REPORT**

September 28, 2022





September 28, 2022

Mr. Papu Tafao
General Manager
South Island Public Service District
2 Genesta Street
Hilton Head, SC 29928

Subject: 2022 Utility Revenue Sufficiency Study

Dear Mr. Tafao,

Raftelis Financial Consultants, Inc. (Raftelis) is pleased to provide this 2022 Utility Revenue Sufficiency Study Report (Report) for South Island Public Service District (District) to address the revenue sufficiency needs over the next five years and support the issuance of the Waterworks and Sewer System Revenue Bonds, Series 2022 (Series 2022 Bonds). We have summarized the results of our analysis in this Report for your consideration. This Report provides a forecast for the period of July 1, 2022 through June 30, 2027.

In our analysis, we have relied upon certain information and data compiled by the District and its Financial Advisor including, but not limited to capital improvement plans, Annual Financial Reports; budgets; periodic reports; financing documents; and other information and data provided by the District. To the extent we have performed our analyses using the data and information obtained from the District and others in the preparation of this report, we have relied upon such information to be accurate and no assurances are intended and no representation or warranties are made with respect thereto or the use made herein.

Following this letter is an executive summary and report outlining the assumptions and considerations used in developing the utility system financial projections and our observations and recommendations regarding future rate levels.

It has been a pleasure working with you, and we thank you and the District staff for the support provided during the course of this study.

Sincerely,

A handwritten signature in black ink that reads "Tony Hairston".

Tony Hairston

Vice President

A handwritten signature in black ink that reads "Robin Chacko".

Robin Chacko

Senior Consultant

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Exhibit 4: Projected Water Revenue from Existing Rates

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Exhibit 6: Projected Reclaimed Water Revenue from Existing Rates

Exhibit 7: Historical and Projected Miscellaneous Revenues

Exhibit 8: Historical and Proposed Operating Budget

Exhibit 9: Water Operating Budget Projections

Exhibit 10: Sewer Operating Budget Projections

Exhibit 11: Capital Improvement Plan – Inflated

Exhibit 12: Projected Water Revenue Requirements

Exhibit 13: Projected Sewer Revenue Requirements

Exhibit 14: Combined System Projected Debt Service Coverage

Exhibit 15: Utility Fund Balance Projections

Executive Summary

Introduction

The South Island Public Service District (District) is a political subdivision of the State of South Carolina. The District is operated, managed and governed by a nine-member Commission. The District provides utility service to approximately 9,100 potable water accounts and 8,200 sewer accounts throughout its service area, which is located in the southern portion of Hilton Head Island. While the District is not a municipality, it operates in a similar manner to a typical utility enterprise fund where the monthly user fees and charges established for water and sewer services must generate the necessary revenues to recover the full cost of providing service. Since the District does not have many other governmental funds available, maintaining reserve funds is imperative should there be a revenue shortfall or extraordinary event (e.g., hurricane). The District's primary source of revenues is earned from the monthly fixed and variable user rates, therefore it is prudent to review these rate levels periodically to ensure that revenues are sufficient to meet future expenditure needs.

The District retained Raftelis Financial Consultants, Inc. (Raftelis) to conduct a utility revenue sufficiency study to update the most recent rate study last completed in January 2021 (2021 Rate Study) and to support issuance of the Waterworks and Sewer System Revenue Bonds, Series 2022 (Series 2022 Bonds). The major components of this updated revenue sufficiency study include:

1. Ensure the water and sewer system recovers its operation and maintenance costs;
2. Ensure the water and sewer system can fund the existing and proposed debt service;
3. Ensure sufficient funding for capital improvement projects;
4. Identify any rate adjustments needed to support the water and sewer system; and
5. Maintain adequate utility operating reserves and exceed minimum debt service coverage requirements.

The remainder of the executive summary provides an overview of the study and includes our findings and recommendations for the District.

Capital Improvement Funding

The 2021 Rate Study projected two separate financings to support capital improvement funding. The proposed Series 2022 Bonds represent the first of those two financings. A summary of the projects to be financed with proceeds of the Series 2022 Bonds is detailed in Section 3 of this report. The second financing, the projected Series 2024 Bonds, is anticipated to be undertaken during the fiscal year ending June 30, 2025 (FY 2025) to provide funding for the construction of the District's new reverse osmosis water treatment plant.

During the current fiscal year ending June 30, 2023 through June 30, 2027 (Forecast Period), the District has identified \$111.0 million of capital improvements including both upgrade and expansion of system assets and replacement of existing assets. There are several large projects in the CIP including necessary high service pump stations and water lines, construction of a cretaceous well, construction of the new reverse osmosis water treatment plant, an alternate disinfection project, and other upgrades. Funding sources for the CIP include existing reserves and revenue generated from current users ("pay-as-you-go") and the issuance of new debt. The following summarizes the capital funding sources:

- \$73.4 million: Proposed Series 2022 Revenue Bonds
 - New distribution waterline (Greenwood/Wexford/Cordillo)
 - High service pump station
 - Water supply (Cretaceous Well No.1 & No. 2)
 - Alternative wastewater disinfection
 - Lift station upgrades
- \$23.5 million: Projected Series 2024 Revenue Bonds
 - Projected issuance date: October 2024
 - Reverse Osmosis Water Treatment Plant (partial funding)
- \$14.1 million: Reserve/Rate revenue funding
 - Reverse Osmosis Water Treatment Plant (partial funding)
 - Water and sewer line replacement
 - Manhole rehabilitation
 - Small projects/equipment

The amounts shown above are derived from Exhibit 11 at the end of this report.

Debt Service Coverage

As described further in Section 3, the District currently has two outstanding debt obligations: the Waterworks and Sewer System Improvement Revenue Bonds, Series 2012 (Series 2012 Bonds) and the Waterworks and Sewer System Refunding Revenue Bonds, Series 2017 (Series 2017 Bonds). The District is anticipated to issue the proposed Series 2022 Bonds and the projected Series 2024 Bonds in the next few years to complete the funding of the \$111.0 million five-year CIP. The Bond Resolution authorizing the outstanding indebtedness requires that Net Revenues each year from the water and sewer system exceed a minimum debt service coverage threshold. As shown on the table below and detailed on Exhibit 14 at the end of this report, with the recommended and projected rate increases (described below) from FY 2024 through FY 2027, the projected debt service coverage exceeds the minimum requirement each year.

Table ES- 1: Projected Debt Service Coverage

Description	FY 2023	FY 2024	FY 2025 [3]	FY 2026 [3]	FY 2027 [3]
Net Revenues Available for Debt Service Coverage [1]	\$6,400,700	\$7,460,800	\$8,819,700	\$9,089,300	\$9,044,800
Debt Service Requirement	\$2,730,663	\$4,684,450	\$5,773,188	\$6,399,750	\$6,785,500
Calculated Debt Coverage [2]	2.34	1.59	1.53	1.42	1.33

[1] Amounts derived from Exhibit 14 at the end of the report and assumes the proposed and projected rate increases are implemented. In accordance with the Bond Resolution, Net Revenues exclude the projected tower lease revenues.

[2] Minimum coverage required = 1.20x. Debt service coverage calculated by dividing Net Revenues by the annual debt service requirement. Coverage assumes the issuance of the proposed Series 2022 Bonds and the projected Series 2024 Bonds.

[3] Since the issuance of the projected Series 2024 Bonds is at least two years from the date of this report, Raffetis calculated the projected debt service coverage excluding the issuance of the projected Series 2024 Bonds and without the 5.0% water rate adjustments in FY 2026 and FY 2027. The projected debt service coverages with these changes are 1.68x, 1.62x, and 1.49x in FY 2025, FY 2026, and FY 2027, respectively.

For purposes of the summary above and detailed projections derived from Exhibit 14 at the end of the report, Net Revenues have been determined in accordance with the provisions of the Bond Resolution.

Sufficiency of Recommended and Projected Utility Rate Revenues

The existing FY 2023 rates are projected to not be sufficient to support the net revenue requirements in the later years of the Forecast Period. Additionally, if these rates are not sufficient to support the net revenue requirements, then the fund balances and funding available to complete the CIP will not be sufficient. The table below illustrates the rate adjustments necessary to meet operating requirements, debt service coverage requirements, capital requirements and the minimum targets for the reserve funds:

Table ES- 2: Annual Rate Adjustments

Fiscal Year	Water [1]	Sewer [1]
2024 [2]	12.00%	8.00%
2025 [2]	12.00%	8.00%
2026 [3]	5.00%	0.00%
2027 [3]	5.00%	0.00%

[1] Overall rate revenues to increase by percentages shown above. The reclaimed water rate revenues are projected to increase at the water percentages shown above.

[2] The rate adjustments shown in FY 2024 and FY 2025 are recommended effective July 1, 2023 and July 1, 2024, respectively. These proposed rate adjustments are consistent with the projected rates for this period during the 2021 Rate Study performed by Raftelis in January 2021.

[3] The water rate adjustments shown in FY 2026 and FY 2027 are projected but not recommended at this time given the uncertainty regarding the timing and cost of future capital improvements and other factors that may affect these projected rate adjustments.

Assuming the rate adjustments as shown on Table ES-2 are implemented beginning July 1, 2023 and each ensuing July 1, the following tables provide an illustration of the projected revenue sufficiency for the water and sewer system.

Table ES- 3: Water Revenue Sufficiency Forecast under Projected Rate Adjustments

Description [1]	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Rate Revenue from Projected Rates	\$8,714,500	\$9,773,100	\$10,960,500	\$11,523,600	\$12,115,800
Net Revenue Requirements	6,180,532	8,636,582	9,380,388	10,000,806	11,279,310
Surplus/(Deficiency)	\$2,533,968	\$1,136,518	\$1,580,112	\$1,522,794	\$836,490

[1] The detailed projected revenue sufficiency for the water system over the Forecast Period can be found in Exhibit 12.

Table ES- 4: Sewer Revenue Sufficiency Forecast under Projected Rate Adjustments

Description [1]	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Rate Revenue from Projected Rates	\$5,952,500	\$6,436,300	\$6,959,300	\$6,967,500	\$6,975,700
Net Revenue Requirements	5,517,281	5,406,368	6,009,100	6,302,844	6,567,490
Surplus/(Deficiency)	\$435,219	\$1,029,932	\$950,200	\$664,656	\$408,210

[1] The detailed projected revenue sufficiency for the sewer system over the Forecast Period can be found in Exhibit 13.

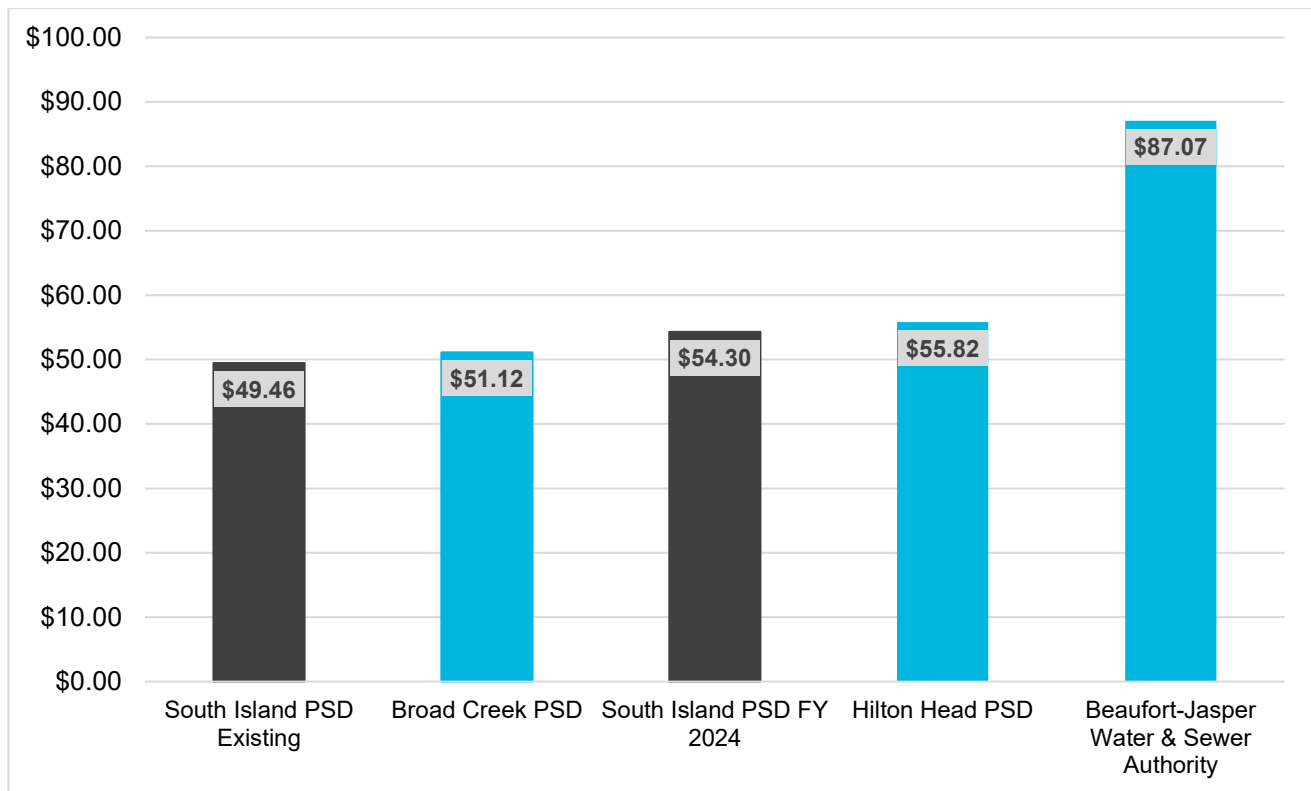
Under the projected water and sewer rate adjustments shown on Table ES- 2, the District’s water and sewer system generate surpluses each year of the Forecast Period. These surpluses can be used to build and maintain adequate

cash reserves to meet day-to-day funding needs as well as fund any unidentified capital improvements needed in the future.

Comparison to Other Utility Providers

The figure below provides an illustration of the District’s existing and proposed FY 2024 water and sewer bill at 6,000 gallons compared to that of the other two utilities on Hilton Head Island and Beaufort-Jasper Water & Sewer Authority, which serves much of the area around and proximate to Hilton Head Island. Since the single-family residential customer class represents a majority of the District’s customer base, the comparison below will focus on this class. As shown below, a single-family residential customer using 6,000 gallons will see an increase in their combined water and sewer bill of \$4.84 from \$49.46 to \$54.30. However, the proposed FY 2024 monthly charge for this customer class is below the monthly charge for this customer class of both Hilton Head No. 1 Public Service District (Hilton Head PSD) and Beaufort-Jasper Water & Sewer Authority.

Figure ES- 1: Single-Family Residential Rate Comparison (6,000 Gallons)



Note: Broad Creek Public Service District (Broad Creek PSD) and Hilton Head PSD levy ad valorem taxes to support its water and sewer system while the District and Beaufort-Jasper Water & Sewer Authority are not supported by ad valorem taxes.

Findings, Conclusions and Recommendations

As set forth herein, our findings, conclusions and recommendations are summarized below:

1. The District should implement the annual rate adjustments for the water and sewer system in FY 2024 and FY 2025. These rate adjustments will provide the District with adequate funding for the operating expenses,

debt service (including the proposed Series 2022 Bonds) and planned capital improvements while maintaining adequate reserves during this period.

2. The water rate adjustments shown in FY 2026 and FY 2027 are projected but not recommended at this time given the uncertainty regarding the timing and cost of future capital improvements and other factors that may affect these projected rate adjustments. The District should review these future rate increases concurrent with the issuance of the projected Series 2024 Bonds.
3. The proposed and future projected rate adjustments, identified on Table ES- 2, are designed to fund approximately \$111.0 million in capital projects through FY 2027. Significant projects include necessary high service pump stations and new distribution water lines, water supply projects, an alternate disinfection project, the construction of a new reverse osmosis water treatment plant, and other upgrades.
4. The proposed FY 2024 water and sewer bill for a single-family residential customer using 6,000 gallons a month remains favorable compared to other nearby utilities surveyed.

Section 1. Introduction

Background

The South Island Public Service District (District) is a political subdivision of the State of South Carolina. The District is operated, managed and governed by a nine-member Commission. The District provides water, sewer, and reclaimed water services to its customers located in the southern portion of Hilton Head Island, primarily the areas known as Sea Pines Resort, North and South Forest Beach, Shipyard Plantation, Wexford Plantation and Long Cove Club. The island is also serviced by two other utilities: Hilton Head No. 1 Public Service District (Hilton Head PSD) and Broad Creek Public Service District (Broad Creek PSD). Broad Creek PSD serves the middle of Hilton Head Island, primarily Palmetto Dunes Resort and Shelter Cove. Hilton Head PSD serves the properties on the island located north of Broad Creek PSD's service area. The figure below provides a map illustrating the portions of Hilton Head Island serviced by the District:

Figure 1: District Service Area



Since the District operates as a proprietary or enterprise fund, the cost of providing service is primarily funded with the monthly user fees. The goal of this study is to project the District's operating revenues to ensure sufficiency for recovering the projected cost of operating, maintaining, repairing and financing the utility assets that comprise the District's system.

Scope of Services

The District is planning to issue the Waterworks and Sewer System Revenue Bonds, Series 2022 (Series 2022 Bonds) to fund certain water and sewer projects within its five-year Capital Improvement Plan (CIP). The Series 2022 Bonds are anticipated to provide funding for approximately \$74 million of capital projects within the CIP. To support the issuance of the bonds, the District has engaged Raftelis Financial Consultants, Inc. (Raftelis) to perform a utility revenue sufficiency study to ensure adequate funding for utility operations and capital improvements necessary to continue the provision of adequate service to existing customers and meet the requirements of growth, regulatory requirements, and utility system replacement and upgrades. This report utilizes a model built by Raftelis which includes a financial forecast that includes the capability to model specific water and sewer rate adjustments to achieve the District's financial objectives during the current fiscal year ending June 30, 2023 through June 30, 2027 (Forecast Period). The District operates on a fiscal year (FY) beginning July 1 and ending on June 30 of the subsequent calendar year. References herein to a FY followed by a year means the fiscal year ending on June 30 of the year stated.

Summary of Report

In addition to Section 1, this report is subdivided into two other sections. The following is a brief discussion of the remaining sections included in this report.

Section 2: Customer, Sales, and Revenues from Existing Rates – This section introduces the District's existing water and sewer rates as well summarizes the historical FY 2022 and projected water, sewer, and reclaimed water customers and sales. Customer projections are primarily based on recent historical trends and expected future sales with a conservative outlook. Also included are the rate revenue forecasts at existing July 1, 2022 user rates.

Section 3: Utility Revenue Sufficiency – This section summarizes the District's forecast of revenue requirements, which serves as the basis for the revenue sufficiency analysis. Included in this section is a discussion of the assumptions utilized in the forecast of utility operating expenditures, debt service (including the proposed Series 2022 Bonds), other operating revenues, capital improvement needs and reserve fund balances. In addition, this section provides a comparison of rates to other local utilities.

Acknowledgements

This report was prepared with the cooperation and assistance of the District staff and its Financial Advisor, First Tyron Advisors. Raftelis would like to thank the following individuals in particular for their valuable assistance during the course of the study: Mr. Papu Tafao, Ms. Tamara Munson, and the rest of the District staff that provided assistance during this project.

Section 2. Customer, Sales, and Revenues from Existing Rates

General

A major component to determine sustained revenue sufficiency for water and sewer service is the development of a forecast of customers and sales. The District provided historical customer billing statistics which will serve as the basis for the recent historical trends and the forecast of customers through FY 2027. Also, this section introduces the District's existing water, sewer, and reclaimed water rates.

Existing Rate Structure

The District's current rates, effective July 1, 2022, reflect an across-the-board 12.0% increase on the water and reclaimed water rates and an 8.0% increase on the sewer rates. Prior to this increase, effective July 1, 2021 the Commission implemented a 14.0% and 9.0% rate adjustment to the water and sewer rates, respectively, as well as modified the rate structure. Several modifications were made to the water rate structure including adding an additional tier (increasing from 3 tiers to 4 tiers) to the residential and irrigation classes, and adjusting the usage allowances within each tier. These changes were designed to continue discouraging excessive water usage among these customer classes. Another major adjustment to the rates included converting all customers to a monthly billing arrangement (some District customers were previously billed on a quarterly basis).

The District's existing water rates include: i) a monthly fixed base charge based either on the number of rooms for Hotel/Motel customers, the number of units for residential and commercial customers, or customer accounts for irrigation and reclaimed water customers; and ii) volumetric charges based on metered water use. The single-family residential customer class, which is the District's largest class of customer, has an existing monthly base charge of \$14.06, which does not include any metered water usage. The customer's water usage is then charged according to an inclining four tier structure. The first tier is for monthly usage between 0 and 6,000 gallons and the rate is currently \$1.25 per 1,000 gallons. The monthly usage between 6,001 and 12,000 gallons is charged the tier 2 rate which is currently \$2.84 per 1,000 gallons. The monthly usage between 12,001 and 20,000 gallons is charged the tier 3 rate of \$3.98 per 1,000 gallons. And the tier 4 rate is \$5.47 per 1,000 gallons, and this is charged for all monthly usage above 20,000 gallons.

The District's existing water rates are summarized in the table below:

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Table 1: Existing Water Rates effective July 1, 2022

Description	Amount
Base Charges	
Single-Family Residential	\$14.06
Multi-Family Residential	\$14.06
Commercial	\$42.17
Hotel/Motel (per Room)	\$8.78
Irrigation (Separate Meter)	\$14.06
Reclaimed Water	\$14.06
Volumetric Charges (per 1,000 Gallons)	
Residential and Irrigation Rates [1]	
Tier 1 (0 – 6,000)	\$1.25
Tier 2 (6,001 – 12,000)	\$2.84
Tier 3 (12,001 – 20,000)	\$3.98
Tier 4 (Above 20,000)	\$5.47
Commercial Rate (All Usage)	\$2.84
Reclaimed Water Rate (All Usage)	\$1.21

[1] These rates apply to single-family, multi-family, hotel/motel, and all irrigation customer accounts.

The District’s current sewer rates include: i) a monthly fixed base charge based either on the number of rooms for Hotel/Motel customers or the number of units for residential and commercial customers; ii) a volumetric charge based on metered water use; and iii) a cap on single-family residential sewer usage charges of 12,000 gallons per month. For example, the majority of the District’s customers, single-family residential, are charged the \$15.42 base charge per month and charged a volumetric rate of \$2.08 per 1,000 gallons for the first 12,000 gallons of monthly metered water use only. This monthly billing cap is designed to minimize the amount of outdoor irrigation water that is billed for sewer services.

The existing sewer rates are summarized in the table below:

(Remainder of page intentionally left blank)

Table 2: Existing Sewer Rates effective July 1, 2022

Description	Amount
Base Charges	
Single-Family Residential	\$15.42
Multi-Family Residential	\$15.42
Commercial	\$46.27
Hotel/Motel (per Room)	\$9.64
Volumetric Charges (per 1,000 Gallons)	
	Amount
Standard Rate [1] [2]	\$2.08
Restaurant Rate (All Usage)	\$4.17

[1] These rates apply to single-family, multi-family, hotel/motel, and all non-restaurant commercial customer accounts.

[2] Single-family residential usage capped at 12,000 gallons per unit per month. All other customers receiving the standard rate are billed for all usage.

Historical Customer Statistics

For this revenue sufficiency study, the District provided summarized monthly billing reports for FY 2021 and FY 2022. The information contained in the monthly reports included the number of customers by service type and customer class, the metered monthly usage for each class, and the corresponding water or sewer billed amount. Based on a review of the data, the District provides service to seven distinctive customer groups as shown below:

- Single-Family Residential;
- Multi-Family Residential;
- Commercial;
- Hotel/Motel;
- Restaurant;
- Irrigation; and
- Reclaimed Water

The following table provides a summary of the water customer data for FY 2022, including the number of accounts, units, annual metered consumption, and the average monthly consumption per unit by customer group.

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Table 3: FY 2022 Water Customer Statistics

Customer Class	Accounts	Units	Annual Metered Consumption (1,000 gallons)	Avg. Monthly Consumption per Unit (1,000 gallons)
Single-Family Residential	7,200	7,201	968,054	11.2
Multi-Family Residential	496	7,178	335,701	3.9
Commercial	455	549	158,793	24.1
Hotel/Motel	23	2,023	82,436	3.4
Restaurant	146	237	75,775	26.6
Irrigation	720	720	299,459	34.7
Total	9,040	17,908	1,920,218	8.9

Note: The July 2021 monthly billing report provided by the District appears to include outliers within the metered consumption data. These outliers may be partly due to the transition of all customers to monthly billing (from quarterly billing) during this month. As a result, the FY 2022 consumption data shown above have been estimated using a combination of the monthly billing reports provided by the District and the customer data statistics analyzed in the previous 2021 Rate Study.

As shown on the table above, the District served over 9,000 customer accounts during FY 2022 with an average monthly consumption of 8,900 gallons per unit. The single-family residential class, which represents the largest number of accounts for the water system, had an average monthly consumption closer to 11,200 gallons per unit. Multi-family residential represented close to 500 customer accounts and approximately 7,200 dwelling units. Their average monthly usage during FY 2022 was lower, relative to single-family residential, at 3,900 gallons per unit.

The table below provides the number of customers, units, consumption, and the average monthly consumption per unit by customer group for the sewer system for FY 2022:

Table 4: FY 2022 Sewer Customer Statistics

Customer Class	Accounts	Units	Annual Metered Consumption (1,000 gallons)	Avg. Monthly Consumption per Unit (1,000 gallons)
Single-Family Residential	7,050	7,052	930,624	11.0
Multi-Family Residential	494	7,164	335,990	3.9
Commercial	440	532	154,957	24.3
Hotel/Motel	21	1,846	82,436	3.7
Restaurant	144	234	76,367	27.2
Total	8,149	16,827	1,580,373	7.8

Note: The July 2021 monthly billing report provided by the District appears to include outliers within the metered consumption data. These outliers may be partly due to the transition of all customers to monthly billing (from quarterly billing) during this month. As a result, the FY 2022 consumption data shown above have been estimated using a combination of the monthly billing reports provided by the District and the customer data statistics analyzed in the previous 2021 Rate Study.

For the sewer system, the District provided service to over 8,100 customer accounts and the average monthly use per unit for the entire sewer system was about 7,800 gallons. The single-family residential class, which is also the largest customer class for the sewer system, comprises approximately 87% of the customer accounts, 59% of the annual consumption, and the class averaged 11,000 gallons per unit on a monthly basis in FY 2022.

The District also provides reclaimed water service to a small number of customers in its service area. As shown in the table below, there were 133 customers during FY 2022 and the average monthly use per customer during this period was approximately 248,000 gallons.

Table 5: FY 2022 Reclaimed Water Customer Statistics

Description	Accounts	Units	Annual Metered Consumption (1,000 gallons)	Avg. Monthly Consumption per Unit (1,000 gallons)
Reclaimed Water	133	133	395,000	247.5

Note: After February 2022, there was no reclaimed water data available within the monthly billing reports provided by the District. As a result, the information shown above was estimated using a combination of the monthly billing reports prior to March 2022, the actual FY 2022 reclaimed water revenues billed as reported by the District, and the customer data statistics analyzed in the previous 2021 Rate Study.

