

Interest on the Series 2020 Bonds is not excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS" for a brief description of certain federal income tax consequences to certain recipients of interest on the Series 2020 Bonds. The Series 2020 Bonds and the interest thereon will be exempt from all State, county, municipal and school district and other taxes or assessments imposed within the State of South Carolina, except estate, transfer and certain franchise taxes.



\$28,875,000
CITY OF SPARTANBURG, SOUTH CAROLINA
TAXABLE WATER SYSTEM REFUNDING REVENUE BONDS
SERIES 2020

Dated: Date of Issuance

Due: June 1 as shown on the inside cover

The City of Spartanburg, South Carolina ("City" or "Issuer"), is issuing its Taxable Water System Refunding Revenue Bonds, Series 2020 ("Series 2020 Bonds") to defray all or a portion of the costs of (1) refunding the City's outstanding \$27,255,000 Water System Revenue Bonds, Series 2013, and (2) paying the costs and expenses relating to the issuance of the Series 2020 Bonds, all as more fully described herein.

The Series 2020 Bonds are being issued pursuant to the terms of a bond ordinance enacted by the City Council of the City ("City Council") on October 26, 1998, as amended by an ordinance of the City Council enacted on December 10, 2001, a series ordinance enacted by the City Council on February 24, 2020, and a series resolution adopted by the Commissioners of Public Works of the City ("Commissioners"), the governing body of the water system of the City (the "System"), on February 25, 2020. The Series 2020 Bonds are payable from and secured by a pledge of that portion of the Gross Revenues of the System, as shall remain after payment of all Operation and Maintenance Expenses of the System and by a statutory lien on the System. See "SECURITY FOR THE SERIES 2020 BONDS" herein for a description of the priority of such pledges and liens.

THE SERIES 2020 BONDS ARE SUBJECT TO OPTIONAL AND MANDATORY REDEMPTION PRIOR TO MATURITY AS DESCRIBED HEREIN.

The principal and redemption price of the Series 2020 Bonds are payable at the principal corporate trust office of The Bank of New York Mellon Trust Company, N.A., as trustee, registrar and paying agent for the Series 2020 Bonds. Interest on the Series 2020 Bonds is payable semiannually on June 1 and December 1 of each year, commencing December 1, 2020.

The Series 2020 Bonds will be issued as fully registered bonds in denominations of \$5,000 or integral multiples thereof. The Bonds will initially be registered only in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), as securities depository for the Bonds. See "THE SERIES 2020 BONDS—Book-Entry System" herein.

THE SERIES 2020 BONDS WILL NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY, NOR A CHARGE, LIEN OR ENCUMBRANCE, LEGAL OR EQUITABLE, UPON ANY PROPERTY OF THE CITY OR THE COMMISSIONERS, OR ANY INCOME, RECEIPTS OR REVENUES THEREOF, OTHER THAN THAT PORTION OF THE GROSS REVENUES OF THE SYSTEM PLEDGED THERETO AS DESCRIBED HEREIN. NO RECOURSE MAY BE HAD FOR THE PAYMENT OF THE SERIES 2020 BONDS OR THE INTEREST THEREON AGAINST THE GENERAL FUND OF THE CITY. THE FAITH, CREDIT, AND TAXING POWER OF THE CITY ARE NOT PLEDGED THERETO.

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

The Series 2020 Bonds are offered when, as and if issued and delivered to the Underwriters and are subject to the approval of legality and of certain other legal matters by Bond Counsel, Haynsworth Sinkler Boyd, P.A., Greenville, South Carolina. Certain legal matters will be passed upon for the Underwriters, by their counsel, Parker Poe Adams & Bernstein LLP, Columbia, South Carolina, for the Commissioners by their counsel, Haynsworth Sinkler Boyd, P.A., Greenville, South Carolina, and for the City by the City Attorney, Robert P. Coler, Spartanburg, South Carolina. First Tryon Advisors serves as financial advisor to the Commissioners. Haynsworth Sinkler Boyd, P.A., Charleston, South Carolina, serves as Disclosure Counsel. It is expected that the Series 2020 Bonds will be available for delivery through the facilities of DTC, on or about May 28, 2020.

\$28,875,000
CITY OF SPARTANBURG, SOUTH CAROLINA
TAXABLE WATER SYSTEM REFUNDING REVENUE BONDS
SERIES 2020

MATURITY SCHEDULE

<u>Due June 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP¹</u>
2021	\$ 215,000	1.309%	1.309%	847184VD7
2022	220,000	1.349	1.349	847184VE5
2023	225,000	1.596	1.596	847184VF2
2024	230,000	1.769	1.769	847184VG0
2025	235,000	1.869	1.869	847184VH8
2026	615,000	1.908	1.908	847184VJ4
2027	1,005,000	1.958	1.958	847184VK1
2028	1,345,000	2.085	2.085	847184VL9
2029	1,375,000	2.185	2.185	847184VM7
2030	1,405,000	2.235	2.235	847184VN5
2031	1,435,000	2.355	2.355	847184VP0
2032	1,470,000	2.455	2.455	847184VQ8
2033	1,510,000	2.555	2.555	847184VR6
2034	1,545,000	2.655	2.655	847184VS4
2035	1,585,000	2.755	2.755	847184VT2

\$6,810,000 2.914% Term Bond due June 1, 2039, Yield 2.914%, CUSIP 847184VU9
\$7,650,000 3.034% Term Bond due June 1, 2043, Yield 3.034%, CUSIP 847184VV7

¹ Copyright, American Bankers Association. CUSIP data herein are provided by CUSIP Global Services. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only at the time of issuance of the Series 2020 Bonds, and the Issuer makes no representation with respect to such numbers nor undertakes any responsibility for their accuracy now or at any time in the future.

In connection with this offering, the Underwriters may over allot or effect transactions that stabilize or maintain the market price of the Series 2020 Bonds at a level above that which might otherwise prevail in the open market, and such stabilizing, if commenced, may be discontinued at any time.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representation in connection with this offering other than as contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon. 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 2020 Bonds by any person, in any jurisdiction in which it is not lawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the City and from other sources that are deemed to be reliable. Neither the delivery of this Official Statement nor the sale of any of the Series 2020 Bonds implies that the information herein is correct as of any time subsequent to the date hereof. The information contained herein is subject to change after the date of this Official Statement, and this Official Statement speaks only as of its date.

THE SERIES 2020 BONDS WILL NOT BE REGISTERED OR QUALIFIED WITH THE SECURITIES AND EXCHANGE COMMISSION BY REASON OF THE PROVISIONS OF SECTION 3(A)(2) OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 304(A)(4) OF THE TRUST INDENTURE ACT OF 1939, AS AMENDED. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2020 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE SERIES 2020 BONDS HAVE BEEN REGISTERED OR QUALIFIED, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES, SHALL NOT BE REGARDED AS A RECOMMENDATION THEREOF.

These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of the document. Any representation to the contrary is a criminal offense.

All quotations from and summaries and explanations of laws and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Series 2020 Bonds shall under any circumstance create any implication that there has been any change in the affairs of the City since the date hereof.

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

The Bank of New York Mellon Trust Company, N.A., as Trustee, Registrar and Paying Agent, 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 2020 Bonds, or (iii) the tax status of the interest on the Series 2020 Bonds.

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 responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters make no representation or warranty, express or implied, as to (1) the accuracy or completeness of such information, (2) the validity of the Series 2020 Bonds, or (3) the tax status of the interest on the Series 2020 Bonds.

CITY OF SPARTANBURG, SOUTH CAROLINA

MAYOR

The Honorable Junie L. White

CITY COUNCIL

Erica Brown
Jamie Fulmer
Ruth Littlejohn
Rob Rain
Jerome Rice, Jr.
Meghan Smith

CITY MANAGER

Chris Story

COMMISSIONERS OF PUBLIC WORKS

Horace C. Littlejohn, Jr.
John D. Montgomery
Angela M. Viney

WATER SYSTEM OFFICERS

Sue G. Schneider, Chief Executive Officer
G. Newton Pressley, Chief Financial Officer

**BOND COUNSEL, DISCLOSURE COUNSEL AND
COUNSEL TO THE COMMISSIONERS**

Haynsworth Sinkler Boyd, P.A.

FINANCIAL ADVISOR

First Tryon Advisors

UNDERWRITER'S COUNSEL

Parker Poe Adams & Bernstein LLP

TRUSTEE

The Bank of New York Mellon Trust Company, N.A.

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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 used in this Summary Statement shall have the meanings ascribed to them elsewhere in the Official Statement and in Appendix B - "BOND ORDINANCE TOGETHER WITH AMENDMENTS." The offering of the Series 2020 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 City of Spartanburg, South Carolina ("City" or "Issuer"), incorporated in 1831, serves as the county seat and has an area of 19.5 square miles. See Appendix D - "INFORMATION REGARDING THE CITY OF SPARTANBURG AND SPARTANBURG COUNTY, SOUTH CAROLINA."
The Series 2020 Bonds	The \$28,875,000 City of Spartanburg, South Carolina, Taxable Water System Refunding Revenue Bonds, Series 2020 (the "Series 2020 Bonds") are being issued by the Issuer, initially in book-entry only form in principal amounts of \$5,000 or any integral multiple thereof. See "THE SERIES 2020 BONDS."
Dated Date and Date of Delivery of Series 2020 Bonds	The Series 2020 Bonds will be initially dated their date of delivery, and will bear interest from such date. It is expected that the Series 2020 Bonds will be available for delivery through the facilities of The Depository Trust Company in New York, New York on or about May 28, 2020.
Interest Payments	Interest on the Series 2020 Bonds (calculated on the basis of a 360-day year of twelve 30-day months) will be payable on each June 1 and December 1 commencing December 1, 2020.
Maturities	The Series 2020 Bonds mature serially on June 1, 2021 to 2035, and as term bonds on June 1, 2039 and June 1, 2043 as indicated on the inside cover hereof.
Redemption	The Series 2020 Bonds are subject to optional and mandatory redemption prior to maturity as set forth herein.
Purpose of the Issue	The Series 2020 Bonds are being issued to (i) provide funds to refund the Refunded Bonds (as defined herein); and (ii) pay the costs and expenses of issuance of the Series 2020 Bonds. See "SOURCES AND USES OF FUNDS" and "PLAN OF REFUNDING."
Security	The Series 2020 Bonds and the interest thereon are payable solely from and shall be secured by a pledge of the portion of the Gross Revenues of the System remaining after payment of all Operation and Maintenance Expenses of the System, and by a statutory lien on the System. Such Series 2020 Bonds shall not constitute an indebtedness of the City 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; and the faith, credit and taxing power of the City are expressly not pledged therefor. The City is not obligated to pay any of the Series 2020 Bonds or the interest thereon except from the Gross Revenues of the System. See "SECURITY FOR THE BONDS."
Tax Status of Interest on the Series 2020 Bonds	Interest on the Series 2020 Bonds is not excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS" for a brief description of certain federal income tax consequences to certain recipients of interest on the Series 2020 Bonds. The Series 2020 Bonds and the interest thereon will be exempt from all State, county, municipal and school district and other taxes or assessments imposed within the State of South Carolina, except estate, transfer and certain franchise taxes.

Professionals Involved in the Offering	Haynsworth Sinkler Boyd, P.A., Greenville, South Carolina, is serving as Bond Counsel. Certain legal matters will be passed upon for the Issuer by Robert P. Coler and for the Commissioners of Public Works of the City (the “Commissioners”) by Haynsworth Sinkler Boyd, P.A., Greenville, South Carolina. Haynsworth Sinkler Boyd, P.A., Charleston, South Carolina, is serving as Disclosure Counsel. Parker Poe Adams & Bernstein, LLP, Columbia, South Carolina, is serving as Underwriter’s Counsel. The Bank of New York Mellon Trust Company, N.A. is serving as Trustee, Paying Agent and Registrar. First Tryon Advisors is serving as Financial Advisor.
Authorization	The Series 2020 Bonds are being issued pursuant to terms of Title 6, Chapter 21, Code of Laws of South Carolina, 1976, as amended from time to time, and a bond ordinance enacted by the City Council of the City (“City Council”) on October 26, 1998, as amended by an ordinance of the City Council enacted on December 10, 2001, a series ordinance enacted by the City Council on February 24, 2020, and a series resolution adopted by the Commissioners on February 25, 2020. See “INTRODUCTION - Authorization.”
Continuing Disclosure	The Issuer has undertaken, pursuant to a covenant to comply with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the “Rule”), for the benefit of holders of the Series 2020 Bonds, to provide certain financial information and operating data relating to the Issuer by not later than the last day of the seventh month after the end of each fiscal year commencing with the fiscal year ending June 30, 2020 (the “Annual Information”), and to provide notices of the occurrence of certain enumerated events. The Annual Information and the event notices will be filed by or on behalf of the Issuer with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (“EMMA”) system (and with the State Information Depository, if any, established by the State of South Carolina). These covenants have been made in order to assist the original purchaser of the Series 2020 Bonds in complying with the Rule. The nature of the information to be provided in the Annual Information and the notices of certain significant events are set forth under the caption “CONTINUING DISCLOSURE.”
General	<p>This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of the Official Statement will be deposited with the Municipal Securities Rulemaking Board through EMMA. Copies of the Official Statement, the Bond Ordinance, the Series Ordinance and the Series Resolution (as such terms are defined herein) and other relevant documents and information regarding the documents are available from the office of G. Newton Pressley, Chief Financial Officer, Commissioners of Public Works, (864) 580-5620, 200 Commerce Street, Spartanburg, South Carolina 29304.</p> <p>The Official Statement, including the cover page, inside cover page and the attached Appendices, contains specific information relating to the Series 2020 Bonds, the Issuer and the System and other information pertinent to this issue. See “THE WATER SYSTEM” and Appendix A for financial information relating to the System.</p> <p>All information included herein has been provided by the Commissioners 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>

OFFICIAL STATEMENT

\$28,875,000
CITY OF SPARTANBURG, SOUTH CAROLINA
TAXABLE WATER SYSTEM REFUNDING REVENUE BONDS
SERIES 2020

INTRODUCTION

General

This Official Statement, which includes the cover page hereof, the inside cover page, the table of contents and the appendices hereto, is provided to furnish certain information in connection with the offering of \$28,875,000 aggregate principal amount of Taxable Water System Refunding Revenue Bonds, Series 2020 (the “Series 2020 Bonds”) to be issued by the City of Spartanburg, South Carolina (the “City”).

For a more complete description of the terms and conditions of the Series 2020 Bonds, reference is made to the Bond Ordinance (See Appendix B, “BOND ORDINANCE TOGETHER WITH AMENDMENTS”), the Series Ordinance and the Series Resolution (all defined below under “-Authorization”). All capitalized terms used but not defined herein have the same meaning as in the Bond Ordinance, the Series Ordinance and the Series Resolution unless the context indicates otherwise. As used in this Official Statement, “System” or “Water System” means the facilities for the production, supply, distribution and sale of water operated and maintained by the Commissioners of Public Works of the City of Spartanburg, South Carolina (the “Commissioners”), together with any and all improvements, extensions and additions thereto, or hereafter constructed or acquired.

All information included herein has been provided by the Commissioners 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.

Authorization

The Series 2020 Bonds will be issued pursuant to and in accordance with Title 6, Chapter 21, Code of Laws of South Carolina, 1976, as amended from time to time, and all other statutory authorizations (the “Act”), a Bond Ordinance enacted by the City Council of the City (“City Council”) on October 26, 1998, as amended by an ordinance of the City Council enacted on December 10, 2001 (“Bond Ordinance”), a series ordinance enacted by the City Council on February 24, 2020 (“Series Ordinance”), and a series resolution adopted by the Commissioners on February 25, 2020 (“Series Resolution,” together with the Bond Ordinance and the Series Ordinance, “Authorizing Documents”).

THE SERIES 2020 BONDS WILL NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY, NOR A CHARGE, LIEN, OR ENCUMBRANCE, LEGAL OR EQUITABLE, UPON ANY PROPERTY OF THE CITY OR THE COMMISSIONERS, OR ANY INCOME RECEIPTS OR REVENUES THEREOF, OTHER THAN THAT PORTION OF THE GROSS REVENUES OF THE SYSTEM PLEDGED THERETO AS DESCRIBED HEREIN. NO RECOURSE MAY BE HAD FOR THE PAYMENT OF THE SERIES 2020 BONDS OR THE INTEREST THEREON AGAINST THE GENERAL FUND OF THE CITY. THE FAITH, CREDIT, AND TAXING POWER OF THE CITY ARE NOT PLEDGED THERETO.

Purpose

The Series 2020 Bonds are being issued in order to defray all or a portion of the costs of (1) refunding the City’s outstanding \$27,255,000 Water System Revenue Bonds, Series 2013 (the “Refunded Bonds”), and (2) paying the costs and expenses relating to the issuance of the Series 2020 Bonds, all as more fully described herein.

THE SERIES 2020 BONDS

Terms

General Terms. The Series 2020 Bonds will initially be issued in the form of a single, fully registered bond for each maturity, will be dated the date of delivery, and will bear interest (payable semiannually by check or draft on June

1 and December 1 of each year, commencing December 1, 2020, computed on the basis of a 360-day year consisting of twelve 30-day months) at the rates per annum as set forth on the inside cover page hereof. Subject to the redemption provisions set forth herein, the Series 2020 Bonds will mature on June 1 in the years and in the amounts set forth on the inside cover page hereof. Upon initial issuance, the ownership of each such Bond will be registered on the registration books kept by the Registrar, The Bank of New York Mellon Trust Company, N.A., in the name of Cede & Co., as nominee of DTC. See “-Book-Entry System” below.

Denominations. The Series 2020 Bonds will be available to the purchasers thereof in denominations of \$5,000 or any integral multiple thereof.

Payment Provisions. The principal and redemption price of the Series 2020 Bonds shall be payable by the Paying Agent to or upon the order of the Holder thereof upon presentation and surrender of such Series 2020 Bonds at the designated corporate trust office of the Paying Agent. Interest is payable on each Bond Payment Date (i) by check or draft mailed on such date to the Holder thereof at such Holder’s address as it appears on the Register maintained by the Registrar on the fifteenth day of the month next preceding such Bond Payment Date (“Record Date”), or (ii) by wire transfer in accordance with a written notice and completed wire instructions for a wire transfer address in the continental United States provided by the Holder hereof to the Paying Agent not less than 20 days prior to such Bond Payment Date, which notice may provide that it will remain in effect with respect to subsequent Bond Payment Dates unless and until changed or revoked by subsequent notice; provided that such wire transfer shall only be made for a Holder of \$1,000,000 or more in aggregate principal amount of the Series 2020 Bonds as of the close of business on the Record Date for such Bond Payment Date. Notwithstanding the foregoing, the Record Date for defaulted interest shall be the fifth day preceding payment thereof.