Customer and Sales Forecast

The development of a forecast of sales, units, and customers is necessary in the evaluation of the adequacy of water and sewer system rate levels. The summarized monthly billing reports provide historical actual data associated with the number of accounts and units together with the total metered consumption by customer class which will serve as the basis for the forecast of customers through the end of the Forecast Period.

Pursuant to discussions with District staff, reviewing the customer growth over the last two years, and maintaining a conservative approach to forecasting customer growth, an average annual growth rate of 0.2% is assumed during the Forecast Period. This growth rate equates to approximately 20 new water and sewer customer accounts per year.

A summary of the forecasted growth in customer accounts, units, and total metered consumption for the water system is provided in Table 6 below with more detailed information provided in Exhibit 1.

Table 6: Water Customer Forecast

Fiscal Year	Accounts	Units	Annual Metered Consumption (1,000 gallons)	Avg. Monthly Consumption per Unit (1,000 gallons)
Historical:				
2022	9,040	17,908	1,920,218	8.9
Projected:				
2023	9,060	17,928	1,922,900	8.9
2024	9,080	17,948	1,925,590	8.9
2025	9,100	17,968	1,928,280	8.9
2026	9,120	17,988	1,930,970	8.9
2027	9,140	18,008	1,933,660	8.9

As shown in the table above, with an increase of 20 customer accounts each year, it is projected that the District will provide service to over 9,100 customer accounts by FY 2027. Table 7 below provides the forecast of customer and sales for the sewer system:

Table 7: Sewer Customer Forecast

Fiscal Year	Accounts	Units	Annual Metered Consumption (1,000 gallons)	Avg. Monthly Consumption per Unit (1,000 gallons)
Historical:				
2022	8,149	16,827	1,580,373	7.8
Projected:				
2023	8,173	16,851	1,583,010	7.8
2024	8,193	16,871	1,585,650	7.8
2025	8,213	16,891	1,588,290	7.8
2026	8,233	16,911	1,590,930	7.8
2027	8,253	16,931	1,593,570	7.8

Further detail on the sewer customer projections can be found in Exhibit 2 at the end of this report.

As shown in Table 8 below, it is assumed that the reclaimed water customers and consumption is projected to remain at the FY 2022 levels throughout the Forecast Period.

Table 8: Reclaimed Water Customer Forecast

Fiscal Year	Accounts	Units	Annual Metered Consumption (1,000 gallons)	Avg. Monthly Consumption per Unit (1,000 gallons)
2023	133	133	395,000	247.5
2024	133	133	395,000	247.5
2025	133	133	395,000	247.5
2026	133	133	395,000	247.5
2027	133	133	395,000	247.5

Revenue from Existing FY 2023 Rates

The projection of customers, units and consumption discussed in this section serves as the basis for the water and sewer revenue forecast. By applying the adopted monthly user rates to the customer statistics, the expected operating revenue from existing rates for each year can be calculated. The forecast schedule of operating revenue from existing rates, effective July 1, 2022, is shown on the tables below.

Table 9: Water Revenue Forecast at Existing FY 2023 Rates

Description [1]	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Base Charges	\$3,161,700	\$3,165,100	\$3,168,500	\$3,171,900	\$3,175,200
Volumetric Charges	5,552,800	5,560,900	5,569,200	5,577,200	5,585,500
Total Revenue from Existing Rates	\$8,714,500	\$8,726,000	\$8,737,700	\$8,749,100	\$8,760,700

[1] The revenue projections shown above are based on the rates as of July 1, 2022. Projected revenue under the proposed rates is summarized in Table 20 and Exhibit 12 at the end of this report.

The table above distinguishes between the fixed base charges and the volumetric portion of water revenues. The revenues derived from the fixed base charges comprise approximately 36% of water system revenues. The remaining

64% of water revenues are derived from metered usage, which can vary month to month due to a variety of circumstances including seasonal demand, weather, economic conditions, and other factors.

Table 10: Sewer Revenue Forecast at Existing FY 2023 Rates

Description [1]	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Base Charges	\$3,276,000	\$3,279,700	\$3,283,400	\$3,287,100	\$3,290,800
Volumetric Charges	2,676,500	2,679,800	2,683,100	2,686,400	2,689,700
Total Revenue from Existing Rates	\$5,952,500	\$5,959,500	\$5,966,500	\$5,973,500	\$5,980,500

[1] The revenue projections shown above are based on the rates as of July 1, 2022. Projected revenue under the proposed rates is summarized in Table 21 and Exhibit 13 at the end of this report.

Based on the forecast customer growth and usage trends, the water and sewer revenues at existing rates are projected to increase by approximately 0.1% annually during the Forecast Period.

To calculate revenues from reclaimed water customers, the customer statistics were applied to the appropriate rates in effect as of July 1, 2022. Existing rates for reclaimed water customers consist of a monthly fixed base charge of \$14.06 per customer and a volumetric charge per 1,000 gallons of \$1.21. Based on the existing rates and customer statistics above, the following table provides the base and volumetric reclaimed water revenues projected for the remainder of the Forecast Period.

Table 11: Reclaimed Water Revenue Forecast at Existing FY 2023 Rates

Description	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Base Charges	\$22,400	\$22,400	\$22,400	\$22,400	\$22,400
Volumetric Charges	478,000	478,000	478,000	478,000	478,000
Total Revenue from Existing Rates	\$500,400	\$500,400	\$500,400	\$500,400	\$500,400

[1] The revenue projections shown above are based on the rates as of July 1, 2022. Projected revenue under the proposed rates is summarized in Exhibit 7 at the end of this report.

Section 3. Utility Revenue Sufficiency

General

The various components of cost associated with operating and maintaining a utility system, as well as the cost of financing the renewal and replacement of facilities and capital improvements for upgrades and expansion, are generally referred to as the utility revenue requirements and are accounted for on a cash basis. The sum of these cost components, after adjusting for other income and miscellaneous utility revenues, represents the net revenue requirements that must be funded from the utility rates. The projected revenue requirements include the various generalized cost components described below:

- Operating Expenses: These expenses include the cost of labor, insurance, electricity, chemicals, materials, supplies, administration, and other items necessary for the operation and maintenance of the system.
- Debt Service: Debt service includes the principal and interest on the District's current outstanding revenue bonds and any other debt obligations payable from the Net Revenues of the system. The system currently has the Waterworks and Sewer System Improvement Revenue Bonds, Series 2012 (Series 2012 Bonds) outstanding with payments due through FY 2024, and the Waterworks and Sewer System Refunding Revenue Bonds, Series 2017 (Series 2017 Bonds) outstanding with payments due through FY 2032. As discussed further below, the projected revenue requirements also include the assumption that the District will issue additional debt during the five-year period to fund certain capital improvements.
- Other Revenue Requirements: This component of cost includes, in general, any ongoing capital improvements to be funded from rate revenue, transfers to reserves for future infrastructure rehabilitation, funding of certain capital projects on a pay-as-you-go basis, and other revenue requirements.

Principal Assumptions and Considerations

The projected revenue requirements are summarized in this section and are provided in more detail in the exhibits at the end of this report. The major assumptions, considerations and analyses that are included in the development of the projected revenue requirements are as follows:

1. The District's adopted budget for FY 2023, and the actual historical expenditures from the prior fiscal years served as the basis for expenditure projections. The various divisions in the budget are allocated between water and sewer based on a variety of factors including direct allocations to water and sewer, and allocations based on the number of customer accounts in each system. Unless otherwise noted, the underlying assumptions and expenditure amounts included therein are assumed to be reasonable and reflect anticipated operations. Such budgetary amounts are incorporated into the revenue requirements component of the study, except for adjustments and assumptions as noted below.
2. The operating and maintenance expenditures budgeted for FY 2023 are the basis for the projections for the remaining four years of the Forecast Period (i.e., through June 30, 2027). Non-operating expenditures have been adjusted to account for operating and other capital, debt service, and other expenditures separately. Schedules providing budget line-item detail of projected operating expenses are shown on Exhibits 9 and 10 at the end of this report. The primary assumptions associated with the projected operating expenses as developed for the Forecast Period are as follows:

- a. Salaries and wages of the different divisions were increased above budgeted amounts by 3.0% annually to reflect wage adjustments resulting from promotions and merit increases as well as cost of living adjustments due to inflationary pressures. Health care expenditures (i.e., health and life insurance) are projected to increase by 20.0% annually. This is increasing much faster than salaries and taxes and is based on conversations with District staff on the historical actual health care expenditures recently experienced by the District.
 - b. There are four additional water operations personnel assumed during the Forecast Period. Two additional personnel in FY 2024 and the remaining two personnel in FY 2027. All four water operations personnel, including salaries and benefits, have been factored into the forecast of operating and maintenance expenses. By FY 2027, these additional employees account for a total budget impact of approximately \$360,000.
 - c. The projection of variable costs for water and sewer operations such as purchased power (electricity) and chemicals were based on the five-year U.S. city average change in electricity and industrial chemicals as published by the Bureau of Labor Statistics as of July 2022. Based on the historical increases in these variable costs, the electricity and chemicals are escalated by 4.0% and 8.0% per year, respectively, during the Forecast Period.
 - d. Based on discussions with District staff, the South Carolina Retirement line item within the operating and maintenance budget is projected to increase by 4.0% annually.
 - e. The FY 2023 Budget included \$120,000 for granulated activated carbon (GAC) treatment costs within the Water Operations division. Based on conversations with staff, this treatment process will no longer be utilized after FY 2025, therefore the projected costs have been reduced to \$0 for the last two years of the Forecast Period.
 - f. Miscellaneous expenditures such as general maintenance, supplies, and other operating costs are projected to increase above the budgeted levels by 2.5% per year to reflect anticipated general inflation. Assumptions for inflation were based on the Consumer Price Index as projected by the Congressional Budget Office as contained in *An Update to the Budget and Economic Outlook: 2022 to 2032* report published in May 2022 (the most recent update published at the time of this analysis).
3. As of June 30, 2022, the District had two outstanding debt obligations payable from Net Revenues. The Series 2012 Bonds were used to finance the construction of aquifer storage and recovery facilities, water distribution piping and reliability improvement measures for the District's water production and distribution plant, and other capital improvements to the system. The outstanding balance as of June 30, 2022, was \$1,125,000 and the Series 2012 Bonds will mature in FY 2024. The second series of bonds, Series 2017 Bonds, were used to advance refund a portion of the District's 2010 Bonds and Series 2012 Bonds. The outstanding balance as of June 30, 2022, was \$8,290,000 and the Series 2017 Bonds will mature in FY 2032. The total annual debt service requirement for these bonds is approximately \$1.1 million during the Forecast Period and the required coverage ratio from Net Revenues is 120%. Each of the outstanding debt obligations is allocated between water and sewer for forecasting purposes. The Series 2017 Bonds are allocated equally between the water and sewer system, and the Series 2012 Bonds are allocated entirely to the water system.
 4. The capital expenditures planned over the next five years are based on the District's capital improvement plan (CIP) provided by staff. The CIP identifies \$107.1 million in project expenditures through FY 2027 and comprises a variety of major additions, extensions, improvements, and rehabilitations of the water and sewer systems. The costs of the CIP, as provided by staff, were reflected in today's dollar value for all five years of the plan. For the purposes of this analysis, the capital costs after FY 2023 were escalated by 2.5% per year to account for rising costs and inflation. Raftelis made additional capital expenditure adjustments in the final year of the CIP to account for any unforeseen (not yet identified) projects that may occur. As shown in Exhibit 11 at the end of this report, the updated and inflated CIP totals \$111.0 million in project expenditures through FY 2027.

With average expenditures of over \$22 million per year, a variety of funding sources will be needed for the CIP as the yearly average exceeds the revenues available from user rates after paying for operating expenses

and existing debt service. There are several large projects in the CIP, including necessary high service pump stations and new distribution water lines, water supply projects, an alternate disinfection project, and other upgrades. The five-year CIP also includes the construction of the new reverse osmosis (RO) water treatment plant that is estimated to cost approximately \$34.7 million. Table 12 below illustrates the anticipated funding sources for the CIP, which is fully funded from a combination of existing reserves and water and sewer operating revenue (“pay-as-you-go”) and the issuance of new debt. The issuance of new debt has been identified at approximately \$96.9 million, or over 87% of the total projected funding sources.

Table 12: Projected Five-Year CIP Funding Sources

Description [1]	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Total
Water Revenue	\$175,000	\$512,600	\$297,400	\$161,500	\$607,100	\$1,753,600
Sewer Revenue	944,800	461,300	472,800	484,600	441,500	2,805,000
Series 2022 Bonds	28,703,500	31,402,300	13,294,200	0	0	73,400,000
Series 2024 Bonds	0	0	8,537,100	14,962,900	0	23,500,000
Unrestricted Reserves	0	3,053,400	5,491,800	957,600	0	9,502,800
Total	\$29,823,300	\$35,429,600	\$28,093,300	\$16,566,600	\$1,048,600	\$110,961,400

[1] Full CIP with project descriptions shown in Exhibit 11.

- As shown on Table 12 above, it is anticipated that the District will be issuing new debt in the next few years in order to fund several large water and sewer projects. The proposed Series 2022 Bonds represent the first of two financings needed to complete the funding of the \$111.0 million five-year CIP. A description of the projects anticipated to be funded by the proposed Series 2022 Bonds are summarized below:

Greenwood Pipelines (\$8,007,700):

This pipeline project includes the installation of 12,000 feet of new 12-inch drinking water line from the intersection of Baynard Park Road and Plantation Drive, along Plantation Drive to the intersection of Plantation and Greenwood Drive, to the front of the Sea Pines CSA Office located at 175 Greenwood Drive. This project also includes a 12-inch drinking water line running from the Lighthouse Elevated Storage Tank, along Muirfield Road to the intersection of Muirfield Road and Plantation Drive. As well as a 10-inch reverse osmosis concentrate line that will be installed from 175 Greenwood Drive, down Plantation Drive to the intersection of Plantation Drive and Calibogue Cay Road.

Wexford Pipelines (\$18,096,100):

This project continues the installation of pipelines from the Greenwood Pipelines project. A new 12-inch drinking water line will be installed from 175 Greenwood Drive to the site of the future RO plant, located off Dunnagans Alley. The 12-inch line increases in size to 16-inches at Governor’s road and remains 16-inches for the remainder of the route. The installation of a new 10-inch concentrate line is also continued from 175 Greenwood Drive to the site of the future RO plant. The route goes along Greenwood Drive, through the Sea Pines Traffic Circle, along both sides of Highway 278, through the back side of the Village at Wexford shopping area, ending off Dunnagans Alley. Another new 16-inch line for raw water will also be installed from the Sea Pines Traffic Circle to the future RO plant site.

Cordillo Pipelines (\$2,431,300):

The new High Service Pump Station project at the existing RO plant, located off Cordillo Parkway, will provide more pumping capacity. To utilize the increase in pumping capacity, the pipelines down Cordillo Parkway toward Shipyard must be upgraded. This project replaces the existing line to 16-inch piping which will run from the entrance of the existing RO plant, down Cordillo Parkway, crossing Pope Avenue and tying into the existing distribution piping at the entrance of Shipyard. This project will also include the installation of a new 16-inch raw water pipeline, along the same route.

Pipelines Wex RO to LC/SY (\$6,724,700):

This project includes two new 16-inch pipelines (one for drinking water and one for raw water) running from the site of the future RO plant to the Long Cove Community. It also includes a new 12-inch pipeline (drinking water) that will cross Highway 278 and tie into the Shipyard pipeline at the Shipyard community's Highway 278 entrance gate area.

Raw Water Pipeline (\$3,694,400):

This project is the installation of a 16-inch raw water line from the Sea Pines Traffic Circle, along Pope Avenue, to the intersection of Pope Avenue and Cordillo Parkway. It will tie into the raw water lines installed from the Wexford Pipelines project (at the Traffic Circle) and then at the opposite end of the route at the raw water line installed from the Cordillo Pipeline project.

The completion of this project will provide a pipeline from the new RO plant to the existing RO plant. This will allow transmission of raw water from the cretaceous wells between the two RO plant sites. In the event that one of the cretaceous wells needs to be temporarily taken out of service, the affected RO plant can receive raw water from the operating cretaceous well.

Cretaceous Well No. 2 (\$10,272,400):

This project includes the site preparation work and drilling of a new Upper Floridan Aquifer (UFA) Well and a new Cretaceous Well (Cretaceous Number 2). The UFA well will be approximately 250 feet deep and Cretaceous Number 2 will be approximately 3,800 feet deep. This includes the drilling and development of both wells.

This project also includes a new storage tank and irrigation pump station for the Wexford Community Golf Course. The site of the new wells currently has a storage pond, filled by the District's reclaimed water system. The Wexford Golf Course uses this pond as source water for its irrigation system. The pond will be used during well development and then filled in to construct the new reverse osmosis plant. Because of this the District is providing a storage tank for reclaimed water and a new irrigation pump station.

High Service Pump Station (\$4,247,400):

The existing High Service Pump Station is more than 30 years old and in need of replacement. This pump station pumps the blend of RO plant discharge and UFA water into the District's distribution system. This project includes a new building, pumping system and demolition of the existing system. The pumping system comprises of three vertical turbine pumps, necessary controls, and yard piping.

The new pumping system will provide more capacity than the existing system. This requires the Cordillo Pipeline project to make use of the stations increase in capacity.

RO Water Treatment Plant (\$4,203,700):

This project is the new RO water treatment plant which will treat the water discharged from Cretaceous Well #2 of the same named project. This project includes the reverse osmosis trains, controls, pumps, yard piping, auxiliary buildings (disinfection, electrical, storage, chemical etc.), UFA Well controls building, emergency generator system and cooling towers.

The approximately \$4.2 million in project costs shown above represent a portion of the engineering costs only. The remaining project costs are anticipated to be funded through a combination of reserves and the projected Series 2024 Bonds.

Repair/Replace Cretaceous Well No. 1 (\$5,177,200):

Around September of 2021, cretaceous well No. 1 gravel material was showing in the well's discharge. It was determined a bridge-type packer was necessary to isolate the area where the gravel was coming into the casing screen. This project includes the engineering, testing, camera work and labor involved in the packer repair.

Cellular Meter Replacement Project (\$4,152,100):

Upgrade of existing radio meter system to cellular. The District reads approximately 9,000 meters per month. Currently the monthly readings result in an average of 250 service calls per month. By upgrading to cellular, the District should be able to handle most of the service calls remotely, saving on man-hours.

Alternate Disinfection (\$4,182,000):

The wastewater treatment plant uses chlorine gas for disinfection and sulfur dioxide for de-chlorination. The District is looking to replace the use of chlorine gas by going to an alternate method (bleach system or peracetic acid). This will remove the chlorine safety requirements under the risk management plan and eliminate or reduce the size of the de-chlorination system.

Abandon UFA Wells (\$358,800):

Expenses of demolition of abandoned UFA well structures.

Lift Station Upgrade SP #28 – Bluff Villas (\$352,300):

Equipment and piping upgrade of existing lift station, including electrical controls.

Lift Station Upgrade SP #9 (\$320,300):

Equipment and piping upgrade of existing lift station, including electrical controls.

Sewage Forcemain from Sea Pines Pump Station #3 to Sea Pines Pump Station #2 (\$1,179,600):

Piping and manhole upgrades along the force main from Sea Pines Lift Station #3 to Sea Pines Lift Station #2. The approximately \$1.2 million in sewage forcemain project costs shown above represent only a portion of the total cost of the project. The remaining project costs are anticipated to be funded through reserves.

The assumptions and sources and uses of funds related to the proposed Series 2022 Bonds and the projected Series 2024 Bonds as provided by First Tryon Advisors, the District's Financial Advisor, are provided below. For forecast purposes, each debt issuance has been allocated between the water and sewer system based on the projects funded. The proposed Series 2022 Bonds have been allocated approximately 91% to the water system and 9% to the sewer system. The projected Series 2024 Bonds are anticipated to fund a portion of the RO water treatment plant, and therefore have been allocated entirely to the water system.

Table 13: New Debt Assumptions

Description	Series 2022 Bonds [1]	Series 2024 Bonds [2]
Assumptions:		
Dated Date	10/19/2022	10/19/2024
All-In TIC	4.74%	4.70%
Amortization (years)	30	30
Sources of Funds:		
Par Amount	\$71,085,000.00	\$22,695,000.00
Premium	3,028,201.45	1,274,044.65
Total Sources of Funds	\$74,113,201.45	\$23,969,044.65
Uses of Funds:		
Project Fund	\$73,400,000.00	\$23,500,000.00
Costs of Issuance	425,000.00	400,000.00
Underwriter's Discount	285,286.41	68,085.00
Additional Proceeds	2,915.04	959.65
Total Uses of Funds	\$74,113,201.45	\$23,969,044.65

[1] The assumptions shown above for the proposed Series 2022 Bonds were provided by First Tryon Advisors as of September 26, 2022 and includes a 25 basis points contingency.

[2] The assumptions shown above for the projected Series 2024 Bonds were provided by First Tryon Advisors as of July 8, 2022 and includes a 100 basis points contingency.

- An important component of the evaluation of the system is the resulting liquidity and cash reserve balance of the utility. Available operating reserves represent the cash that is considered unrestricted and available to meet day-to-day funding needs as well as to be able to provide funds to meet any unexpected emergencies requiring immediate financial resources. Based on prudent utility business principles and discussions with District staff, the equivalent of six months (180 days) of revenues is targeted as the minimum levels of unrestricted utility operating reserves to be maintained during the Forecast Period. As shown on the table below, the unrestricted operating reserves far exceed the minimum target balances throughout the Forecast Period.

Table 14: Projected Fund Balance

Fund [1]	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Unrestricted Operating Reserves [2]	\$16,168,857	\$15,281,907	\$12,320,419	\$13,550,269	\$14,794,969
Days of Revenues	372	321	236	253	269
Minimum Target Amount (180 Days) [3]	\$7,818,090	\$8,582,351	\$9,404,482	\$9,648,444	\$9,906,756

[1] Detailed utility fund balance projections provided on Exhibit 15.

[2] Ending balances shown; amounts include revenues from recommended and projected rate increases discussed further below.

[3] Minimum target amount shown increases each fiscal year due to the projected revenue growth of the system.

- Interest income has been recognized as an available revenue source to fund utility expenditures. Interest income will remain at the FY 2023 budgeted level of \$12,000 per year for the remainder of the Forecast Period. The interest income has been allocated equally to the water and sewer system.
- The District collects other operating and non-operating revenues from miscellaneous charges for specific customer services such as tap fees, tower leases, consumer penalties, reconnection fees and other miscellaneous revenues. These miscellaneous revenues are available to reduce the amount of revenue requirements needed to be collected from the monthly user rates. The miscellaneous revenues impacted by customer growth (tap fees, penalties, etc.) are increased above the FY 2023 budget level based on the percentage of customer growth assumed during the Forecast Period, while most of the remaining

miscellaneous revenues are projected to remain constant at the FY 2023 budget level for the remainder of the Forecast Period. Tower lease revenues are projected to decrease each year as cell phone companies reduce their use of water tower space due to 5G technology.

Revenue Requirements Summary

The projected net revenue requirements for the water system during the Forecast Period, less miscellaneous revenues, are summarized on the following table.

Table 15: Projected Water Net Revenue Requirements

Description	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Operating Expenses	\$4,263,600	\$4,602,500	\$4,796,300	\$4,886,400	\$5,295,400
Debt Service	2,320,107	4,103,332	4,846,888	5,474,806	5,860,410
Capital from Rates	175,000	512,600	297,400	161,500	607,100
Gross Revenue Requirements	\$6,758,707	\$9,218,432	\$9,940,588	\$10,522,706	\$11,762,910
Less Miscellaneous Revenues [1]	(578,175)	(581,850)	(560,200)	(521,900)	(483,600)
Net Revenue Requirements	\$6,180,532	\$8,636,582	\$9,380,388	\$10,000,806	\$11,279,310

[1] Miscellaneous revenues shown above include revenues from proposed reclaimed water rates.

As can be seen on the table above, the water net revenue requirements are increasing each year of the Forecast Period. Operating expenses are increasing each year primarily due to inflationary pressures and additional staffing. Annual debt service requirements ramp up over the Forecast Period as payback begins on the proposed Series 2022 Bonds and the projected Series 2024 Bonds.

The projected net revenue requirements for the sewer system, net of miscellaneous revenue sources, are summarized on the table below:

Table 16: Projected Sewer Net Revenue Requirements

Description	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Operating Expenses	\$4,770,100	\$4,975,800	\$5,200,200	\$5,445,200	\$5,714,500
Debt Service	410,556	581,118	926,300	924,944	925,090
Capital from Rates	944,800	461,300	472,800	484,600	441,500
Gross Revenue Requirements	\$6,125,456	\$6,018,218	\$6,599,300	\$6,854,744	\$7,081,090
Less Miscellaneous Revenues [1]	(608,175)	(611,850)	(590,200)	(551,900)	(513,600)
Net Revenue Requirements	\$5,517,281	\$5,406,368	\$6,009,100	\$6,302,844	\$6,567,490

[1] Miscellaneous revenues shown above include revenues from proposed reclaimed water rates.

In similar context to the operating expenses for the water system, the sewer system is also anticipated to experience cost escalations due to inflationary pressures. Annual debt service allocated to the sewer system ranges between approximately \$400,000 and \$900,000 over the Forecast Period. Capital from rates or sewer pay-as-you-go for capital projects shown above depend on the timing and costs of the projects in the CIP.

Sufficiency of Existing Utility Rate Revenues

As shown in the table below, the projected revenues from existing water rates calculated in Section 2 above are compared to the water net revenue requirements outlined on Table 15. Under existing water rate levels, the revenues generated are anticipated to meet the net revenue requirements for the first two years of the Forecast Period. However, deficiencies are anticipated starting in FY 2025 and continuing through the end of the Forecast Period.

These deficiencies can be primarily attributed to the increased annual debt service requirements associated with the proposed Series 2022 Bonds and the projected Series 2024 Bonds. As a result of the deficiencies, water rate adjustments are needed as shown later in this section.

Table 17: Water Revenue Sufficiency Forecast at Existing Rates

Description	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Rate Revenue from Existing Rates [1]	\$8,714,500	\$8,726,000	\$8,737,700	\$8,749,100	\$8,760,700
Net Revenue Requirements [2]	6,180,532	8,636,582	9,380,388	10,000,806	11,279,310
Surplus/(Deficiency)	\$2,533,968	\$89,418	(\$642,688)	(\$1,251,706)	(\$2,518,610)

[1] Obtained from Table 9.
 [2] Obtained from Table 15.

The sewer rates are also forecast to be sufficient for the first two years of the Forecast Period, then followed by deficiencies during FYs 2025-2027. The increased operating expenses and debt service over the Forecast Period begin to outpace the sewer revenues collected from growth. Therefore, sewer rate adjustments are needed as shown below.

Table 18: Sewer Revenue Sufficiency Forecast at Existing Rates

Description	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Rate Revenue from Existing Rates [1]	\$5,952,500	\$5,959,500	\$5,966,500	\$5,973,500	\$5,980,500
Net Revenue Requirements [2]	5,517,281	5,406,368	6,009,100	6,302,844	6,567,490
Surplus/(Deficiency)	\$435,219	\$553,132	(\$42,600)	(\$329,344)	(\$586,990)

[1] Obtained from Table 10.
 [2] Obtained from Table 16.

Sufficiency of Recommended and Projected Utility Rate Revenues

As previously discussed, the existing rates will not be sufficient to support the net revenue requirements forecast. Additionally, if the rates are not sufficient to support the net revenue requirements, then the fund balances and funding available to complete the CIP will not be sufficient. The table below illustrates the rate adjustments necessary to meet operating requirements, debt service coverage requirements, capital requirements and the minimum targets for the reserve funds:

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Table 19: Annual Rate Adjustments

Fiscal Year	Water [1]	Sewer [1]
2024 [2]	12.00%	8.00%
2025 [2]	12.00%	8.00%
2026 [3]	5.00%	0.00%
2027 [3]	5.00%	0.00%

[1] Overall rate revenues to increase by percentages shown above. The reclaimed water rate revenues are projected to increase at the water percentages shown above.

[2] The rate adjustments shown in FY 2024 and FY 2025 are recommended effective July 1, 2023 and July 1, 2024, respectively. These proposed rate adjustments are consistent with the projected rates for this period during the 2021 Rate Study performed by Raftelis in January 2021.

[3] The water rate adjustments shown in FY 2026 and FY 2027 are projected but not recommended at this time given the uncertainty regarding the timing and cost of future capital improvements and other factors that may affect these projected rate adjustments.

Assuming the rate adjustments as shown on Table 19 are implemented beginning July 1, 2023, and each ensuing July 1, the following tables provide an illustration of the projected revenue sufficiency for water and sewer.

Table 20: Water Revenue Sufficiency Forecast under Projected Rate Adjustments

Description [1]	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Rate Revenue from Projected Rates	\$8,714,500	\$9,773,100	\$10,960,500	\$11,523,600	\$12,115,800
Net Revenue Requirements	6,180,532	8,636,582	9,380,388	10,000,806	11,279,310
Surplus/(Deficiency)	\$2,533,968	\$1,136,518	\$1,580,112	\$1,522,794	\$836,490

[1] The detailed projected revenue sufficiency for the water system over the Forecast Period can be found in Exhibit 12.

Table 21: Sewer Revenue Sufficiency Forecast under Projected Rate Adjustments

Description [1]	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Rate Revenue from Projected Rates	\$5,952,500	\$6,436,300	\$6,959,300	\$6,967,500	\$6,975,700
Net Revenue Requirements	5,517,281	5,406,368	6,009,100	6,302,844	6,567,490
Surplus/(Deficiency)	\$435,219	\$1,029,932	\$950,200	\$664,656	\$408,210

[1] The detailed projected revenue sufficiency for the sewer system over the Forecast Period can be found in Exhibit 13.

Under the recommended and projected water and sewer rate adjustments shown on Table 19, the water and sewer systems generate surpluses each year of the Forecast Period. These surpluses can be used to build and maintain adequate cash reserves to meet day-to-day funding needs as well as fund any unidentified capital improvements needed in the future.

System Net Revenues from water and sewer are pledged for the repayment of outstanding system debt. The Bond Resolution authorizing the outstanding indebtedness requires that Net Revenues each year exceed a minimum debt service coverage threshold. As shown on the table below, and detailed on Exhibit 14, with the recommended and projected rate increases from FY 2024 through FY 2027, the projected debt service coverage exceeds the minimum requirement each year.

Table 22: Projected Debt Service Coverage

Description	FY 2023	FY 2024	FY 2025 [3]	FY 2026 [3]	FY 2027 [3]
Net Revenues Available for Debt Service Coverage [1]	\$6,400,700	\$7,460,800	\$8,819,700	\$9,089,300	\$9,044,800
Debt Service Requirement	\$2,730,663	\$4,684,450	\$5,773,188	\$6,399,750	\$6,785,500
Calculated Debt Coverage [2]	2.34	1.59	1.53	1.42	1.33

[1] Amounts derived from Exhibit 14 at the end of the report and assumes the proposed and projected rate increases are implemented. In accordance with the Bond Resolution, Net Revenues exclude the projected tower lease revenues.

[2] Minimum coverage required = 1.20x. Debt service coverage calculated by dividing Net Revenues by the annual debt service requirement. Coverage assumes the issuance of the proposed Series 2022 Bonds and the projected Series 2024 Bonds.

[3] Since the issuance of the projected Series 2024 Bonds is at least two years from the date of this report, Raffelis calculated the projected debt service coverage excluding the issuance of the projected Series 2024 Bonds and without the 5.0% water rate adjustments in FY 2026 and FY 2027. The projected debt service coverages with these changes are 1.68x, 1.62x, and 1.49x in FY 2025, FY 2026, and FY 2027, respectively.

For purposes of the summary above and detailed projections derived from Exhibit 14 at the end of the report, Net Revenues have been determined in accordance with the provisions of the Bond Resolution.

Comparison to Other Local Utilities

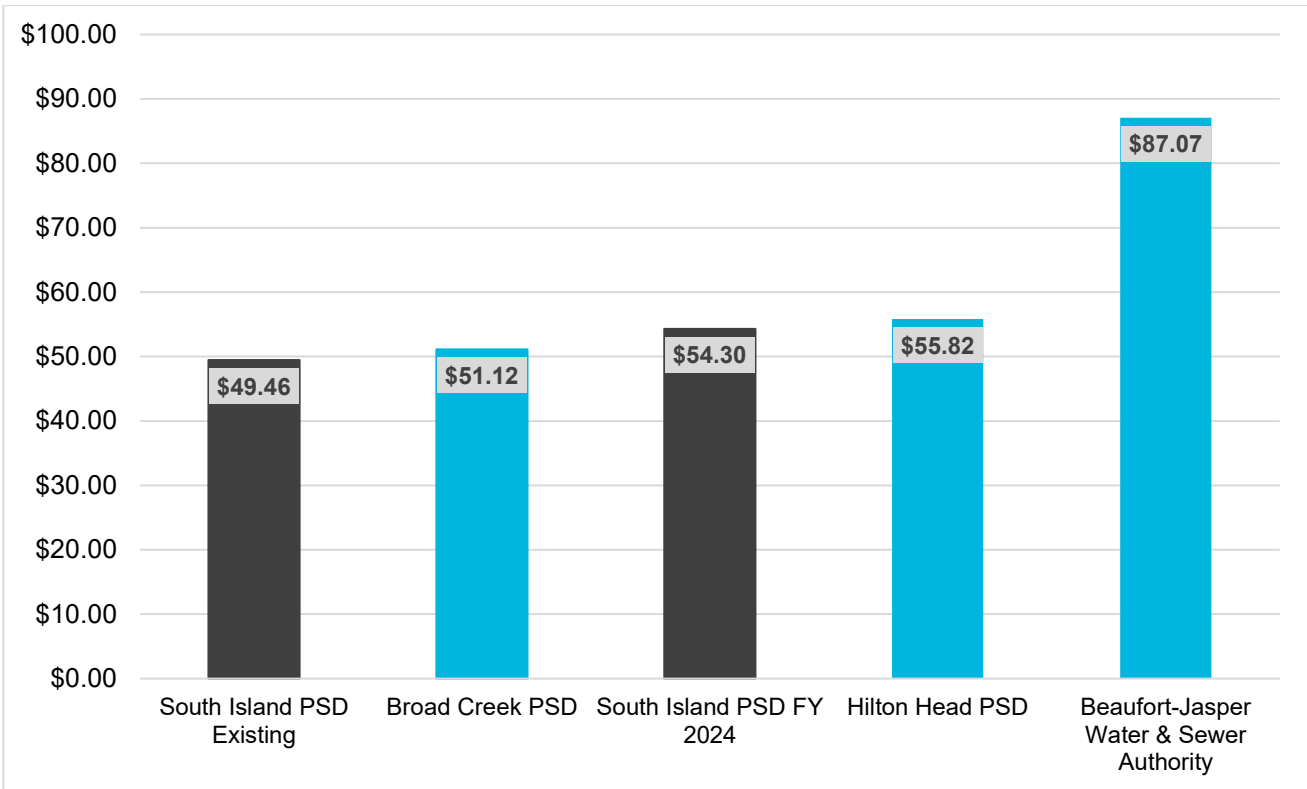
A common analysis reviewed by utility providers is how their rates compare to those of other neighboring utilities. The following figure compares the District’s existing and proposed FY 2024 water and sewer bill (based on rates as of July 1, 2023) to that of the other two utilities on Hilton Head Island and Beaufort-Jasper Water & Sewer Authority, which serves much of the area around and proximate to Hilton Head Island. When making comparisons of rates between different utilities, several factors may influence the rate levels being charged. These factors include but are not limited to:

- Size of customer base or overall economies of scale with other utility services;
- Level of treatment and effluent disposal methods;
- Plant age, capacity utilization, grant and other outside funding sources;
- General fund and administrative fee transfers to municipal or County governments;
- Bond covenants and funding requirements of the rates; and
- Specific rate structure attributes for each customer class and usage level.

Since the single-family residential customer class represents a majority of the District’s customer base, the comparison below will focus on this class. As shown on Figure 2 below, at 6,000 gallons of usage, the District’s proposed FY 2024 water and sewer bill for this customer class is slightly above Broad Creek PSD’s existing water and sewer bill. Under the proposed FY 2024 rates, the customer will see a monthly increase of \$4.84 from \$49.46 to \$54.30.

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Figure 2: Single-Family Residential Rate Comparison (6,000 Gallons)



Note: Broad Creek PSD and Hilton Head PSD levy ad valorem taxes to support its water and sewer system while the District and Beaufort-Jasper Water & Sewer Authority are not supported by ad valorem taxes.

EXHIBITS

**South Island Public Service District
2022 Revenue Sufficiency Study
Water Customer Projections**

Description	Estimated	Growth	Projected Fiscal Year				
	2022	Scenario	2023	2024	2025	2026	2027
Single-Family Residential							
Customer Growth		Low	20	20	20	20	20
Unit Growth			20	20	20	20	20
Average Monthly Customers	7,200		7,220	7,240	7,260	7,280	7,300
Average Monthly Units	7,201		7,221	7,241	7,261	7,281	7,301
Annual Metered Gallons (000s)	968,054		970,740	973,430	976,120	978,810	981,500
Average Metered per Unit	33.6	Normal	33.6	33.6	33.6	33.6	33.6
Multi-Family Residential							
Customer Growth		No Growth	0	0	0	0	0
Unit Growth			0	0	0	0	0
Average Monthly Customers	496		496	496	496	496	496
Average Monthly Units	7,178		7,178	7,178	7,178	7,178	7,178
Annual Metered Gallons (000s)	335,701		335,700	335,700	335,700	335,700	335,700
Average Metered per Unit	3.9	Normal	3.9	3.9	3.9	3.9	3.9
Commercial							
Customer Growth		No Growth	0	0	0	0	0
Unit Growth			0	0	0	0	0
Average Monthly Customers	455		455	455	455	455	455
Average Monthly Units	549		549	549	549	549	549
Annual Metered Gallons (000s)	158,793		158,790	158,790	158,790	158,790	158,790
Average Metered per Unit	24.1	Normal	24.1	24.1	24.1	24.1	24.1

**South Island Public Service District
2022 Revenue Sufficiency Study
Water Customer Projections**

Description	Estimated	Growth Scenario	Projected Fiscal Year				
	2022		2023	2024	2025	2026	2027
Hotel/Motel							
Customer Growth		No Growth	0	0	0	0	0
Unit Growth			0	0	0	0	0
Average Monthly Customers	23		23	23	23	23	23
Average Monthly Units	2,023		2,023	2,023	2,023	2,023	2,023
Annual Metered Gallons (000s)	82,436		82,440	82,440	82,440	82,440	82,440
Average Metered per Unit	3.4	Normal	3.4	3.4	3.4	3.4	3.4
Restaurant							
Customer Growth		No Growth	0	0	0	0	0
Unit Growth			0	0	0	0	0
Average Monthly Customers	146		146	146	146	146	146
Average Monthly Units	237		237	237	237	237	237
Annual Metered Gallons (000s)	75,775		75,770	75,770	75,770	75,770	75,770
Average Metered per Unit	26.6	Normal	26.6	26.6	26.6	26.6	26.6
Irrigation							
Customer Growth		No Growth	0	0	0	0	0
Unit Growth			0	0	0	0	0
Average Monthly Customers	720		720	720	720	720	720
Average Monthly Units	720		720	720	720	720	720
Annual Metered Gallons (000s)	299,459		299,460	299,460	299,460	299,460	299,460
Average Metered per Unit	34.7	Normal	34.7	34.7	34.7	34.7	34.7

**South Island Public Service District
 2022 Revenue Sufficiency Study
 Water Customer Projections**

Description	Estimated	Growth Scenario	Projected Fiscal Year				
	2022		2023	2024	2025	2026	2027
Total Water System							
Customer Growth			20	20	20	20	20
Unit Growth			20	20	20	20	20
Average Monthly Customers	9,040		9,060	9,080	9,100	9,120	9,140
Average Monthly Units	17,908		17,928	17,948	17,968	17,988	18,008
Annual Metered Gallons (000s)	1,920,218		1,922,900	1,925,590	1,928,280	1,930,970	1,933,660
Average Metered per Unit	8.9		8.9	8.9	8.9	8.9	8.9

**South Island Public Service District
2022 Revenue Sufficiency Study
Sewer Customer Projections**

Description	Estimated	Growth Scenario	Projected Fiscal Year				
	2022		2023	2024	2025	2026	2027
Single-Family Residential							
Customer Growth		Low	20	20	20	20	20
Unit Growth			20	20	20	20	20
Average Monthly Customers	7,050		7,070	7,090	7,110	7,130	7,150
Average Monthly Units	7,052		7,072	7,092	7,112	7,132	7,152
Annual Metered Gallons (000s)	930,624		933,260	935,900	938,540	941,180	943,820
Average Metered per Unit	33.0	Normal	33.0	33.0	33.0	33.0	33.0
Multi-Family Residential							
Customer Growth		No Growth	0	0	0	0	0
Unit Growth			0	0	0	0	0
Average Monthly Customers	494		494	494	494	494	494
Average Monthly Units	7,164		7,164	7,164	7,164	7,164	7,164
Annual Metered Gallons (000s)	335,990		335,990	335,990	335,990	335,990	335,990
Average Metered per Unit	3.9	Normal	3.9	3.9	3.9	3.9	3.9
Commercial							
Customer Growth		No Growth	0	0	0	0	0
Unit Growth			0	0	0	0	0
Average Monthly Customers	440		440	440	440	440	440
Average Monthly Units	532		532	532	532	532	532
Annual Metered Gallons (000s)	154,957		154,960	154,960	154,960	154,960	154,960
Average Metered per Unit	24.3	Normal	24.3	24.3	24.3	24.3	24.3

**South Island Public Service District
2022 Revenue Sufficiency Study
Sewer Customer Projections**

Description	Estimated	Growth Scenario	Projected Fiscal Year				
	2022		2023	2024	2025	2026	2027
Hotel/Motel							
Customer Growth		No Growth	0	0	0	0	0
Unit Growth			0	0	0	0	0
Average Monthly Customers	20		20	20	20	20	20
Average Monthly Units	1,735		1,735	1,735	1,735	1,735	1,735
Annual Metered Gallons (000s)	78,443		78,440	78,440	78,440	78,440	78,440
Average Metered per Unit	3.8	Normal	3.8	3.8	3.8	3.8	3.8
Restaurant							
Customer Growth		No Growth	0	0	0	0	0
Unit Growth			0	0	0	0	0
Average Monthly Customers	144		144	144	144	144	144
Average Monthly Units	234		234	234	234	234	234
Annual Metered Gallons (000s)	76,367		76,370	76,370	76,370	76,370	76,370
Average Metered per Unit	27.2	Normal	27.2	27.2	27.2	27.2	27.2
Red Roof Inn							
Customer Growth		No Growth	0	0	0	0	0
Unit Growth			0	0	0	0	0
Average Monthly Customers	1		1	1	1	1	1
Average Monthly Units	111		111	111	111	111	111
Annual Metered Gallons (000s)	3,993		3,990	3,990	3,990	3,990	3,990
Average Metered per Unit	3.0	Normal	3.0	3.0	3.0	3.0	3.0

**South Island Public Service District
2022 Revenue Sufficiency Study
Sewer Customer Projections**

Description	Estimated	Growth Scenario	Projected Fiscal Year				
	2022		2023	2024	2025	2026	2027
Pump Out							
Customer Growth		No Growth	0	0	0	0	0
Unit Growth			0	0	0	0	0
Average Monthly Customers	4		4	4	4	4	4
Average Monthly Units	4		4	4	4	4	4
Annual Metered Gallons (000s)	0		0	0	0	0	0
Average Metered per Unit	0.0	Normal	0.0	0.0	0.0	0.0	0.0
Total Sewer System							
Customer Growth			20	20	20	20	20
Unit Growth			20	20	20	20	20
Average Monthly Customers	8,153		8,173	8,193	8,213	8,233	8,253
Average Monthly Units	16,831		16,851	16,871	16,891	16,911	16,931
Annual Metered Gallons (000s)	1,580,373		1,583,010	1,585,650	1,588,290	1,590,930	1,593,570
Average Metered per Unit	7.8		7.8	7.8	7.8	7.8	7.8

**South Island Public Service District
2022 Revenue Sufficiency Study
Reclaimed Water Customer Projections**

Description	Estimated	Growth Scenario	Projected Fiscal Year				
	2022		2023	2024	2025	2026	2027
Reclaimed Water							
Customer Growth		No Growth	0	0	0	0	0
Unit Growth			0	0	0	0	0
Average Monthly Customers	133		133	133	133	133	133
Average Monthly Units	133		133	133	133	133	133
Annual Metered Gallons (000s)	395,000		395,000	395,000	395,000	395,000	395,000
Average Metered per Unit	247.5	Normal	247.5	247.5	247.5	247.5	247.5
Total Reclaimed Water							
Customer Growth			0	0	0	0	0
Unit Growth			0	0	0	0	0
Average Monthly Customers	133		133	133	133	133	133
Average Monthly Units	133		133	133	133	133	133
Annual Metered Gallons (000s)	395,000		395,000	395,000	395,000	395,000	395,000
Average Metered per Unit	247.5		247.5	247.5	247.5	247.5	247.5

**South Island Public Service District
2022 Revenue Sufficiency Study
Projected Water Revenue from Existing Rates**

Description	Projected Fiscal Year				
	2023	2024	2025	2026	2027
Base Charge Revenue					
Single-Family Residential	\$1,218,300	\$1,221,700	\$1,225,100	\$1,228,500	\$1,231,800
Multi-Family Residential	1,211,100	1,211,100	1,211,100	1,211,100	1,211,100
Commercial	277,700	277,700	277,700	277,700	277,700
Hotel/Motel	213,100	213,100	213,100	213,100	213,100
Restaurant	120,000	120,000	120,000	120,000	120,000
Irrigation	121,500	121,500	121,500	121,500	121,500
Total Base Charge Revenue	\$3,161,700	\$3,165,100	\$3,168,500	\$3,171,900	\$3,175,200
Volumetric Revenue					
Single-Family Residential	\$2,952,700	\$2,960,800	\$2,969,100	\$2,977,100	\$2,985,400
Multi-Family Residential	518,800	518,800	518,800	518,800	518,800
Commercial	451,000	451,000	451,000	451,000	451,000
Hotel/Motel	104,700	104,700	104,700	104,700	104,700
Restaurant	215,200	215,200	215,200	215,200	215,200
Irrigation	1,310,400	1,310,400	1,310,400	1,310,400	1,310,400
Total Volumetric Revenue	\$5,552,800	\$5,560,900	\$5,569,200	\$5,577,200	\$5,585,500
Total Water Revenue by Class					
Single-Family Residential	\$4,171,000	\$4,182,500	\$4,194,200	\$4,205,600	\$4,217,200
Multi-Family Residential	1,729,900	1,729,900	1,729,900	1,729,900	1,729,900
Commercial	728,700	728,700	728,700	728,700	728,700
Hotel/Motel	317,800	317,800	317,800	317,800	317,800
Restaurant	335,200	335,200	335,200	335,200	335,200
Irrigation	1,431,900	1,431,900	1,431,900	1,431,900	1,431,900
Total Water Revenue	\$8,714,500	\$8,726,000	\$8,737,700	\$8,749,100	\$8,760,700

**South Island Public Service District
2022 Revenue Sufficiency Study
Projected Sewer Revenue from Existing Rates**

Description	Projected Fiscal Year				
	2023	2024	2025	2026	2027
Base Charge Revenue					
Single-Family Residential	\$1,308,600	\$1,312,300	\$1,316,000	\$1,319,700	\$1,323,400
Multi-Family Residential	1,325,500	1,325,500	1,325,500	1,325,500	1,325,500
Commercial	295,400	295,400	295,400	295,400	295,400
Hotel/Motel	200,700	200,700	200,700	200,700	200,700
Restaurant	129,900	129,900	129,900	129,900	129,900
Red Roof Inn	8,700	8,700	8,700	8,700	8,700
Pump Out	7,200	7,200	7,200	7,200	7,200
Total Base Charge Revenue	\$3,276,000	\$3,279,700	\$3,283,400	\$3,287,100	\$3,290,800
Volumetric Revenue					
Single-Family Residential	\$1,168,100	\$1,171,400	\$1,174,700	\$1,178,000	\$1,181,300
Multi-Family Residential	698,900	698,900	698,900	698,900	698,900
Commercial	322,300	322,300	322,300	322,300	322,300
Hotel/Motel	163,200	163,200	163,200	163,200	163,200
Restaurant	318,500	318,500	318,500	318,500	318,500
Red Roof Inn	5,500	5,500	5,500	5,500	5,500
Pump Out	0	0	0	0	0
Total Volumetric Revenue	\$2,676,500	\$2,679,800	\$2,683,100	\$2,686,400	\$2,689,700
Total Sewer Revenue by Class					
Single-Family Residential	\$2,476,700	\$2,483,700	\$2,490,700	\$2,497,700	\$2,504,700
Multi-Family Residential	2,024,400	2,024,400	2,024,400	2,024,400	2,024,400
Commercial	617,700	617,700	617,700	617,700	617,700
Hotel/Motel	363,900	363,900	363,900	363,900	363,900
Restaurant	448,400	448,400	448,400	448,400	448,400
Red Roof Inn	14,200	14,200	14,200	14,200	14,200
Pump Out	7,200	7,200	7,200	7,200	7,200
Total Sewer Revenue	\$5,952,500	\$5,959,500	\$5,966,500	\$5,973,500	\$5,980,500

**South Island Public Service District
 2022 Revenue Sufficiency Study
 Projected Reclaimed Water Revenue from Existing Rates**

Description	Projected Fiscal Year				
	2023	2024	2025	2026	2027
Base Charge Revenue					
Reclaimed Water	\$22,400	\$22,400	\$22,400	\$22,400	\$22,400
Total Base Charge Revenue	\$22,400	\$22,400	\$22,400	\$22,400	\$22,400
Volumetric Revenue					
Reclaimed Water	\$478,000	\$478,000	\$478,000	\$478,000	\$478,000
Total Volumetric Revenue	\$478,000	\$478,000	\$478,000	\$478,000	\$478,000
Total Reclaimed Water Revenue					
Reclaimed Water	\$500,400	\$500,400	\$500,400	\$500,400	\$500,400
Total Reclaimed Water Revenue	\$500,400	\$500,400	\$500,400	\$500,400	\$500,400

South Island Public Service District
 2022 Revenue Sufficiency Study
 Historical and Projected Miscellaneous Revenues

A/C NO.	Account Name	FY 2021 Actual	FY 2022 Actual	FY 2023 Budget	Adjustments	FY 2023 Adjusted	Escalation Factor	Projected				Allocation	
								2024	2025	2026	2027	Water	Sewer
11.40100	Water Consumption	\$6,794,317	\$8,052,004	\$7,850,000	(\$7,850,000)	\$0	Cust Growth	\$0	\$0	\$0	\$0	100.0%	0.0%
11.40200	Sewer Use	5,070,393	5,477,782	5,600,000	(5,600,000)	0	Cust Growth	0	0	0	0	0.0%	100.0%
11.40300	Water Tap Fees	129,400	94,412	50,000	0	50,000	Cust Growth	50,100	50,200	50,300	50,400	100.0%	0.0%
11.40400	Sewer Tap Fees	68,189	39,000	40,000	0	40,000	Cust Growth	40,100	40,200	40,300	40,400	0.0%	100.0%
11.40500	Reclaimed Water Sales	445,503	443,741	400,000	100,400	500,400	Input	562,300	628,600	661,600	694,600	50.0%	50.0%
11.40600	Tower Leases	465,180	473,954	473,950	(55,000)	418,950	Constant	364,000	254,000	144,000	34,000	50.0%	50.0%
11.40700	Reconnection Fees	11,350	19,550	0	0	0	Constant	0	0	0	0	50.0%	50.0%
11.41000	Penalties	43,753	104,575	90,000	0	90,000	Cust Growth	90,200	90,400	90,600	90,800	50.0%	50.0%
11.41300	Field Work	14,701	14,090	15,000	0	15,000	Constant	15,000	15,000	15,000	15,000	50.0%	50.0%
11.41500	Miscellaneous Revenue	211,471	57,976	20,000	0	20,000	Constant	20,000	20,000	20,000	20,000	50.0%	50.0%
11.41510	Hurricane Matthew Reimbursemen	0	0	0	0	0	Constant	0	0	0	0	50.0%	50.0%
11.42000	Sewer Capacity Fees	132,118	78,296	40,000	0	40,000	Constant	40,000	40,000	40,000	40,000	0.0%	100.0%
11.43000	Interest Income	18,541	28,315	12,000	0	12,000	Constant	12,000	12,000	12,000	12,000	50.0%	50.0%
11.43170	GAIN (LOSS) ON DISPOSAL OF F/A	19,947	0	0	0	0	Constant	0	0	0	0	50.0%	50.0%
11.43180	Bond Premium Amortization	138,738	126,862	114,600	(114,600)	0	Constant	0	0	0	0	50.0%	50.0%
	Total	\$13,563,602	\$15,010,558	\$14,705,550	(\$13,519,200)	\$1,186,350		\$1,193,700	\$1,150,400	\$1,073,800	\$997,200		
								<i>0.6%</i>	<i>-3.6%</i>	<i>-6.7%</i>	<i>-7.1%</i>		
	Miscellaneous Revenues:												
	Water	\$7,608,310	\$8,780,948	\$8,462,775	(\$7,884,600)	\$578,175		\$581,850	\$560,200	\$521,900	\$483,600		
	Sewer	5,955,293	6,229,610	6,242,775	(5,634,600)	608,175		611,850	590,200	551,900	513,600		
	Total Miscellaneous Revenues	\$13,563,603	\$15,010,558	\$14,705,550	(\$13,519,200)	\$1,186,350		\$1,193,700	\$1,150,400	\$1,073,800	\$997,200		