Transfer, Registration and Exchange. So long as DTC or its nominee is the registered owner of the Series 2020 Bonds, registration of transfers and exchanges of beneficial ownership interests in the Series 2020 Bonds will be available only through DTC participants, as hereinafter described. See “-Book-Entry System” below.

Redemption Provisions

Optional Redemption. The Series 2020 Bonds maturing after June 1, 2030, are subject to redemption on or after June 1, 2030, as a whole or in part, at any time, at a redemption price equal to 100% of the principal amount of Series 2020 Bonds to be redeemed, plus accrued interest, if any, to the redemption date.

Mandatory Redemption. The Series 2020 Bonds maturing on June 1, 2039 and June 1, 2043, are subject to mandatory sinking fund redemption (to the extent not previously redeemed) at a redemption price of 100% of such principal amount, plus interest accrued to the redemption date, on June 1 of each of the following years in the respective principal amounts for each year specified below:

<u>Year</u>	<u>Amount*</u>
2036	\$1,630,000
2037	1,675,000
2038	1,725,000
2039*	1,780,000

*Final maturity.

<u>Year</u>	<u>Amount*</u>
2040	\$1,825,000
2041	1,885,000
2042	1,940,000
2043*	2,000,000

*Final maturity.

The amount of any mandatory sinking fund redemption shall be reduced to the extent Series 2020 Bonds of the applicable maturity have been purchased by the Commissioners or redeemed by the Commissioners pursuant to any

optional redemption provisions, in such manner as the Commissioners shall direct, or, absent such direction, on a pro-rata basis.

Notice of Redemption. If any of the Series 2020 Bonds, or portions thereof, are called for redemption, the Trustee shall give notice to the Holders of any Series 2020 Bonds to be redeemed, in the name of the Commissioners on behalf of the City, of the redemption of such Series 2020 Bonds, or portions thereof. Notice of each redemption of bonds is required to be mailed by the Trustee by first class mail, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date to each registered owner of Series 2020 Bonds to be redeemed, at the address of such owner recorded on the bond register and to be otherwise given in accordance with, among others, the following requirements:

- (1) notices must contain, at a minimum, the complete official name of the Series 2020 Bonds, CUSIP numbers, Bond numbers, principal amount of each Bond to be redeemed (if less than all), publication date, redemption date, redemption price, redemption agent's name and address with contact person and phone number, Trustee's and Registrar's names and addresses, date of the Series 2020 Bonds, interest rate, maturity date, the place or places where amounts due will be payable, and any other descriptive information deemed necessary by the Trustee;
- (2) notices must be sent to Bondholders of \$1,000,000 or more, to at least two national information services, and any Securities Depository by certified mail – return receipt requested; notices sent to any Securities Depository must be sent so that such notice is received by such Securities Depository at least two days prior to the mailing of such notices to Bondholders; in addition, any Bondholder holding in excess of \$1,000,000 principal amount of the Series 2020 Bonds may request the Trustee to send notices to any additional addressee specified;
- (3) a second notice to registered owners of the Series 2020 Bonds must be mailed by the means specified above to any registered owner of Series 2020 Bonds who has not presented Series 2020 Bonds for redemption 60 days after the redemption date, unless the registered owner holds the Series 2020 Bonds as depository under a book-entry system;
- (4) notices of redemption effected by advance refundings must also be given in accordance with the above requirements at least 15 days but no more than 90 days prior to the actual redemption date;
- (5) CUSIP number identification with appropriate dollar amounts for each CUSIP number must accompany all redemption payments and interest payments, whether by check or by wire transfer; and
- (6) except with respect to mandatory sinking fund redemptions, no notice of redemption shall be sent unless (a) the notice explicitly states that the proposed redemption is conditioned on there being on deposit with the Trustee on the redemption date sufficient money to pay the full redemption price on the Series 2020 Bonds to be redeemed or (b) sufficient funds have previously been deposited with the Trustee to pay the full redemption price of the Series 2020 Bonds to be redeemed.

The failure of the Trustee to give notice to a Bondholder or any defect in such notice shall not affect the validity of the redemption of any other Series 2020 Bonds for which notice is properly given. Any Bondholder may waive notice of redemption by delivery of a written waiver to the Trustee.

Provided sufficient funds for such redemption are on deposit with the Trustee or Paying Agent, all Series 2020 Bonds so called for redemption shall cease to bear interest on the specified redemption date and shall no longer be deemed to be outstanding under the Bond Ordinance. If said money shall not be so available on the redemption date, such Series 2020 Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Selection of Series 2020 Bonds to be Redeemed. In the event that less than all of the Series 2020 Bonds are to be redeemed at the option of the Commissioners, Series 2020 Bonds to be redeemed shall be in such order of maturity as selected by the Commissioners. In the event of redemption of less than all of the Series 2020 Bonds of any maturity, the Series 2020 Bonds or portions of Series 2020 Bonds to be redeemed, shall be selected by lot by the Trustee. The portion of any Series 2020 Bond of a denomination which is larger than the minimum denomination for the Series 2020

Bonds shall be in the principal amount of such minimum denomination or a multiple thereof, and that, in selecting portions of such Series 2020 Bonds for redemption, the Trustee shall treat each such Bond as representing that number of Series 2020 Bonds of minimum denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by the amount of the minimum denomination; provided further that, if less than all of the beneficial interests in a Bond of a single maturity registered in the name of a Securities Depository or a Securities Depository Nominee are to be redeemed, the beneficial interests to be redeemed shall be selected by the Securities Depository in accordance with its rules and procedures. If there shall be drawn for redemption less than all of a Bond, the Commissioners on behalf of the City shall execute, and the Trustee shall authenticate and deliver, upon the surrender of such Series 2020 Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Series 2020 Bond so surrendered, Series 2020 Bonds of the same Series in any authorized denomination.

Registration, Transfer and Exchange

With respect to the Series 2020 Bonds registered in the name of Cede & Co., as nominee of DTC, neither the City nor the Registrar nor the Trustee nor the Paying Agent will have any responsibility or obligation to any Direct Participant or to any Indirect Participant. See “-Book-Entry System” below for the definition of “Direct Participant,” “Indirect Participant” and “Participant.” Without limiting the immediately preceding sentence, the City, the Registrar, the Trustee and the Paying Agent will not have any responsibility or obligation with respect to: (i) the accuracy of records of DTC or any Participant with respect to any ownership interest in the Series 2020 Bonds; (ii) the delivery to any Participant or any other person other than a Bondholder, as shown in the registration books kept by the Registrar, of any notice with respect to the Series 2020 Bonds, including any notice of redemption; or (iii) the payment to any Participant or any other person, other than a Bondholder shown on the registration books kept by the Registrar, of any amount with respect to principal of, premium, if any, or interest on the Series 2020 Bonds.

So long as any Series 2020 Bonds in registered form shall be Outstanding, the Commissioners shall cause books for the registration and for the transfer of such Series 2020 Bonds to be kept. Such books shall be kept by the Trustee unless there shall have been appointed a Registrar other than the Trustee to keep the books of registration for any particular Series of Series 2020 Bonds. The transfer of each Series 2020 Bond may be registered only upon the registration books of the Commissioners kept for that purpose by the registered owner 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 registered owner or his duly authorized attorney. Upon the registration or transfer of any registered Series 2020 Bond, the Commissioners shall cause to be issued in the name of the transferee a new Bond or Series 2020 Bonds of the same aggregate principal amount, maturity and interest rate as the surrendered Bond.

The City, the Commissioners, the Trustee, and any Registrar or Paying Agent may deem and treat the person in whose name any registered Bond shall be registered upon the registration books of the Commissioners as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of, premium (if any) and interest on such Bond and for all other purposes, and all such payments so made to any such registered owner or, upon his order, shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid; and none of the Commissioners, the Trustee and any Registrar or Paying Agent shall be affected by any notice to the contrary.

In all cases in which the privilege of exchanging or transferring bonds is exercised, the Commissioners on behalf of the City shall execute and the Trustee or the Registrar, as the case may be, shall authenticate and deliver Series 2020 Bonds in accordance with the provisions of the Bond Ordinance. All Series 2020 Bonds surrendered in any such exchanges or transfers shall forthwith be canceled and destroyed and shall not be reissued, and a counterpart of the certificate of destruction evidencing such destruction shall be furnished by the Trustee or the Registrar, as the case maybe, to the City and the Commissioners. All Series 2020 Bonds so destroyed shall thereafter no longer be considered Outstanding for any purposes of the Authorizing Documents. There shall be no charge to the Holder for such exchange or transfer of Series 2020 Bonds except that the Trustee or the Registrar, as the case may be, may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or transfer. Neither the City, the Commissioners, nor the Trustee or the Registrar, as the case may be, shall be required to register, transfer or exchange Series 2020 Bonds of a Series during the period between a Record Date and its related Bond Payment Date, or during the period beginning 15 days prior to any selection of Series 2020 Bonds for redemption and ending upon the mailing of any notice of redemption; nor shall either be required to register, transfer or exchange any Series 2020 Bonds called for redemption.

Book-Entry System

Beneficial ownership interests in the Series 2020 Bonds will be available only in book-entry form. Beneficial owners of the Series 2020 Bonds (“Beneficial Owners”) will not receive a physical bond certificate representing their interests in the Series 2020 Bonds purchased. Unless and until the book-entry system has been discontinued, the Series 2020 Bonds will be available only in book-entry-only form in principal amounts of \$5,000, or any integral multiple thereof. SO LONG AS CEDE & CO., AS NOMINEE FOR DTC OR ITS NOMINEE IS THE REGISTERED OWNER OF THE SERIES 2020 BONDS, REFERENCES IN THIS OFFICIAL STATEMENT TO THE OWNERS OF THE SERIES 2020 BONDS SHALL MEAN DTC OR ITS NOMINEE AND SHALL NOT MEAN THE BENEFICIAL OWNERS.

THE FOLLOWING DESCRIPTION OF DTC, ITS PROCEDURES AND RECORDKEEPING ON BENEFICIAL OWNERSHIP INTEREST IN THE SERIES 2020 BONDS, PAYMENT OF INTEREST AND OTHER PAYMENTS ON THE SERIES 2020 BONDS TO DTC PARTICIPANTS (AS DEFINED BELOW) OR TO BENEFICIAL OWNERS OF THE SERIES 2020 BONDS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE SERIES 2020 BONDS, AND OF OTHER TRANSACTIONS BY AND BETWEEN DTC, DTC PARTICIPANTS AND BENEFICIAL OWNERS IS BASED SOLELY ON INFORMATION FURNISHED BY DTC TO THE SYSTEM FOR INCLUSION IN THIS OFFICIAL STATEMENT. ACCORDINGLY, THE SYSTEM MAKES NO REPRESENTATIONS CONCERNING THESE MATTERS.

Depository Trust Company. DTC will act as securities depository for the Series 2020 Bonds. The Series 2020 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 Bond in the aggregate principal amount of each maturity of the Series 2020 Bonds will be delivered to the Trustee through DTC’s Fast Automated Securities Transfer system for the benefit of DTC.

DTC Participants and Indirect Participants. 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, 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, the National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2020 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the DTC 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 2020 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 2020 Bonds, except in the event that use of the book-entry system for the Series 2020 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2020 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other names as may be requested by an

authorized representative of DTC. The deposit of Series 2020 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2020 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2020 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.

The City and the Trustee will recognize DTC or its nominee, Cede & Co., as the registered owner of the Series 2020 Bonds for all purposes. 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.

Redemption notices shall be sent to DTC. If less than all of the Series 2020 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Series 2020 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2020 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 City 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 2020 Bonds are credited on the record date (identified on a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2020 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 City or the Trustee on the 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 nor its nominee, the City and the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City acting through the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2020 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

Mutilated, Lost, Stolen or Destroyed Series 2020 Bonds

In the event that any Bond is mutilated, lost, stolen or destroyed, the Commissioners, on behalf of the City, shall execute and the Trustee shall authenticate a new Bond of the same date, maturity and denomination as that mutilated, lost stolen or destroyed Bond; provided that, in the case of any mutilated Bond, such mutilated Bond shall first be surrendered to the Trustee, and in the case of any lost, stolen or destroyed Bond, there shall be first furnished to the Commissioners, on behalf of City, and to the Trustee evidence of such loss, theft or destruction satisfactory to the Commissioners, on behalf of the City, and the Trustee together with such indemnity satisfactory to them. In the event any such mutilated, lost, stolen or destroyed Bond shall have matured, instead of issuing a duplicate Bond, the Commissioners, on behalf of the City, may pay the same. The Commissioners, on behalf of the City, and the Trustee may charge the holder or owner of such mutilated, lost, stolen or destroyed Bond with their reasonable fees and expenses in connection therewith.

SECURITY FOR THE SERIES 2020 BONDS

Pledged System Revenues

The Series 2020 Bonds are payable from and secured by a pledge of that portion of the Gross Revenues of the System as shall remain after payment of all Operation and Maintenance Expenses (as such terms are defined in Appendix B, "BOND ORDINANCE TOGETHER WITH AMENDMENTS") and on a parity with its water system revenue bonds as shall remain outstanding after the issuance of the Series 2020 Bonds: (1) Water System Revenue Bond, Series 2012, in the currently outstanding principal amount of \$4,695,000 ("2012 Bond"), (2) Water System Refunding Revenue Bonds, Series 2015A, in the currently outstanding principal amount of \$26,085,000 ("2015A Bonds"), (3) Taxable Water System Refunding Revenue Bonds, Series 2015B, in the currently outstanding principal amount of \$3,840,000 ("2015B Bonds"), (4) Water System Refunding Revenue Bond, Series 2017A, in the currently outstanding principal amount of \$49,155,000 ("2017A Bond"); and (5) Water System Refunding and Improvement Revenue Bonds, Series 2017B, in the currently outstanding principal amount of \$45,930,000 ("2017B Bond," and, together with the 2012 Bond, the 2015A Bonds, the 2015B Bonds, the 2017A Bond, the "Parity Bonds"). The Series 2020 Bonds are further secured by a statutory lien upon the System within the meaning of Section 6-21-330 of the Act, on a parity with the Parity Bonds. At the time of the enactment of the Bond Ordinance in 1998, there were outstanding certain senior lien bonds secured by the Gross Revenues of the System. Those senior lien bonds are no longer outstanding, and additional senior lien bonds are not permitted to be issued under the Bond Ordinance. As such, there are no bonds that are senior to the Series 2020 Bonds, the Parity Bonds and any Additional Bonds issued on a parity therewith.

The Bond Ordinance provides that all Bonds issued pursuant thereto shall be secured by a pledge of that portion of the Gross Revenues of the System as shall remain after payment of all Operation and Maintenance Expenses. See Appendix B, "BOND ORDINANCE TOGETHER WITH AMENDMENTS" for the definitions of Gross Revenues and Operation and Maintenance Expenses. Pursuant to the Bond Ordinance, all Bonds are further secured by a statutory lien upon the System within the meaning of Section 6-21-330 of the Act.

THE SERIES 2020 BONDS WILL NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY, NOR A CHARGE, LIEN OR ENCUMBRANCE, LEGAL OR EQUITABLE, UPON ANY PROPERTY OF THE CITY OR THE COMMISSIONERS OR ON ANY INCOME, RECEIPTS OR REVENUES THEREOF, OTHER THAN THAT PORTION OF THE GROSS REVENUES OF THE SYSTEM PLEDGED THERETO AS DESCRIBED HEREIN. NO RECOURSE MAY BE HAD FOR THE PAYMENT OF THE SERIES 2020 BONDS OR THE INTEREST THEREON AGAINST THE GENERAL FUND OF THE CITY. THE FAITH, CREDIT, AND TAXING POWER OF THE CITY ARE NOT PLEDGED THERETO.

The Series 2020 Bonds will be secured on a parity in all respects with the Parity Bonds and any Additional Bonds.

Debt Service Reserve Funds

The Bond Ordinance provides for the establishment with the Trustee of a separate debt service reserve fund (each, a "Debt Service Reserve Fund") for each Series of Bonds outstanding to be used to secure the timely payment of the principal of and interest on such Series of Bonds. Unless the Commissioners determine a Reserve Requirement (as defined herein) is not necessary, and subject to the above and additional limitations set forth in the Bond Ordinance, the aggregate value of the securities and monies on deposit in each Debt Service Reserve Fund shall be maintained at a level ("Reserve Requirement") which shall be, with respect to any Series of Bonds and as of any date of calculation, the least of (a) the greatest remaining Annual Principal and Interest Requirements for the then-current and each future fiscal year with respect to that Series of Bonds or (b) 10% of the proceeds from the sale of that Series of Bonds at the time of issuance of such Series or (c) 125% of the average Annual Principal and Interest Requirements for the then-current and each future fiscal year with respect to that Series of Bonds Outstanding or (d) if interest on the Bonds is intended to be exempt from federal income taxation, the maximum amount permitted by the Code (as defined herein) to be funded with sales proceeds of an issue and to be invested without restriction, other than the obligation, if any to pay arbitrage rebate to the United States Government; provided, that if the sum of the Reserve Requirements so determined for all Series of Bonds outstanding exceeds the maximum Annual Principal and Interest Requirement for all Bonds outstanding, then the Reserve Requirement for each Series of Bonds shall be that Series' proportionate amount of the maximum combined Annual Principal and Interest Requirement for all Bonds then outstanding.

Accordingly, the Commissioners have determined there will be no Reserve Requirement with respect to the Series 2020 Bonds; provided, however, that if the sum of the Reserve Requirements so determined for all outstanding Bonds, Parity Bonds and Additional Bonds, exceeds the maximum Annual Principal and Interest Requirement for all bonds outstanding under the Ordinance, then the Reserve Requirement for the Series 2020 Bonds shall be its proportionate amount, for the fiscal year in question, of the maximum Annual Principal and Interest Requirement (for all future years) for all bonds outstanding under the Ordinance in such fiscal year. For a more detailed description of the Reserve Requirement, see Appendix B, "BOND ORDINANCE TOGETHER WITH AMENDMENTS."

Money, or a permissible instrument in lieu of money, on deposit in the Debt Service Reserve Fund for a Series of Bonds shall be used only for the purposes of (i) preventing a default in the payment of debt service on such Series of Bonds by reason of a deficiency in the Debt Service Fund for such Series of Bonds, (ii) paying the principal of, interest on, and redemption premium, if any, on such Series of Bonds in the event that all Outstanding Bonds of such series are to be redeemed as a whole and (iii) effecting a partial redemption of Bonds of a Series but only with funds on deposit in the Debt Service Reserve Fund for such Series of Bonds in excess of the Reserve Requirement for such Series of Bonds. See Appendix B, "BOND ORDINANCE TOGETHER WITH AMENDMENTS."