**South Island Public Service District
2022 Revenue Sufficiency Study
Historical and Proposed Operating Budget**

A/C NO.	Account Name	FY 2021	FY 2022	FY 2023	Adjustments	FY 2023	Allocation Percentage			FY 2023 Allocation Amount	
		Actual	Actual	Budget		Adjusted	Method	Water	Sewer	Water	Sewer
Water Operations											
21.51100	Salaries & Wages	\$572,826	\$568,460	\$631,499	\$0	\$631,499	Water	100.0%	0.0%	\$631,500	\$0
21.51200	Overtime	24,402	32,632	32,500	0	32,500	Water	100.0%	0.0%	32,500	0
21.52100	Payroll Taxes	45,627	45,942	50,566	0	50,566	Water	100.0%	0.0%	50,600	0
21.52500	SC Retirement	181,644	87,094	102,613	0	102,613	Water	100.0%	0.0%	102,600	0
21.53100	Health & Life Plan Costs	140,442	128,355	131,952	0	131,952	Water	100.0%	0.0%	132,000	0
21.54100	Uniforms	6,386	5,720	6,500	0	6,500	Water	100.0%	0.0%	6,500	0
21.55500	Post Employment Benefits	18,515	18,777	26,000	0	26,000	Water	100.0%	0.0%	26,000	0
21.61900	Other Professional Services	0	0	2,000	0	2,000	Water	100.0%	0.0%	2,000	0
21.62400	Repairs & Maintenance	356,941	363,066	445,000	0	445,000	Water	100.0%	0.0%	445,000	0
21.62410	R & M - Well Systems	82,587	57,075	175,500	0	175,500	Water	100.0%	0.0%	175,500	0
21-62430	GAC Treatment	174,458	95,108	120,000	0	120,000	Water	100.0%	0.0%	120,000	0
21.62455	RO - Repairs & Maintenance	35,046	90,344	124,000	0	124,000	Water	100.0%	0.0%	124,000	0
21.62555	RO Generator O&M	22,147	48,565	60,000	0	60,000	Water	100.0%	0.0%	60,000	0
21.64200	Safety Supplies / Training	5,650	4,092	5,000	0	5,000	Water	100.0%	0.0%	5,000	0
21.64300	Regulatory Fees / Compliance	137,406	71,439	75,000	0	75,000	Water	100.0%	0.0%	75,000	0
21.65100	Electricity	177,052	140,821	164,000	0	164,000	Water	100.0%	0.0%	164,000	0
21.65155	RO - Electricity	170,315	182,536	210,000	0	210,000	Water	100.0%	0.0%	210,000	0
21.71100	Chemicals	35,647	43,283	53,000	0	53,000	Water	100.0%	0.0%	53,000	0
21.71155	RO - Chemicals	102,498	87,901	185,000	0	185,000	Water	100.0%	0.0%	185,000	0
21.71500	Laboratory Supplies	6,736	10,632	10,000	0	10,000	Water	100.0%	0.0%	10,000	0
21.73100	Vehicle Operations & Maintenan	27,847	37,344	60,000	0	60,000	Water	100.0%	0.0%	60,000	0
21.74200	Water Quality Monitoring	7,603	957	5,000	0	5,000	Water	100.0%	0.0%	5,000	0
21.80100	Miscellaneous Expense	0	(41)	1,000	0	1,000	Water	100.0%	0.0%	1,000	0
	Water Operations Totals	\$2,331,776	\$2,120,102	\$2,676,130	\$0	\$2,676,130				\$2,676,200	\$0
Sewer Operations											
31.51100	Salaries & Wages	\$428,048	\$411,899	\$534,024	\$0	\$534,024	Sewer	0.0%	100.0%	\$0	\$534,000
31.51200	Overtime	27,418	38,022	37,000	0	37,000	Sewer	0.0%	100.0%	0	37,000
31.52100	Payroll Taxes	34,907	34,430	43,418	0	43,418	Sewer	0.0%	100.0%	0	43,400
31.52500	SC Retirement	135,793	63,423	89,122	0	89,122	Sewer	0.0%	100.0%	0	89,100
31.53100	Health & Life Plan Costs	110,230	113,414	143,072	0	143,072	Sewer	0.0%	100.0%	0	143,100
31.54100	Uniforms	5,756	5,839	6,400	0	6,400	Sewer	0.0%	100.0%	0	6,400
31.55500	Post Employment Benefits	29,830	29,784	38,000	0	38,000	Sewer	0.0%	100.0%	0	38,000
31.61900	Other Professional Services	0	0	2,000	0	2,000	Sewer	0.0%	100.0%	0	2,000

**South Island Public Service District
2022 Revenue Sufficiency Study
Historical and Proposed Operating Budget**

A/C NO.	Account Name	FY 2021	FY 2022	FY 2023	FY 2023		Allocation Percentage			FY 2023 Allocation Amount	
		Actual	Actual	Budget	Adjustments	Adjusted	Method	Water	Sewer	Water	Sewer
31.62400	Repairs & Maintenance	289,658	330,659	390,000	0	390,000	Sewer	0.0%	100.0%	0	390,000
31.64200	Safety Supplies / Training	4,116	4,294	6,000	0	6,000	Sewer	0.0%	100.0%	0	6,000
31.64300	Regulatory Fees / Compliance	2,263	2,598	2,500	0	2,500	Sewer	0.0%	100.0%	0	2,500
31.65100	Electricity	147,286	122,239	150,000	0	150,000	Sewer	0.0%	100.0%	0	150,000
31.71100	Chemicals	32,960	70,894	70,000	0	70,000	Sewer	0.0%	100.0%	0	70,000
31.73100	Vehicle Operations & Maintenan	37,125	41,519	60,000	0	60,000	Sewer	0.0%	100.0%	0	60,000
31.80100	Miscellaneous Expense	50	50	1,000	0	1,000	Sewer	0.0%	100.0%	0	1,000
	Sewer Operations Totals	\$1,285,439	\$1,269,065	\$1,572,536	\$0	\$1,572,536				\$0	\$1,572,500

WWTP Operations

41.51100	Salaries & Wages	\$403,012	\$380,990	\$425,389	\$0	\$425,389	Sewer	0.0%	100.0%	\$0	\$425,400
41.51200	Overtime	29,248	31,108	29,800	0	29,800	Sewer	0.0%	100.0%	0	29,800
41.52100	Payroll Taxes	32,702	31,251	34,824	0	34,824	Sewer	0.0%	100.0%	0	34,800
41.52500	SC Retirement	138,174	60,192	72,029	0	72,029	Sewer	0.0%	100.0%	0	72,000
41.53100	Health & Life Plan Costs	75,864	88,414	89,792	0	89,792	Sewer	0.0%	100.0%	0	89,800
41.54100	Uniforms	3,423	4,116	4,400	0	4,400	Sewer	0.0%	100.0%	0	4,400
41.55500	Post Employment Benefits	17,487	17,797	26,400	0	26,400	Sewer	0.0%	100.0%	0	26,400
41.61900	Other Professional Services	0	0	2,000	0	2,000	Sewer	0.0%	100.0%	0	2,000
41.62400	Repairs & Maintenance	320,210	239,574	205,000	0	205,000	Sewer	0.0%	100.0%	0	205,000
41.62420	Biosolids Disposal	225,264	265,889	305,000	0	305,000	Sewer	0.0%	100.0%	0	305,000
41.62500	Generator O&M	26,443	69,147	50,000	0	50,000	Sewer	0.0%	100.0%	0	50,000
41.64200	Safety Supplies / Training	3,393	3,492	4,000	0	4,000	Sewer	0.0%	100.0%	0	4,000
41.64300	Regulatory Fees / Compliance	19,344	16,825	48,000	0	48,000	Sewer	0.0%	100.0%	0	48,000
41.65100	Electricity	243,708	208,507	280,000	0	280,000	Sewer	0.0%	100.0%	0	280,000
41.71100	Chemicals	105,366	92,105	80,000	0	80,000	Sewer	0.0%	100.0%	0	80,000
41.71500	Laboratory Supplies	21,624	33,468	25,000	0	25,000	Sewer	0.0%	100.0%	0	25,000
41.73100	Vehicle Operations & Maintenan	18,562	25,075	30,000	0	30,000	Sewer	0.0%	100.0%	0	30,000
41.74200	Water Quality Monitoring	5,884	5,732	20,000	0	20,000	Sewer	0.0%	100.0%	0	20,000
41.80100	Miscellaneous Expense	0	0	1,000	0	1,000	Sewer	0.0%	100.0%	0	1,000
	WWTP Operations Totals	\$1,689,707	\$1,573,684	\$1,732,634	\$0	\$1,732,634				\$0	\$1,732,600

Administration

51.51100	Salaries & Wages	\$928,121	\$1,109,894	\$1,288,079	\$0	\$1,288,079	Accounts	52.0%	48.0%	\$669,800	\$618,300
51.51200	Overtime	3,715	6,679	0	0	0	Accounts	52.0%	48.0%	0	0
51.52100	Payroll Taxes	72,150	89,283	91,994	0	91,994	Accounts	52.0%	48.0%	47,800	44,200
51.52500	SC Retirement	275,451	162,626	197,213	0	197,213	Accounts	52.0%	48.0%	102,600	94,700
51.53100	Health & Life Plan Costs	134,015	115,823	138,738	0	138,738	Accounts	52.0%	48.0%	72,100	66,600
51.53101	Retiree Health Insurance	55,320	52,945	57,885	0	57,885	Accounts	52.0%	48.0%	30,100	27,800
51.54100	Uniforms	762	624	1,300	0	1,300	Accounts	52.0%	48.0%	700	600
51.55500	Post Employment Benefits	37,030	37,867	48,000	0	48,000	Accounts	52.0%	48.0%	25,000	23,000

**South Island Public Service District
2022 Revenue Sufficiency Study
Historical and Proposed Operating Budget**

A/C NO.	Account Name	FY 2021	FY 2022	FY 2023	FY 2023		Allocation Percentage			FY 2023 Allocation Amount	
		Actual	Actual	Budget	Adjustments	Adjusted	Method	Water	Sewer	Water	Sewer
51.60500	Accounting & Audit Fees	22,000	22,000	28,000	0	28,000	Accounts	52.0%	48.0%	14,600	13,400
51.60905	Bad Debts - Regular	0	0	0	0	0	Accounts	52.0%	48.0%	0	0
51.61000	Bank Charges	15,796	8,845	2,500	0	2,500	Accounts	52.0%	48.0%	1,300	1,200
51.61020	Credit Card Fees	(1,854)	7,211	0	0	0	Accounts	52.0%	48.0%	0	0
51.61100	Commissioners Fees	87,600	82,000	87,600	0	87,600	Accounts	52.0%	48.0%	45,600	42,000
51.61300	Legal Costs	48,949	14,489	50,000	0	50,000	Accounts	52.0%	48.0%	26,000	24,000
51.61900	Other Professional Services	128,876	30,104	150,000	0	150,000	Accounts	52.0%	48.0%	78,000	72,000
51.62400	Repairs & Maintenance	36,389	41,038	54,000	0	54,000	Accounts	52.0%	48.0%	28,100	25,900
51.63100	Insurance	439,727	451,134	450,000	0	450,000	Accounts	52.0%	48.0%	234,000	216,000
51.64000	Computer Software/Hardware Mai	120,189	160,131	150,000	0	150,000	Accounts	52.0%	48.0%	78,000	72,000
51.64500	Professional Development	19,356	53,208	75,000	0	75,000	Accounts	52.0%	48.0%	39,000	36,000
51.64600	Business & Staff Development	8,005	28,219	0	0	0	Accounts	52.0%	48.0%	0	0
51.64700	Communications	51,597	59,129	65,000	0	65,000	Accounts	52.0%	48.0%	33,800	31,200
51.65100	Electricity	14,483	8,975	16,000	0	16,000	Accounts	52.0%	48.0%	8,300	7,700
51.73100	Vehicle Operations & Maintenan	9,473	12,913	18,000	0	18,000	Accounts	52.0%	48.0%	9,400	8,600
51.75100	Office Supplies	27,209	24,449	28,000	0	28,000	Accounts	52.0%	48.0%	14,600	13,400
51.76100	Postage & Freight	25,812	47,842	50,000	0	50,000	Accounts	52.0%	48.0%	26,000	24,000
51.80100	Miscellaneous Expense	2,081	2,538	5,000	0	5,000	Accounts	52.0%	48.0%	2,600	2,400
	Administration Totals	\$2,562,251	\$2,629,964	\$3,052,309	\$0	\$3,052,309				\$1,587,400	\$1,465,000
Other											
61.60900	Bond issuance costs	\$0	\$0	\$0	\$0	\$0	Equal	50.0%	50.0%	\$0	\$0
61.60910	Amort of deferred loss on bond	0	0	0	0	0	Equal	50.0%	50.0%	0	0
61.60915	Amort of def outflow on bond	55,720	55,720	18,574	(18,574)	0	Equal	50.0%	50.0%	0	0
61.61010	Bond Interest	384,800	242,229	1,064,550	(1,064,550)	0	Equal	50.0%	50.0%	0	0
61.80100	Miscellaneous Expense	0	0	0	0	0	Equal	50.0%	50.0%	0	0
61.83000	Depreciation	3,467,576	4,079,748	4,500,000	(4,500,000)	0	Equal	50.0%	50.0%	0	0
	Other Totals	\$3,908,096	\$4,377,697	\$5,583,124	(\$5,583,124)	\$0				\$0	\$0
Total Expenditures		\$11,777,269	\$11,970,512	\$14,616,733	(\$5,583,124)	\$9,033,609				\$4,263,600	\$4,770,100
Total Operating Expenditures		\$7,869,173	\$7,592,815	\$9,033,609	\$0	\$9,033,609				Check	\$91

**South Island Public Service District
2022 Revenue Sufficiency Study
Water Operating Budget Projections**

A/C NO.	Account Name	FY 2023	Escalation Factor	Fiscal Year Ending June 30,			
		Adjusted		2024	2025	2026	2027
Water Operations							
21.51100	Salaries & Wages	\$631,500	Labor	\$650,500	\$670,100	\$690,300	\$711,100
21.51200	Overtime	32,500	Labor	33,500	34,600	35,700	36,800
21.52100	Payroll Taxes	50,600	Labor	52,200	53,800	55,500	57,200
21.52500	SC Retirement	102,600	SC Retirement	106,800	111,200	115,700	120,400
21.53100	Health & Life Plan Costs	132,000	Ins-Health	158,400	190,100	228,200	273,900
	Additional Personnel	0	Input	164,300	169,200	174,300	359,000
21.54100	Uniforms	6,500	CPI	6,700	6,900	7,100	7,300
21.55500	Post Employment Benefits	26,000	Labor	26,800	27,700	28,600	29,500
21.61900	Other Professional Services	2,000	Input	2,000	2,000	2,000	2,000
21.62400	Repairs & Maintenance	445,000	CPI	456,200	467,700	479,400	491,400
21.62410	R & M - Well Systems	175,500	CPI	179,900	184,400	189,100	193,900
21-62430	GAC Treatment	120,000	Constant	120,000	120,000	0	0
21.62455	RO - Repairs & Maintenance	124,000	CPI	127,100	130,300	133,600	137,000
21.62555	RO Generator O&M	60,000	CPI	61,500	63,100	64,700	66,400
21.64200	Safety Supplies / Training	5,000	CPI	5,200	5,400	5,600	5,800
21.64300	Regulatory Fees / Compliance	75,000	CPI	76,900	78,900	80,900	83,000
21.65100	Electricity	164,000	Power	170,600	177,500	184,600	192,000
21.65155	RO - Electricity	210,000	Power	218,400	227,200	236,300	245,800
21.71100	Chemicals	53,000	Chemicals	57,300	61,900	66,900	72,300
21.71155	RO - Chemicals	185,000	Chemicals	199,800	215,800	233,100	251,800
21.71500	Laboratory Supplies	10,000	CPI	10,300	10,600	10,900	11,200
21.73100	Vehicle Operations & Maintenan	60,000	CPI	61,500	63,100	64,700	66,400
21.74200	Water Quality Monitoring	5,000	CPI	5,200	5,400	5,600	5,800
21.80100	Miscellaneous Expense	1,000	CPI	1,100	1,200	1,300	1,400
	Water Operations Totals	\$2,676,200		\$2,952,200	\$3,078,100	\$3,094,100	\$3,421,400

Sewer Operations

31.51100	Salaries & Wages	\$0	Labor	\$0	\$0	\$0	\$0
31.51200	Overtime	0	Labor	0	0	0	0
31.52100	Payroll Taxes	0	Labor	0	0	0	0
31.52500	SC Retirement	0	SC Retirement	0	0	0	0
31.53100	Health & Life Plan Costs	0	Ins-Health	0	0	0	0
31.54100	Uniforms	0	CPI	0	0	0	0
31.55500	Post Employment Benefits	0	Labor	0	0	0	0
31.61900	Other Professional Services	0	CPI	0	0	0	0
31.62400	Repairs & Maintenance	0	CPI	0	0	0	0
31.64200	Safety Supplies / Training	0	CPI	0	0	0	0
31.64300	Regulatory Fees / Compliance	0	CPI	0	0	0	0
31.65100	Electricity	0	Power	0	0	0	0
31.71100	Chemicals	0	Chemicals	0	0	0	0
31.73100	Vehicle Operations & Maintenan	0	CPI	0	0	0	0
31.80100	Miscellaneous Expense	0	CPI	0	0	0	0
	Sewer Operations Totals	\$0		\$0	\$0	\$0	\$0

WWTP Operations

41.51100	Salaries & Wages	\$0	Labor	\$0	\$0	\$0	\$0
41.51200	Overtime	0	Labor	0	0	0	0
41.52100	Payroll Taxes	0	Labor	0	0	0	0

**South Island Public Service District
2022 Revenue Sufficiency Study
Water Operating Budget Projections**

A/C NO.	Account Name	FY 2023	Escalation Factor	Fiscal Year Ending June 30,			
		Adjusted		2024	2025	2026	2027
41.52500	SC Retirement	0	SC Retirement	0	0	0	0
41.53100	Health & Life Plan Costs	0	Ins-Health	0	0	0	0
41.54100	Uniforms	0	CPI	0	0	0	0
41.55500	Post Employment Benefits	0	Labor	0	0	0	0
41.61900	Other Professional Services	0	CPI	0	0	0	0
41.62400	Repairs & Maintenance	0	CPI	0	0	0	0
41.62420	Biosolids Disposal	0	CPI	0	0	0	0
41.62500	Generator O&M	0	CPI	0	0	0	0
41.64200	Safety Supplies / Training	0	CPI	0	0	0	0
41.64300	Regulatory Fees / Compliance	0	CPI	0	0	0	0
41.65100	Electricity	0	Power	0	0	0	0
41.71100	Chemicals	0	Chemicals	0	0	0	0
41.71500	Laboratory Supplies	0	CPI	0	0	0	0
41.73100	Vehicle Operations & Maintenance	0	CPI	0	0	0	0
41.74200	Water Quality Monitoring	0	CPI	0	0	0	0
41.80100	Miscellaneous Expense	0	CPI	0	0	0	0
	WWTP Operations Totals	\$0		\$0	\$0	\$0	\$0

Administration

51.51100	Salaries & Wages	\$669,800	Labor	\$689,900	\$710,600	\$732,000	\$754,000
51.51200	Overtime	0	Labor	0	0	0	0
51.52100	Payroll Taxes	47,800	Labor	49,300	50,800	52,400	54,000
51.52500	SC Retirement	102,600	SC Retirement	106,800	111,200	115,700	120,400
51.53100	Health & Life Plan Costs	72,100	Ins-Health	86,600	104,000	124,800	149,800
51.53101	Retiree Health Insurance	30,100	Ins-Health	36,200	43,500	52,200	62,700
	Additional Personnel	0	Input	0	0	0	0
51.54100	Uniforms	700	CPI	800	900	1,000	1,100
51.55500	Post Employment Benefits	25,000	Labor	25,800	26,600	27,400	28,300
51.60500	Accounting & Audit Fees	14,600	CPI	15,000	15,400	15,800	16,200
51.60905	Bad Debts - Regular	0	Input	0	0	0	0
51.61000	Bank Charges	1,300	CPI	1,400	1,500	1,600	1,700
51.61020	Credit Card Fees	0	CPI	0	0	0	0
51.61100	Commissioners Fees	45,600	Input	45,600	45,600	45,600	45,600
51.61300	Legal Costs	26,000	CPI	26,700	27,400	28,100	28,900
51.61900	Other Professional Services	78,000	CPI	80,000	82,000	84,100	86,300
51.62400	Repairs & Maintenance	28,100	CPI	28,900	29,700	30,500	31,300
51.63100	Insurance	234,000	Ins-Admin	239,900	245,900	252,100	258,500
51.64000	Computer Software/Hardware Mai	78,000	CPI	80,000	82,000	84,100	86,300
51.64500	Professional Development	39,000	CPI	40,000	41,000	42,100	43,200
51.64600	Business & Staff Development	0	CPI	0	0	0	0
51.64700	Communications	33,800	CPI	34,700	35,600	36,500	37,500
51.65100	Electricity	8,300	CPI	8,600	8,900	9,200	9,500
51.73100	Vehicle Operations & Maintenance	9,400	CPI	9,700	10,000	10,300	10,600
51.75100	Office Supplies	14,600	CPI	15,000	15,400	15,800	16,200
51.76100	Postage & Freight	26,000	CPI	26,700	27,400	28,100	28,900
51.80100	Miscellaneous Expense	2,600	CPI	2,700	2,800	2,900	3,000
	Administration Totals	\$1,587,400		\$1,650,300	\$1,718,200	\$1,792,300	\$1,874,000

**South Island Public Service District
2022 Revenue Sufficiency Study
Water Operating Budget Projections**

A/C NO.	Account Name	FY 2023	Escalation Factor	Fiscal Year Ending June 30,			
		Adjusted		2024	2025	2026	2027
Other							
61.60900	Bond issuance costs	\$0	CPI	\$0	\$0	\$0	\$0
61.60910	Amort of deferred loss on bond	0	CPI	0	0	0	0
61.60915	Amort of def outflow on bond	0	CPI	0	0	0	0
61.61010	Bond Interest	0	CPI	0	0	0	0
61.80100	Miscellaneous Expense	0	CPI	0	0	0	0
61.83000	Depreciation	0	CPI	0	0	0	0
	Other Totals	\$0		\$0	\$0	\$0	\$0
Total Expenditures		\$4,263,600		\$4,602,500	\$4,796,300	\$4,886,400	\$5,295,400
				7.9%	4.2%	1.9%	8.4%

**South Island Public Service District
2022 Revenue Sufficiency Study
Sewer Operating Budget Projections**

A/C NO.	Account Name	FY 2023	Escalation Factor	Fiscal Year Ending June 30,			
		Adjusted		2024	2025	2026	2027
Water Operations							
21.51100	Salaries & Wages	\$0	Labor	\$0	\$0	\$0	\$0
21.51200	Overtime	0	Labor	0	0	0	0
21.52100	Payroll Taxes	0	Labor	0	0	0	0
21.52500	SC Retirement	0	SC Retirement	0	0	0	0
21.53100	Health & Life Plan Costs	0	Ins-Health	0	0	0	0
21.54100	Uniforms	0	CPI	0	0	0	0
21.55500	Post Employment Benefits	0	Labor	0	0	0	0
21.61900	Other Professional Services	0	CPI	0	0	0	0
21.62400	Repairs & Maintenance	0	CPI	0	0	0	0
21.62410	R & M - Well Systems	0	CPI	0	0	0	0
21-62430	GAC Treatment	0	CPI	0	0	0	0
21.62455	RO - Repairs & Maintenance	0	CPI	0	0	0	0
21.62555	RO Generator O&M	0	CPI	0	0	0	0
21.64200	Safety Supplies / Training	0	CPI	0	0	0	0
21.64300	Regulatory Fees / Compliance	0	CPI	0	0	0	0
21.65100	Electricity	0	Power	0	0	0	0
21.65155	RO - Electricity	0	Power	0	0	0	0
21.71100	Chemicals	0	Chemicals	0	0	0	0
21.71155	RO - Chemicals	0	Chemicals	0	0	0	0
21.71500	Laboratory Supplies	0	CPI	0	0	0	0
21.73100	Vehicle Operations & Maintenance	0	CPI	0	0	0	0
21.74200	Water Quality Monitoring	0	CPI	0	0	0	0
21.80100	Miscellaneous Expense	0	CPI	0	0	0	0
	Water Operations Totals	\$0		\$0	\$0	\$0	\$0

Sewer Operations

31.51100	Salaries & Wages	\$534,000	Labor	\$550,100	\$566,700	\$583,800	\$601,400
31.51200	Overtime	37,000	Labor	38,200	39,400	40,600	41,900
31.52100	Payroll Taxes	43,400	Labor	44,800	46,200	47,600	49,100
31.52500	SC Retirement	89,100	SC Retirement	92,700	96,500	100,400	104,500
31.53100	Health & Life Plan Costs	143,100	Ins-Health	171,800	206,200	247,500	297,000
	Additional Personnel	0	Input	0	0	0	0
31.54100	Uniforms	6,400	CPI	6,600	6,800	7,000	7,200
31.55500	Post Employment Benefits	38,000	Labor	39,200	40,400	41,700	43,000
31.61900	Other Professional Services	2,000	CPI	2,100	2,200	2,300	2,400
31.62400	Repairs & Maintenance	390,000	CPI	399,800	409,800	420,100	430,700
31.64200	Safety Supplies / Training	6,000	CPI	6,200	6,400	6,600	6,800
31.64300	Regulatory Fees / Compliance	2,500	CPI	2,600	2,700	2,800	2,900
31.65100	Electricity	150,000	Power	156,000	162,300	168,800	175,600
31.71100	Chemicals	70,000	Chemicals	75,600	81,700	88,300	95,400
31.73100	Vehicle Operations & Maintenance	60,000	CPI	61,500	63,100	64,700	66,400
31.80100	Miscellaneous Expense	1,000	CPI	1,100	1,200	1,300	1,400
	Sewer Operations Totals	\$1,572,500		\$1,648,300	\$1,731,600	\$1,823,500	\$1,925,700

WWTP Operations

41.51100	Salaries & Wages	\$425,400	Labor	\$438,200	\$451,400	\$465,000	\$479,000
41.51200	Overtime	29,800	Labor	30,700	31,700	32,700	33,700
41.52100	Payroll Taxes	34,800	Labor	35,900	37,000	38,200	39,400