Future Amendments Regarding Debt Service Reserve Funds

The City and the Commissioners intend to provide in the future that the Commissioners shall be entitled to purchase an irrevocable and unconditional debt service reserve fund surety bond or similar instrument issued by a municipal bond insurance company or similar financial institution ("Surety Bond"), or an irrevocable and unconditional letter of credit of a bank or similar financial institution ("Letter of Credit"), payable to the Trustee or the Paying Agent for the applicable Series of Bonds, in an amount equal to all or a portion of the Reserve Requirement in respect of any Outstanding Series of Bonds (including without limitation the Series 2020 Bonds) for deposit in the applicable Debt Service Reserve Fund, in lieu of a cash deposit therein, under the terms described in the remainder of this paragraph. Any such Surety Bond shall have been issued by a company whose municipal bond insurance policies insuring the payment of principal of and interest on municipal bond issues, or guaranties of such policies, result in such issues being rated not lower than the second highest rating category by Moody's Investors Service, Inc. ("Moody's) or S&P Global Ratings ("S&P"). Any such Letter of Credit shall have been issued by a bank or other financial institution which is rated not lower than the second highest rating category by Moody's or S&P. Any such Surety Bond or Letter of Credit shall otherwise be required to meet the requirements of Section 7.04 of the Bond Ordinance with respect to Surety Bonds and Letters of Credit (see Appendix B, "BOND ORDINANCE TOGETHER WITH AMENDMENTS"), except that the ratings requirements set forth above shall be controlling.

Further, as to any Series of Bonds issued pursuant to the Bond Ordinance in addition to the Series 2020 Bonds, the City and the Commissioners intend to provide in the future that the ratings requirements with respect to any Surety Bond or Letter of Credit purchased in respect of a Debt Service Reserve Fund established for the benefit of the holders of such Series of Bonds, as well as the obligation to replenish such Debt Service Reserve Fund with cash upon the occurrence of any ratings downgrades with respect to such Surety Bond or Letter of Credit, all as currently provided in Section 7.04 of the Bond Ordinance, may be liberalized to the degree determined by the City and the Commissioners.

The above-described proposed provisions shall only become effective upon receipt by the Trustee of a written opinion of Bond Counsel to the effect that such provisions (i) have been duly authorized, executed and delivered, (ii) are permitted by the terms of the Bond Ordinance, and (iii) will not adversely impact the tax-exempt status of any Series of Outstanding Bonds.

By its purchase of any Series 2020 Bond, the Holder thereof shall be deemed to have consented for all purposes to the proposed provisions described in the preceding paragraphs under this subheading, without requirement of any further indication of consent.

Other Funds

The Bond Ordinance also establishes the Gross Revenue Fund, a Debt Service Fund and a Debt Service Reserve Fund for each Series of Bonds, an Operation and Maintenance Fund, and the Depreciation and Contingent Fund. With certain limited exceptions, all Gross Revenues of the System shall be deposited in the Gross Revenue Fund which will be held by a bank or depository selected by the Commissioners. Moneys in the Gross Revenue Fund shall be used to pay monthly Operation and Maintenance Expenses.

The Debt Service Fund is intended to provide for the ratable payment of the principal of, and redemption premium, if any, and interest on each Series of Bonds. With respect to the Series 2020 Bonds, the Commissioners have established the 2020 Debt Service Fund.

The Operation and Maintenance Fund is intended to provide for the payment of such Operation and Maintenance Expenses that have not been funded as described above. Withdrawals from this fund shall be made by or on order of the Chief Financial Officer in accordance, as nearly as may be practicable, with the annual budget established by the Commissioners prior to the commencement of each fiscal year.

The Depreciation and Contingent Fund, which shall be held, maintained and controlled by the Commissioners, is intended to provide a reasonable reserve for depreciation of the System, for contingencies and for improvements, betterments and extensions of the System.

The Commissioners have established a Rate Stabilization Fund which is designed to provide for the stabilization of rates, and the Commissioners may determine, by resolution at any time, to deposit in the Rate Stabilization Fund any percentage or set amount of surplus revenues, to the extent realized; provided, however, that the amount on deposit in the Rate Stabilization Fund shall not exceed the amount budgeted for the Operation and Maintenance Fund for the then-current fiscal year. Amounts on deposit in the Rate Stabilization Fund may, at the direction of the Chief Financial Officer, be used to make deposits into the Operation and Maintenance Fund. Amounts on deposit in the Rate Stabilization Fund may, at the option of the Commissioners, be withdrawn and used for any other lawful purpose of the Commissioners, but in such event, such withdrawals for purposes other than Operation and Maintenance Expenses shall not be included in the computation of Net Earnings under the Bond Ordinance.

For a more detailed description of these funds see Appendix B, "BOND ORDINANCE TOGETHER WITH AMENDMENTS."

Disposition of Gross Revenues

Gross Revenues of the System, except customers' deposits and certain amounts, the disposition of which is controlled by other provisions of the Bond Ordinance, are declared to be a part of the General Revenue Fund and shall be, as received, deposited into the General Revenue Fund. The dispositions from the General Revenue Fund required below shall be made on or before the business day which is five business days prior to the end of each month, unless otherwise provided below, and in the order of priority established by the following sequence:

- (1) first, to the extent not paid from the General Revenue Fund as described above, for amounts budgeted for Operation and Maintenance Expenses for the ensuing month by deposit to the Operation and Maintenance Fund;
- (2) second, for the payment of the principal of and interest on all Bonds Outstanding under the Bond Ordinance, without priority of any Bonds over others, but ratably as to each Series of Bonds. To that end, there shall first be deposited, to the extent not already funded at the required levels due to accumulated interest earnings or otherwise, in the respective Debt Service Funds for the Outstanding Series of Bonds the monthly fraction of aggregate interest and principal to come due on the next ensuing interest payment date and principal payment date, as the case may be;
- (3) third, to the respective Debt Service Reserve Funds for the Outstanding Series of Bonds which shall be maintained at the levels required in the authorizing proceedings of the City;
- (4) fourth, for reimbursement for payment of interest on amounts advanced by the provider of any surety bond, line of credit, insurance policy or letter of credit with respect to any Debt Service Reserve Fund;
- (5) fifth, for the payment of any indebtedness junior and subordinate to the Series 2020 Bonds;
- (6) sixth, for one-twelfth of the amounts budgeted for a reasonable reserve for depreciation of the System and for contingencies and improvements and extensions to the System, by deposit to the Depreciation and Contingent Fund; and
- (7) thereafter, all money remaining after making the above payments shall be used as determined from time to time by the Commissioners for the maintenance or improvements to, or payment of debt payable from

revenues of, or for the payment of Special Facilities Bonds, or payment into a Rate Stabilization Fund or for any lawful purpose of the Commissioners.

2013 Transfer Agreement

With respect to any Gross Revenues remaining after the required funding referred to in subparagraphs (1) through (6) under “-Disposition of Gross Revenues” above, the Commissioners have agreed, pursuant to the Economic Development Participation Agreement dated June 10, 2013 (“2013 Transfer Agreement”), to make annual transfers to the City Council, to be paid in monthly installments as follows:

- (i) for the fiscal year ending June 30, 2019, an amount calculated as follows: (a) \$1,000,000, plus (b) the product of \$1,000,000 times the percent increase in the average of the twelve monthly consumer price indices (“CPI Increase Percentage”) for the period January through December of 2017, not to exceed two and one-half percent (2.5%); and
- (ii) for each of the fiscal years ending June 30, 2020 through 2028, an amount calculated as follows: (a) the amount of the transfer for the immediately preceding fiscal year, plus (b) the product of (1) the transfer for the immediately preceding fiscal year, times (2) the CPI Increase Percentage for the most recent twelve-month period consisting of January through December of the preceding calendar year (that is, the calendar year ending immediately prior to the July 1 which is the commencement date of the fiscal year for which the transfer is to be calculated), provided, that the CPI Increase Percentage to be utilized in the calculation shall not result in a percentage which, when aggregated with the CPI Increase Percentage utilized for calculation of the preceding fiscal year transfer, would exceed four and one-half percent (4.5%).

For purposes of paragraphs (i) and (ii) above: (a) if the average of the twelve monthly consumer price indices for the immediately preceding fiscal year is negative, the CPI Increase Percentage for the fiscal year of calculation is deemed to be zero; and (b) the CPI Increase Percentage shall be the same percentage used by the Office of Research and Statistics of the State Fiscal Accountability Authority for purposes of determining millage rate limitations under S.C. Code Ann. § 6-1-320, while such statutory millage rate limitation calculation methodology remains in effect.

Under the terms of the 2013 Transfer Agreement, the Commissioners may suspend transfer payments thereunder if, in the Commissioners’ reasonable judgment, the payment of any transfer payment due thereunder would result in, or worsen, an unfavorable operating budget position as of such time for the applicable fiscal year. If any unfavorable operating budget position should thereafter become positive in such fiscal year, the Commissioners are obligated to reinstitute transfer payments in such fiscal year to the extent of such positive budget position if, in the reasonable judgment of the Commissioners, doing so will not result in an event of default under the Authorizing Documents or any Outstanding Bonds of the System.

The Commissioners may terminate transfer payments under the 2013 Transfer Agreement at any time prior to the stated termination date of June 30, 2028, by providing written notice to the City of their intent to terminate by June 30 of the fiscal year prior to the last fiscal year during which transfers will be made.

Rate Covenant

The Commissioners have covenanted to maintain rates and charges for all services furnished by the System (“Rate Covenant”), which at all times shall be sufficient:

- (1) to provide for the punctual payment of the Bonds and any Subordinate Lien Bonds that may from time to time hereafter be Outstanding;
- (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 Ordinance;
- (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 a reimbursement agreement with any provider of a surety bond, insurance policy or letter of credit with respect to any Debt Service Reserve Fund; and
- (7) to discharge all obligations imposed by the Enabling Act and by the Bond Ordinance including those obligations set forth below.

The Commissioners have further covenanted and agreed that they will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the System which, together with other income, are reasonably expected to yield annual Net Earnings (as defined in Appendix B, "BOND ORDINANCE TOGETHER WITH AMENDMENTS") in a Fiscal Year equal to at least the sum of (i) 110% of the Annual Principal and Interest Requirement for all Series 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 with respect to any Debt Service Reserve Fund plus (iii) 100% of the principal and interest on Subordinate Lien Bonds (as defined in "-Subordinate Lien Bonds" under this heading) plus (iv) 100% of any required payment into a Debt Service Reserve Fund due in such Fiscal Year, and, 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 Commissioners shall review the rates and charges for its services and shall promptly revise such rates and charges to the extent necessary to comply with the foregoing requirement.

Additional Bonds

(A) From time to time, Additional Bonds may be issued on a parity with the Series 2020 Bonds and the Parity Bonds, subject, except in the case of a Series or a portion of a Series of Bonds issued for the purpose of refunding any Bonds and which Series or portion meets the test described in the following paragraph (C) with respect to refunding Bonds, to the following requirements being met:

- (1) Net Earnings, as forecast by the Accountant or by the Feasibility Consultants for each of the five Fiscal Years following the issuance of the proposed Series of Bonds, shall be certified by the Accountant or by the Feasibility Consultants to be not less than 110% of the Combined Annual Principal and Interest Requirement for each Fiscal Year during this five-year period on all Bonds Outstanding at the time of issuance (including such proposed Series of Bonds); and
- (2) Net Earnings during the most recent Fiscal Year for which audited financial statements of the Water System are complete or during any 12 of the most recent 18 months shall be certified by the Accountant or the Feasibility Consultants on the basis of such information to be not less than 100% of, for all fiscal years following the end of such five-year period, the maximum Combined Annual Principal and Interest Requirement on all such Bonds Outstanding (including such proposed Series of Bonds).

(B) For purposes of the above tests, such Net Earnings shall be adjusted to reflect:

- (1) any rate increases currently adopted or expected by the Feasibility Consultants to be adopted during such five-year period referred to in (A)(1) above and determined pro forma as though such rate increases had been in continuous effect during such Fiscal Year for which such rate increase is expected to be implemented;
- (2) in the event proceeds of such proposed Series of Bonds will be used to acquire a water utility, system or enterprise that is in existence and operating and whose current customers will become customers of the Water System upon such acquisition, 100% of the estimated Net Earnings to be received by the Water System during the Fiscal Year following the date of issuance of the proposed Series of Bonds, as projected by the Accountant or the Feasibility Consultants, 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 in this clause (B)(2) only the then-existing customer base and population of the acquired utility, system or enterprise;

- (3) in the event proceeds of such proposed Series of Bonds will be used to construct or to acquire a newly constructed water utility, system, enterprise, or component of the Water System which will serve a currently-populated area, 100% of the Net Earnings, estimated by the Feasibility Consultants, to be received by the Water System 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 Water System, taking into account for the estimation of such Net Earnings in this clause (B)(3) only the current population;
- (4) in the event proceeds of such proposed Series of Bonds will be used to pay interest on such proposed Series, 100% of the interest that will accrue on such Series of Bonds during the first twelve 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 clause (B)(4) may not be used jointly with the adjustments allowed by clauses (B)(2) and (B)(3) with respect to the same proposed new Bonds;
- (5) in the event proceeds of such proposed Series of Bonds will be used to construct or to acquire an expansion to the Water System, 100% of estimated Net Earnings to be received by the Water System in the first Fiscal Year following the completion of such project, certified by the Feasibility Consultants, from customers under long-term contracts which extend for the life of such proposed Series of Bonds; and
- (6) any amount allowed by any of clauses (B)(2) through (B)(5) of this sentence 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 clauses (B)(2), (B)(3) or (B)(5), or (b) in which capitalized interest on the previously issued Series of Bonds is exhausted;

provided that in the instance of any Series of Bonds in the aggregate principal amount of \$3,000,000 or less, such calculations required by paragraph (A) above, unless provided to the contrary in any Series Ordinance, may be made by the Chief Financial Officer and provided further, that any Series of Bonds in the aggregate principal amount of \$3,000,000 or less, may be issued to complete a project authorized by a Series Ordinance without meeting the requirements of paragraph (A) above.

(C) In lieu of compliance with paragraph (A) above, in the case of a Series or a portion of a Series of Bonds issued for the purpose of refunding any Bonds, (1) the Annual Principal and Interest Requirements of the refunding Bonds shall not exceed the Annual Principal and Interest Requirements of the refunded Bonds for any Fiscal Year until a time subsequent to the last maturity of Bonds issued prior to the issuance of such refunding Bonds which are not refunded and which remain Outstanding following the issuance of the refunding Bonds, and (2) the sum of (a) the Annual Principal and Interest Requirements on the refunding Bonds and (b) the Annual Principal and Interest Requirements of the nonrefunded Bonds, does not exceed the sum of the (x) Annual Principal and Interest, Requirements of the refunded Bonds, and (y) the Annual Principal and Interest Requirements of the nonrefunded Bonds.

(D) If any Series of Bonds shall contain Variable Rate Bonds:

- (1) The applicable Series Ordinance or Series Resolution shall provide for and specify a maximum interest rate on (a) such Bonds and (b) any reimbursement obligation to a liquidity provider for such Bonds;
- (2) The liquidity provider for such Bonds shall be rated in the highest short term rating category by either Moody's, S&P, or Fitch; and
- (3) Any accelerated principal payments or any interest computed at a rate in excess of that on such Bonds due to the liquidity provider for such Bonds pursuant to any reimbursement agreement

with such liquidity provider shall be subordinate to the payment of debt service on all Bonds; provided, however, if the tests referred to in paragraphs (A) and (C) above are calculated (and met) assuming such accelerated principal payment and such excess interest amount to the liquidity provider, then such accelerated principal payment and excess interest amount may be on a parity with the payment of debt service on all Bonds.

See Appendix B, “BOND ORDINANCE TOGETHER WITH AMENDMENTS” for further details regarding the issuance of Additional Bonds.

Subordinate Lien Bonds

Notwithstanding that Bonds may be outstanding, the City, acting through the Commissioners, may at any time, and without limitation and free of all conditions, issue Subordinate Lien Bonds, in such amount as it may from time to time determine, payable from the revenues of the System, provided that the pledge of revenues and any statutory lien upon the System granted for the protection of said Subordinate Lien Bonds, shall at all times be and remain subordinate and inferior in all respects to the pledges of revenues and liens upon the System made or authorized for the Bonds; and provided further, that the maturity of the Subordinate Lien Bonds may not be accelerated and paid in full unless all of the Bonds shall have been paid or provision therefor has been made. Such Subordinate Lien Bonds may, under certain circumstances specified in the Bond Ordinance, accede to the status of Bonds as discussed in Appendix B, “BOND ORDINANCE TOGETHER WITH AMENDMENTS.”

Special Facilities Bonds

The City, acting through the Commissioners, shall have at all times the right to enter into contracts, leases or other agreements pursuant to which it will agree to construct, operate and pay the costs of Special Facilities to be financed by its issuance of obligations (“Special Facilities Bonds”), subject to the following conditions:

- (a) it shall have been determined to the satisfaction of the Commissioners that the rents, revenues or receipts to be derived from the Special Facilities shall be at least equal to the principal, interest, and any reserve requirements contained in the authorization for such Special Facilities Bonds and to pay all operation, maintenance and other costs and expenses applicable to such Special Facilities; and
- (b) 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 cost or expense related to any Special Facilities may be paid from System revenues deposited in the General Revenue Fund except surplus moneys.

For purposes of the Authorizing Documents, the term “Special Facilities” shall include all or a portion of water facilities and rights to all or a portion of the use of, or the capacity available from, any such facilities. See Appendix B, “BOND ORDINANCE TOGETHER WITH AMENDMENTS.”

PLAN OF REFUNDING

A portion of the proceeds of the Series 2020 Bonds, along with other available funds, will be utilized to refund the Refunded Bonds and to pay costs of issuance of the Series 2020 Bonds. A portion of the net proceeds of the Series 2020 Bonds will be deposited with The Bank of New York Mellon Trust Company, N.A., as Escrow Agent, in order to fund an escrow deposit account. Under the terms of an escrow deposit agreement between the Commissioners and the Escrow Agent, the funds held in escrow shall be invested in “Government Obligations,” as permitted by the Bond Ordinance, pending redemption of the Refunded Bonds. The redemption of the Refunded Bonds will occur on June 1, 2023.

SOURCES AND USES OF FUNDS

The following table sets forth an estimation of the sources of funds to be derived from the sale of the Series 2020 Bonds and the uses of such funds.

Sources of Funds:

Par Amount of Series 2020 Bonds	\$28,875,000.00
Transfer from 2013 Debt Service Fund	645,356.25
Transfer from 2013 Debt Service Reserve Fund	<u>2,396,206.58</u>
Total Sources:	\$31,916,562.83

Uses of Funds:

Costs of Issuance ¹	\$ 371,255.53
Deposit to Escrow Deposit Account	<u>31,545,307.30</u>
Total Uses:	\$31,916,562.83

¹Includes underwriters' discount, legal and financial advisory fees, Trustee's fees, rating agency fees, and other costs of issuance.