**South Island Public Service District
2022 Revenue Sufficiency Study
Sewer Operating Budget Projections**

A/C NO.	Account Name	FY 2023	Escalation Factor	Fiscal Year Ending June 30,			
		Adjusted		2024	2025	2026	2027
41.52500	SC Retirement	72,000	SC Retirement	75,000	78,100	81,300	84,600
41.53100	Health & Life Plan Costs	89,800	Ins-Health	107,800	129,400	155,300	186,400
	Additional Personnel	0	Input	0	0	0	0
41.54100	Uniforms	4,400	CPI	4,600	4,800	5,000	5,200
41.55500	Post Employment Benefits	26,400	Labor	27,200	28,100	29,000	29,900
41.61900	Other Professional Services	2,000	CPI	2,100	2,200	2,300	2,400
41.62400	Repairs & Maintenance	205,000	CPI	210,200	215,500	220,900	226,500
41.62420	Biosolids Disposal	305,000	CPI	312,700	320,600	328,700	337,000
41.62500	Generator O&M	50,000	CPI	51,300	52,600	54,000	55,400
41.64200	Safety Supplies / Training	4,000	CPI	4,100	4,300	4,500	4,700
41.64300	Regulatory Fees / Compliance	48,000	CPI	49,200	50,500	51,800	53,100
41.65100	Electricity	280,000	Power	291,200	302,900	315,100	327,800
41.71100	Chemicals	80,000	Chemicals	86,400	93,400	100,900	109,000
41.71500	Laboratory Supplies	25,000	CPI	25,700	26,400	27,100	27,800
41.73100	Vehicle Operations & Maintenan	30,000	CPI	30,800	31,600	32,400	33,300
41.74200	Water Quality Monitoring	20,000	CPI	20,500	21,100	21,700	22,300
41.80100	Miscellaneous Expense	1,000	CPI	1,100	1,200	1,300	1,400
	WWTP Operations Totals	<u>\$1,732,600</u>		<u>\$1,804,700</u>	<u>\$1,882,800</u>	<u>\$1,967,200</u>	<u>\$2,058,900</u>

Administration

51.51100	Salaries & Wages	\$618,300	Labor	\$636,900	\$656,100	\$675,800	\$696,100
51.51200	Overtime	0	Labor	0	0	0	0
51.52100	Payroll Taxes	44,200	Labor	45,600	47,000	48,500	50,000
51.52500	SC Retirement	94,700	SC Retirement	98,600	102,600	106,800	111,200
51.53100	Health & Life Plan Costs	66,600	Ins-Health	80,000	96,000	115,200	138,300
51.53101	Retiree Health Insurance	27,800	Ins-Health	33,400	40,100	48,200	57,900
51.54100	Uniforms	600	CPI	700	800	900	1,000
51.55500	Post Employment Benefits	23,000	Labor	23,700	24,500	25,300	26,100
51.60500	Accounting & Audit Fees	13,400	CPI	13,800	14,200	14,600	15,000
51.60905	Bad Debts - Regular	0	Input	0	0	0	0
51.61000	Bank Charges	1,200	CPI	1,300	1,400	1,500	1,600
51.61020	Credit Card Fees	0	CPI	0	0	0	0
51.61100	Commissioners Fees	42,000	Input	42,000	42,000	42,000	42,000
51.61300	Legal Costs	24,000	CPI	24,600	25,300	26,000	26,700
51.61900	Other Professional Services	72,000	CPI	73,800	75,700	77,600	79,600
51.62400	Repairs & Maintenance	25,900	CPI	26,600	27,300	28,000	28,700
51.63100	Insurance	216,000	Ins-Admin	221,400	227,000	232,700	238,600
51.64000	Computer Software/Hardware Mai	72,000	CPI	73,800	75,700	77,600	79,600
51.64500	Professional Development	36,000	CPI	36,900	37,900	38,900	39,900
51.64600	Business & Staff Development	0	CPI	0	0	0	0
51.64700	Communications	31,200	CPI	32,000	32,800	33,700	34,600
51.65100	Electricity	7,700	CPI	7,900	8,100	8,400	8,700
51.73100	Vehicle Operations & Maintenan	8,600	CPI	8,900	9,200	9,500	9,800
51.75100	Office Supplies	13,400	CPI	13,800	14,200	14,600	15,000
51.76100	Postage & Freight	24,000	CPI	24,600	25,300	26,000	26,700
51.80100	Miscellaneous Expense	2,400	CPI	2,500	2,600	2,700	2,800
	Administration Totals	<u>\$1,465,000</u>		<u>\$1,522,800</u>	<u>\$1,585,800</u>	<u>\$1,654,500</u>	<u>\$1,729,900</u>

**South Island Public Service District
 2022 Revenue Sufficiency Study
 Sewer Operating Budget Projections**

A/C NO.	Account Name	FY 2023 Adjusted	Escalation Factor	Fiscal Year Ending June 30,			
				2024	2025	2026	2027
Other							
61.60900	Bond issuance costs	\$0	CPI	\$0	\$0	\$0	\$0
61.60910	Amort of deferred loss on bond	0	CPI	0	0	0	0
61.60915	Amort of def outflow on bond	0	CPI	0	0	0	0
61.61010	Bond Interest	0	CPI	0	0	0	0
61.80100	Miscellaneous Expense	0	CPI	0	0	0	0
61.83000	Depreciation	0	CPI	0	0	0	0
	Other Totals	\$0		\$0	\$0	\$0	\$0
Total Expenditures		\$4,770,100		\$4,975,800	\$5,200,200	\$5,445,200	\$5,714,500
				4.3%	4.5%	4.7%	4.9%

South Island Public Service District								
2022 Revenue Sufficiency Study								
Capital Improvement Plan - Inflated								
Fiscal Year								
Project Description	Funding Source	2023	2024	2025	2026	2027	Total	
Annual CIP Inflation Percentage		0.0%	2.5%	2.5%	2.5%	2.5%		
Cumulative CIP Inflation Percentage		0.0%	2.5%	5.1%	7.7%	10.4%		
Water Distribution Pipelines for Future Water Supply								
CIP 57 Greenwood Pipelines (Eng - includes concentrate & Raw Water)	2022 Bonds	\$550,000	\$49,200	\$0	\$0	\$0	\$599,200	
CIP 57 Greenwood/ Plantation Dr - Construction	2022 Bonds	5,299,000	2,109,500	0	0	0	7,408,500	
CIP 72 Wexford Pipelines (Eng - includes concentrate & Raw Water)	2022 Bonds	590,100	76,900	0	0	0	667,000	
CIP 72 Wexford Pipelines - Construction	2022 Bonds	0	15,078,400	2,350,700	0	0	17,429,100	
CIP 73 Cordillo Pipelines: Engineering Design & Construction	2022 Bonds	181,300	14,400	0	0	0	195,700	
CIP 73 Cordillo Pipelines: Construction	2022 Bonds	2,007,000	228,600	0	0	0	2,235,600	
CIP 74 Pipelines Wex RO to LC/SY (Eng - Design & Construction)	2022 Bonds	370,100	22,600	0	0	0	392,700	
CIP 74 Pipelines Wex RO to LC/SY: Construction	2022 Bonds	5,184,600	1,147,400	0	0	0	6,332,000	
CIP TBA Raw Water Pipeline - Eng (Pope Ave Only)	2022 Bonds	273,400	137,400	40,600	0	0	451,400	
CIP TBA Raw Water Pipeline - Construction (Pope Ave Only)	2022 Bonds	0	2,911,400	331,600	0	0	3,243,000	
Water Source								
CIP 75 Cretaceous Well No. 2 - Engineering	2022 Bonds	614,200	265,200	0	0	0	879,400	
CIP 75 Cretaceous Well No. 2 - Construction	2022 Bonds	5,580,000	3,813,000	0	0	0	9,393,000	
CIP 81 Repair or replace Cretaceous Well #1 - Cost TBD - Est. \$3.5M - \$10M	2022 Bonds	1,500,000	0	3,677,200	0	0	5,177,200	
CIP 81 Repair or replace Cretaceous Well #1 - Cost TBD - Est. \$3.5M - \$10M	2024 Bonds	0	0	0	0	0	0	
Pump Station								
CIP 71 High Service Pump Station Engineering: Design & Construction	2022 Bonds	329,500	36,200	0	0	0	365,700	
CIP 71 High Service Pump Station - Construction	2022 Bonds	3,484,800	396,900	0	0	0	3,881,700	
RO Water Treatment Plant								
ROWTP - Engineering	2022 Bonds	1,389,500	1,880,000	934,200	0	0	4,203,700	
ROWTP - Engineering	Reserves	0	0	0	957,600	0	957,600	
ROWTP - Construction	Reserves	0	2,848,400	3,141,300	0	0	5,989,700	
ROWTP - Construction	2024 Bonds	0	0	8,537,100	14,962,900	0	23,500,000	
Other Water Projects								
Valve Replacements (Water) (Qty. 30- Est.) - engineering & construction - 6 year project	W. Rate Rev.	100,000	102,500	105,100	107,700	110,400	525,700	
Nautilus Water Line Replacement	W. Rate Rev.	0	256,300	0	0	0	256,300	

South Island Public Service District								
2022 Revenue Sufficiency Study								
Capital Improvement Plan - Inflated								
Project Description	Funding Source	Fiscal Year					Total	
		2023	2024	2025	2026	2027		
Cellular Meter Replacement Project- 3 year project	2022 Bonds	1,350,000	1,383,800	1,418,300	0	0	4,152,100	
Black Tern Water Line Replacements	W. Rate Rev.	0	0	34,700	0	0	34,700	
RO Membrane Replacement	Reserves	0	0	525,300	0	0	525,300	
Lead & Copper Line Location & Replacement - cost unknown - required by FY25	W. Rate Rev.	25,000	102,500	105,100	0	0	232,600	
Annual Misc. Water Line Replacements	W. Rate Rev.	50,000	51,300	52,500	53,800	55,200	262,800	
WWTP Projects								
Alternate Disinfection	2022 Bonds	0	820,000	3,362,000	0	0	4,182,000	
Abandon UFA Wells	2022 Bonds	0	358,800	0	0	0	358,800	
Sewer Projects								
CIP 79 Manhole Rehab	S. Rate Rev.	125,000	0	0	0	0	125,000	
Lift Station Upgrade FB #8 (Main Gate)	S. Rate Rev.	250,000	0	0	0	0	250,000	
Lift Station Upgrade SP #28 (Bluff Villas)	2022 Bonds	0	352,300	0	0	0	352,300	
Lift Station Upgrade SP #9	2022 Bonds	0	320,300	0	0	0	320,300	
Reroute Forcemain at Beachwalk	Reserves	0	0	588,400	0	0	588,400	
Sewage Forcemain from Sea Pines pump station #3 to Sea Pines pump station #2	2022 Bonds	0	0	1,179,600	0	0	1,179,600	
Sewage Forcemain from Sea Pines pump station #3 to Sea Pines pump station #2	Reserves	0	205,000	1,236,800	0	0	1,441,800	
Annual Misc. Sewer Line Replacements	S. Rate Rev.	50,000	51,300	52,500	53,800	0	207,600	
Other Projects								
Small Projects & Other Assets	S. Rate Rev.	519,800	410,000	420,300	430,800	441,500	2,222,400	
Project Contingency	W. Rate Rev.	0	0	0	0	441,500	441,500	
Total Capital Improvement Plan		\$29,823,300	\$35,429,600	\$28,093,300	\$16,566,600	\$1,048,600	\$110,961,400	

South Island Public Service District									
2022 Revenue Sufficiency Study									
Capital Improvement Plan - Inflated									
		Fiscal Year							
Project Description	Funding Source	2023	2024	2025	2026	2027	Total		
Funding Sources									
Other Funding Source	Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Sewer Capacity Fees	S. Cap. Fees	0	0	0	0	0	0	0	
2021 Bond Issue	2021 Bonds	0	0	0	0	0	0	0	
2022 Bond Issue	2022 Bonds	28,703,500	31,402,300	13,294,200	0	0	73,400,000		
2023A Bond Issue	2023A Bonds	0	0	0	0	0	0	0	
2024 Bond Issue	2024 Bonds	0	0	8,537,100	14,962,900	0	23,500,000		
2025 Bond Issue	2025 Bonds	0	0	0	0	0	0	0	
Unfunded Projects	Unfunded	0	0	0	0	0	0	0	
Grants	Grants	0	0	0	0	0	0	0	
Water Rate Revenues	W. Rate Rev.	175,000	512,600	297,400	161,500	607,100	1,753,600		
Sewer Rate Revenues	S. Rate Rev.	944,800	461,300	472,800	484,600	441,500	2,805,000		
Unrestricted Operating Reserves	Reserves	0	3,053,400	5,491,800	957,600	0	9,502,800		
Total Funding Sources		\$29,823,300	\$35,429,600	\$28,093,300	\$16,566,600	\$1,048,600	\$110,961,400		

**South Island Public Service District
2022 Revenue Sufficiency Study
Projected Water Revenue Requirements**

Description	Projected Fiscal Year Ending June 30,				
	2023	2024	2025	2026	2027
Operating Expenses	\$4,263,600	\$4,602,500	\$4,796,300	\$4,886,400	\$5,295,400
Water System Debt Service					
Series 2012 Revenue Bonds	588,750	587,100	0	0	0
Series 2017 Revenue Bonds	271,250	271,550	566,650	564,750	565,375
Proposed Series 2022 Revenue Bonds	1,460,107	3,244,682	3,769,600	3,775,306	3,770,285
Projected Series 2024 Revenue Bonds	0	0	510,638	1,134,750	1,524,750
Proposed Additional Debt Service	0	0	0	0	0
Total Water Debt Service	\$2,320,107	\$4,103,332	\$4,846,888	\$5,474,806	\$5,860,410
Other Expenses/Transfers					
CIP Funding	\$175,000	\$512,600	\$297,400	\$161,500	\$607,100
Other Expenditures	0	0	0	0	0
Total Other Expense/Transfers	\$175,000	\$512,600	\$297,400	\$161,500	\$607,100
Total Gross Water Revenue Requirements	\$6,758,707	\$9,218,432	\$9,940,588	\$10,522,706	\$11,762,910
Less Revenues from Other Sources					
Miscellaneous Revenues	\$578,175	\$581,850	\$560,200	\$521,900	\$483,600
Transfer from Unrestricted Operating Reserve	0	0	0	0	0
Net Water Revenue Requirements	\$6,180,532	\$8,636,582	\$9,380,388	\$10,000,806	\$11,279,310
Water Sales Revenue from Rates					
Projected Revenue from Existing Rates [1]	\$8,714,500	\$8,726,000	\$8,737,700	\$8,749,100	\$8,760,700
Total Revenue from Prior Increase	0	0	1,048,500	2,225,800	2,778,200
Total Revenue Before Current Year Adjustment	\$8,714,500	\$8,726,000	\$9,786,200	\$10,974,900	\$11,538,900
Current Year Rate Adjustments					
Current Year Rate Adjustment	0.00%	12.00%	12.00%	5.00%	5.00%
Effective Month	Jul.	Jul.	Jul.	Jul.	Jul.
% of Current Year Effective	100%	100%	100%	100%	100%
Total Revenue from Current Year Adjustments	\$0	\$1,047,100	\$1,174,300	\$548,700	\$576,900
Annual Water Rate Revenue	\$8,714,500	\$9,773,100	\$10,960,500	\$11,523,600	\$12,115,800
Net Revenue Surplus/Deficiency	\$2,533,968	\$1,136,518	\$1,580,112	\$1,522,794	\$836,490

Footnotes:

[1] Revenues from water rates effective July 1, 2022

**South Island Public Service District
2022 Revenue Sufficiency Study
Projected Sewer Revenue Requirements**

Description	Projected Fiscal Year Ending June 30,				
	2023	2024	2025	2026	2027
Operating Expenses	\$4,770,100	\$4,975,800	\$5,200,200	\$5,445,200	\$5,714,500
Sewer System Debt Service					
Series 2012 Revenue Bonds	0	0	0	0	0
Series 2017 Revenue Bonds	271,250	271,550	566,650	564,750	565,375
Proposed Series 2022 Revenue Bonds	139,306	309,568	359,650	360,194	359,715
Projected Series 2024 Revenue Bonds	0	0	0	0	0
Proposed Additional Debt Service	0	0	0	0	0
Total Sewer Debt Service	\$410,556	\$581,118	\$926,300	\$924,944	\$925,090
Other Expenses/Transfers					
CIP Funding	\$944,800	\$461,300	\$472,800	\$484,600	\$441,500
Other Expenditures	0	0	0	0	0
Total Other Expense/Transfers	\$944,800	\$461,300	\$472,800	\$484,600	\$441,500
Total Gross Sewer Revenue Requirements	\$6,125,456	\$6,018,218	\$6,599,300	\$6,854,744	\$7,081,090
Less Revenues from Other Sources					
Miscellaneous Revenues	\$608,175	\$611,850	\$590,200	\$551,900	\$513,600
Transfer from Unrestricted Operating Reserve	0	0	0	0	0
Net Sewer Revenue Requirements	\$5,517,281	\$5,406,368	\$6,009,100	\$6,302,844	\$6,567,490
Sewer Sales Revenue from Rates					
Projected Revenue from Existing Rates [1]	\$5,952,500	\$5,959,500	\$5,966,500	\$5,973,500	\$5,980,500
Total Revenue from Prior Increase	0	0	477,300	994,000	995,200
Total Revenue Before Current Year Adjustment	\$5,952,500	\$5,959,500	\$6,443,800	\$6,967,500	\$6,975,700
Current Year Rate Adjustments					
Current Year Rate Adjustment	0.00%	8.00%	8.00%	0.00%	0.00%
Effective Month	Jul.	Jul.	Jul.	Jul.	Jul.
% of Current Year Effective	100%	100%	100%	100%	100%
Total Revenue from Current Year Adjustments	\$0	\$476,800	\$515,500	\$0	\$0
Annual Sewer Rate Revenue	\$5,952,500	\$6,436,300	\$6,959,300	\$6,967,500	\$6,975,700
Net Revenue Surplus/Deficiency	\$435,219	\$1,029,932	\$950,200	\$664,656	\$408,210

Footnotes:

[1] Revenues from sewer rates effective July 1, 2022

**South Island Public Service District
2022 Revenue Sufficiency Study
Combined System Projected Debt Service Coverage**

Description	Projected Fiscal Year Ending June 30,				
	2023	2024	2025	2026	2027
System Revenues					
Total Water Rate Revenue [1]	\$8,714,500	\$9,773,100	\$10,960,500	\$11,523,600	\$12,115,800
Total Sewer Rate Revenue [1]	5,952,500	6,436,300	6,959,300	6,967,500	6,975,700
Total Rate Revenue	\$14,667,000	\$16,209,400	\$17,919,800	\$18,491,100	\$19,091,500
Other Revenues	\$1,186,350	\$1,193,700	\$1,150,400	\$1,073,800	\$997,200
Total System Revenues	\$15,853,350	\$17,403,100	\$19,070,200	\$19,564,900	\$20,088,700
Operating Expenses					
Water Operating Expenses	(\$4,263,600)	(\$4,602,500)	(\$4,796,300)	(\$4,886,400)	(\$5,295,400)
Sewer Operating Expenses	(4,770,100)	(4,975,800)	(5,200,200)	(5,445,200)	(5,714,500)
Total Operating Expenses	(\$9,033,700)	(\$9,578,300)	(\$9,996,500)	(\$10,331,600)	(\$11,009,900)
Net Revenues	\$6,819,650	\$7,824,800	\$9,073,700	\$9,233,300	\$9,078,800
Debt Service					
Series 2012 Revenue Bonds	(588,750)	(587,100)	0	0	0
Series 2017 Revenue Bonds	(542,500)	(543,100)	(1,133,300)	(1,129,500)	(1,130,750)
Proposed Series 2022 Revenue Bonds	(1,599,413)	(3,554,250)	(4,129,250)	(4,135,500)	(4,130,000)
Projected Series 2024 Revenue Bonds	0	0	(510,638)	(1,134,750)	(1,524,750)
Proposed Additional Debt Service	0	0	0	0	0
Total Debt Service	(\$2,730,663)	(\$4,684,450)	(\$5,773,188)	(\$6,399,750)	(\$6,785,500)
Debt Service Coverage					
Net Revenues	\$6,819,650	\$7,824,800	\$9,073,700	\$9,233,300	\$9,078,800
Less: Tower Lease Revenues	(418,950)	(364,000)	(254,000)	(144,000)	(34,000)
Available for Debt Service Coverage	\$6,400,700	\$7,460,800	\$8,819,700	\$9,089,300	\$9,044,800
Coverage Ratio Calculated	2.34	1.59	1.53	1.42	1.33
Coverage Ratio Target	2.00	2.00	2.00	2.00	2.00
Coverage Ratio Minimum	1.20	1.20	1.20	1.20	1.20
Net Revenues Less Debt Service	\$4,088,988	\$3,140,350	\$3,300,513	\$2,833,550	\$2,293,300
Other Expenses/Transfers:					
CIP Funding	(\$1,119,800)	(\$973,900)	(\$770,200)	(\$646,100)	(\$1,048,600)
Other Expenditures	0	0	0	0	0
Total Other Expenses/Transfers	(\$1,119,800)	(\$973,900)	(\$770,200)	(\$646,100)	(\$1,048,600)
Net Surplus/(Deficit)	\$2,969,188	\$2,166,450	\$2,530,313	\$2,187,450	\$1,244,700

Footnotes:

[1] Projected water and sewer revenues shown above reflect the following rate increases:

FY 2024 - Water: 12.0%; Sewer: 8.0%

FY 2025 - Water: 12.0%; Sewer: 8.0%

FY 2026 - Water: 5.0%; Sewer: 0.0%

FY 2027 - Water: 5.0%; Sewer: 0.0%

**South Island Public Service District
2022 Revenue Sufficiency Study
Utility Fund Balance Projections**

Description	Projected Fiscal Year Ending June 30,				
	2023	2024	2025	2026	2027
Unrestricted Operating Reserve					
Beginning Balance [1]	\$13,199,669	\$16,168,857	\$15,281,907	\$12,320,419	\$13,550,269
Operating Surplus/(Deficit)	2,969,188	2,166,450	2,530,313	2,187,450	1,244,700
CIP Expenditures	0	(3,053,400)	(5,491,800)	(957,600)	0
Transfer to Operations	0	0	0	0	0
Ending Balance	\$16,168,857	\$15,281,907	\$12,320,419	\$13,550,269	\$14,794,969
Target = (180 days of Revenue)	372	321	236	253	269
Target Amount	\$7,818,090	\$8,582,351	\$9,404,482	\$9,648,444	\$9,906,756
Series 2022 Project Fund					
Beginning Balance	\$0	\$44,696,500	\$13,511,700	\$269,000	\$271,000
Transfer In of Funds	73,400,000	0	0	0	0
Interest Income	0	217,500	51,500	2,000	2,000
CIP Expenditures	(28,703,500)	(31,402,300)	(13,294,200)	0	0
Ending Balance	\$44,696,500	\$13,511,700	\$269,000	\$271,000	\$273,000
Series 2024 Project Fund					
Beginning Balance	\$0	\$0	\$0	\$14,962,900	\$56,100
Transfer In of Funds	0	0	23,500,000	0	0
Interest Income	0	0	0	56,100	400
CIP Expenditures	0	0	(8,537,100)	(14,962,900)	0
Ending Balance	\$0	\$0	\$14,962,900	\$56,100	\$56,500

Footnotes:

[1] Beginning balance derived from FY 2022 Year-End Trial Balance. Amount calculated as shown below:

Description	Amount
10-00.10500 Revenue Account	\$5,234,178
10-00.10510 SCLGIP Investment Account	8,558,226
10-00.11600 Petty Cash	500
10-00.10501 Outstanding Checks – O&M	(591,115)
10-00.10502 Outstanding Checks - Payroll	(2,120)
Beginning Balance	\$13,199,669

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APPENDIX C

Summary of Certain Provisions of the Resolutions

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

The following is a summary of some of the terms of the Bond Resolution and the 2022 Series Resolution. This summary does not purport to be complete and reference is made to the entire text of the Bond Resolution and the 2022 Series Resolution, copies of which are available during the initial offering of the Series 2022 Bonds from the Underwriters as provided in the forepart of this Official Statement. Capitalized terms not otherwise defined herein shall have the meaning given to those terms in the Official Statement.

AMENDMENTS TO BECOME EFFECTIVE ON THE EFFECTIVE DATE

Certain amendments to the Bond Resolution provided for in the 2022 Series Resolution shall become effective on the Effective Date. The “Effective Date” is the earliest date on which one of the following conditions shall have been met as to all Series 2012 Bonds and Series 2017 Bonds (each as defined in the forepart of this Official Statement and referred to herein collectively as the “Parity Bonds”): (1) the Parity Bonds shall have been paid at their respective stated maturities or redemption dates, if redeemed as a whole; (2) the Parity Bonds shall have been defeased in accordance with the provisions of the Bond Resolution; or (3) the consent of the holders of the Parity Bonds shall have been obtained in accordance with the provisions of the Bond Resolution.

This summary of terms includes a summary of the amendments to the Bond Resolution to become effective on the Effective Date. The Holders of the Series 2022 Bonds, by their purchase thereof, shall be deemed to have irrevocably consented to the modifications and amendments to the Bond Resolution provided for in the 2022 Series Resolution.

DEFINITIONS

“**2022 Series Resolution**” means a resolution of the Commission authorizing the issuance of the Series 2022 Bonds by the District pursuant to the Bond Resolution, adopted by the Commission in accordance with the Bond Resolution on August 23, 2022.

On and after the Effective Date, “**Accounting Principles**” means generally accepted accounting principles and practices applicable to governmental entities, including those applicable to governmentally owned and operated utility systems such as the System.

“**Accountant**” means an independent firm of certified public accountants of suitable standing who audit the books, records, and accounts of the District.

“**Accreted Value**” means the amounts set forth, or determined in the manner set forth, in a Series Resolution that authorizes the issuance of Capital Appreciation Bonds.

“**Annual Budget**” means the annual budget or amended budget of the District in effect as provided in, or adopted pursuant to the provisions of, the Bond Resolution.

“**Annual Principal and Interest Requirement**” means, with respect to any particular Fiscal Year and to a Series of Bonds Outstanding or proposed to be issued, an amount (other than amounts paid from proceeds of Bonds) equal to (1) the sum of all interest payable on such Series of Bonds during such Fiscal Year plus (2) any Principal Installments of such Series of Bonds during such Fiscal Year minus (3) (a) any Interest Payment Subsidies received by the District for such Series of Bonds during such Fiscal Year and used to pay debt service on such Series of Bonds during such Fiscal Year or (b) any Interest Payment Subsidies scheduled to be received by the District for such Series of Bonds during such Fiscal Year and planned to be used to pay debt service on such Series of Bonds during such Fiscal Year. For purposes of computing “Annual Principal and Interest Requirement,” the rate of interest used to determine (1) above shall be a rate per annum equal to (a) with respect to any Series of Bonds which bear interest at a fixed rate, the rate of interest borne or to be borne by such Bonds, and (b) with respect to any Series of Variable Rate Bonds, the interest rate shall be assumed to be the highest of:

(i) the actual rate on the date of calculation, or if the Variable Rate Bonds are not yet Outstanding, the initial rate (if established and binding),

(ii) if the Variable Rate Bonds have been Outstanding for at least twelve (12) months, the average rate over the twelve (12) months immediately preceding the date of calculation, and

(iii) (1) if interest on the Variable Rate Bonds is intended by the District to be excludable from gross income under the applicable provisions of the Code, The Bond Buyer 25 Revenue Bond Index (or comparable index if such is no longer published) published not earlier than two weeks prior to the sale date, or (2) if interest is not intended to be so excludable, the interest rate on Government Obligations with comparable maturities;

provided, however, that for purposes of any rate covenant measuring actual debt service coverage during a historical test period, Variable Rate Bonds shall be deemed to bear interest at the actual rate per annum applicable during the test period.

“**Authorized Investments**” means investments that are, at the time of investment, lawful for investment of the District’s funds under Section 6-5-10 of the Code of Laws of South Carolina 1976, as amended. The definition of “Authorized Investments” may be further limited with respect to the amounts deposited to funds or accounts with respect to any Series of Bonds in the applicable Series Resolution.

“**Bond Counsel**” means an attorney or firm of attorneys of recognized standing in the field of law relating to municipal, state and public agency financing, selected by the District and satisfactory to the Trustee.

Until the Effective Date, “**Bond Payment Date**” means the April 1 and October 1 on which the principal of or interest on any of the Bonds shall be payable or on which both principal and interest is payable on any of the Bonds, as set forth in the Series Resolution authorizing the issuance of the respective Series of Bonds.

On and after the Effective Date, “**Bond Payment Date**” means the dates on which the principal of or interest on any of the Bonds shall be payable or on which both principal and interest shall be payable on any of the Bonds, all as set forth in the Series Resolutions authorizing the issuance of the respective Series of Bonds.

“**Bond Resolution**” means the amended and restated bond resolution adopted by the Commission on March 23, 2010.

“**Bondholder**” or “**Holder**,” or any similar term, when used with reference to a registered Bond or Bonds, means any person who shall be the registered owner of, the Holder of, or the person entitled to enforce the District’s obligations under any Outstanding Bond.

“**Bonds**” means any indebtedness or obligations (including those entered into under the provisions of long-term contracts payable from the revenues of the System) issued in accordance with the provisions of the Enabling Act, the Bond Resolution and a Series Resolution, excluding Junior Lien Bonds and Special Facilities Bonds.

“**Capital Appreciation Bonds**” means Bonds that bear interest payable only at maturity or payable prior to maturity only on the redemption dates set forth in, and in the amounts determined by reference to the Accreted Value established in accordance with, the provisions of the Series Resolution authorizing the issuance of such Capital Appreciation Bonds.

“**Code**” means the Internal Revenue Code of 1986, as amended, and applicable Treasury Regulations from time to time in effect.

“**Combined Annual Principal and Interest Requirement**” means, for any Fiscal Year, the sum of the Annual Principal and Interest Requirements for all Series of Bonds to be Outstanding during that Fiscal Year.

“**Commission**” means the South Island Public Service District Commission, the governing body of the District, or any successor body.

“**Debt Service Fund**” means the funds established by the Bond Resolution and designed to provide for the payment of the principal of, redemption premium, if any, and interest on the respective Series of Bonds issued pursuant to the Bond Resolution.

“**Debt Service Reserve Fund**” means the funds so designated and designed (1) to secure the timely payment of the principal of, redemption premium, if any, and interest on the respective Series of Bonds Outstanding and issued pursuant to the Bond Resolution, and (2) to provide for the redemption of such Series of Bonds Outstanding prior to their stated maturity, as established by the Bond Resolution.

“**Defeasance Obligations**,” unless otherwise provided in a Series Resolution for a particular Series of Bonds, means non-callable (i) Government Obligations or (ii) evidences of ownership of a proportionate interest in specified Government Obligations, which are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian.

“**Depreciation and Contingent Fund**” means the fund established by the Bond Resolution and designed to provide for contingencies, for the replacement of depreciated or obsolete parts of the System, for improvements, betterments and extensions of the System, and for the purposes set forth in the Bond Resolution.

“**District**” means the South Island Public Service District, South Carolina.

“**District Representative**” means the individual to whom the District has delegated the responsibility of supervising and maintaining records and accounts relating to the collection and disbursement of the revenues derived by the District from the operation and maintenance of the System.

“**Enabling Act**” means Chapter 17 of Title 6, Code of Laws of South Carolina 1976, as amended, and all other statutory authorizations, authorizing and enabling the District to adopt the Bond Resolution.

“**Events of Default**” means those events described under the heading “Events of Default” below.

“**Feasibility Consultants**” means any independent firm of consultants, engineers or accountants employed by the District having skill and experience in utility financing and rate design, and the design and operation of water and sewer facilities.

“**Fiscal Year**” means the period of twelve (12) calendar months that begins on July 1 of each year and ends on June 30 of the following year, unless changed pursuant to the provisions of the Bond Resolution.

“**General Revenue Fund**” means the account or accounts established and maintained by the District pursuant to the Bond Resolution to reflect adequately all of the receipts and revenues derived from the operation of the System and all interest and other income earned by the District in connection with the operation of the System.

“**Government Obligations**” means direct general obligations of the United States of America, the payment of which is fully and unconditionally guaranteed by the United States of America.

“**Gross Revenues**” or “**Gross Revenues of the System**” shall mean for the period in question:

(a) all receipts and revenues (except customers’ deposits) derived from the operation of the System including service fees (tap-in fees, connection fees and availability fees),

(b) all proceeds from the sale or other disposition of any property owned directly or beneficially by the District in connection with the operation of the System,

(c) all interest and other income received by the District, directly or indirectly from the investment of any moneys or accounts relating to the System; excluding, however, investment income

restricted to a purpose inconsistent with the payment of operating expenses or debt service, and specifically excluding (whether or not so restricted) interest earned on any construction fund or construction account created with the proceeds of borrowing by the District, and

(d) all other unencumbered money to which the District may become entitled from any source whatsoever, but specifically excluding government grants, aids-to-construction and all receipts from ad valorem property taxes.

All amounts received as Interest Payment Subsidies shall not be included in Gross Revenues.

“Insurer” with respect to any Series of Bonds, means an insurance company that has issued a Municipal Bond Insurance Policy insuring the payment when due of principal of and interest on that Series of Bonds.

“Interest Payment Subsidies” shall mean the refundable tax credit subsidies payable to the District from the federal government under Section 54AA(g) of the Code or any other section of the Code that authorizes refundable tax credits.

“Junior Lien Bonds” means any revenue bonds issued by the District or other obligations entered into by the District, including obligations under the provisions of long-term contracts, which are secured by pledges of and liens on the revenues of the System that are junior and subordinate in all respects to the pledges and liens made to secure Bonds.

“Manager” means the Manager of the District.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Municipal Bond Insurance Policy” means any municipal bond insurance policy insuring the payment when due of the principal of and interest on a Series of Bonds.

“Net Earnings” means for the period in question the net income of the District, determined in accordance with generally accepted accounting principles, but whether or not generally accepted accounting principles so require:

(a) revenue derived from service fees (including, without implied limitation, tap-in fees, availability fees, and connection fees) shall be included in income;

(b) there shall be excluded from net income for purposes of the calculation made to determine Net Earnings:

(i) gains on the sale or other disposition of investments or fixed or capital assets, not resulting from the ordinary course of the District’s business, and

(ii) investment income restricted to a purpose inconsistent with the payment of operating expenses or debt service including (whether or not so restricted) interest earned on any construction fund or construction account created with the proceeds of any borrowing of the District, and

(iii) government grants and aids-to-construction, and

(iv) amounts received by way of ad valorem property taxes; and

(c) there shall be added to net income for purposes of calculating Net Earnings the following, but only to the extent the same were subtracted in originally deriving net income for the Fiscal Year in question:

(i) losses on the sale or other disposition of investments or fixed or capital assets, not resulting from the ordinary course of the District's business,

(ii) interest paid on the Bonds and depreciation expense for such period, and

(iii) the amortization of financing expenses, underwriting discounts, call premiums, gains or losses on the extinguishment of debt due to refinancing of the same, and other related and non-recurring expenses resulting from the issuance or refinancing of Bonds; and

(iv) amounts otherwise defined as Operation and Maintenance Expenses but which are paid from receipts of ad valorem taxes; and

(d) there shall be added to net income Interest Payment Subsidies to the extent such amounts are not used to pay debt service on a Series of Bonds.

"Net Revenues" means, for the period in question, the Gross Revenues of the System less the Operation and Maintenance Expenses.

Until the Effective Date, **"Operation and Maintenance Expenses"** means for the period in question all expenses incurred in connection with the administration and the operation of the System, including, without limiting the generality of the foregoing, such expenses as may be reasonably necessary to preserve the System in good repair and working order, the fees and charges of the Trustee and the custodian or trustee of any fund, the costs of audits required by the Bond Resolution, the costs of computation and payment of any arbitrage rebate, and the premiums for all insurance and fidelity bonds required by the Bond Resolution. Operation and Maintenance Expenses shall not include:

(a) depreciation allowances,

(b) amounts paid as interest on indebtedness,

(c) amounts expended for extraordinary repairs to the System,

(d) the amortization of financing expenses, underwriting discounts, call premiums, gains or losses on the extinguishment of debt due to the refinancing of the same, and other related or incidental non-recurring expenses resulting from the issuance or refinancing of Bonds,

(e) amounts paid as capital costs pursuant to the provisions of long-term contracts which the District has entered into in order to provide water and sewer services to the areas included within its service area, such obligations being specifically included within the definitions of Bonds or Junior Lien Bonds depending upon the pledge given to secure the same, and

(f) amounts otherwise defined as Operation and Maintenance Expenses but which are paid from the receipts of ad valorem property taxes.

On and after the Effective Date, **"Operation and Maintenance Expenses"** means, for the period in question, all expenses incurred in connection with the administration and the operation of the System, including, without limiting the generality of the foregoing, such expenses as may be reasonably necessary to preserve the System in good repair and working order; principal and interest payments with respect to capital lease or other lease financing arrangements under the Bond Resolution; the fees and charges of the Trustee and the custodian or trustee of any fund, including reasonable attorneys' fees; the costs of audits required hereunder; the costs of computation and payment of any arbitrage rebate, and the premiums for all insurance and fidelity bonds required by the Bond Resolution. Operation and Maintenance Expenses shall not include:

(a) depreciation and amortization (including Bond principal) allowances;

- (b) amounts paid as interest on Bonds, Junior Lien Bonds or Special Facilities Bonds;
- (c) amounts expended for extraordinary repairs and capital improvements to the System;
- (d) amounts paid from government grants or aids-to-construction;
- (e) losses on the sale of System assets;
- (f) unfunded net pension liabilities, other post-employment benefit liabilities or similar accounting determinations under Accounting Principles that do not result in any actual disposition of cash;
- (g) financing expenses, underwriting discounts, call premiums, gains or losses on the extinguishment of debt due to the refinancing of the same, and other related or incidental non-recurring expenses resulting from the issuance or refinancing of Bonds, Junior Lien Bonds or Special Facilities Bonds;
- (h) amounts paid as capital costs pursuant to the provisions of long-term contracts which the District has entered into in order to provide water and sewer services to the areas included within its service area, such obligations being specifically included within the definitions of Bonds or Junior Lien Bonds depending upon the pledge given to secure the same, and
- (i) amounts otherwise defined as Operation and Maintenance Expenses but which are paid from the receipts of ad valorem property taxes.

“Outstanding,” when used with reference to any Bonds and except as may be modified for any Series of Bonds pursuant to the provisions of a Series Resolution, means, as of any date, all such Bonds theretofore or then being authenticated and delivered except:

- (1) Bonds canceled at or prior to such date;
- (2) Bonds in lieu of or in substitution for which other Bonds shall have been executed and delivered;
- (3) Bonds deemed to have been paid as described under the heading “Defeasance” below; and
- (4) for purposes of any consent or other action to be taken by the Holders of a specified percentage of Bonds, Bonds held by, or for the account of, the District or by any person controlling, controlled by, or under common control with the District, unless all Bonds are so held.

“Paying Agent” means the Trustee or any bank, trust company, or national banking association that is designated by the District to make disbursements of principal, interest and redemption premium, if any, with regard to the Bonds to the Bondholders.

“Principal Installment” means, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds stated to mature on a certain date, reduced by the aggregate principal amount of such Bonds that will be retired by reason of any mandatory sinking fund payment payable before such date, plus (ii) any mandatory sinking fund payment due on such certain date, together with the aggregate amount of the premiums, if any, applicable to such mandatory sinking fund payments, plus (iii) with respect to any Capital Appreciation Bonds required to be paid on such certain date, the Accreted Value as of such certain date of such Capital Appreciation Bonds, and in this latter respect, any reference to “principal” of Bonds means, with respect to Capital Appreciation Bonds, the Accreted Value of such Capital Appreciation Bonds.

“Registrar” means the Trustee or any bank, trust company, or national banking association that is authorized by the District to maintain an accurate list of the Holders of Bonds of a particular Series and to effect the transfer of such Bonds in accordance with the provisions of the Bond Resolution and having the duties, responsibilities, and rights provided for in the Bond Resolution and any Series Resolution.

“Reserve Requirement” means, as of any date of calculation, the debt service reserve requirement, if any, established by a Series Resolution authorizing a Series of Bonds.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. and its successors.

“Series” means all of the Bonds authenticated and delivered on original issuance in a simultaneous transaction and designated as a single Series by the authorizing Series Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds as herein provided, regardless of variations in maturity, interest rate or other provisions.

“Series 2022 Bonds” means the Bonds so described and referred to in the forepart of this Official Statement.

“Series Resolution” means a resolution of the Commission authorizing the issuance of a Series of Bonds by the District pursuant to the Bond Resolution, adopted by the Commission in accordance with the Bond Resolution.

“Special Facilities” means facilities financed with the proceeds of Special Facilities Bonds as described below under the heading “Additional Obligations - Special Facilities Bonds.”

“Special Facilities Bonds” means obligations of that designation issued in accordance with the provisions described below under the heading “Additional Obligations -Special Facilities Bonds.”

“System” means the Waterworks and Sewer System of the District as the same is now or may be constituted, all property real and personal used and useful therefor, all apparatus and equipment used in connection therewith, and all acquisitions, replacements, enlargements, improvements, extensions, additions and betterments that may be made thereto at any time hereafter. During the time that any Special Facilities Bonds issued to finance Special Facilities are Outstanding, however, the term “System” does not include such Special Facilities.

“Trustee” means the financial institution serving as Trustee. Such term includes any successor and any corporation or association resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor Trustee at the time serving as successor Trustee under the Bond Resolution.

“Variable Rate Bonds” means, for any period of time, any Bonds which during such period bear interest at a variable rate. Bonds on which the interest rate has been fixed for the remainder of their term are no longer considered Variable Rate Bonds.

On and after the Effective Date, unless otherwise specified in the Bond Resolution, all accounting terms used therein without definition shall be interpreted, all accounting determinations thereunder shall be made, and all financial statements required to be delivered thereunder shall be prepared, in accordance with Accounting Principles. In the event of changes to Accounting Principles which become effective after the Effective Date, the District may in good faith effect appropriate amendments to the Bond Resolution so as to perpetuate the meaning and effect of Accounting Principles as in effect on the date of enactment of the Bond Resolution.

THE BOND RESOLUTION

Authorization of Bonds in a Series and Conditions to Issuance

Authorization. The Bond Resolution authorizes the District to issue a Series of Bonds pursuant to the provisions of a Series Resolution. A Series of Bonds may be issued on a parity with the Series 2022 Bonds, all other Bonds Outstanding from time to time and for the purposes of:

- (1) obtaining funds for the expansion and improvement of the System, including the recoument of funds already so expended;
- (2) providing funds for the payment of any bond anticipation note or notes issued in order to defray the costs of expansions and improvements to the System and that were issued in anticipation of the issuance and sale of Bonds;
- (3) refunding Bonds or other obligations issued to provide land or facilities that are or are to become a part of the System or that are or were payable in whole or in part from revenues of the System;
- (4) funding the Debt Service Reserve Funds or restoring the value of the cash and securities in the Debt Service Reserve Funds to the amounts equal to their Reserve Requirements, if any, and reimbursing amounts owed to providers of surety bonds, lines of credit, insurance policies or letters of credit; and
- (5) paying the costs of issuance of Bonds, including any credit enhancement therefor.

Conditions to Issuance. Bonds of a Series may be issued only if:

- (1) Bonds shall be stated to mature and/or have mandatory or sinking fund redemptions on the dates and in the amounts prescribed or approved by the Series Resolution;
- (2) Bonds shall bear interest at the rates and on the occasions prescribed by the Series Resolution;
- (3) Bonds shall be issued for a purpose or purposes set forth under “Authorization” above;
- (4) There exists, on the occasion of the issuance of the Bonds, no default in the payment of the principal of or interest on any Bonds, general obligation bonds or Junior Lien Bonds then Outstanding;
- (5) The District obtains an opinion of Bond Counsel to the effect that (a) the Bond Resolution and the Series Resolution have been duly and lawfully adopted and are in full force and effect; (b) the Bonds have been duly and lawfully authorized, executed and issued by the District and are valid and binding upon, and enforceable against, the District (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); and (c) with respect to such Bonds, the Bond Resolution creates the valid pledge of the Net Revenues subject to the application thereof to the purposes and on the conditions permitted by the Bond Resolution;
- (6) There is on deposit in each Debt Service Reserve Fund the amount equal to the applicable Reserve Requirement, or there is deposited into the Debt Service Reserve Funds such amounts as may be necessary to make the value of the moneys and securities in each Debt Service Reserve Fund equal to the applicable Reserve Requirement;

(7) (A) *Prior to the Effective Date.*

Except in the case of a Series or a portion of a Series of Bonds issued for the purpose of refunding any Bonds and that meets the test prescribed in paragraph (8) below, the District may issue additional Bonds if:

(a) Net Earnings, during the most recent Fiscal Year for which audited financial statements of the System are completed, have been certified by the Accountants or by the Feasibility Consultants on the basis of such audited financial statements to be not less than 120% of the maximum Combined Annual Principal and Interest Requirement on all Bonds Outstanding at the time of issuance, including the proposed Series of Bonds. For purposes of this calculation, such Net Earnings shall be adjusted to reflect:

(i) any rate increases that have been currently adopted and that will be in effect prior to or coincident with the issuance of such proposed Series of Bonds, and determined pro forma as if such rate increases had been in continuous effect during the Fiscal Year;

(ii) if the proceeds of the proposed Series of Bonds will be used to acquire a water or sewer utility, system or enterprise that is currently in existence and operating, and whose current customers will become customers of the System upon such acquisition, 100% of the estimated Net Earnings to be received by the System during the Fiscal Year following the date of issuance of the proposed Series of Bonds, as projected by the Accountants or the Feasibility Consultants, from the utility, system or enterprise so acquired, but taking into account only the then-existing customer base and population of the acquired utility, system or enterprise;

(iii) if the proceeds of the proposed Series of Bonds will be used to construct or to acquire a newly-constructed water or sewer utility, system or enterprise, or component of the System that will serve a currently-populated area, 100% of the Net Earnings estimated by the Feasibility Consultants to be received by the System during the first Fiscal Year beginning after the earlier of (A) the date on which the project is placed in service or (B) the third anniversary of the delivery of the proposed Series of Bonds, from the newly-constructed or to-be-constructed utility, system or enterprise, or component of the System, but taking into account only the current population;

(iv) if proceeds of the proposed Series of Bonds will be used to pay interest on the proposed Series, 100% of the interest that will accrue on the Series of Bonds during the first twelve (12) full months following the date of delivery of the proposed Series and that will be paid from such proceeds, but (A) if any interest accruing in such twelve-month period is to be paid on a date within the Fiscal Year of maximum Combined Annual Principal and Interest Requirements, then those interest payments will not be added into Net Earnings, and (B) the adjustment described in this subparagraph (iv) may not be used jointly with the adjustments described in subparagraphs (ii) and (iii) for the same Series of Bonds;

(v) if proceeds of the proposed Series of Bonds will be used to construct or to acquire an expansion to the System, 100% of estimated Net Earnings to be received by the System in the first Fiscal Year following the completion of the project, certified by the Feasibility Consultants, from customers under long-term contracts that extend for the life of such proposed Series of Bonds; and

(vi) any amount allowed by any of the preceding subparagraphs (ii) through (v) as an adjustment for a previously-issued Series of Bonds if the proposed Series of Bonds is being issued prior to the end of the Fiscal Year (A) for which incremental Net Earnings from the project financed by the previously-issued Series of

Bonds were allowed to be projected under subparagraphs (ii), (iii) or (v), or (B) in which capitalized interest on the previously-issued Series of Bonds is exhausted; and

(b) For each of the five Fiscal Years following the later of the date of the delivery of the Bonds of such Series, or the period (if any) for which interest is funded from the proceeds of such Bonds, Net Earnings, as projected by the Feasibility Consultants, must not be less than 120% of the Combined Annual Principal and Interest Requirements in such years on all Bonds then proposed to be Outstanding in each of such five Fiscal Years;

provided that in the instance of any Series of Bonds in the aggregate principal amount of \$1,000,000 or less, such calculations required by this paragraph (7) may, unless provided to the contrary in any Series Resolution, be made by the District Representative.

To provide the certification for the most recent Fiscal Year for which audited financial statements are available, the District may provide for a special audit and a certification based upon such special audit, in lieu of the audit for such Fiscal Year, if the special audit covers twelve (12) consecutive calendar months of the eighteen (18) full consecutive calendar months preceding the date of issuance of the proposed Series of Bonds;

(B) After the Effective Date.

Except in the case of a Series or a portion of a Series of Bonds issued for the purpose of refunding any Bonds and that meets the test prescribed in paragraph (8) below, the District may issue additional Bonds if:

(a) Net Earnings during the most recent Fiscal Year for which audited financial statements of the System are completed shall be certified by the District Representative on the basis of such audited financial statements to be not less than one hundred twenty percent (120%) of the maximum Combined Annual Principal and Interest Requirement on all Bonds Outstanding at the time of issuance including such proposed Series of Bonds. For purposes of such calculation, such Net Earnings shall be adjusted to reflect:

(i) any rate increases that have been currently adopted and that will be in effect prior to or coincident with the issuance of such proposed Series of Bonds, and determined pro forma as if such rate increases had been in continuous effect during the Fiscal Year;

(ii) if proceeds of such proposed Series of Bonds will be used to acquire a water or sewer utility, system or enterprise that is in existence and operating and whose current customers will become customers of the System upon such acquisition, one hundred percent (100%) of the estimated Net Earnings to be received by the System during the Fiscal Year following the date of issuance of the proposed Series of Bonds, as projected by the District Representative, from the utility, system or enterprise to be acquired with the proceeds of such proposed Series of Bonds, taking into account for the estimation of such Net Earnings only the then-existing customer base and population of the acquired utility, system or enterprise;

(iii) if proceeds of such proposed Series of Bonds will be used to construct or to acquire a newly-constructed water or sewer utility, system, enterprise, or component of the System which will serve a currently-populated area, one hundred percent (100%) of the Net Earnings, estimated by the District Representative, to be received by the District during the first Fiscal Year beginning after the earlier of (a) the date on which such project constructed or acquired with the proceeds of the proposed Series of Bonds is placed in service or (b) the third anniversary of the date of delivery of the proposed Series of Bonds, from the newly-constructed or to-be-constructed utility, system, enterprise, or component of the System, taking into account for the estimation of such Net Earnings only the current population;

(iv) if proceeds of such proposed Series of Bonds will be used to pay interest on such proposed Series, one hundred percent (100%) of the interest that will accrue on such Series of Bonds during the first twelve (12) full months following the date of delivery of the proposed Series and that will be paid from such proceeds, provided however that any such interest accruing in such twelve-month period that is to be paid on a date within the Fiscal Year of maximum Combined Annual Principal and Interest Requirements shall not be so added into such Net Earnings, and further provided, however that the adjustment allowed by this subparagraph (iv) may not be used jointly with the adjustments allowed by subparagraphs (ii) and (iii) with respect to the same proposed new Bonds;

(v) if proceeds of such proposed Series of Bonds will be used to construct or to acquire an expansion to the System, one hundred percent (100%) of estimated Net Earnings to be received by the System in the first Fiscal Year following the completion of such project, certified by the District Representative, from customers under long-term contracts which extend for the life of such proposed Series of Bonds; and

(vi) any amount allowed by any of subparagraphs (ii) through (v) as an adjustment with respect to a previously-issued Series of Bonds if the proposed Series of Bonds is being issued prior to the end of the Fiscal Year (A) for which incremental Net Earnings from the project financed by the previously-issued Series of Bonds were allowed to be projected under subparagraphs (ii), (iii) or (v) or (B) in which capitalized interest on the previously-issued Series of Bonds is exhausted; or

(b) For each of the five (5) full Fiscal Years following the later of the date of the delivery of the Bonds of such Series, or the period (if any) for which interest is funded from the proceeds of such Bonds, Net Earnings, as shall have been projected by the District Representative, taking into account such circumstances and factors as he finds appropriate including, without limitation, rate adjustments, or acquisitions or improvements to expand the System, will be not less than one hundred twenty percent (120%) of the Combined Annual Principal and Interest Requirements in such years on all Bonds then proposed to be Outstanding in each of such five (5) full Fiscal Years.

The District Representative making the calculations described in this paragraph (7) may, but is not required to, rely on a report, calculation, or projection of the Feasibility Consultants.

To provide the certification for the most recent Fiscal Year for which audited financial statements are available, the District 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, covering a period of twelve (12) consecutive calendar months of the eighteen (18) full consecutive calendar months preceding the date of issuance of the proposed Series of Bonds;

(8) if the proposed Series of Bonds, or a portion thereof, is issued for the purpose of refunding any Bonds, then in lieu of compliance with the requirements described in paragraph (7) above, the Annual Principal and Interest Requirements of the refunding Bonds shall not exceed 105% of the Annual Principal and Interest Requirements of the refunded Bonds for any Fiscal Year, until a time after the last maturity date of any Bonds that were issued prior to the issuance of such refunding Bonds which are not refunded and which remain Outstanding following the issuance of the refunding Bonds;

(9) Any proceedings authorizing the issuance of Bonds or Junior Lien Bonds may prescribe, in addition to the requirements set forth in paragraphs (7) and (8) above, further requirements that must be met for the issuance of Bonds either on a parity with such Bonds or senior to such Junior Lien Bonds;

(10) if the proposed Series of Bonds contains Variable Rate Bonds:

(a) the Series Resolution must provide for and specify a maximum interest rate on the proposed Bonds and on any reimbursement obligation to a liquidity provider for such Bonds;

(b) any liquidity provider for the proposed Bonds is rated in the highest short term rating category by either Moody's, Fitch Ratings, or S&P; and

(c) any accelerated principal payments, or any interest computed at a rate in excess of the rate of interest on such Bonds due under a reimbursement agreement to the liquidity provider for such Bonds, is subordinate to the payment of debt service on all Bonds. If, however, the tests referred to in paragraph (3) or, if applicable, paragraph (4) above are calculated (and met) assuming that the accelerated principal payment and such excess interest amount will be paid to the liquidity provider, then the accelerated principal payment and excess interest amount may be on a parity with the payment of debt service on all Bonds; and

(11) all amounts owing under a reimbursement agreement with any providers of surety bonds, lines of credit, insurance policies or letters of credit have been paid.