ANNUAL DEBT SERVICE REQUIREMENTS

The table below sets forth the annual debt service requirements for the Parity Bonds and the Series 2020 Bonds:

Fiscal Year Ending June 30	Principal and Interest on Parity Bonds*	<u>Series 2020 Bonds</u>		Total Principal and Interest
		<u>Principal</u>	<u>Interest</u>	
2020	\$ 11,993,127			\$ 11,993,127
2021	10,709,312	\$ 215,000	\$ 768,783	11,693,094
2022	10,736,740	220,000	759,615	11,716,354
2023	11,053,933	225,000	756,647	12,035,579
2024	11,054,717	230,000	753,056	12,037,773
2025	11,056,299	235,000	748,987	12,040,286
2026	10,675,825	615,000	744,595	12,035,420
2027	10,305,889	1,005,000	732,861	12,043,750
2028	9,639,969	1,345,000	713,183	11,698,152
2029	7,758,069	1,375,000	685,140	9,818,208
2030	7,750,044	1,405,000	655,096	9,810,140
2031	7,753,419	1,435,000	623,694	9,812,113
2032	7,749,419	1,470,000	589,900	9,809,319
2033	7,752,544	1,510,000	553,811	9,816,355
2034	7,754,094	1,545,000	515,231	9,814,325
2035	7,753,294	1,585,000	474,211	9,812,505
2036	7,759,644	1,630,000	430,544	9,820,188
2037	6,938,744	1,675,000	383,046	8,996,790
2038	7,997,744	1,725,000	334,237	10,056,980
2039	8,004,494	1,780,000	283,970	10,068,464
2040	903,244	1,825,000	232,101	2,960,345
2041	905,656	1,885,000	176,731	2,967,387
2042	902,256	1,940,000	119,540	2,961,796
2043	903,206	2,000,000	60,680	2,963,886
2044	902,388			902,388
2045	905,725			905,725
2046	903,050			903,050
2047	<u>904,531</u>			<u>904,531</u>
	\$189,427,373	\$28,875,000	\$12,095,658	\$230,398,030

*Does not include the Refunded Bonds which will be defeased with a portion of the proceeds of the Series 2020 Bonds.

THE WATER SYSTEM

Description of the Commission

The System is governed by the Commissioners, an entity that was established in 1908 pursuant to Act 612 of the South Carolina General Assembly (“General Assembly”) under the authority vested by Act 39 of the General Assembly adopted in 1896. The Commissioners approve all major operating procedures, expenditures, capital improvements and rates and charges of the System. The three members of the Commissioners are elected every six years by the residents of the City. The Commissioners may incur long-term indebtedness only with the approval of City Council, but is not otherwise subject to the control of City Council.

The Commissioners currently in office are as follows:

<u>Name</u>	<u>Occupation</u>	<u>Expiration of Term</u>
Horace C. Littlejohn, Jr.	USAF Lieutenant Colonel (Retired)	November 2025
John D. Montgomery	Real Estate Executive	November 2023
Angela M. Viney	Non-profit Management	November 2021

Description of the Water System

The System supplies water to approximately 56,814 residential customers, 6,485 commercial customers and 54 industrial customers. In addition, wholesale service is provided to two water districts, two water companies and one town located in Spartanburg County and adjoining counties.

The System currently operates three water filtration facilities: the R.B. Simms Water Treatment Facility (“Simms Plant”), Myles W. Whitlock Water Treatment Facility (“Whitlock Plant”), and the Landrum Water Treatment Facility (“Landrum Plant”). The Simms Plant obtains its raw water supply from Lake Bowen and Municipal Reservoir #1, impoundments on the South Pacolet River. Treated water is pumped to the Boiling Springs storage tanks located approximately 12 miles northeast of the City whereby it then flows to the water distribution system. The Whitlock Plant obtains its water from Lake Blalock which is located on the Pacolet River system off Highway 221 approximately 10 miles east northeast of the City. The Landrum Plant obtains its raw water from Hogback Creek, located near the top of Hogback Mountain, as well as Vaughn’s Creek, located at the headwaters of Lake Lanier. The water source for all three facilities is located within the Broad River Basin.

Based upon historical records of drought conditions, the daily safe yield of the current reservoirs ranges from approximately 94 to 115 million gallons of water per day (MGD). Lake Bowen has a safe yield range of 49 to 60 MGD, and Lake Blalock has a safe yield of 45 to 55 MGD. The lower limit of the yield range is used for planning purposes. The annual average daily water demand for calendar year 2019 was 25.4 MGD. The maximum daily water demand in calendar year 2019 was 32.19 MGD. The maximum dependable capacity of the Simms Plant is 64 MGD and for the Whitlock Plant is 22.5 MGD.

After treatment, the Simms Plant pumps finished water to two covered ground storage tanks, having an aggregate capacity of six million gallons. These tanks are located approximately three miles south of the Simms Plant. The drinking water, from these tanks, flows by gravity through four major transmission pipelines into the System’s distribution system. The drinking water from the Whitlock Plant is pumped directly into a 42-inch main line that also feeds the System’s distribution system. The drinking water from the Landrum Plant flows by gravity out of two ground storage tanks at the facility into the Town of Landrum distribution system.

The treated water transmission and distribution system includes over 1,300 miles of water mains ranging in size from 1 ½ inches to a maximum diameter of 42 inches.

Capital Improvement Program – Future Issuance

The Commissioners annually review the Capital Improvement Program (“CIP”) in conjunction with the budget and rate setting process in order to address increasing demand and meet increasingly stringent treatment standards. The Commissioners anticipate that future CIP requirements will total \$57,215,000 from fiscal year 2021 through fiscal year 2025, the substance of which may be modified based on market or regulatory conditions and demand. Future CIP requirements will be funded through a combination of proceeds from prior bond issues and cash on hand.

Historical Summary of Revenues and Expenses

The table below sets forth a summary of the System's revenues and expenses for the Fiscal Years indicated. The information presented is based upon the System's audited financial statements for fiscal years ended June 30, 2015 through 2019.

	(Restated) <u>2015</u> ¹	<u>2016</u>	<u>2017</u>	(Restated) <u>2018</u> ²	<u>2019</u>
Operating Revenue	\$37,543,394	\$39,841,136	\$42,221,469	\$40,855,351	\$42,272,030
Operating Expenses Before Depreciation and Amortization	(21,508,056)	(23,292,434)	(23,516,057)	(25,633,608)	(26,494,111)
Operating Income Before Depreciation and Amortization	16,035,338	16,548,702	18,705,412	15,221,743	15,777,919
Depreciation	(6,936,967)	(7,244,640)	(7,872,092)	(7,915,554)	(8,333,554)
Operating Income	9,098,371	9,304,062	10,833,320	7,306,189	7,444,365
Non-operating Revenue	4,061,002	4,282,617	4,233,792	4,981,061	6,259,652
Non-operating Expenses	(8,566,764)	(8,097,263)	(7,798,600)	(5,984,629)	(5,894,814)
Net Income Before Transfer and Extraordinary Items	4,592,609	5,489,416	7,268,512	6,302,621	7,809,203
Transfers to Other City Governmental Units	(1,100,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,021,000)
Capital Contributions ³	378,256	1,253,314	923,529	676,992	1,190,543
Net Income	3,870,865	5,742,730	7,192,041	5,979,613	7,978,746
Beginning Net Position	\$50,540,970	\$54,411,835	\$60,154,565	\$57,316,663	\$63,296,276
Ending Net Position	\$54,411,835	\$60,154,565	\$67,346,606	\$63,296,276	\$71,275,022

¹The System reported a restatement of net position in the financial statements for the Fiscal Year ended June 30, 2015 (as reported in the financial statements included in the June 30, 2016 CAFR), due to a change in accounting principle and a prior period adjustment. The change in accounting principle was required because the System adopted GASB Statement Nos. 68 and 71 relating to the accounting and financial reporting of pensions. GASB Statement Nos. 68 and 71 requires governmental employers to recognize the long-term obligation for pensions provided through pension plans administered as trusts or equivalent arrangements as a liability. Therefore, the System was required to record its beginning net pension liability and the effects on the net position of contributions made by the System during the measurement period (Fiscal Year ended June 30, 2014). The prior period adjustment was made and the net position restated due to errors found in previously issued financial statements relating to the initial recording of the System's Revenue Refunding Bonds, Series 2015A and Series 2015B.

²The System reported a restatement of net position in the financial statements for the Fiscal Year ended June 30, 2018 (as reported in the financial statements included in the June 30, 2019 CAFR), due to a change in accounting principle and a prior period adjustment.

³Capital contributions represent contributions from developers in the form of cash payments and donated lines for certain water line extension projects. The Commissioners are required to identify these contributions as non-operating revenue under Governmental Accounting Standards Board Statement No. 33.

Source: Spartanburg Water System Comprehensive Annual Financial Reports for the Fiscal Years ended June 30, 2015 through 2019.

Historical Debt Service Coverage

The table below set forth the Net Income, Net Earnings and debt service coverage for the Fiscal Years indicated. This summary should be read in conjunction with the audited financial statements of the System for the applicable Fiscal Year. The audited financial statements of the System for the Fiscal Year ended June 30, 2019, are included as Appendix A.

	Restated <u>2015</u>	<u>2016</u>	<u>2017</u>	Restated <u>2018</u>	<u>2019</u>
Net Income	\$3,870,865	\$5,742,730	\$7,192,041	\$5,979,613	\$7,978,746
Less: Gain on Sale of Fixed Assets	(76,468)	(80,853)	(137,449)	(108,241)	(61,463)
Less: Restricted Investment Income	(672)	(2,853)	(78,853)	(469,651)	(957,202)
Less: OPEB Adjustment	-	-	-	(52,709)	(136,717)
Less: Capital Contributions	(378,256)	(1,253,314)	(923,529)	(676,992)	(1,190,543)
Less: Transfers into Rate Stabilization Fund	400,000	200,000	1,000,000	1,029,849	(86,285)
Plus: Transfers out of Rate Stabilization Fund	-	-	-	-	500,000
Plus: Excess transfers in over out	(400,000)	(200,000)	(1,000,000)	(1,029,849)	-
Plus: Depreciation	6,936,967	7,244,640	7,872,092	7,915,554	8,333,554
Plus: Interest Expense	8,178,983	8,097,263	7,677,708	5,516,898	5,894,814
Plus: Governmental Transfers	1,100,000	1,000,000	1,000,000	1,000,000	1,021,000
Plus: Pension Adjustment	225,898	161,415	810,690	1,079,626	510,949
Plus: Bond Issuance Costs	387,781	-	120,892	467,731	-
Net Earnings	\$20,245,098	\$20,909,028	\$23,533,592	\$20,651,829	\$21,806,853
Total Revenue Bond Debt Service	\$12,896,810	\$12,151,334	\$12,997,256	\$11,118,019	\$11,990,692
Debt Service Coverage	1.57	1.72	1.81	1.86	1.82

Source: Spartanburg Water System Comprehensive Annual Reports for the Fiscal Years ending June 30, 2015 through 2019.

Management's Discussion and Analysis

Management's discussion of the System's financial condition as of June 30, 2019, is provided as part of the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2019, attached hereto as Appendix A.

The operations of the System for the 2019 Fiscal Year including the System's revenues and expenses were consistent with the amounts budgeted for the 2019 Fiscal Year, and a summary of the System's results of operations for

the 2019 Fiscal Year is included in the table under “THE WATER SYSTEM - Historical Summary of Revenues and Expenses” herein. Further, with respect to the current 2020 Fiscal Year, the operations of the System to date have been consistent with expectations of the management of the System as set forth in the budget for the 2020 Fiscal Year (on an unaudited basis) and, to date, there have been no material deviations from the budget. Moreover, the operating results of the System to date for the 2020 Fiscal Year (on an unaudited basis), do not reflect any material decreases in revenue or increases in expenses when compared to the operating results for the prior fiscal years.

System Personnel

The Chief Executive Officer of the System is responsible for the overall functioning of the System, which includes operational, maintenance, administration, planning, and technical aspects. The Chief Executive Officer is assisted by the Chief Financial Officer and the Chief Operating Officer.

Sue G. Schneider was appointed Chief Executive Officer of the System in 2007. Ms. Schneider earned a bachelor of science degree in landscape architecture from The Ohio State University in 1978, a master of science degree in environmental science from the University of Cincinnati in 1987, and a master of business administration degree from Wake Forest University in 2003. Ms. Schneider’s experience includes over 30 years in water-wastewater consulting, hazardous-industrial waste management, and environmental-regulatory management.

G. Newton Pressley was employed by the System in 1986 and is the Chief Financial Officer. He also serves as Secretary/Treasurer of the Commission. Mr. Pressley received a bachelor’s degree in Accounting from the University of South Carolina in 1977. Mr. Pressley’s experience includes over 30 years of service as a chief financial officer with water/wastewater utilities.

Robert F. Walden was employed by the System in 1977 and is the Chief Operating Officer. Mr. Walden has a very diverse operation and maintenance background with over 40 years of experience in the drinking water industry and 22 years of experience in wastewater collection.

Charles E. Jackson was employed by the System in 1996 and is the Capital Projects Engineer, Mr. Jackson is a licensed professional engineer and received his bachelor’s degree in Civil Engineering from Clemson University in 1982. Mr. Jackson has over 36 years of experience with various civil and environmental projects, with a majority related to the water/wastewater industry.

Currently, the System has approximately 222 full-time and part-time employees, including the Commissioners.

Service Area

The System serves retail customers located inside and outside the city limits of the City and the Towns of Landrum, Cowpens and Pacolet. The retail customers served by the System include 56,814 residential customers, 6,485 commercial customers, and 54 industrial customers. Additionally, the System provides water on a wholesale basis through master meters to two water districts, two water companies, and one town. These wholesale customers are located primarily inside Spartanburg County and, to a lesser extent, Cherokee County and Union County.

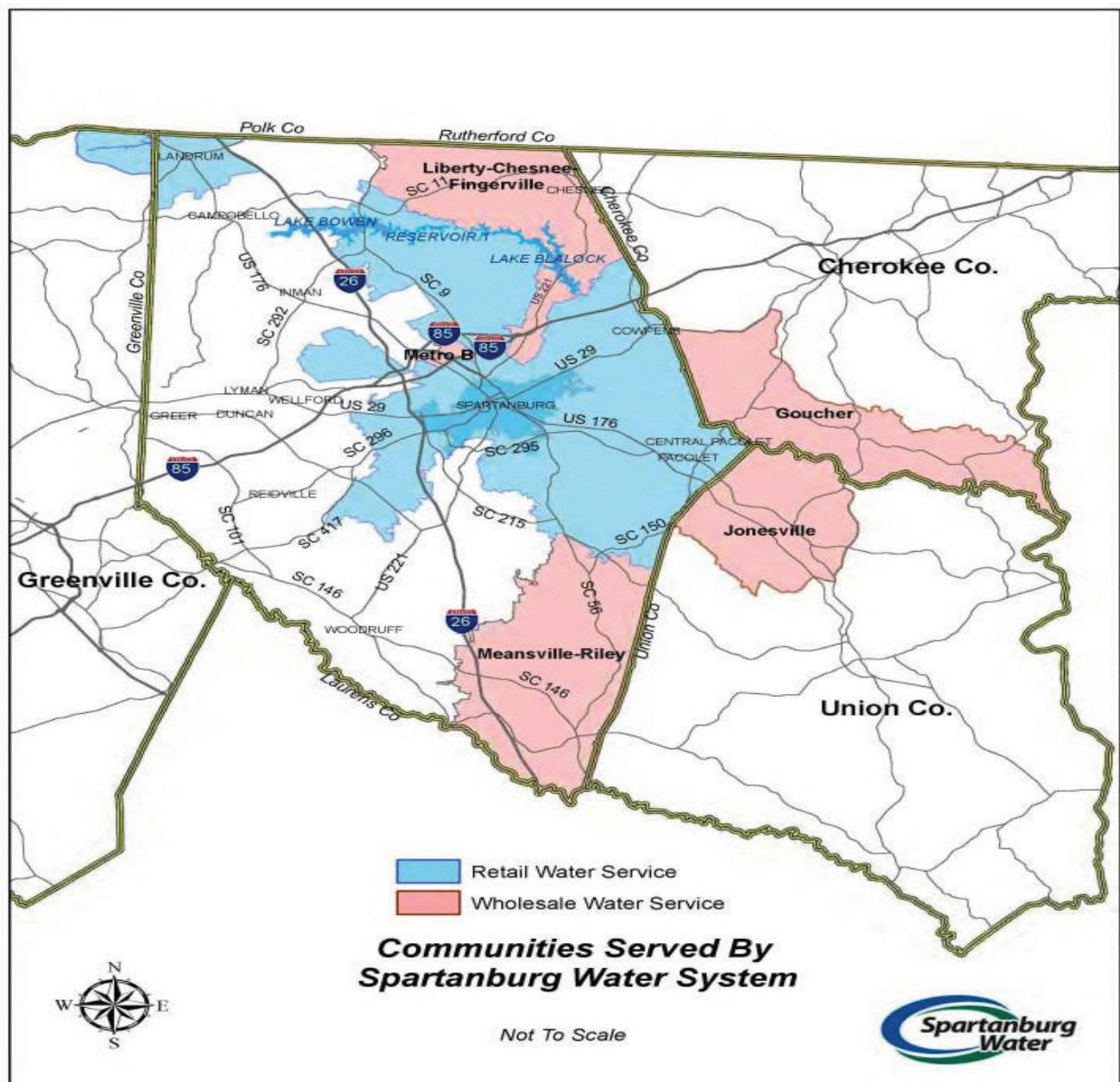
Wholesale Customers. The wholesale customers of the System, the billable consumption, total charges, and the percentage of water sales revenues for Fiscal Year ended June 30, 2019, are as follows:

	FY 2019 Billable Consumption (100g)	Total Charges	Percent of FY 2019 Total Water Sales Revenues
<u>Wholesale Customers</u>			
Liberty-Chesnee-Fingerville Water District	4,807,816	\$ 788,791	1.99%
Metropolitan Sub-District “B”	2,149,350	352,970	0.89
Goucher Water Company	2,091,218	342,195	0.86
Meansville-Riley Water Company	1,031,255	170,241	0.43
Town of Jonesville	<u>575,395</u>	<u>95,214</u>	<u>0.24</u>
TOTAL	10,655,034	\$1,749,411	4.41%

Source: Spartanburg Water System Comprehensive Annual Financial Report for the Fiscal Year ending June 30, 2019.

The Liberty-Chesnee-Fingerville Water District, the System's largest wholesale customer, entered into a water purchase and supply contract on June 18, 1984, which, by the terms of a Second Amendment dated August 27, 2013, expires on July 1, 2027. The contract provides that the Commissioners will be the exclusive source of water supply for the Liberty-Chesnee-Fingerville Water District; however, the Commissioners are not obligated to supply water beyond certain maximum capacity, flow rate and storage limits. The Commissioners must approve any annexation of additional area and the assignment of the contract. The rates for the supply of water are the published rates of the Commissioners. There are no early termination or expiration rights.

Map of System Service Area



Retail Customers. The ten largest retail water customers of the System, including their annual consumption and revenues, are listed below:

<u>Customer</u>	<u>Annual Consumption(100g)</u>	<u>Annual Revenue</u>	<u>Percentage of FY 2019 Water Sales Revenue*</u>
Auriga Polymers, Inc. (Invista)**	2,992,180	\$1,522,603	3.84%
Milliken & Company	905,939	625,823	1.58
Spartanburg Regional Medical Center	905,034	365,996	0.92
Wofford College	728,678	320,580	0.81
Michelin North America	663,420	450,735	1.14
Pet Inc. Dairy Division	623,385	429,313	1.08
Spartanburg Sanitary Sewer District	535,111	374,628	0.94
R R Donnelly & Sons	510,656	351,955	0.89
BASF Corporation	480,957	328,808	0.83
Kohler Company	<u>331,650</u>	<u>227,972</u>	<u>0.57</u>
Total	8,677,010	\$4,998,413	12.60%

*May not add to total due to rounding.

**There are three industrial users, Auriga, Johns-Manville and Air Liquide at this location on a single meter.

Source: Spartanburg Water System Comprehensive Annual Financial Report for the Fiscal Year ending June 30, 2019.

Customer Base. The following table shows the number of customers of the System for the years shown:

<u>Fiscal Year Ending June 30</u>	<u>Number of Connections</u>
2015	60,006
2016	60,716
2017	61,422
2018	62,375
2019	63,358

Source: Spartanburg Water System Comprehensive Annual Financial Report for the Fiscal Year ending June 30, 2019.

Revenues of the System

The Commissioners are responsible for determining the water rates and charges imposed upon the customers of the System. The Commissioners retain an independent water rate consultant in order that current analyses and continuous water rate studies are provided. It has been and continues to be the policy of the Commissioners to periodically review the rates and charges imposed upon customers of the System and to maintain sufficient rates and charges to meet the requirements contained in the Bond Ordinance. See “SECURITY FOR THE SERIES 2020 BONDS – Rate Covenant” herein.

Cost of Service-Water Rates

All bills are due and payable within 25 days from date of billing. The right is reserved to discontinue all services which are in arrears after that date without further notice. A nonpayment service charge of \$35 is charged in the event service is discontinued due to nonpayment. This charge must be paid at the time service is again provided.

The System rate structure consists of two components: a fixed or “Base Charge”; and a Volume Charge. In addition, the System charges a Capacity Fee for new customers connecting to the System.

Base Charge. The Base Charge recovers the following types of fixed costs:

Meter reading, billing, collection and customers services;
 Meter repair and replacement costs;
 Availability cost (including a portion of the costs incurred in making a base level of water service available to the customer at all times).

The Base Charge is reviewed annually by the Commissioners, is based on meter size, frequency of billing (monthly vs. bimonthly), and location (inside vs. outside city).

The System's Base Charge rate structure, currently in effect, is provided below:

<u>Meter Size</u>	<u>Monthly Inside-City*</u>	<u>Bi-Monthly Inside-City*</u>
5/8"	\$ 7.50	\$ 15.00
1"	17.11	34.22
1½"	33.13	66.27
2"	52.36	104.73
3"	97.23	194.47
4"	161.33	322.67
6"	321.58	643.17
8"	526.70	1,053.41
10"	789.51	1,579.03

*Outside city base charges are billed at the inside city rate plus 50%.

Volume Charge. The Volume Charge applies to actual usage. The Volume Charge is designed to include recovery of costs associated with the requirements of the residential, commercial and industrial classes along with those of the wholesale water customers.

The Volume Charge schedule presently imposed by the Commissioners, effective August 1, 2016, is set forth in the following table:

Volume Charge Schedule
per 100 Gallons

<u>Inside City</u>	<u>Outside City*</u>
\$0.384	\$0.672

*Outside city volume charges are billed at the inside city rate plus 75%.

Capacity Fees. Effective April 1, 1988, the Commissioners adopted a Capacity Fee, which is a one-time charge for new connections to the System. It is based on the concept that the new user should pay a "pro-rata" share of the basic infrastructure which has been constructed to meet the needs of that user. The Capacity Fee was established by the Commissioners upon recommendation from their consulting engineers, and is based upon the net depreciated asset of the System.

All new connections to the System are subject to these fees. Current Capacity Fees by meter size are shown in the following table:

<u>Meter Size</u>	<u>Capacity Fee</u>
5/8"	\$ 300
1"	750
1½"	1,500
2"	2,400
3" and up	*

*Negotiated on an individual basis.

Comparative General Statistics For Past Five Fiscal Years

The following table shows the miles of pipe, annual usage and water sales of the System during the past five Fiscal Years.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Miles of Pipe	1,317	1,319	1,331	1,331	1,344
Annual Billed Usage (Million gallons)	59.78	62.06	66.71	65.14	63.10
Water Sales (Million dollars)	\$35.8	\$37.9	\$40.1	\$36.2	\$39.7

Additions to Property, Plant, and Equipment

The following table shows the amounts expended from prior bond issues and revenues to defray the cost of capital improvements to the System during the past five Fiscal Years.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Amount</u> <u>Expended</u>
2015	\$ 6,304,768
2016	9,061,904
2017	12,664,708
2018	9,105,527
2019	<u>7,185,949</u>
Total	\$44,322,856

Source: Records of the Commissioners of Public Works.

Regulation and Permits

The water rates charged by the System are not subject to regulation by the South Carolina Public Service Commission and are not subject to review or adjustment other than by the Commissioners. The System is regulated by the United States Environmental Protection Agency ("EPA") and the South Carolina Department of Health and Environmental Control ("DHEC"). DHEC is responsible for ensuring compliance with federal and state water quality standards, approving plans and specifications for water projects within the State, issuing operating and construction permits, and handling other administrative functions that have been delegated to DHEC by EPA.

The System historically has been operated in compliance with regulations and is currently not under any regulatory orders. The System is proactive in addressing regulatory issues and planning for system improvements, upgrades, and expansions. The CIP has been designed by System staff to be in accordance with appropriate regulations and to address the water requirements of the System's service area.

Even though federal and state environmental legislation and regulations are constantly evolving, the System's management does not anticipate regulatory changes that will require additional capital costs to maintain operating permits during the next five years or that will otherwise have a material impact on the construction cost of projects that are part of its CIP.

Retirement Plans

The System is a member of the South Carolina Retirement System ("SCRS"), one of four defined benefit retirement systems maintained by the Retirement Division of the State Fiscal Accountability Authority. Each system publishes their own component unit financial report. The systems provide retirement, death and disability benefits to State employees, public school employees and employees of counties, municipalities and certain other State political subdivisions. Each system is independent. Assets may not be transferred from one system to another or used for any purpose other than to benefit each system's participants. SCRS is a cost-sharing, multiple-employer pension system that benefits employees of public schools, the State and its political subdivisions including the System. Membership is required as a condition of employment. In fiscal year 2020 employees contribute at 9% of their salary and employers at 15.41%. In addition to those rates, participating employers of SCRS contribute 0.15% of payroll to provide a group life insurance benefit for their participants.

The System's contributions to the SCRS for the last five fiscal years are as follows:

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
\$1,011,873	\$1,110,276	\$1,210,662	\$1,344,341	\$1,644,754

The System has paid all required contributions for fringe benefits as they have come due and there are no liabilities for underfunding of such fringe benefits.

GASB 75

The System implemented Governmental Accounting Standards Board Statement No. 75 ("GASB 75") in fiscal year 2018. GASB 75 requires the System to recognize a net OPEB (other post-employment benefits) liability and any related deferred outflows and inflows of resources along with a more comprehensive measure of OPEB expense for the System's OPEB plan on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e. the Statement of Net Position) and requires more extensive note disclosures. The System's OPEB expense in 2019 was \$877,783. However, the adoption resulted in the restatement of the System's net position as of July 1, 2017 for its financial statements to reflect the reporting of a net OPEB liability and deferred outflows of resources for the System's OPEB plan in accordance with GASB 75. Net position of the System's financial statements as of July 1, 2017, was decreased by \$10,029,943 for the year ended June 30, 2018, reflecting the cumulative change in the accounting principle related to the adoption of GASB 75. Changes in the System's net OPEB liability for fiscal year 2019 are shown in the following table.

	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance as of December 31, 2017	\$15,718,563	\$4,453,868	\$11,264,695
Charges for the year:			
Service Cost	541,715	-	541,715
Interest	737,040	-	737,040
Difference between expected and actual experience	(3,799)	-	(3,799)
Contributions - employer	-	1,295,588	(1,295,588)
Net investment income	-	60,482	(60,482)
Benefit payments	<u>(408,588)</u>	<u>(408,588)</u>	<u>-</u>
Net Changes	<u>866,368</u>	<u>947,482</u>	<u>(81,114)</u>
Balance as of December 31, 2018	<u>\$16,584,931</u>	<u>\$5,401,350</u>	<u>\$11,183,581</u>

Cyber Security Management

The Issuer, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations and faces multiple cyber security threats including, but not limited to, hacking, phishing, viruses, malware and other attacks on its computing and other digital networks and systems (collectively, "Systems Technology"). As a recipient and provider of sensitive information, the Issuer may be the target of cyber security incidents that could result in adverse consequences to the Issuer and its Systems Technology, requiring a response action to mitigate the consequences.

Cyber security incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to the Issuer's Systems Technology for the purposes of misappropriating assets or information or causing operational disruption and damage. The Issuer has implemented certain controls, including data and network security measures, malware protection, security configuration, website filtering and protection, and user training, to mitigate the risk of cyber security breaches from internal sources or activities, and the Issuer has in place a cyber security insurance policy. In addition, in 2019, the Issuer developed and implemented a Security Response Plan which remains in effect.

Recent Developments

The United States, including the State, the City and the Commissioners, is currently in the midst of a pandemic caused by a novel coronavirus and resulting disease known as COVID-19. The pandemic has led to a declaration of emergency by the Governor of South Carolina (the “Governor”) and the issuance of progressively stringent orders by the Governor in March and April 2020 including, but not limited to, a stay-at-home order and the closure of (1) public schools for the remainder of school year, (2) dining establishments (except for take-out services), (3) non-essential businesses and (4) public access to recreational sites. On April 20, 2020 the Governor announced the loosening of some of those restrictions, including the reopening of certain retail establishments.

The System’s large commercial and industrial meters are read monthly, typically on the 20th of the month. The most recent usage data through April 20, 2020 shows that aggregate usage for the System’s top ten customers is comparable with the usage in the previous month and in the same month of the prior year. The aggregate usage in April 2020 includes increased usage by some customers and reduced usage by other customers, including Wofford College which transitioned its students to at-home instruction in March 2020. Additionally, aggregate flow through the water treatment plant during April is comparable to the aggregate flow during the prior month. Revenues and expenses for the System for the nine-month period ending March 31, 2020 are tracking comparably with the budget for the 2020 Fiscal Year.

The COVID-19 pandemic has altered and is continuing to alter the behavior of businesses and people in a manner that is having negative effects on global and local economies, including the Issuer. In addition, global financial markets have experienced significant volatility attributed to concerns over COVID-19. The impact of the pandemic on the System, its operations, and the local, regional, national and international economies cannot be predicted due to the dynamic nature of the outbreak, including uncertainties relating to its duration and severity, as well as what actions may be taken by governmental authorities, businesses and institutions to attempt to contain or mitigate its impact.

RATINGS

Moody’s Investors Service, Inc. and S&P Global Ratings (collectively, the “Rating Agencies”) have assigned long-term ratings of “Aa2” and “AA”, respectively, to the Series 2020 Bonds. Such ratings reflect only the views of the Rating Agencies and an explanation of the significance of such ratings may be obtained from the Rating Agencies. The Commissioners have furnished the Rating Agencies with certain information and materials respecting the City, the Commissioners and the Series 2020 Bonds. Generally, the Rating Agencies base their ratings on such information and materials and on investigations, studies and assumptions furnished to and obtained and made by them. There is no assurance that such ratings will remain unchanged for any period of time or that they may not be lowered or withdrawn entirely by the Rating Agencies, if in their judgment circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2020 Bonds.

UNDERWRITING

The Series 2020 Bonds are being purchased by Stephens Inc. and Robert W. Baird & Co. Incorporated (the “Underwriters”). The Underwriters have agreed to purchase the Series 2020 Bonds at an aggregate purchase price of \$28,750,125.83 (which amount equals the par amount of the Series 2020 Bonds, less Underwriters’ discount of \$124,874.17). The initial public offering prices set forth on the inside cover of this Official Statement may be changed by the Underwriters, and the Underwriters may offer and sell the Series 2020 Bonds to certain dealers and others at prices lower than the public offering prices.

LEGAL MATTERS

Litigation

No litigation is now pending or, to the best of the Commissioners’ knowledge, threatened, against or affecting the System which seeks to restrain or enjoin the authorization, execution or delivery of the Series 2020 Bonds, the Series Ordinance, the Series Resolution, or which contests the validity or the authority or proceedings for the adoption, authorization, execution or delivery of the Series 2020 Bonds, or the System’s creation, organization or corporate existence, or the title of any of the present officers thereof to their respective offices or the authority or proceedings for the Commissioners’ authorization, execution and delivery of the Series Resolution or the Series 2020 Bonds, or the

Commissioners' authority to carry out its obligations thereunder, or which would have a material adverse impact on the System's condition, financial or otherwise.

Opinions of Counsel

Certain legal matters related to the authorization, execution, sale and delivery of the Series 2020 Bonds are subject to the approving opinion of Haynsworth Sinkler Boyd, P.A., Greenville, South Carolina, Bond Counsel. The proposed form of Bond Counsel's opinion is included as Appendix C. Certain legal matters will be passed on for the Commissioners by their counsel, Haynsworth Sinkler Boyd, P.A., Greenville, South Carolina, for the City by the City Attorney, Robert P. Coler, Spartanburg, South Carolina, and for the Underwriters by their counsel, Parker Poe Adams & Bernstein LLP, Columbia, South Carolina.

TAX MATTERS

Federal Income Tax

Generally. INTEREST ON THE SERIES 2020 BONDS IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. OWNERS OF THE SERIES 2020 BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES AND FOREIGN TAX CONSEQUENCES OF THEIR ACQUISITION, OWNERSHIP AND DISPOSITION OF THE SERIES 2020 BONDS.

The following is a summary of certain U.S. federal income tax considerations of the purchase, ownership and disposition of the Series 2020 Bonds. This summary applies to holders only if they are a Beneficial Owner of a Series 2020 Bond and acquire a Series 2020 Bond in this offering for a price equal to the issue price of the Series 2020 Bond. The issue price of the Series 2020 Bond is the first price at which a substantial amount of the Series 2020 Bonds is sold other than to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. For purposes of this discussion, a "**U.S. Holder**" means a Beneficial Owner of a Series 2020 Bond that, for U.S. federal income tax purposes, is: a citizen or resident alien individual of the United States; a corporation (including for this purpose any other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any State thereof or the District of Columbia; an estate the income of which is subject to U.S. federal income taxation regardless of its source; or a trust (i) that is subject to the primary supervision of a court within the United States and under the control of one or more "United States persons" (as defined for U.S. federal income tax purposes), or (ii) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a "United States person."

For the purposes of this discussion, a "non-U.S. Holder" means a Beneficial Owner of a Series 2020 Bond that, for U.S. federal income tax purposes, is an individual, corporation (including for this purpose any other entity treated as a corporation for U.S. federal income tax purposes), trust or estate that is not a U.S. Holder.

This summary is based on provisions of the Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations issued thereunder, and administrative and judicial interpretations thereof, all as of the date of this Official Statement and all of which are subject to change or differing interpretation (perhaps retroactively), and is for general information only. This summary addresses only Beneficial Owners of the Series 2020 Bonds that hold the Series 2020 Bonds as capital assets within the meaning of Section 1221 of the Code and does not represent a detailed description of the U.S. federal income tax consequences to prospective purchasers of the Series 2020 Bonds in light of their particular circumstances. In addition, it does not represent a detailed description of the U.S. federal income tax consequences applicable to prospective purchasers of the Series 2020 Bonds that are subject to special treatment under the U.S. federal income tax laws, such as taxpayers subject to the alternative minimum tax, the U.S. federal estate and gift tax, U.S. expatriates, financial institutions, partnerships or other pass-through entities, or investors in such entities, individual retirement and other tax deferred accounts, dealers and traders in securities or currencies, insurance companies, tax-exempt organizations, persons holding the Series 2020 Bonds as part of a conversion, constructive sale, wash sale or other integrated transaction or a hedge, straddle or synthetic security, and U.S. Holders whose functional currency is other than the U.S. dollar. The Issuer cannot assure holders that a change in law will not alter significantly the tax considerations that are described in this summary.

If a U.S. or non-U.S. partnership (including for this purpose an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds the Series 2020 Bonds, the tax treatment of a partner generally will depend

upon the status of the partner, the activities of the partnership and certain determinations made at the partner level. Non-U.S. partnerships also generally are subject to special tax documentation requirements.

U.S. Holders. Interest. It is expected and this discussion assumes that either the issue price of the Series 2020 Bonds will equal the stated principal amount thereof or the Series 2020 Bonds will be issued with less than a *de minimis* amount of original issue discount (“OID”). Therefore, a U.S. Holder will have ordinary interest income equal to the amount of interest paid or accrued on a Series 2020 Bond, includable in accordance with the U.S. Holder’s regular method of tax accounting for U.S. federal income tax purposes.

Disposition of the Series 2020 Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, defeasance, retirement or other disposition of a Series 2020 Bond will result in capital gain or loss equal to the difference, if any, between the amount realized on the disposition (excluding amounts attributable to accrued and unpaid interest, which, as described above, will be taxed as ordinary income to the extent not previously included in gross income by the U.S. Holder) and the U.S. Holder’s tax basis in the Series 2020 Bonds. Generally, the U.S. Holder’s tax basis for determining gain or loss on the disposition of the Series 2020 Bond will equal the purchase price paid by the U.S. Holder for the Series 2020 Bond, (i) increased by the amount of OID previously included in income by such U.S. Holder with respect to such Series 2020 Bond, if any, and (ii) decreased by any payments previously made on such Series 2020 Bond (other than payments of qualified stated interest), and further decreased by any amortized premium (if any). Such gain or loss will be long-term capital gain or loss if the Series 2020 Bond is held for more than one year as of the time of the disposition. The deductibility of capital losses is subject to limitations. U.S. Holders should consult their tax advisors regarding the treatment of capital gains and losses.