Additional Obligations

Junior Lien Bonds. Notwithstanding that Bonds may be Outstanding, the District may at any time, without limitation and free of all conditions, issue Junior Lien Bonds in any amount payable from the revenues of the System, provided that the pledge of revenues and any lien upon the revenues of the System granted for the protection of the Junior Lien Bonds must be and remain subordinate to the pledge of revenues and liens upon such revenues made or authorized for the Bonds.

By proceedings authorizing the issuance of Junior Lien Bonds, the District may provide for the accession of the Junior Lien Bonds to the status of Bonds if all of the following conditions are met:

(1) the Junior Lien Bonds were issued for a purpose or purposes set forth under the heading "Authorization of Bonds in a Series" above;

(2) there exists on the date of accession (a) no default in the payment of the principal or interest on any Bonds or any Junior Lien Bonds then Outstanding, (b) no default in the performance of any duties required under the Bond Resolution, and (c) no amount owed by the District with respect to the funding of a Debt Service Reserve Fund, either by way of cash or reimbursement of any other funding mechanism;

(3) on the date of accession, if such date is prior to the Effective Date, the earnings tests described in paragraph (7) under the heading "Authorization of Bonds in a Series and Conditions to Issuance—Conditions to Issuance—Prior to the Effective Date" above shall have been met, and if such date is on or after the Effective Date, the earnings tests described in paragraph (7) under the heading "Authorization of Bonds in a Series and Conditions to Issuance—Conditions to Issuance—After the Effective Date" above shall have been met;

(4) there is deposited in the Debt Service Fund for the Series of newly-acceded Bonds the amounts that would have been required under the Bond Resolution to be accumulated therein on the date of accession if the Junior Lien Bonds had originally been issued as Bonds;

(5) if the proceedings require a Reserve Requirement to be maintained for the Series of newly-acceded Bonds, then there is on deposit on the date of accession in a Debt Service Reserve Fund an amount equal to the Reserve Requirement established for the Junior Lien Bonds that are being acceded to the status of Bonds;

(6) the District obtains an opinion of Bond Counsel that (a) the Bond Resolution and the proceedings authorizing the Junior Lien Bonds have been duly adopted and are in full force and effect, (b) the Junior Lien Bonds have been duly and lawfully authorized and executed by the District and are valid

and binding upon, and enforceable against, the District (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors), and (c) the Bond Resolution creates the valid pledge that it purports to create of the revenues and of moneys and securities on deposit in any of the funds established under the Bond Resolution; and

(7) if the Junior Lien Bonds were issued with variable rates, the provisions described under the heading “Authorization of Bonds in a Series” above applicable to Variable Rate Bonds have been satisfied.

Special Facilities Bonds. The District has the right to enter into contracts, leases or other agreements to construct, operate and pay the costs of facilities (“*Special Facilities*”) to be financed by the issuance of Special Facilities Bonds, subject to the following conditions:

(1) it must be determined to the satisfaction of the District that the rents, revenues, or receipts to be derived from the Special Facilities will be at least (a) equal to the principal, interest and any reserve requirements contained in the resolution authorizing the Special Facilities Bonds and (b) sufficient to pay all operation, maintenance and other costs and expenses applicable to the Special Facilities; and

(2) the revenues derived from Special Facilities need not be deposited in the General Revenue Fund, and may be pledged to secure Special Facilities Bonds; but no debt service or other costs or expense related to any Special Facilities may be paid from System revenues deposited in the General Revenue Fund except surplus moneys under the Bond Resolution.

The term “*Special Facilities*” includes all or a portion of water or sewer facilities and rights to all or a portion of the use of, or the capacity available from, any such facilities.

Lease Financing Agreements. The District has the right to enter into capital leases or other lease financing agreements secured by a lien on the property, plant, and equipment comprising a part of the System. The aggregate principal amount of such obligations Outstanding at any time, however, may not exceed 10% of the property, plant, and equipment of the System less accumulated depreciation as shown on the audited balance sheet of the District for the most recent Fiscal Year for which audited financial statements are available.

Acquisition of Additional Utilities

The Commission has the right to add other utilities, enterprises, activities, and facilities to the System, provided that:

(1) the Commission determines that the acquired utilities, enterprises, activities, or facilities are of a similar public utility nature as are the utilities now constituting the System;

(2) the Commission adopts an appropriate amendatory resolution to the Bond Resolution;

(3) the Commission receives an opinion of Bond Counsel that the proposed acquisition is authorized under the Bond Resolution and the laws of the State of South Carolina and will not adversely affect the excludability of interest on the Bonds that were intended upon their issuance to be exempt from federal income taxation; and

(4) for each of the five Fiscal Years following the date of the additions to the System, forecasted Net Earnings will not be less than 120% of the Annual Principal and Interest Requirements on all Bonds then proposed to be Outstanding in each of such five Fiscal Years. If, however, Bonds are being issued to acquire or improve the acquired utility, this paragraph does not apply and the Commission must instead meet the requirements described under the heading “Authorization of Bonds in a Series” above before issuing the proposed Bonds and acquiring the utility.

Rate Covenant

The District covenants to maintain rates and charges for all services furnished by the System that are sufficient: (1) to provide for the punctual payment of the principal of and interest on all Outstanding Bonds and Junior Lien Bonds; (2) to maintain the Debt Service Funds and thus provide for the punctual payment of the principal of and interest on the Bonds; (3) to maintain the Debt Service Reserve Funds in the manner prescribed by the Bond Resolution; (4) to provide for the payment of the Operation and Maintenance Expenses; (5) to build and maintain a reserve for depreciation of the System, for contingencies, and for improvements, betterments, and extensions to the System other than those necessary to maintain the same in good repair and working order; (6) to pay all amounts owing under reimbursement agreements with any providers of surety bonds, lines of credit, insurance policies, or letters of credit; and (7) to discharge all obligations imposed by the Enabling Act and by the Bond Resolution.

The District additionally covenants to prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the System which until the Effective Date will, and after the Effective Date, will be reasonably expected to, yield annual Net Earnings in the current Fiscal Year equal to at least the sum of (1) 120% of the Annual Principal and Interest Requirements for all Series of Bonds Outstanding in such Fiscal Year plus (2) 100% of the amount necessary to pay any amounts owing in such Fiscal Year under reimbursement agreements with any providers of surety bonds, lines of credit, insurance policies or letters of credit plus (3) 100% of the principal and interest on Junior Lien Bonds, or the capital costs pursuant to long-term contracts that the District has entered into to provide water and sewer services to the areas included within its service area, due in such Fiscal Year plus (4) 100% of any required payments into Debt Service Reserve Funds due in such Fiscal Year. Promptly upon any material change in the circumstances under which such rates and charges were most recently reviewed, but not less frequently than once in each Fiscal Year, the District must review the rates and charges for its services and promptly revise the rates and charges as necessary to comply with the foregoing requirement. Prior to the beginning of each Fiscal Year, the District must adopt an Annual Budget including amended rate schedules for such Fiscal Year that set forth in reasonable detail the estimated revenues and operating expenses and other expenditures of the System for the Fiscal Year, and which include appropriations for estimated operating expenses and the amount to be deposited during the Fiscal Year in the Depreciation and Contingent Fund. The District may at any time adopt an amended Annual Budget for the remainder of the then current Fiscal Year.

Funds, Accounts and Other Payments

For so long as any sum remains due and payable on the Bonds, the following funds or accounts must be established, maintained and funded with Revenues of the System in the same order of priority as such are discussed below.

The General Revenue Fund. Except as permitted by the Bond Resolution, all Gross Revenues of the System must be deposited into the General Revenue Fund. Money in the General Revenue Fund may be withdrawn and made use of only in the manner and in the order of priority specified in the Bond Resolution and described below. The District must establish proper records of receipts and disbursements for the General Revenue Fund.

The District is not required, pursuant to the provisions of the Bond Resolution, to establish a separate fund from which Operation and Maintenance Expenses are to be paid. Thus, moneys on deposit in the General Revenue Fund are used to provide for the payment of all expenses incurred in connection with the administration and operation of the System, including such expenses as may be reasonably necessary to preserve the System in good repair and working order, the fees and charges of the Trustee and the custodian or Trustee of any fund, the costs of audits required by the Bond Resolution, and the premiums for all insurance and fidelity Bonds required by the Bond Resolution.

The Debt Service Funds. There shall be established a Debt Service Fund for each Series of Bonds Outstanding. The Debt Service Funds are intended to provide for the payment of the principal of, redemption premium, if any, and interest on the Bonds of the respective Series of Bonds as they fall due. Except as provided in the Bond Resolution, all money in the Debt Service Funds shall be used only to pay the principal of, redemption premium, if any, and interest on the respective Series of Bonds, and for no other purpose. Except as provided

below, the Debt Service Funds are maintained in the custody and under the control of the Trustee. In the event (1) a Series of Bonds is purchased by a single institution and thereafter held by a single Bondholder, and (2) there is not established for such Series of Bonds a Reserve Requirement, the Debt Service Fund established for such Series of Bonds may be held by the Holder of that Series of Bonds, and the Holder of any such Series of Bonds must provide to the Trustee, as and when requested by the Trustee, a written certificate containing current information as to the principal Outstanding, the redemption premium, if any, and accrued interest on such Series of Bonds, and, if the Holder of such Series of Bonds does not provide the Trustee such written certificate within five Business Days of a request by the Trustee, the Trustee, for all purposes of the Bond Resolution, shall conclusively assume that such Series of Bonds has been paid in accordance with the original tenor of such Series of Bonds.

Fifteen days prior to each Bond Payment Date, there is deposited from the General Revenue Fund into the Debt Service Funds the amount of principal and interest that will become due on the respective Series of Bonds on such Bond Payment Date. If, however, the Trustee has received any Interest Payment Subsidies or if provision has been made for the payment of all or part of the next installment of principal and/or interest on any particular Series of Bonds pursuant to any other provision of the Bond Resolution or any Series Resolution, or by reason of investment earnings, then the required deposits may be omitted or reduced accordingly.

Money in the Debt Service Funds is invested and reinvested at the written direction of the District Representative in Authorized Investments. Any earnings from investments are added to and become a part of the Debt Service Fund in which the investments are held and are credited against payments that would otherwise be made to such Debt Service Fund.

All monies received by the Trustee as Interest Payment Subsidies shall be retained by the Trustee and used to pay debt service on the Series of Bonds with respect to which such Interest Payment Subsidies were received.

The Debt Service Reserve Funds. A Series Resolution may create a Debt Service Reserve Fund for the Series of Bonds authorized thereby. Each Debt Service Reserve Fund is intended to secure the timely payment of the principal of and interest on such Series of Bonds, and to provide for the redemption of such Bonds prior to their stated maturities. Each Debt Service Reserve Fund is maintained in an amount equal to the Reserve Requirement established by the relevant Series Resolution. Money in each Debt Service Reserve Fund is used only for the following purposes:

- (1) to prevent a default in the payment of the principal of or interest on the applicable Series of Bonds, by reason of the fact that money in the Debt Service Fund is insufficient for such purposes;
- (2) to pay the principal of, interest on, and redemption premium of the applicable Series of Bonds in the event that all Outstanding Bonds of such Series are to be redeemed as a whole; or
- (3) to effect partial redemption of the applicable Series of Bonds, but subsequent to any partial redemption, the market value of the cash and securities in the Debt Service Reserve Fund must not be less than the applicable Reserve Requirement.

The Debt Service Reserve Funds are kept in the complete custody and control of the Trustee.

Investment Earnings. Money in the Debt Service Reserve Funds are invested and reinvested by the Trustee at the written direction of the District Representative in Authorized Investments. The earnings from such investments are added to the applicable Debt Service Reserve Fund. If the value of the securities and money in any Debt Service Reserve Fund exceeds its Reserve Requirement, the excess is first used to raise any underfunded Debt Service Reserve Fund to its respective Reserve Requirement. Any remaining excess may be used to effect partial redemption of the Series of Bonds or removed from such Debt Service Reserve Fund and transferred into the General Revenue Fund or to a construction fund then established pursuant to a Series Resolution.

Substitutes. A Series Resolution that requires a Reserve Requirement to be established may also provide that, in lieu of depositing moneys into such Debt Service Fund, the District may satisfy the Reserve Requirement by an irrevocable and unconditional surety bond, line of credit, letter of credit, or insurance policy.

Valuation. Fifteen days prior to each Bond Payment Date, the Trustee shall value the cash and securities in each Debt Service Reserve Fund to determine if it contains the applicable Reserve Requirement. Unless each Debt Service Reserve Fund contains an amount at least equal to the applicable Reserve Requirement, there shall be paid into the deficient Debt Service Reserve Funds the amount necessary to re-establish the Reserve Requirement prior to such Bond Payment Date. Any surety bond, line of credit, insurance policy, or letter of credit being used to meet the Reserve Requirement of a Debt Service Reserve Fund is valued at the amount still remaining to be drawn. If any surety bond, line of credit, insurance policy, or letter of credit has been drawn upon, the amount necessary to restore its principal balance shall be paid by the District in the same manner and on a parity with the payments described in this paragraph.

The value of any Authorized Investments in a Debt Service Reserve Fund is calculated as set forth in the Bond Resolution.

The Depreciation and Contingent Fund. There is established a Depreciation and Contingent Fund to provide a reasonable reserve for depreciation of the System, for contingencies, and for improvements, betterments, and extensions of the System. Money in this fund shall be used solely: (1) to restore depreciated or obsolete items of the System; (2) for improvements, betterments, and extensions to the System, other than for those things reasonably necessary to maintain the System in good repair and working order; (3) to defray the cost of unforeseen contingencies and extraordinary repairs; (4) to prevent defaults of Bonds and Junior Lien Bonds; and (5) for optional redemption of Bonds or Junior Lien Bonds. The District determines the amount to be maintained in the Depreciation and Contingent Fund not less frequently than annually.

Fifteen days prior to each Bond Payment Date, there shall be deposited into the Depreciation and Contingent Fund one-half of the estimated annual requirement for the fund. Withdrawals from this fund shall be made by or on order of the District.

Payments for Junior Lien Bonds. Following the payments described above, provision is made for the payment of any other indebtedness that is junior and subordinate to the Bonds in the order of priority contemplated by the proceedings authorizing their issuance.

Use of Surplus Money. All money remaining after making the payments described above shall be used for the maintenance or improvement, or payment of debt payable from the revenues of the System or for the payment of Special Facilities Bonds or for any other lawful purpose, as determined from time to time by the District.

Investments of Funds

Whenever, in the opinion of the District, it becomes desirable to invest money in any of the funds established by the Bond Resolution (other than the Debt Service Reserve Funds and the Debt Service Funds, provisions for which are set forth above), the District may make Authorized Investments. Earnings from investments shall be deposited into the General Revenue Fund (i) except as provided above for the Debt Service Funds and the Debt Service Reserve Funds and (ii) unless the District determines pursuant to the Annual Budget that earnings on amounts in the Depreciation and Contingent Fund shall remain therein.

On the Effective Date, the following additional investment provisions become effective: The Trustee may rely on such written instructions as to the suitability and legality and qualification as “Authorized Investments” of any investment directed thereunder. In the absence of written instructions, the Trustee shall hold funds as cash uninvested. The Trustee shall not be required to provide brokerage confirmations as to the investment or liquidation of funds so long as it delivers periodic reports to the District. The “Investments of Funds” provisions of the Bond Resolution shall apply to investments of moneys in the Debt Service Funds, the Debt Service Reserve Funds and the Depreciation and Contingent Fund.

Audit Required

Until the Effective Date, the District is required to deliver its audit to the Trustee not later than 120 days after the close of each Fiscal Year. After the Effective Date, the District is required to deliver its audit to the Trustee not later than 180 days after the close of each Fiscal Year.

Modification of Bond Resolution

Without Bondholder Approval. The District may at any time and without Bondholder approval adopt a resolution supplementing the Bond Resolution for any one or more of the following purposes:

- (1) to provide for the issuance of a Series of Bonds in accordance with the Bond Resolution;
- (2) to add to the covenants and agreements of the Commission in the Bond Resolution;
- (3) to surrender any right, power, or privilege reserved to or conferred upon the Commission by the Bond Resolution; and
- (4) to cure, correct, and remove any ambiguity or inconsistent provisions contained in the Bond Resolution.

With Bondholder Approval. The rights and duties of the Commission and the Bondholders and the terms and provisions of the Bond Resolution may be modified by a resolution adopted by the Commission with the consent of the Holders of 66-2/3% in principal amount of all Outstanding Bonds of each Series that would be affected by the modification and the prior written consent of the Insurer, if any, but no such modification shall, without the consent of the Holders of all Bonds affected with such change or modification:

- (1) extend the maturity of any payment of principal or interest due upon any Bond;
- (2) reduce the amount that the Commission is required to pay by way of principal, interest, or redemption premium on any Bond;
- (3) change the type of currency in which the Commission is obligated to pay the principal, interest, and redemption premium of any Bond;
- (4) permit the creation of a pledge of the revenues of or lien upon the System prior to or equal to the Bonds, except as may be permitted under the provisions of the Bond Resolution;
- (5) permit preference or priority of any Bonds to others;
- (6) alter or modify the provisions relating to the conditions for issuance of a Series of Bonds, the rate covenant, or the funds and accounts and the method of funding such accounts or funds; or
- (7) reduce the percentage required for the written consent to the modification of the provisions of the Bond Resolution.

Events of Default

Each of the following events is an “*Event of Default*” under the Bond Resolution:

- (1) failure to pay the principal of any of the Bonds when the same becomes due and payable, either at maturity or by proceedings for redemption;
- (2) failure to pay any installment of interest on any Bonds when the same becomes due and payable;

- (3) only until the Effective Date, failure to pay any installment of either interest or principal on any Junior Lien Bonds when the same becomes due and payable;
- (4) only until the Effective Date, the Commission is for any reason rendered incapable of fulfilling its obligations under the Bond Resolution;
- (5) the occurrence of certain events of bankruptcy or insolvency;
- (6) the Commission (a) fails to operate the System in an efficient and businesslike fashion and thereby materially impairs the operations of the System, or (b) defaults in the performance of any other of the covenants or provisions contained in the Bonds, in any Series Resolution, in the Bond Resolution, or in any proceedings authorizing the issuance of any Junior Lien Bonds, and the default continues for thirty days after a written notice of default has been given to the Commission by any Bondholder. If, however, the default cannot be corrected within thirty days, the Commission may avoid default by instituting corrective action within the thirty day period and diligently pursuing such action until the default is corrected;
- (7) the Commission defaults under any reimbursement agreement between the Commission and a provider of a surety bond, line of credit, insurance policy, or letter of credit; and
- (8) any other Events of Default specified in a Series Resolution.

In determining whether a default has occurred under paragraphs (1), (2) or (3) above, and in determining whether a payment on Bonds has been made under any other provision of the Bond Resolution, no effect is given to payments made under a Municipal Bond Insurance Policy.

The foregoing provisions of paragraph (6) are subject to the following limitation: If by reason of force majeure the Commission is unable to carry out its agreements contained in the Bond Resolution (other than certain material obligations on the part of the Commission relating to conditions to issuance of Bonds of a Series, rates and charges, the establishment of certain funds and accounts and disposition of revenues as to which this paragraph has no application), the Commission will not be deemed in default during such inability. The term "force majeure" is defined to mean, without limitation, acts of God; strikes; lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of South Carolina or any of their departments, agencies, or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, tunnels or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Commission. The settlement of strikes, lockouts, and other industrial disturbances is entirely within the discretion of the Commission, and the Commission is not be required to settle strikes, lockouts, and other industrial disturbances by acceding to the demands of the opposing party or parties when the Commission believes settlement to be unfavorable.

Remedies

Acceleration; Annulment of Acceleration. Upon the occurrence of an Event of Default, the Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of Bonds Outstanding shall, by notice in writing to the Commission, declare all Bonds Outstanding immediately due and payable.

At any time after the principal of the Bonds are so declared due and payable, and before the entry of final judgment in any action instituted on account of such default, or before the completion of the enforcement of any other remedy under the Bond Resolution, until the Effective Date, the Trustee may, and on and after the Effective Date the Trustee shall, annul the declaration and its consequences for any Bonds then due by their terms if:

- (1) moneys shall have been deposited in each Debt Service Fund sufficient to pay all matured installments of interest and principal (other than principal then due only because of such declaration) of all Outstanding Bonds;

(2) moneys shall have been deposited with the Trustee sufficient to pay the charges, compensation, expenses, disbursements, advances, and liabilities of the Trustee;

(3) all other amounts then payable by the Commission shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and

(4) every Event of Default known to the Trustee (other than a default in the payment of the principal of such Bonds then due only because of such declaration) shall have been remedied to the satisfaction of the Trustee.

Additional Remedies. Upon the occurrence and continuance of any Event of Default, the Trustee may, and on the written request of the Holders of not less than 25% in aggregate principal amount of the Bonds Outstanding shall, proceed to protect and enforce its rights and the rights of the Bondholders under the Bond Resolution by any actions that the Trustee, being advised by counsel, shall deem expedient.

Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding, shall institute any suits and proceedings as it may be advised by counsel to be necessary or expedient:

(1) to prevent any impairment of the security under the Bond Resolution by any acts that may be unlawful or in violation of the Bond Resolution; or

(2) to preserve or protect the interests of the Bondholders, provided that such request is in accordance with law and the provisions of the Bond Resolution and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Holders of Bonds not making such request.

Application of Revenues and Other Moneys After Default. If an Event of Default occurs and is not remedied, the Commission, upon demand of the Trustee, shall pay or cause to be paid over to the Trustee all moneys and securities then held by the Commission that are credited to any Fund under the Bond Resolution and all Gross Revenues.

Order of Payment. During the continuance of an Event of Default, the Trustee shall apply all moneys, securities, Gross Revenues, payments, and receipts in its possession and the income therefrom as follows and in the following order:

(1) to the payment of the reasonable and proper charges of the Trustee and its reasonable counsel fees and expenses;

(2) to the payment of all other Operation and Maintenance Expenses;

(3) to the payment of the interest and principal (and redemption premium, if any) then due on the Bonds, as follows:

(a) Unless the principal of all of the Bonds shall have become or has been declared due and payable,

(i) First: To the payment of the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

(ii) Second: To the payment of the persons entitled thereto of the unpaid Principal Installments (and redemption premiums, if any) of any Bonds that have become due, whether at maturity or by call for redemption, in the

order of their due dates, and if the amounts available are not sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal (plus redemption premium, if any) due on such date, to the persons entitled thereto, without any discrimination or preference;

(b) If the principal of all of the Bonds has become or has been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds 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 over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without discrimination except as to any differences in the respective rates of interest specified in the Bonds;

(4) to the deposit of the amounts required to be deposited into the Debt Service Funds, ratably, according to the amounts due thereunder; and

(5) to the deposit of the amounts required to be deposited into the Depreciation and Contingent Fund, according to the amounts due thereunder.

Control of Proceedings. If an Event of Default shall have occurred and be continuing, the Holders of at least a majority in aggregate principal amount of Bonds then Outstanding shall have the right, at any time, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Bond Resolution or for the appointment of a receiver, provided that such direction is in accordance with law and the provisions of the Bond Resolution and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Bondholders not joining in such direction. Nothing contained in the Bond Resolution shall impair the right of the Trustee in its discretion to take any other action under the Bond Resolution that it may deem proper and that is not inconsistent with such direction by Bondholders.

Individual Bondholder Action Restricted. No Holder of any Bond has the right to institute any proceeding for the enforcement of the Bond Resolution or for any remedy unless (1) an Event of Default has occurred with respect to the payment of principal of or interest on the Bonds (provided that if the terms of a Series Resolution allow the Debt Service Fund established for that Series to be held by the Holder of that Series, then the Trustee must have actual notice of such default), or the Trustee has actual notice or the Trustee has been notified in writing of the Event of Default, (2) the Holders of at least 25% in aggregate principal amount of Bonds Outstanding have made written request to the Trustee to proceed to exercise the powers granted in the Bond Resolution or to institute such proceeding in its own name, (3) such Bondholders have offered the Trustee reasonable indemnity, and (4) the Trustee fails or refuses to exercise its powers granted in the Bond Resolution or to institute such proceeding in its own name for a period of sixty days after receipt of the request and offer of indemnity. No Bondholder has any right to disturb or prejudice the security of the Bond Resolution or to enforce any right thereunder except in the manner provided in the Bond Resolution and for the equal benefit of the Holders of all Bonds Outstanding. Nothing contained in the Bond Resolution shall impair the right of any Bondholder to receive payments of the principal of or interest on such Bond on the due date thereof or to institute suit for the enforcement of any such payment on or after such due date.

Waiver of Event of Default. No delay or omission of the Trustee or of any Bondholder to exercise any right accruing upon an Event of Default shall impair any such right or shall be construed to be a waiver of the Event of Default or acquiescence therein. The Trustee may waive any Event of Default that in its opinion has been remedied before the entry of final judgment or decree in any proceeding instituted by it under the provisions of the Bond Resolution, or before the completion of the enforcement of any other remedy under the Bond Resolution.

The Trustee, upon the written request of the Holders of at least a majority of the aggregate principal amount of Bonds then Outstanding (including, if more than one Series of Bonds is Outstanding, the Holders of a majority in principal amount of all Bonds then Outstanding of each such Series), shall waive any Event of Default hereunder, except that a default in the payment of the principal of, premium, if any, or interest on any Bond may not be waived without the written consent of the Holders of all the Bonds at the time Outstanding.

Notice of Default. Within thirty days after receipt of notice of an Event of Default or the occurrence of an Event of Default relating to the payment of principal of or interest on any Bonds (provided that if the terms of a Series Resolution allow the Debt Service Fund established for that Series to be held by the Holder of that Series, then the Trustee must have actual notice), the Trustee shall, unless the Event of Default has been cured, give written notice of the Event of Default by first class mail to each Insurer of any Series of Bonds then Outstanding and to each holder of Bonds then Outstanding. Unless the default relates to the payment of principal of, premium, if any, and interest on any of the Bonds, the Trustee may withhold such notice if, in its sole judgment, it determines that the withholding of such notice is in the best interests of the Bondholders.

Trustee

Functions of the Trustee. The Trustee shall have the following functions (provided that if the terms of a Series Resolution allow the Debt Service Fund established for that Series to be held by the Holder of that Series, then the Trustee shall not have the functions described in paragraphs (2), (3), (4) and (6) below with respect to that Series):

- (1) to authenticate the Bonds of all Series that may be issued;
- (2) to act as custodian of the Debt Service Funds;
- (3) to act as custodian of the Debt Service Reserve Funds;
- (4) to act as Paying Agent for the Bonds;
- (5) to act as Registrar for the Bonds and to maintain registration books therefor, which shall at all times accurately reflect the names and addresses all Bondholders; and
- (6) to make reports to the Commission not more often than monthly, but not less often than semi-annually, that establish balances on hand, list investments made for any fund handled by the Trustee, establish the market value of the Debt Service Reserve Funds, and list all securities, if any, pledged pursuant to the Bond Resolution.