Non-U.S. Holders. Interest. The United States generally imposes a 30% withholding tax on payments of interest to non-U.S. persons. The 30% (or lower applicable treaty rate) U.S. federal withholding tax will not apply to a non-U.S. Holder in respect of any payment of interest on the Series 2020 Bonds that is not effectively connected with the conduct of a U.S. trade or business provided that such non-U.S. Holder is not a bank whose receipt of interest on the Series 2020 Bonds is described in Section 881(c)(3)(A) of the Code; and (a) provides identifying information (i.e., name and address) to the Issuer or its paying agent on IRS Form W-8BEN (or successor form), and certifies, under penalty of perjury, that such non-U.S. Holder is not a U.S. person or (b) a financial institution holding the Series 2020 Bonds on behalf of such non-U.S. Holder certifies, under penalty of perjury, that it has received the applicable IRS Form W-8BEN (or successor form) from the Beneficial Owner and provides the Issuer or its paying agent with a copy.

If a non-U.S. Holder cannot satisfy the requirements described above, payments of interest made to such non-U.S. Holder will be subject to the 30% U.S. federal withholding tax, unless such non-U.S. Holder provides the Issuer or its paying agent with a properly executed (i) IRS Form W-8BEN (or successor form) claiming an exemption from or reduction in withholding under the benefit of an income tax treaty or (ii) IRS Form W-8ECI (or successor form) stating that interest paid on the Series 2020 Bond is not subject to withholding tax because it is effectively connected with such non-U.S. Holder’s conduct of a trade or business in the United States.

If a non-U.S. Holder is engaged in a trade or business in the United States and interest on the Series 2020 Bonds is effectively connected with the conduct of that trade or business (or, if required by an applicable income tax treaty, is attributable to a permanent establishment in the United States maintained by such non-U.S. Holder), such non-U.S. Holder, although exempt from the 30% withholding tax, generally will be subject to U.S. federal income tax on that interest on a net income basis in the same manner as if such non-U.S. Holder were a “United States person” as defined under the Code. In addition, if a non-U.S. Holder is a non-U.S. corporation, it may be subject to a branch profits tax equal to 30% (or lower applicable treaty rate) of its earnings and profits for the taxable year, subject to adjustments, that are effectively connected with the conduct by it of a trade or business in the United States. For this purpose, effectively connected interest on the Series 2020 Bond will be included in earnings and profits.

Disposition of the Series 2020 Bonds. Any gain realized on the disposition of a Series 2020 Bond by a non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax unless (i) that gain is effectively connected with the non-U.S. Holder’s conduct of a trade or business in the United States (or, if required by an income tax treaty, is attributable to a U.S. permanent establishment maintained by such non-U.S. Holder), (ii) such non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of that disposition and certain other conditions are met, or (iii) in the case of disposition proceeds representing accrued interest, the non-U.S. Holder cannot satisfy the requirements of the complete exemption from withholding tax described above (and the non-U.S. Holder’s U.S. federal income tax liability has not otherwise been fully satisfied through the U.S. federal withholding tax described above).

If a non-U.S. Holder's gain is effectively connected with such non-U.S. Holder's U.S. trade or business (or, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment maintained by such non-U.S. Holder), such non-U.S. Holder generally will be required to pay U.S. federal income tax on the net gain derived from the sale in the same manner as if it were a "United States person" as defined under the Code. If such a non-U.S. Holder is a corporation, such non-U.S. Holder may also, under certain circumstances, be subject to a branch profits tax at a 30% rate (or lower applicable treaty rate). If a non-U.S. Holder is subject to the 183-day rule described above, such non-U.S. Holder generally will be subject to U.S. federal income tax at a flat rate of 30% (or a reduced rate under an applicable treaty) on the amount by which capital gains allocable to U.S. sources (including gains from the sale, exchange, retirement or other disposition of the Series 2020 Bonds) exceed capital losses allocable to U.S. sources, even though the non-U.S. Holder is not considered a resident alien under the Code.

Information Reporting and Backup Withholding. In general, information reporting requirements apply to interest paid to, and to the proceeds of a sale or other disposition of a Series 2020 Bond (including a redemption) by, certain U.S. Holders. In addition, backup withholding (currently at a rate of 28%) may apply to a U.S. Holder unless such holder provides a correct taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules. Backup withholding generally does not apply to payments made to certain exempt U.S. persons.

In general, a non-U.S. Holder will not be subject to backup withholding and information reporting with respect to interest payments made to such holder provided that the Issuer or its paying agent has received from such holder the certification described above under "-Non-U.S. Holders-Interest" and neither the Issuer nor its paying agent has actual knowledge or reason to know that the purported non-U.S. Holder is actually a U.S. Holder. However, the Issuer or its paying agent may be required to report to the IRS and the non-U.S. Holder payments of interest on the Series 2020 Bonds and the amount of tax, if any, withheld with respect to those payments. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which the non-U.S. Holder resides under the provisions of a treaty or agreement.

Payments of the proceeds of a sale or other disposition (including a redemption) of the Series 2020 Bonds made to or through a non-U.S. office of non-U.S. financial intermediaries that do not have certain enumerated connections with the United States generally will not be subject to information reporting or backup withholding. In addition, a non-U.S. Holder will not be subject to backup withholding or information reporting with respect to the proceeds of the sale or other disposition of a Series 2020 Bond within the United States or conducted through non-U.S. financial intermediaries with certain enumerated connections with the United States, if the payor receives the certification described above under "-Non-U.S. Holders-Interest" or such holder otherwise establishes an exemption, provided that the payor does not have actual knowledge or reason to know that the purported non-U.S. Holder is actually a United States person or the conditions of any other exemption are not, in fact, satisfied.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a holder's U.S. federal income tax liability provided the required information is furnished by such holder to the IRS in a timely manner.

Net Investment Income Tax. The Code generally imposes a tax of 3.8% on the "net investment income" of certain individuals, trusts and estates for taxable years beginning after December 31, 2012. Among other items, net investment income generally includes gross income from interest and net gain attributable to the disposition of certain property, less certain deductions. Prospective purchasers should consult their own tax advisors regarding the possible implications of this legislation in their particular circumstances.

State Tax Exemption

Haynsworth Sinkler Boyd, P.A., Greenville, South Carolina ("Bond Counsel") is of the opinion that the Series 2020 Bonds and the interest thereon are exempt from all taxation by the State of South Carolina, its counties, municipalities and school districts except estate, transfer or certain franchise taxes. Interest paid on the Series 2020 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. The opinion of Bond Counsel is limited to the laws of the State of South Carolina and federal tax laws. No opinion is rendered by Bond Counsel concerning the taxation of the Series 2020 Bonds or the interest thereon under the laws of any other jurisdiction.

UNITED STATES BANKRUPTCY CODE

The undertakings of the City and the Commissioners in connection with the Series 2020 Bonds should be considered with reference to Chapter 9 of the United States Bankruptcy Code, 11 U.S.C. Section 901, et seq., as amended (“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 a 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 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.

ENFORCEABILITY OF REMEDIES

The remedies available to the owners of the Series 2020 Bonds upon the event of default under the Authorizing Documents 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 Bankruptcy Code, the Bond Ordinance and the Series 2020 Bonds may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2020 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 laws of creditors enacted before or after such delivery.

CONTINUING DISCLOSURE

In accordance with Section 11-1-85 of the Code of Laws of South Carolina, 1976, as amended, the Commissioners have covenanted in the Series Resolution to file with a central repository for availability in the secondary bond market when requested (1) an annual independent audit, within thirty days of the Commissioners’ receipt of the System’s audit, and (2) event specific information, within thirty days of an event adversely affecting more than five percent of the System’s revenues. The only remedy for failure by the Commissioners to comply with this covenant shall be an action for specific performance. Moreover, the Commissioners have specifically reserved the right to amend or repeal this covenant to reflect any change in or repeal of Section 11-1-85 without the consent of any bondholder.

Further, as required by SEC Rule 15c2-12 (“Rule”), the Commissioners, on behalf of the City, have covenanted for the benefit of the holders and beneficial owners of the Series 2020 Bonds to provide notices of the occurrence of certain enumerated events, and, in addition, to file annually by the last day of the seventh month following the end of each of the Commissioners’ fiscal years, commencing with the fiscal year ended June 30, 2020, “annual financial information” (as such term is defined in the Rule) (each, an “Annual Report”) which includes the System’s audited financial statements and certain other financial information and operating data included in this Official Statement, which the Commissioners specifically agree will be provided in the System’s Annual Reports.

The Commissioners have undertaken and implemented formal Disclosure Policies and Procedures, including the engagement in September 2014 of Digital Assurance Corporation, L.L.C. (“DAC”). The Commissioners will enter into a Disclosure Dissemination Agent Agreement (“Disclosure Dissemination Agreement”) for the benefit of the holders of the Series 2020 Bonds with DAC, under which the Commissioners will designate DAC as Disclosure Dissemination Agent. The form of Disclosure Dissemination Agreement is attached hereto as Appendix E.

The Commissioners may modify from time to time, consistent with the Rule, the information provided to the extent necessary or appropriate in the judgment of the Commissioners, but: (1) any such modification may only be made in connection with a change in circumstances that arise from a change in legal requirements, change in law or change in the identity, nature or status of the System; (2) the information to be provided, as modified, would have complied with the requirements of the Rule as of the date of this Official Statement, after taking into account any amendments or interpretations of the Rule, as well as any changes in circumstances; and (3) any such modification does not materially impair the interest of the Holders or the beneficial owners, as determined by the Trustee or nationally recognized bond counsel or by the approving vote of the Holders of a majority in principal amount of the Series 2020 Bonds then Outstanding at the time of the amendment. Any annual financial information containing modified operating data or financial information will explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided. The Commissioners' Rule 15c2-12 undertakings will terminate on payment, or provision having been made for payment in a manner consistent with the Rule, in full of the principal of and interest on the Series 2020 Bonds.

FINANCIAL ADVISOR

First Tryon Advisors has served as financial advisor (the "Financial Advisor") to the Commissioners with respect to the sale of the Series 2020 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2020 Bonds is contingent on the issuance and delivery of the Series 2020 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement and the appendixes thereto.

VERIFICATION

The accuracy of the arithmetical computations of the adequacy of the maturing principal amounts of principal and interest on the federal securities placed in escrow to pay, when due, the principal of and the interest on the Refunded Bonds will be verified by Bingham Arbitrage Rebate Services, Inc. Such verification of arithmetical accuracy and mathematical computations will be based upon information supplied by the Commissioners and the Underwriters.

AUTHORIZATION OF OFFICIAL STATEMENT

This Official Statement has been authorized and adopted by the Commissioners on behalf of the City. Concurrently with the delivery of the Series 2020 Bonds, the undersigned will furnish their certificate to the effect that, to the best of their knowledge, this Official Statement did not, as of its date, and does not as of the date of delivery of the Series 2020 Bonds, contain any untrue statement of a material fact or omit to state a material fact which should be included therein for the purposes for which this Official Statement is to be used, or which is necessary in order to make the statements contained therein, in light of the circumstances in which they were made, not misleading.

CONCLUDING STATEMENT

All of the summaries of the provisions of the Act, the Series 2020 Bonds, the Authorizing Documents 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 Act, the Authorizing Documents or other 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, copies of which may be obtained from G. Newton Pressley, Chief Financial Officer, Commissioners of Public Works, (864) 580-5620, 200 Commerce Street, Spartanburg, South Carolina 29304. 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 this Official Statement and in the Appendices hereto has been obtained from sources other than the City or the Commissioners that are believed to be reliable but is not guaranteed as to accuracy or completeness by the Underwriter, the City or the Commissioners.

The execution of this Official Statement and its delivery have been duly authorized by the City and the Commissioners.

This Official Statement is not to be construed as a contract with the holders of the Series 2020 Bonds. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not expressly so identified, are intended merely as such and not as representations of fact.

CITY OF SPARTANBURG, SOUTH CAROLINA

By /s/ Sue G. Schneider

Chief Executive Officer

Commissioners of Public Works

APPENDIX A

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF SPARTANBURG WATER SYSTEM
FOR THE FISCAL YEAR ENDING JUNE 30, 2019**

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**SPARTANBURG WATER SYSTEM
SPARTANBURG, SOUTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDING JUNE 30, 2019 AND 2018**

I. INTRODUCTORY SECTION

SPARTANBURG WATER SYSTEM
SPARTANBURG, SOUTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

SUBMITTED BY:
FINANCE DEPARTMENT

SPARTANBURG WATER SYSTEM
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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Spartanburg Water System Officials

List of Commissioners and Senior Management Staff

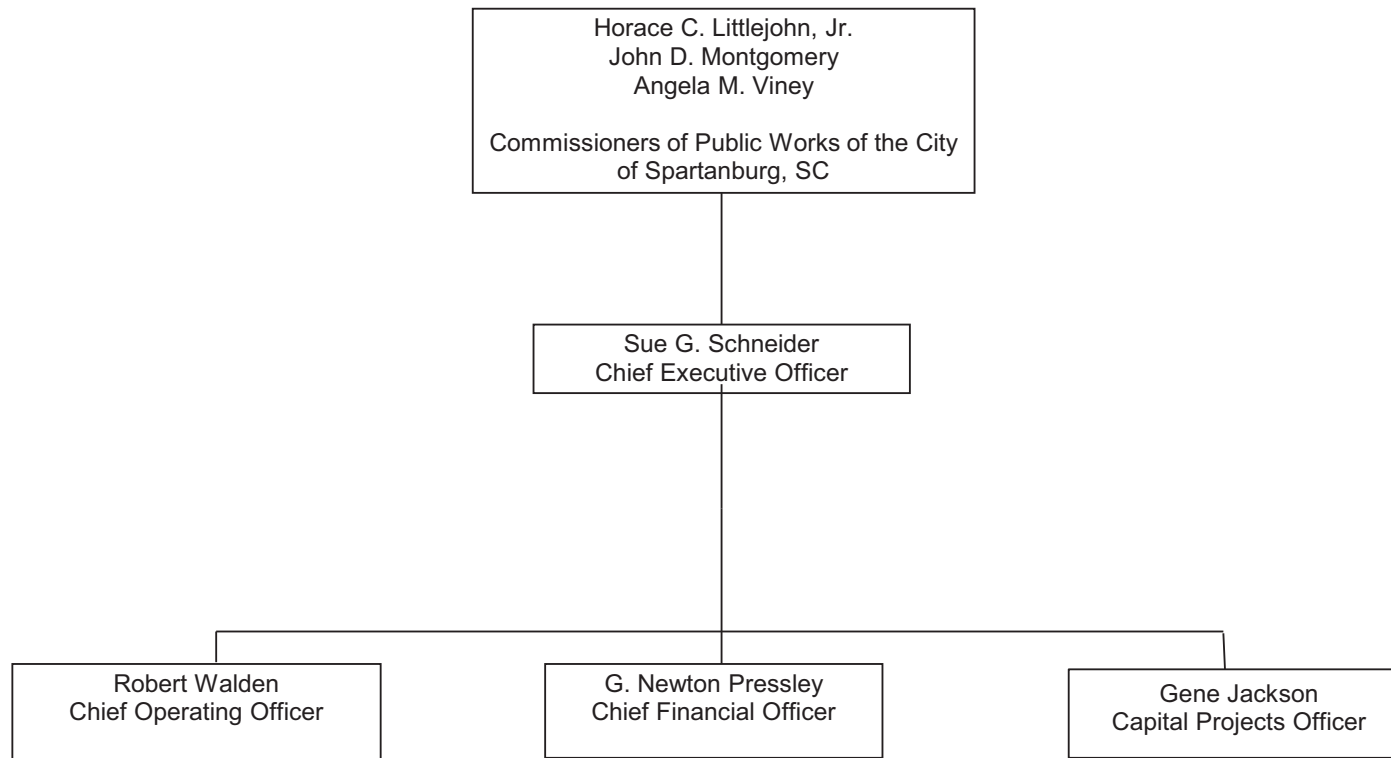
Commissioners

John D. Montgomery Chair
Horace C. Littlejohn, Jr. Commissioner
Angela M. Viney Commissioner

Senior Management Staff

Sue G. Schneider Chief Executive Officer
G. Newton Pressley..... Chief Financial Officer
Robert Walden Chief Operating Officer
Gene Jackson..... Chief Projects Officer

Spartanburg Water System Organization Chart



Horace C. Littlejohn, Jr.
John D. Montgomery
Angela M. Viney

Sue G. Schneider, Chief Executive Officer
G. Newton Pressley, Chief Financial Officer
Robert F. Walden, Chief Operating Officer
Charles E. Jackson, P.E., Capital Projects Officer



Barbara J. Barnes
Louie W. Blanton
Jeffrey A. Horton
Horace C. Littlejohn, Jr.
John D. Montgomery
Angela M. Viney
Junie White

Letter of Transmittal
December 2, 2019

To the Commissioners and Customers
of the Spartanburg Water System

We are pleased to submit to you the Comprehensive Annual Financial Report ("CAFR") for the Spartanburg Water System (the "System") for the fiscal year ended June 30, 2019. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System's management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

The System's management has established a system of internal accounting controls designed to provide reasonable, but not absolute, assurance for the safeguarding of assets and financial statement preparation in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The concept of reasonable assurance recognizes that the cost of internal controls should not exceed the benefits.

The System is required by state law to publish an annual financial report audited by a certified public accountant and this CAFR fulfills that requirement. McAbee, Schwartz, Halliday & Co., Certified Public Accountants, conducted the independent audit of the System's financial statements. The objective was to obtain reasonable assurance that the financial statements are free of material misstatement. The audit was conducted in accordance with U.S. generally accepted auditing standards. McAbee, Schwartz, Halliday & Co. issued an unmodified opinion that the System's financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. The independent auditor's report is presented as the first component of the financial section of this report.

A Management Discussion and Analysis ("MD&A") is provided in the financial section of this report. The MD&A serves as a narrative introduction, overview and analysis of the System's financial statements. This Letter of Transmittal is intended to compliment the MD&A and should be read in conjunction with it.

PROFILE OF THE SYSTEM

The System is a Commission of Public Works created in 1908 by the General Assembly of the State of South Carolina to provide public water utility services to Spartanburg, South Carolina and surrounding communities.

The System is located in Spartanburg County, which is located in the northwest Piedmont section of South Carolina on the I-85 corridor between Atlanta, Georgia and Charlotte, North Carolina. The System serves retail customers located inside and outside the city limits of the City and the Towns of Cowpens, Pacolet and Landrum. Additionally, the System provides water on a wholesale basis through master meters to two water districts, two water companies, and one town. These wholesale customers are located primarily inside Spartanburg County and, to a lesser extent, Cherokee County and Union County.

The System is governed by a three member Commission elected from the residents of the City of Spartanburg. The Commissioners serve staggered six-year terms, with elections held every two years.

The Spartanburg Water System has three water filtration plants. Raw water supply for the R.B. Simms Water Filtration Plant is obtained from Lake Bowen and Municipal Reservoir #1. Both lakes are located on the South Pacolet River system. The raw water flows by gravity to the Simms Plant, which is located near the confluence of the South and North Pacolet Rivers at a point approximately 12 miles northeast of the City of Spartanburg. Raw water for the Myles W. Whitlock, Jr. Water Treatment Facility is obtained from Lake Blalock. This lake is located on the Pacolet River system. The raw water is pumped to the Whitlock Plant, which is located off Highway 221 approximately 10 miles east northeast of the City of Spartanburg. The Landrum Water Filtration Plant uses surface water from Hogback Creek, located near the top of Hogback Mountain, as well as Vaughn's Creek, located near Lake Lanier. The source water is located in Spartanburg County within the Broad River Basin.

LOCAL ECONOMY

Spartanburg County possesses a diversified business and industry base. The following types of industry represent major employers in Spartanburg County: automotive, research and development on yarns/chemicals, flexible plastic packaging materials, radial truck tires, china plumbing fixtures, catalog printing and binding, non woven materials and consumer specialty bags. Spartanburg County has the highest per capita international investment in the nation. The County has an available, skilled labor force and has taken advantage of the State's excellent worker training programs. Other major employers in the area include public schools, state and local governments, and health care providers.

The city serves as the national headquarters for Denny's, QS/1, and Advance America. The Chapman Cultural Center serves Spartanburg's cultural community for visual and performing arts, science and history. The 86,000-square-foot center is in downtown Spartanburg, adjacent to Barnet Park. The USC Upstate George Dean Johnson, Jr. College of Business and Economics is located in the heart of downtown Spartanburg.

Spartanburg County's unemployment rate in June 2019 was 3.5%, as compared with the state rate of 3.6% and the national rate of 3.7%.

FINANCIAL MANAGEMENT

The System adopts an annual operating budget for management and financial planning purposes. The System's computerized financial planning and rate-setting model is updated annually to provide for a five-year financial plan. Capital improvement plans, and applicable debt service projections for future bond issues, are incorporated in the financial planning process. The five-year plan is reviewed with the Commission, which adopts the budget and rates for the upcoming year only. The overall objective of the financial planning process is to minimize the impact of customer rate increases, while maintaining required debt service coverage. Other considerations of the financial planning process include: volume trends by customer class; maintaining sufficient fund balances to meet the System's operations, maintenance, and capital improvement needs; growth trends for various expenditure categories; and the comparison of customer rates to other utilities in the region.

During the fiscal year, financial management tracking includes the following: monthly preparation and analytical review of departmental and company-wide financial reports; significant expenditure variances require follow-up with the responsible budget manager; the company-wide financial report is presented at the monthly Commission meeting; utility user charges are monitored monthly in relation to the approved budget and historical results; the tracking of utility user charges is performed for revenues and flows by customer class.

The Red Flags Rule is federal legislation that requires government agencies, including utilities, to develop written, board-approved programs designed to detect, prevent, and mitigate identity theft. A written Red Flags Identity Theft Prevention Program was approved by the Commissioners on April 28, 2009; the program details the procedures implemented to verify the identity of applicants opening new accounts and to protect sensitive customer information such as social security numbers, bank account information, and credit card numbers. The Red Flags Rule program is monitored on an ongoing basis to ensure compliance with procedures and to provide training. The annual Red Flags Program report was provided at the June 25, 2019 Commission meeting. Management concluded that the program is effective, the policies and procedures have been followed, and that the internal controls and electronic security measures are protecting sensitive customer data.

The System's cash management policy provides that available funds are invested overnight and longer-term in accordance with state law, which permits the following types of investments: obligations of the United States and its agencies, general obligations of the State of South Carolina and its subdivisions, savings and loan associations to the extent of federal insurance, certificates of deposit collaterally secured, repurchase agreements secured by the foregoing obligations, and the State Treasurer's Investment Pool. For more information regarding the June 30, 2019 investment distribution, see Note 2 to the Financial Statements.

The System is a member of the South Carolina Retirement System, one of four defined benefit retirement systems maintained by the Retirement Division of the State Budget and Control Board of South Carolina. For information regarding the System's retirement plan, see Note 8 to the Financial Statements.

For information regarding the System's risk management function, see Note 11 to the Financial Statements.

FINANCIAL CONDITION

The increase in net position for fiscal year 2019 was \$7,978,746, a 12.6% increase for the fiscal year. The customer base increased by 983 accounts, or 1.6%, for fiscal year 2019. The average annual growth rate over the past five years was 1.2%. The System's revenue bond covenants require debt service coverage of 110% for Revenue Bonds. The debt service coverage ratio was 182% for fiscal year 2019. A recent rate survey of comparable utilities in the region indicated that the System's customer rates compared favorably with the majority of the agencies in the survey.

Various funds are maintained to meet the operational, maintenance, and capital improvement needs of the system. The Depreciation Fund provides for the renovation and replacement of operational equipment and system facilities and has been adequately funded in recent years; this fund had a June 30, 2019 balance of \$9,894,943.

AWARDS

Spartanburg Water was the recipient of two national awards at the National Association of Clean Water Agencies (NACWA). Spartanburg Water was the sole recipient of *The Water Resources Utility of the Future Award*, given to member agencies that demonstrate bold, transformational leadership in managing resources, partnering effectively in local economic development, and engaging stakeholders – resulting in environmental, economic, and social benefits. Spartanburg Water was recognized for its innovative programs to engage its customers, including Choose Tap, Water Matter and events like Paddle Fest and Lake Sweep. *The Public Information & Education Awards* honor agencies for their inventive efforts to educate the public on the effects of wastewater treatment and pollution control on the environment.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Spartanburg Water System for its comprehensive annual financial report for the fiscal year ended June 30, 2018. This was the sixteenth year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.


ACKNOWLEDGEMENTS

We appreciate the support of the Commissioners and the dedication of all our System employees.

Respectfully Submitted,



Sue G. Schneider
Chief Executive Officer



G. Newton Pressley
Chief Financial Officer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Spartanburg Water System
South Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO

II. FINANCIAL SECTION

To the Commissioners and Officers of
Spartanburg Water System
200 Commerce Street
Spartanburg, South Carolina

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Spartanburg Water System, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Spartanburg Water System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Spartanburg Water System as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 16 to the financial statements, in the year ended June 30, 2018, the Spartanburg Water System adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of the System's proportionate share of the collective net pension liability and employer contributions and schedules of changes in the net OPEB liability and related ratios and employer contributions, as listed in the table of contents, 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 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 Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Spartanburg Water System's basic financial statements. The schedules of operating expenses and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules of operating expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

McAbee, Schwartz, Haliday & Co.

Spartanburg, South Carolina
December 2, 2019

Spartanburg Water System Management's Discussion and Analysis

This Management Discussion and Analysis ("MD&A") serves as an introduction to the basic financial statements and provides a narrative overview and analysis of the System's financial condition and performance for the fiscal year ended June 30, 2019. This information should be read in conjunction with the transmittal letter and the System's financial statements, as listed in the table of contents included in this report.

Financial Highlights

As of June 30, 2019, total assets of \$269,533,668 and deferred outflows of resources of \$9,745,929 exceeded total liabilities of \$207,716,869 and deferred inflows of resources of \$287,706 by \$71,275,022. For the fiscal year 2018, total assets of \$268,244,084 and deferred outflows of resources of \$10,783,609 exceeded total liabilities of \$215,605,307 and deferred inflows of resources of \$126,110 by \$63,296,276.

For the fiscal year ended June 30, 2019, the increase in net position, before capital contributions, was \$6,788,203. The System's increase in net position, after capital contributions of \$1,190,543, was \$7,978,746. For the fiscal year 2018, the increase in net position, before capital contributions, was \$5,302,621. The System's increase in net position, after capital contributions of \$676,992, was \$5,979,613.

For fiscal year 2019, operating revenues increased by \$1,416,679 to \$42,272,030 or 3.5%, nonoperating revenues increased by \$1,278,591 to \$6,259,652 or 25.7%, and total expenses increased by \$1,209,688 to \$41,743,479 or 3.0%. For fiscal year 2018, operating revenues decreased by \$1,366,118 to \$40,855,351 or 3.2%. Nonoperating revenues increased by \$747,269 to \$4,981,061 or 17.7%. Total expenses increased by \$347,042 to \$40,533,791 or 0.9%.

The System's revenue bond covenants require debt service coverage of 110% for all revenue bonds. The fiscal year 2019 total system revenue bond debt service coverage ratio was 182%. The fiscal year 2018 total system revenue bond debt service coverage ratio was 186%.

Overview of the Financial Statements

The financial statements of the System report information about the System using accounting methods similar to those used by private-sector companies. These statements provide both long-term and short-term information about the System's overall financial status.

The Statements of Net Position present the System's financial position and reports information on all of the assets (resources owned by the System), deferred outflows of resources, liabilities (obligations of the System), and deferred inflows of resources. The difference between assets plus deferred outflows and liabilities plus deferred inflows is reported as net position.

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. Revenue is reported when earned, and expenses are reported when incurred. This statement measures the success of the System's operations over the past year and serves as the basis for determining the System's actual Debt Service Coverage Ratio, as required by the System's revenue bond covenant.

The Statements of Cash Flows report cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. The statements provide information as to where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the System

The Condensed Statements of Net Position are provided below as a summary of Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position for the years ended June 30, 2019, 2018 and 2017. The largest portion of the System's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding.

Condensed Statements of Net Position			
	2019	2018 Restated	2017
Assets			
Current and Noncurrent Assets	\$ 73,026,989	\$ 70,577,100	\$ 58,745,977
Capital Assets	196,506,679	197,666,984	196,477,686
Total Assets	\$ 269,533,668	\$ 268,244,084	\$ 255,223,663
Deferred Outflows of Resources			
Deferred loss on refundings	\$ 5,290,010	\$ 5,733,143	\$ 4,050,096
Deferred amounts related to Pension	3,143,789	3,797,289	3,527,111
Deferred amounts related to OPEB	1,312,130	1,253,177	-
Total Deferred Outflows of Resources	\$ 9,745,929	\$ 10,783,609	\$ 7,577,207
Liabilities			
Current Liabilities	\$ 13,312,095	\$ 14,173,232	\$ 13,753,461
Noncurrent Liabilities	194,404,774	201,432,075	181,700,803
Total Liabilities	\$ 207,716,869	\$ 215,605,307	\$ 195,454,264
Deferred Inflows of Resources			
Deferred amounts related to Pension	\$ 284,356	\$ 126,110	\$ -
Deferred amounts related to OPEB	3,350	-	-
	\$ 287,706	\$ 126,110	\$ -
Net Position			
Net Investment in Capital Assets	\$ 75,359,394	\$ 71,738,818	\$ 76,099,078
Unrestricted	(4,084,372)	(8,442,542)	(8,752,472)
Total Net Position	\$ 71,275,022	\$ 63,296,276	\$ 67,346,606

In fiscal year 2019, current and noncurrent assets increased by \$2,449,889 to \$73,026,989, due to an increase in unrestricted investments, other receivables, and inventories offset by a decrease in restricted and unrestricted cash, accounts receivable-net of allowance for doubtful accounts, and restricted investments. In fiscal year 2018, current and noncurrent assets increased by \$11,831,123 to \$70,577,100, due to an increase in restricted and unrestricted investments offset by a decrease in restricted and unrestricted cash, accounts receivable – net of allowance for doubtful accounts, and inventories.

Capital assets decreased by \$1,160,305 to \$196,506,679 in fiscal year 2019 and increased by \$1,189,298 to \$197,666,984 in fiscal year 2018. See Capital Assets section on page 9 for further explanation.

Current and noncurrent assets included cash and investments of \$65,296,487. The distribution by fund of the year-end balances for fiscal years 2019 and 2018 is provided on the following page:

Fund	2019	2018
Operating	\$ 7,343,158	\$ 5,680,263
Debt Service Trust Account	8,041,492	8,310,984
Rate Stabilization	3,226,134	3,639,849
Depreciation	9,894,943	8,171,629
Capital Project Funds		
Capital	3,908,286	1,931,998
Water Line Repair/Replacement	3,373,417	3,621,835
Bond Funds	29,509,057	31,150,711
Total Cash and Investments	\$ 65,296,487	\$ 62,507,269

Current and noncurrent assets also included receivables of \$6,117,930, with the substantial portion associated with customer accounts receivable, net of allowance for doubtful accounts, of \$5,158,710 and the intercompany receivable from Spartanburg Sanitary Sewer District of \$943,839. This is compared to the fiscal year 2018 receivables of \$6,494,598 with the substantial portion associated with customer accounts receivable, net of allowance for doubtful accounts, of \$5,583,199, and intercompany receivable from Spartanburg Sanitary Sewer District of \$895,852.

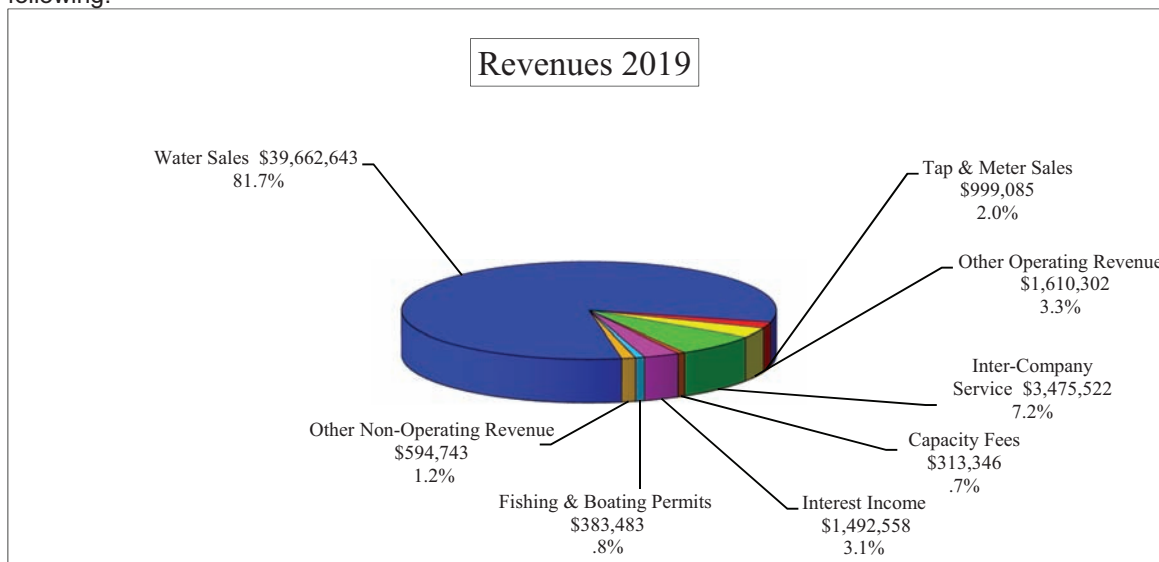
Current liabilities as of June 30, 2019 included accounts payable from operating funds of \$626,753, accounts payable from capital funds of \$577,755, and retainage payable of \$29,670. Current liabilities as of June 30, 2018 included accounts payable from operating funds of \$667,022, accounts payable from capital funds of \$858,564, and retainage payable of \$429,325. The current portion of long-term debt totaled \$6,250,000 and \$6,135,000 at June 30, 2019 and 2018, respectively.

The Condensed Statements of Revenues, Expenses and Changes in Net Position are provided below as a summary for the fiscal years ended June 30, 2019, 2018 and 2017.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2019	2018 Restated	2017
Revenues			
Operating Revenues			
Water Sales	\$ 39,662,643	\$ 38,622,915	\$ 40,183,098
Tap & Meter Sales	999,085	715,805	603,515
Other Operating Revenues	1,610,302	1,516,631	1,434,856
	<u>42,272,030</u>	<u>40,855,351</u>	<u>42,221,469</u>
Nonoperating Revenues			
Intercompany Services	3,475,522	3,189,295	3,011,119
Other Nonoperating Revenues	2,784,130	1,791,766	1,222,673
	<u>6,259,652</u>	<u>4,981,061</u>	<u>4,233,792</u>
Total Revenues	<u>48,531,682</u>	<u>45,836,412</u>	<u>46,455,261</u>
Expenses			
Operating Expenses, Before Depreciation	26,494,111	25,633,608	23,516,057
Depreciation Expense	8,333,554	7,915,554	7,872,092
Nonoperating Expenses	6,915,814	6,984,629	8,798,600
Total Expenses	<u>41,743,479</u>	<u>40,533,791</u>	<u>40,186,749</u>
Excess, Before Capital Contributions	6,788,203	5,302,621	6,268,512
Capital Contributions	<u>1,190,543</u>	<u>676,992</u>	<u>923,529</u>
Change in Net Position	7,978,746	5,979,613	7,192,041
Net Position, Beginning of Year-Restated (2018)	<u>63,296,276</u>	<u>57,316,663</u>	<u>60,154,565</u>
Net Position, End of Year	<u>\$ 71,275,022</u>	<u>\$ 63,296,276</u>	<u>\$ 67,346,606</u>

Revenues (excluding capital contributions) for the fiscal year ended June 30, 2019 were comprised of the following:



Water sales were comprised of metered volume charges of \$31,042,512, base charges of \$8,460,756, and other miscellaneous billings of \$159,375. Water sales increased by \$1,039,728 or 2.7%. Volume charges increased by 2.9%, resulting from a 3.2% volume rate increase that was effective August 1, 2018.