Resignation and Removal of Trustee; Successor Trustee. The Trustee may at any time resign and be discharged of its duties and obligations hereunder by giving at least sixty days notice of the date when such resignation is intended to take effect. The resignation shall take effect upon the date specified in the notice unless a successor is appointed before such date, in which case the resignation shall take effect immediately upon, but not before, the appointment and qualification of the successor Trustee.

The Trustee may be removed at any time by the Holders of not less than 50% of the principal amount of Bonds at such time Outstanding. In addition, provided an Event of Default has not occurred and is not continuing, the Trustee may be removed at any time by the Commission. Any removal of the Trustee shall take effect immediately upon, but not before, the appointment and qualification of the successor.

If the Trustee resigns, is removed, becomes incapable of acting, is adjudged bankrupt or insolvent, or is placed in receivership or under the control of a public official, a successor shall be promptly appointed by a resolution of the Commission. The successor must be a bank or a trust company, acceptable to each Insurer, and duly chartered pursuant to the laws of the United States, or of any state, and must have a combined capital and surplus of at least \$100,000,000. Immediately after appointing a successor Trustee, the Commission shall give written notice of such appointment to the Bondholders.

If the Commission shall fail to promptly select a successor Trustee, any Bondholder, the resigning or removed Trustee, or any Insurer may make application to any court of competent jurisdiction for the appointment of a successor and the court may, after such notice, if any, as such court may prescribe, appoint a successor.

Trustee to Secure Funds and Securities Held in Trust. Unless secured as trust funds in the manner provided by the regulations of the Comptroller of the Currency, all funds in the custody of the Trustee in excess of

the amount insured by the Federal Deposit Insurance Corporation shall be secured by direct obligations of the United States at least equal in face value to the uninsured portion on deposit.

Defeasance

Subject to the rights of any Insurer under an applicable Series Resolution, if all of the Bonds issued pursuant to the Bond Resolution and any other amounts required to be paid to a provider of a surety bond, line of credit, insurance policy, or letter of credit have been paid and discharged, then the obligations of the Commission under the Bond Resolution and all other rights granted thereby shall cease and terminate. Bonds shall be deemed to have been paid and discharged under each of the following circumstances:

(1) The Trustee holds, at the stated maturities of such Bonds, in trust and irrevocably appropriated thereto, sufficient money for the payment thereof;

(2) If default in the payment of the principal of such Bonds or the interest thereon has occurred and thereafter tender of such payment has been made, and the Trustee then holds in trust and irrevocably appropriated thereto, sufficient money for the payment thereof to the date of the tender of such payment; or

(3) If the Commission deposits with the Trustee, or any other bank that would otherwise meet the applicable chartering, capital, and surplus requirements, in an irrevocable trust money or Defeasance Obligations, the principal of and interest on which when due (without reinvestment thereof) will provide money that, together with the money, if any, deposited at the same time, is sufficient to pay, when due, the principal, interest, and redemption premium, if any, due and to become due on and prior to the maturity, or, if the Commission has irrevocably elected to redeem Bonds, on and prior to the redemption date, of such Bonds.

THE 2022 SERIES RESOLUTION

General

As previously discussed above under “THE BOND RESOLUTION-Authorization of Bonds in a Series,” Bonds issued pursuant to the Bond Resolution are to be authorized by the adoption of a Series Resolution. Accordingly, the 2022 Series Resolution sets forth the purposes for which the Series 2022 Bonds are being issued and the disposition of the proceeds of the Series 2022 Bonds. In addition, the 2022 Series Resolution establishes the aggregate principal amount, the date of the issue, the interest rates, maturity schedule, principal and interest payment dates and redemption provisions with respect to the Series 2022 Bonds. The 2022 Series Resolution also establishes the form of the Series 2022 Bonds, commits the District to undertake certain continuing disclosures and authorizes the execution and delivery by the District of a bond purchase agreement for the Series 2022 Bonds. The 2022 Series Resolution also provides for the amendments to the Bond Resolution described under “**2022 AMENDMENTS**” above. The 2022 Series Resolution does not create a Debt Service Reserve Fund.

APPENDIX D

**Economic and Demographic Data for the
Town of Hilton Head Island and Beaufort County**

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**Economic and Demographic Data For the
Town of Hilton Head Island and Beaufort County**

The information contained within this Appendix D has been obtained from public sources and has not been verified or independently reviewed by the South Island Public Service District or any public or private agency associated with the information provided herein.

Hilton Head Island

Hilton Head Island (the “Island”) is the largest sea island on the Atlantic Coast between New Jersey and Florida. The Island is in Beaufort County, South Carolina (the “County”), and is located 30 miles north of the City of Savannah, Georgia and approximately 90 miles south of the City of Charleston, South Carolina. In the 1950’s landowners on the Island began developing the Island from a rural environment to a residential and resort community. The Island was first linked to the mainland by a bridge in 1956 and is now accessible by two high-rise two-lane bridges. Large master-planned areas known as “Plantations” were approved through planned unit development processes that included a mix of specific residential and commercial uses. The Island covers approximately 42 square miles and has about 12 miles of sandy beaches. In recent years, the area’s economy has grown as the result of a combination of factors, including tourism, new business and residential development.

Commerce and Industry

Tourism is the most important “industry” in the Town of Hilton Head Island (the “Town”) with approximately 2.5 million visitors annually. The Island has established world-class accommodations, with 24 golf courses, four large marinas capable of handling yachts of up to 215 feet in length and 350 tennis courts. Major sports events such as the RBC Heritage Golf Classic are held on the Island. The Island has an international reputation as an island resort community and the climate is usually very mild in winter. There are nine shopping centers on the Island as well as an enclosed shopping mall.

Population Growth

The following table shows population information for the Town, Beaufort County and South Carolina for the Census years 1990, 2000, 2010 and 2020, and an estimate for 2021.

<u>Year</u>	<u>Town</u>	<u>Beaufort County</u>	<u>South Carolina</u>
1990	23,694	86,425	3,486,703
2000	33,862	120,937	4,012,012
2010	37,099	162,233	4,625,364
2020	37,661	187,117	5,118,425
2021*	38,076	191,748	5,190,705

*Estimate as of July 1, 2021
Source: U.S. Census Bureau

Per Capita Income

The following table shows the per capita personal income in the Town, Beaufort County, South Carolina and the United States for the years 2017 through 2021.

<u>Year</u>	<u>Town</u> ¹	<u>Beaufort</u> ² <u>County</u>	<u>South</u> ² <u>Carolina</u>	<u>United</u> ² <u>States</u>
2017	47,454	54,143	42,296	45,283
2018	47,454	56,461	43,711	47,536
2019	50,289	59,377	45,455	49,073
2020	51,773	61,298	48,021	52,544
2021	56,942	N/A	N/A	N/A

Sources: ¹ Hilton Head Island 2021 CAFR

² U.S. Bureau of Economic Analysis

Major Employers

The following table shows the ten largest employers in the Town, their type of business and their approximate number of employees for the year ended June 30, 2021, the most recent information available.

<u>Name</u>	<u>Type of Business</u>	<u>Number of Employees</u>
SERG Group Restaurants	Restaurants	1,244
Marriott Vacation Club Intl.	Resort	580
Sea Pines Resort	Resort	536
Hilton Head Medical Center and Clinic	Healthcare	506
Coastal Restaurants and Bars	Restaurants	500
Beaufort County School District	Education	438
Greenwood Communities & Resorts (Palmetto Dunes)	Resort	287
Publix Super Markets	Retail	286
Cypress of Hilton Head	Resort	274
Omni Hilton Head Oceanfront Resort	Resort	230

Source: Hilton Head Island 2021 CAFR

Labor Force

The composition of the civilian, nonagricultural labor force in the County, based on place-of-work basis, for the last five years for which information is available is as follows:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Manufacturing	983	1,046	1,074	1,016	992
Non-Manufacturing					
Utilities	187	176	182	172	174
Construction & Mining ⁽¹⁾	7,248	7,403	7,465	7,436	7,197
Transportation & Warehousing	1,371	1,574	1,561	1,808	1,688
Wholesale & Retail Trade	13,154	13,565	13,979	13,807	13,190
Information	804	860	837	811	712
Finance, Insurance & Real Estate	12,372	12,430	13,127	12,704	12,434
Services (including Agricultural Serv.) ⁽¹⁾	49,522	51,372	53,748	55,594	51,167
Government	<u>20,235</u>	<u>20,767</u>	<u>20,275</u>	<u>20,765</u>	<u>20,065</u>
TOTAL	105,876	109,193	112,866	114,697	108,156

⁽¹⁾Totals may not add as certain jobs were not included in this category to avoid disclosure of confidential information.

Source: U.S. Department of Labor, Bureau of Economic Analysis

Labor Force and Employment

The labor force participation rates of residents of Beaufort County for the years 2017 through 2021 is as follows.

Population Survey Labor Force Estimates

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Civilian Labor Force					
Employment	69,863	71,877	73,756	70,743	73,502
Unemployment	2,912	2,364	1,990	3,946	2,629
% of Labor Force Unemployed	4.0%	3.2%	2.6%	5.3%	3.5%

Source: U.S. Department of Labor, Bureau of Labor Statistics

Unemployment

The annual unemployment rates for the Town, Beaufort County, the State of South Carolina and the United States for the years 2017 through 2021 are shown below.

<u>Year</u>	<u>Town</u> ¹	<u>Beaufort County</u> ²	<u>South Carolina</u> ²	<u>United States</u> ²
2017	3.6%	4.0%	4.2%	4.4%
2018	3.2	3.2	3.4	3.9
2019	2.7	2.6	2.8	3.7
2020	4.5	5.3	6.0	8.1
2021	3.9	3.5	4.0	5.3

Sources: ¹ Hilton Head Island 2021 CAFR

² U.S. Department of Labor, Bureau of Labor Statistics

Facilities Located Within or Serving Beaufort County

Transportation. South Carolina's highway system is the fifth largest state-maintained highway system in the United States, with over 790 miles of interstate highways.

The Hilton Head Island Airport is currently served by American Airlines, Delta and United. The 4,300-foot runway at the Hilton Head Island Airport accommodates most private aircraft, including small corporate jets.

The Savannah/Hilton Head International Airport is located approximately 25 miles from the Town and is operated by the Savannah Airport Commission. Built in 1994 at a cost of approximately \$43 million, the original 275,000 square-foot terminal had ten gates with loading bridges, a 9,351-foot east-west runway, a 7,001-foot north/south runway, and approximately 3,000 short and long-term parking spaces. On July 25, 2007, a new terminal expansion project, consisting of an additional five new gates and 10,000 square feet of concession space was added to the concourse. The construction cost of \$14 million was supported through the federally funded Airport Improvement Program and Passenger Facility Charge funds. The expansion allowed the airport to be prepared for additional air service anticipated over the coming years and for the arrival of larger regional jets. Additionally, on October 18, 2007, a new \$35 million parking garage was opened. Completion of the facility added 1,690 parking spaces bringing the total parking inventory to 4,690. The four-level facility is conveniently located across from the airport terminal and is connected via covered walkways from the first and third levels of the garage. A unique technological feature of the garage is the Signal Park system, which informs passengers of the number of available spaces in each of the four levels, as well as the number of spaces in each row/lane. The airlines servicing the airport are Avelo Airlines, Allegiant, American Airlines, Breeze, Delta, Frontier Airlines, JetBlue, Silver Airways, Southwest, Sun Country Airlines and United. In 2021, there were 1,393,720 enplanements and 1,387,689 deplanements.

South Carolina boasts a 2,600 mile railroad network that facilitates rail service from almost every county in the state. Seaboard System Railroad (CSX Corp.) and Norfolk-Southern Railroad Corporation serve nearly all of the continental United States from South Carolina.

Public Education. The Beaufort County School District presently operates 32 fully-accredited schools: 22 elementary schools, three K-8 schools, six middle schools, six high schools, one vocational center and one adult education program. Approximately 21,219 students were enrolled during the 2020-21 school year, based on a 135-day average daily attendance. All public schools in Beaufort County are fully accredited by the South Carolina Department of Education and the Southern Association of Colleges and Schools. Full accreditation assures quality standards with regard to class size, personnel qualifications, facilities, instructional materials and curriculum.

Higher Education. Institutions of higher learning serving the Town include the University of South Carolina Beaufort (USCB) which currently has an approximate enrollment of 2,116. USCB's Historic Beaufort campus on the banks of the Intracoastal Waterway in the heart of downtown Beaufort is now the original campus of the State's newest four-year university. The Hilton Head Gateway campus, which opened in 2004, is located in Bluffton, SC and offers on-campus residential living at Palmetto Village. The 200-acre Hilton Head Gateway campus also offers state-of-the-art science and nursing labs and a library with its own cyber café. In fall of 2009, the USCB's campus center opened. It is home to dining services, a fitness center, bookstore, offices and a university/community multi-purpose space. Its unique geographic location in the Lowcountry of South Carolina enables USCB to emphasize the study and appreciation of the area's unique geography, ecology, history and culture. USCB offers baccalaureate degrees in Biology, Business Administration, Communication Studies, Computational Science, Education, English, History, Hospitality Management, Human Services, Information Science and Technology, Interdisciplinary Studies, Mathematics, Nursing, Public Health, Psychology, Sociology, and Studio Art. Pre-professional advising track programs offered at USCB are Pre-Engineering, Pre-Health and Pre-Law. Certificate programs offered are Gerontology, Hispanic Studies/Culture and Professional/Business Spanish. On the graduate level, a Master of Science in Computational Science and a Master of Education in Literacy is offered by USCB. USCB also offers a collegiate athletics program and is a member of the NAIA.

One of 16 colleges comprising the South Carolina Technical College System, the Technical College of the Lowcountry ("TCL"), traces its origin to the Mather School founded in 1868. TCL is a comprehensive, public, two-year college dedicated to serving the diverse educational needs of Beaufort, Colleton, Hampton and Jasper counties. TCL provides quality, affordable academic and technical programs leading to Associate Degrees, Diplomas and Certificates, and prepares graduates with knowledge and skills for transfer to senior colleges and for careers in computer technology, industrial technology, engineering technology, occupational technology, business, health sciences and public service. TCL had a fall 2021 enrollment of 2,042.

Medical Facilities. Health care facilities are provided by Hilton Head Hospital which presently houses 93 acute care beds and a cardiac program with its own cardiac catheter laboratory and comprehensive outpatient rehabilitative facility. The hospital offers a complete 24-hour emergency room and outpatient clinic. There are three urgent care clinics located on the Island and one outpatient surgery center.

Recreation. The entire county of Beaufort is referred to as South Carolina's Treasured Coast because of its rich history, heritage, arts and culture. Fishing, sailing, shrimping and crabbing are popular activities for visitors. The Town is the centerpiece of the County's recreation industry with golf, fishing, tennis, boating and bicycling available to residents and visitors.

APPENDIX E

Form of Opinion of Bond Counsel

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Pope Flynn, LLC
1411 Gervais Street, Suite 300 MAIN 803.354.4900
Post Office Box 11509 (29211) FAX 803.354.4899
Columbia, SC 29201 www.popeflynn.com

[Closing Date]

South Island Public Service District Commission
Hilton Head Island, South Carolina

Re: \$_____ Waterworks and Sewer System Improvement Revenue Bonds, Series 2022, of the South Island Public Service District, South Carolina

Ladies and Gentlemen:

We have acted as bond counsel to the South Island Public Service District, South Carolina (the "District"), in connection with the issuance of the District's \$_____ Waterworks and Sewer System Improvement Revenue Bonds, Series 2022 (the "Bonds"). In such capacity, we have examined such law and certified proceedings and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to and in accordance with the Constitution and laws of the State of South Carolina (the "State"), including particularly Title 6, Chapter 17, Code of Laws of South Carolina 1976, as amended, a resolution of the South Island Public Service District Commission, the governing body of the District (the "Commission"), adopted on March 23, 2010 (the "Bond Resolution") and a resolution of the Commission adopted on August 23, 2022 (the "2022 Series Resolution" and, together with the Bond Resolution, the "Resolution").

The Bonds are being issued to (i) defray the costs of the Improvements (as defined in the 2022 Series Resolution), and (ii) pay the costs relating to the issuance of the Bonds.

Regarding questions of fact material to our opinion, we have relied upon representations of the District contained in the Resolution and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that:

1. The District is a body corporate and politic and a political subdivision of the State, with power to adopt the Resolution, perform the agreements on its part contained therein, and issue the Bonds.
2. The Resolution has been duly adopted by the Commission, and constitutes a valid and binding obligation of the District enforceable against the District.
3. The Resolution creates a valid lien on the Net Revenues (as such term is defined in the Resolution) and other funds pledged by the Resolution for the security of the Bonds and a contractual lien on the System (as such term is defined in the Resolution) on a parity with other bonds, if any, issued or to be issued under the Resolution.
4. The Bonds have been duly authorized and executed by the District, and are valid and binding limited obligations of the District, payable solely from the Net Revenues and other funds provided therefor in the Resolution.
5. Under existing law, assuming continuing compliance by the District with certain covenants and the accuracy of certain representations, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on

individuals under the Internal Revenue Code of 1986, as amended (the “Code”). Such interest is, however, taken into account in determining the annual adjusted financial statement income of certain applicable corporations (as defined in Section 59(k) of the Code) for the purpose of determining the application of the 15-percent alternative minimum tax imposed on the adjusted financial statement income of such corporations for tax years beginning after December 31, 2022.

6. Under existing laws of the State, the Bonds and the interest thereon are exempt from all income taxation by the State of South Carolina, its counties, municipalities, and school districts, except estate, transfer, and certain franchise taxes. It should be noted however, that interest on the Bonds is currently subject to the tax imposed on banks by Section 12-11-20 of the Code of Laws of South Carolina 1976, as amended, which is enforced by the South Carolina Department of Revenue as a franchise tax.

We express no opinion herein regarding the accuracy, adequacy or completeness of the Official Statement relating to the Bonds, or regarding the priority of the lien on Net Revenues or other funds created by the Resolution. We express no opinion regarding federal, state or local tax consequences arising with respect to the Bonds except as stated above.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Resolution are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Sincerely,

Pope Flynn, LLC

APPENDIX F

Form of Continuing Disclosure Certificate

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the South Island Public Service District, South Carolina (the “District”) in connection with the issuance of \$ _____ in aggregate principal amount of the District’s Waterworks and Sewer System Improvement Revenue Bonds, Series 2022 (the “Bonds”). The Bonds are being issued pursuant to an amended and restated bond resolution, adopted by the District’s Commission on March 23, 2010 and a series resolution, adopted on August 23, 2022 (together, the “Resolution”). The District hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Beneficial Owners (as herein defined) of the Bonds and in order to assist the Participating Underwriters (as herein defined) in complying with the Rule (as herein defined).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized terms used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the District pursuant to the Rule and this Disclosure Certificate.

“Beneficial Owner” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Dissemination Agent” shall mean any Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“EMMA” shall mean the MSRB’s Electronic Municipal Market Access system.

“Fiscal Year” shall mean, with respect to the District any period of twelve consecutive months adopted by the District as the case may be, as its fiscal year for financial reporting purposes and shall initially mean the period beginning on July 1 of each calendar year and ending on June 30 of the next calendar year.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board, or any successor thereto.

“Official Statement” shall mean the Official Statement, dated [October 5], 2022, relating to the Bonds.

“Participating Underwriters” shall mean Stephens Inc. and Truist Securities.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of South Carolina.

SECTION 3. Provision of Annual Reports.

(a) Not later than 210 days after the end of the District’s Fiscal Year, commencing with Fiscal Year 2023, the District, or the Dissemination Agent, if any, shall submit to the MSRB in an electronic format as prescribed by the MSRB (which as of the date hereof is EMMA) an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate. Notwithstanding the foregoing, the audited financial statements of the District may be submitted separately from the balance of the Annual Report when such audited financial statements are available. In

the event that the audited financial statements of the District are not included with the Annual Report and will be submitted at a later date, the District shall include unaudited financial statements in the Annual Report and shall indicate in the Annual Report the date on which the audited financial statements will be submitted. The audited financial statements when available will be submitted.

(b) The District, or the Dissemination Agent, if any, shall also:

(i) determine each year prior to the date for providing the Annual Report the appropriate electronic format prescribed by the MSRB (which as of the date hereof is EMMA) for filing with the MSRB and the proper form of such filing; and

(ii) if the Annual Report (or the audited financial statements which were to be separately submitted) is not filed in accordance with subsection (a), send in a timely manner a notice to the MSRB in an electronic format as prescribed by the MSRB (which as of the date hereof is EMMA) in substantially the form attached as Exhibit A.

SECTION 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) Financial statements of the District for the preceding Fiscal Year, which must be prepared in accordance with generally accepted accounting principles as in effect from time to time. If audited financial statements of the District are not yet available, the unaudited financial statements of the District shall be provided, and when audited financial statements of the District are available, the audited financial statements of the District shall be substituted for the unaudited financial statements. Each set of such audited financial statements shall be accompanied by an audit report resulting from an audit conducted by an independent certified public accountant or firm of independent public accountants in conformity with generally accepted auditing standards.

(b) If the generally accepted accounting principles changed from the previous Fiscal Year and if such changes are material, a narrative explanation describing the impact of the changes.

(c) If the Fiscal Year has changed, a statement indicating the new Fiscal Year.

(d) Information, to the extent not included in the audited financial statements (including the notes thereto), for the preceding Fiscal Year comparable to the information included in the Official Statement in the tables under the headings (i) "THE DISTRICT AND THE SYSTEM – Usage," (ii) "THE DISTRICT AND THE SYSTEM – Ten Largest Customers," (iii) "THE DISTRICT AND THE SYSTEM – Customers," (iv) "THE DISTRICT AND THE SYSTEM – Ratemaking" and (v) "THE DISTRICT AND THE SYSTEM – Insurance."

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the District is an "obligated person" (as defined by the Rule), which are available to the public on the MSRB's Internet Website or filed with the U.S. Securities and Exchange Commission. The District shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) In a timely manner not in excess of ten (10) business days of the occurrence of any of the following Listed Events, the District shall file a notice of such occurrence in an electronic format with the MSRB (which as of this time is EMMA):

(i) Principal and interest payment delinquencies;

(ii) Non-payment related defaults, if material;

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;

- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, or a Notice of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other events affecting the tax status of the Bonds;
- (vii) Modification to rights of the holders of the Bonds, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) Defeasances;
- (x) Release, substitution or sale of property securing repayment of the Bonds, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership, or a similar proceeding by an obligated person;
- (xiii) Consummation of a merger, consolidation, acquisition involving an obligated person, or sale of all or substantially all of the assets of an obligated person, 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;
- (xiv) Appointment of a successor or additional trustee or the change in name of a trustee, if material;
- (xv) incurrence of a financial obligation of an obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of an obligated person, any of which affect security holders, if material; and
- (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of an obligated person, any of which reflect financial difficulties.

(b) The content of any notice of the occurrence of a Listed Event shall be determined by the District and shall be in substantially the form attached as Exhibit B.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the defeasance (within the meaning of the Rule), prior redemption or payment in full of all of the Bonds. The District shall notify the MSRB in an electronic format prescribed by the MSRB (which as of the date hereof is EMMA) that the District's obligations under this Disclosure Certificate have terminated.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and the District may, from time to time, discharge the Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not a designated Dissemination Agent, the District shall be the Dissemination Agent.

SECTION 8. Amendment. This Disclosure Certificate may not be amended unless:

- (a) The amendment is 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 the obligated person, or type of business conducted;

(b) This Disclosure Certificate, as amended, and the undertakings provided herein, would have complied with the requirements of the Rule at the time the Bonds were issued, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of the bondholders, as determined by the District, or the holders of a majority in aggregate principal amount of the Outstanding Bonds approve the amendment.

In the event that this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the notice of a Listed Event pursuant to Section 5(a)(vii) hereof shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of operating data or financial information being provided in the Annual Report. If an amendment or waiver is made in this Disclosure Certificate which allows for a change in the accounting principles to be used in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and impact of the change in the accounting principles on the presentation of the financial information. A notice of the change in the accounting principles shall be deemed to be material and shall be sent to the MSRB in an electronic format prescribed by the MSRB (which as of the date hereof is EMMA).

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, the Participating Underwriters or any Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of any party to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent may consult with counsel (who may, but need not, be counsel for the District), and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such counsel. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Participating Underwriters and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 14. Governing Law. This Disclosure Certificate shall be governed by and construed in accordance with the laws of the State.

SECTION 15. Severability. In case any one or more of the provisions of this Disclosure Certificate shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Disclosure Certificate, but this Disclosure Certificate shall be construed and enforced as if such illegal or invalid provision had not been contained herein.

SOUTH ISLAND PUBLIC SERVICE DISTRICT,
SOUTH CAROLINA

(SEAL)

By: _____
Chair of the Commission

October __, 2022

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: South Island Public Service District, South Carolina

Name of Issue: \$ _____ Waterworks and Sewer System Improvement Revenue Bonds, Series 2022

CUSIP Numbers: 838466 ____

Date of Issuance: October __, 2022

NOTICE IS HEREBY GIVEN that the South Island Public Service District, South Carolina (the "District") has not provided an Annual Report due with respect to the above-named Bonds as required by its Continuing Disclosure Certificate, dated October __, 2022. The District anticipates that the Annual Report will be filed by _____.

This notice is based on the best information available at the time of dissemination. Any questions regarding this notice should be directed to _____.

Dated: _____

SOUTH ISLAND PUBLIC SERVICE DISTRICT, SOUTH
CAROLINA

(SEAL)

By: _____
Chair of the Commission

EXHIBIT B

NOTICE OF THE OCCURRENCE
OF [INSERT THE LISTED EVENT]

Relating to

\$ _____
SOUTH ISLAND PUBLIC SERVICE DISTRICT, SOUTH CAROLINA
WATERWORKS AND SEWER SYSTEM
IMPROVEMENT REVENUE BONDS,
SERIES 2022

CUSIP NUMBERS: 838466__

Notice is hereby given that [insert the Listed Event] has occurred. [Describe circumstances leading up to the event, action being taken and anticipated impact.]

This notice is based on the best information available at the time of dissemination and is not guaranteed as to accuracy or completeness. Any questions regarding this notice should be directed to [insert instructions for presenting securities, if applicable].

[Notice of the Listed Events described in Section 5(a)(ix) shall include the following:

The South Island Public Service District, South Carolina (the "District") hereby expressly reserves the right to redeem such refunded or defeased bonds prior to their stated maturity date in accordance with the optional/extraordinary redemption provisions of said defeased bonds.

OR

The District hereby covenants not to exercise any optional or extraordinary redemption provisions under the Resolution; however, the sinking fund provision will survive the defeasance.

AND

The Bonds have been defeased to [maturity/the first call date, which is _____]. This notice does not constitute a notice of redemption and no bonds should be delivered to the District or the Trustee as a result of this mailing. A Notice of Redemption instructing you where to submit your bonds for payment will be mailed _____ to _____ days prior to the redemption date.]

Dated: _____

SOUTH ISLAND PUBLIC SERVICE DISTRICT,
SOUTH CAROLINA

(SEAL)

By: _____
Chair of the Commission

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