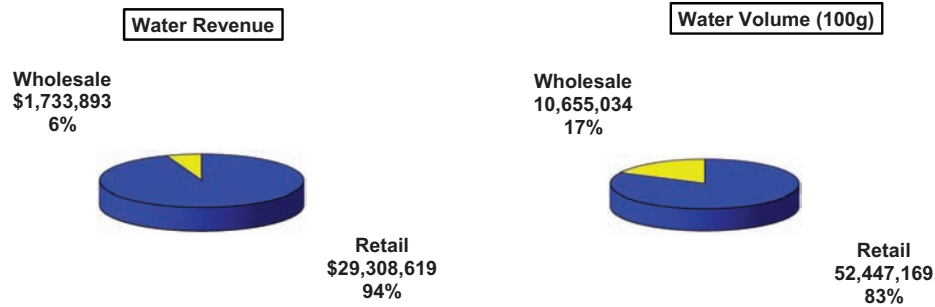
- The billed volume for fiscal year 2019 was 63,102,203 (100 gallons), a decrease of 2,032,945 or 3.1%, from fiscal year 2018, as a result of decreased irrigation use due to increased rainfall. The billed volume for fiscal year 2018 was 65,135,148 (100 gallons), a decrease of 1,578,715 or 2.4%, over fiscal year 2017 primarily due to a decrease in irrigation use. The change in billed volume for fiscal years 2019 and 2018 was distributed among the following customer classes:

	FY18 to FY19	% of	FY17 to FY18	% of
	<u>Incr./ (Decr.) (100g)</u>	<u>Incr./ (Decr.)</u>	<u>Incr./ (Decr.) (100g)</u>	<u>Incr./ (Decr.)</u>
Retail				
Residential	(623,466)	-2.0%	(447,645)	-1.4%
Commercial	(152,829)	-1.1%	(493,495)	-3.3%
Industrial	(364,929)	-4.4%	(201,207)	-2.4%
Total Retail	(1,141,224)	-7.5%	(1,142,347)	-7.1%
Wholesale	(891,721)	-7.7%	(436,368)	-3.6%
System Total	<u>(2,032,945)</u>	<u>-3.1%</u>	<u>(1,578,715)</u>	<u>-2.4%</u>

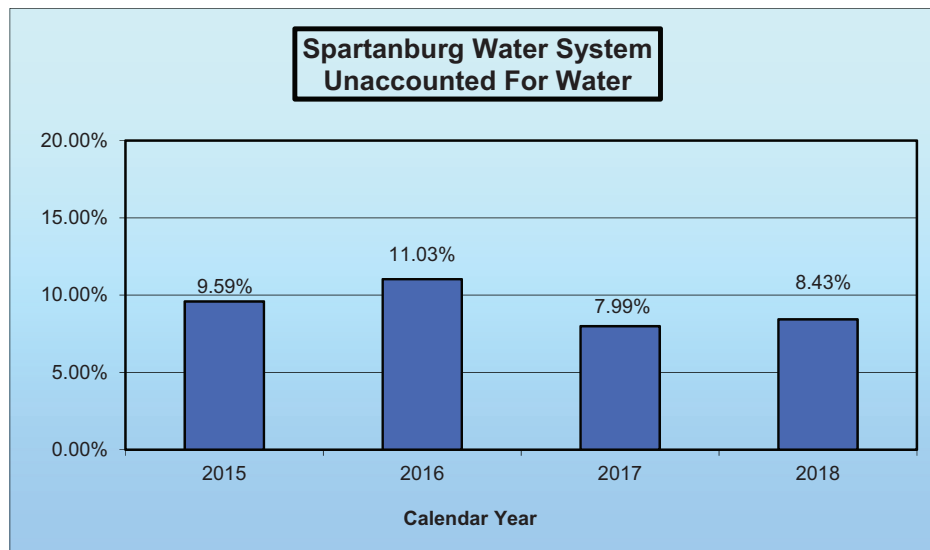
Base charge revenue for fiscal year 2019 increased by \$117,352 over fiscal year 2018, resulting from the growth in the residential customer base. The increase from fiscal year 2018 over fiscal year 2017 was \$259,423.

Fiscal year 2019 volume charges are further analyzed by the following charts:

Fiscal Year 2019 Metered Volume Charges – Revenue vs. Volume



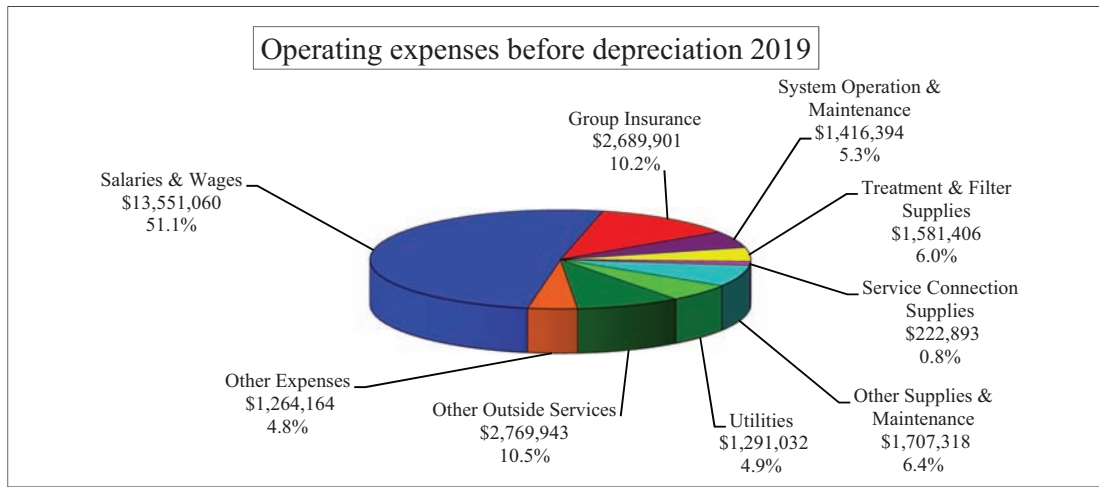
The System maintains a comprehensive tracking program to monitor Unaccounted for Water, as reflected graphically, by calendar year.



In fiscal year 2019, other nonoperating revenue increased by \$992,364, due to an increase in capacity fees of \$18,571, interest income of \$961,795, miscellaneous income of \$49,743, and administrative income of \$35,928, offset by a decrease in lake revenue of \$26,895 and gain on sale of capital assets of \$46,778. In fiscal year 2018, other nonoperating revenue increased by \$569,093, due to an increase in capacity fees of \$21,010, lake revenue of \$47,244, interest income of \$448,438, miscellaneous income of \$36,980, and administrative income of \$44,629, offset by a decrease in gain on sale of capital assets of \$29,208.

The intercompany reimbursement from Spartanburg Sanitary Sewer District was comprised of the following types of intercompany services: billing and collection, administrative and financial, engineering, fleet maintenance, field maintenance, and facility allocations for maintenance and the lab. The increase in 2019 was primarily due to the full year of monthly billing and increased staff for Customer Service and Field Services.

Operating expenses before depreciation were comprised of the following:



The following table provides a comparison of 2019, 2018 and 2017 operating expenses before depreciation for major expense categories.

Comparison of operating expenses before depreciation

Expense Category	Increase / (Decrease)			
	2019	2018	Amount	% of Change
Salaries and wages	\$13,551,060	\$13,325,304	\$225,756	1.7%
Group insurance	2,689,901	2,942,182	(252,281)	-8.6%
System operation and maint.	1,416,394	1,245,874	170,520	13.7%
Treatment and filter supplies	1,581,406	1,908,252	(326,846)	-17.1%
Service connection supplies	222,893	271,847	(48,954)	-18.0%
Other supplies and maintenance	1,707,318	1,512,231	195,087	12.9%
Utilities	1,291,032	1,238,852	52,180	4.2%
Other outside services	2,769,943	2,098,291	671,652	32.0%
Other expenses	1,264,164	1,090,775	173,389	15.9%
Total operating expenses before depreciation	\$26,494,111	\$25,633,608	\$860,503	3.4%

	Increase / (Decrease)			
	2018	2017	Amount	% of Change
Salaries and wages	\$13,325,304	\$12,518,298	\$807,006	6.4%
Group insurance	2,942,182	2,553,747	388,435	15.2%
System operation and maint.	1,245,874	1,081,272	164,602	15.2%
Treatment and filter supplies	1,908,252	1,068,491	839,761	78.6%
Service connection supplies	271,847	184,154	87,693	47.6%
Other supplies and maintenance	1,512,231	1,453,669	58,562	4.0%
Utilities	1,238,852	1,187,067	51,785	4.4%
Other outside services	2,098,291	2,198,756	(100,465)	-4.6%
Other expenses	1,090,775	1,270,603	(179,828)	-14.2%
Total operating expenses before depreciation	\$25,633,608	\$23,516,057	\$2,117,551	9.0%

Operating expenses before depreciation increased by \$860,503 or 3.4% from fiscal year 2019 to 2018. The increase was \$2,117,551 or 9.0%, from fiscal year 2018 to fiscal year 2017, primarily due to an increase in treatment and filter supplies, service connection supplies, group insurance and system operations and maintenance. Highlights of the 2019 – 2018 expense comparison are provided below:

- The Group Insurance decrease resulted from an favorable claim experience for fiscal year 2019.
- The System Operations and Maintenance line item includes supply cost and contracted maintenance applicable to the water filtration plants and distribution system. The increase is primarily the result of costs associated with line breaks and repairs during fiscal year 2019.
- The Treatment and Filter Supplies decrease was due to reduced demand for water quality requirements and a substantial decrease in water flows.
- The variance in Other Supplies and Maintenance is primarily the result of an increase in Building & Grounds Maintenance offset by a decrease in Printing and Office Supplies.
- The variance in Other Outside Services was associated with the increase in Legal and Other Outside Services, due to payment processing costs for monthly billing and other outside lab monitoring costs.
- The increase in Other Expenses is associated with the increase in Public Relations and Information and Worker's Comp Insurance.
- The other line items reflected no significant change in the comparison of fiscal year 2019 to fiscal year 2018.

Nonoperating expenses decreased by \$68,815 or 1.0%, due to the decrease in bond issuance costs of \$467,731 offset by the increase in payments to other governmental units of \$21,000 and interest and paying agent fees of \$377,916.

Capital Contributions:

The System receives contributions from developers in the form of cash payments and donated lines; and occasionally, contributions from federal/state agencies in the form of grants for capital projects. Accounting principles generally accepted by the United States of America require that these contributions be reflected as a revenue source on the Statements of Revenues, Expenses and Changes in Net Position. Capital contributions for fiscal year 2019 totaled \$1,190,543 and were comprised of donated lines of \$805,620 and cash payments of \$384,923. Capital contributions for fiscal year 2018 totaled \$676,992 and were comprised of donated lines of \$412,150 and cash payments of \$264,842. The capital contributions received in cash were comprised of participation fees and miscellaneous project contributions.

Capital Assets

At June 30, 2019, the System had \$196,506,679 invested in capital assets, as provided in the following schedule:

	Capital Assets at Year-End		
	2019	2018	2017
Transmission, Distribution and Treatment Facilities	\$ 177,908,923	\$ 180,354,508	\$ 181,686,308
Other Facilities & Property	5,685,113	5,157,501	5,106,039
Vehicles, Office & Maintenance Equipment	5,237,025	6,581,141	6,673,708
Construction in Progress	7,675,618	5,573,834	3,011,631
Capital Assets - Net of Accumulated Depreciation	<u>\$ 196,506,679</u>	<u>\$ 197,666,984</u>	<u>\$ 196,477,686</u>

Significant changes for Capital Assets during fiscal year 2019 included a net decrease in Transmission, Distribution and Treatment Facilities. The additions of \$805,620 in donated lines, various waterline extensions and rehab of \$764,096 and R.B. Simms Continuous Sludge Removal of \$433,564; capitalized labor, storage tank rehab and various distribution system improvements were offset by an increase in current year depreciation expense.

Significant changes during fiscal year 2018 included a net decrease in Transmission, Distribution, and Treatment Facilities. The additions of \$412,150 in donated lines, various waterline extensions and rehab of \$1,341,338, and R.B. Simms Continuous Sludge Removal of \$2,911,638, capitalized labor, storage tank rehab and various distribution system improvements were offset by an increase in current year depreciation expense.

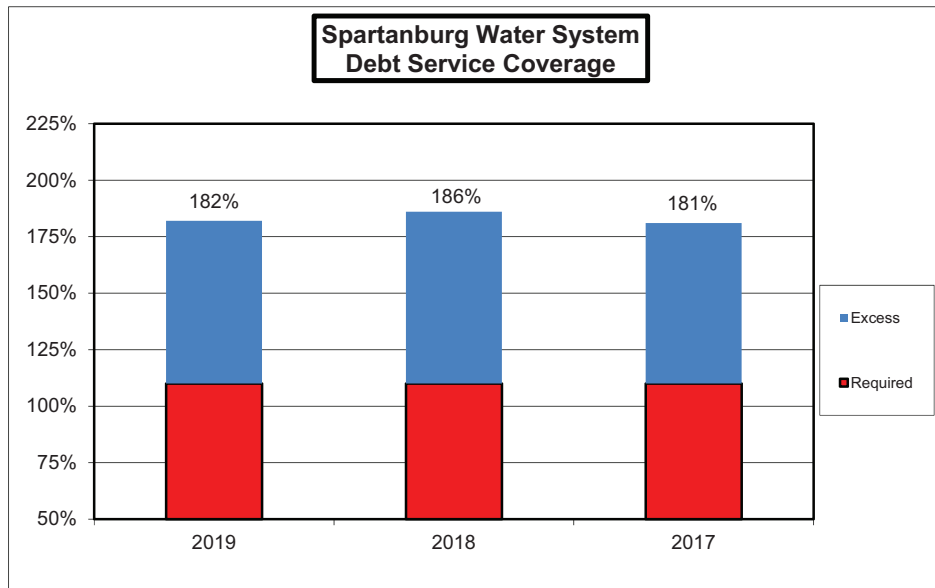
For more information on changes in capital assets, see Note 4 to the financial statements.

Debt Administration

Debt Service Coverage

In the System's revenue bond resolution, the System covenants and agrees 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, together with other income, are reasonably expected to yield annual net earnings in the current fiscal year equal to at least 110% of the annual principal and interest requirements for all revenue bonds outstanding in such fiscal year. The computation of net earnings is presented in the Historical Statements of Revenues, Expenses, Debt Service and Debt Service Coverage, which is provided in the statistical section of this report. The System's historical debt service coverage is summarized by the following table:

Debt Service Coverage	2019	2018 Restated	2017
Net Earnings per Revenue Bond Covenant	\$ 21,806,853	\$ 20,651,829	\$ 23,533,592
Revenue Bond Debt Service	11,990,692	11,118,019	12,997,256
Revenue Bond Debt Service Coverage	1.82	1.86	1.81



Outstanding Debt at Year-End

The System had \$157,590,000 in long-term revenue bond debt outstanding at year-end, as scheduled below:

	Average Yield	Outstanding Debt		
		2019	2018	2017
Long-term Debt				
2007B Water System Revenue Bond	4.39%	\$ -	\$ -	\$ 4,180,000
2009 Water System Revenue Bond	4.97%	-	-	33,935,000
2012 Water System Revenue Bond	2.23%	4,695,000	5,205,000	5,700,000
2013 Water System Revenue Bond	4.62%	27,255,000	27,255,000	27,255,000
2015A Water System Refunding Revenue Bond	3.40%	26,085,000	26,085,000	26,085,000
2015B Water System Refunding Revenue Bond	3.40%	4,470,000	5,090,000	5,700,000
2017A Water System Refunding Revenue Bond	1.75%	49,155,000	54,160,000	59,080,000
2017B Water System Refunding Revenue Bond	2.90%	45,930,000	45,930,000	-
Total Debt Outstanding		\$ 157,590,000	\$ 163,725,000	\$ 161,935,000

For more information on changes in short-term and long-term debt, see Note 5 to the financial statements.

Bond Ratings

Based on the System's continued trend of strong financial performance, management proactively reached out to Moody's and asked for an updated rating. Moody upgraded the System from Aa3 to Aa2 in February 2019.

Agency	Revenue
Standard & Poor's	AA
Moody's	Aa2

Financial Planning

Although the System does not have a legally adopted budget, an annual operating budget is adopted for management and financial planning purposes. The System conducts an update of the financial planning process as follows: departmental staffing plans, detailed budget requests, and depreciation schedules are prepared; System-wide budget information, including revenues, flow estimates, debt service, cost allocations, etc., are completed; capital improvement plans and applicable debt service projections are utilized for long-term financial planning; the computerized financial planning and rate-setting model is updated to provide for a five-year financial projection; the annual operating budget is presented to the Commission; and a public hearing is advertised and held prior to final approval of the budget and water rates.

The System Commission approved a balanced Annual Operating Budget for fiscal year 2020 in the total amount of \$47,362,508, which represents a 2.1% increase over the previous year's budgeted revenues and expenditures. The approved budget included funding of reserves for the Depreciation Fund - \$1,900,000, Capital Fund - \$1,000,000, Meter/Endpoint Fund - \$665,000 and the Distribution System Rehab Fund - \$1,000,000.

Other Significant Matters

- **Replacement of Aging Infrastructure**
The System has enhanced efforts to address aging water mains. Various water main replacement projects were completed by the Maintenance Department and outside contractors during fiscal year 2019, with ongoing projects captured in the Construction in Progress.
- **Monthly Billing**
Spartanburg Water System and Sanitary Sewer District introduced monthly billing in February 2018. Most customers were previously billed on a bimonthly basis. Monthly billing provides various benefits to customers: more efficient household budgeting, timely water usage information, and earlier detection of water leaks. Monthly billing represents the more typical billing method utilized in the water/sewer industry.

Requests for Information

This financial report is intended to provide a general overview of the System's finances. For questions concerning this report or other requests for financial information, please contact:

Chief Financial Officer
Spartanburg Water System
P.O. Box 251
Spartanburg, SC 29304
(864) 583-7361

SPARTANBURG WATER SYSTEM
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2019	Restated 2018
Assets		
Current assets		
Cash	\$ 1,746,979	\$ 3,027,686
Investments	24,472,868	18,572,157
Accounts receivable - net of allowance for doubtful accounts of \$200,099 and \$176,994 as of 2019 and 2018, respectively	5,158,710	5,583,199
Loans receivable	15,381	15,547
Other receivables	943,839	895,852
Inventories	1,612,572	1,575,233
Total current assets	33,950,349	29,669,674
Noncurrent assets		
Restricted cash	1,727,742	1,921,170
Restricted investments	37,348,898	38,986,256
Capital assets - nondepreciable	9,630,607	6,694,568
Capital assets - net of accumulated depreciation	186,876,072	190,972,416
Total noncurrent assets	235,583,319	238,574,410
Total Assets	269,533,668	268,244,084
Deferred Outflows of Resources		
Deferred loss on refundings	5,290,010	5,733,143
Deferred amounts related to pensions	3,143,789	3,797,289
Deferred amounts related to OPEB	1,312,130	1,253,177
Total Deferred Outflows of Resources	9,745,929	10,783,609

SPARTANBURG WATER SYSTEM
STATEMENTS OF NET POSITION - CONTINUED
JUNE 30, 2019 AND 2018

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2019	Restated 2018
Liabilities		
Current liabilities		
Accounts payable	1,234,178	1,954,911
Payable from restricted assets - customer deposits	1,526,091	1,720,545
Accrued salaries and wages	1,212,581	1,234,375
Accrued employee benefits	407,769	362,249
Accrued interest expense	466,084	474,705
Other payables	406,748	492,270
Sewer and water collections payable to others	1,808,644	1,799,177
Long-term debt - current portion	6,250,000	6,135,000
Total current liabilities	13,312,095	14,173,232
Noncurrent liabilities		
Net pension liability	23,065,802	23,366,599
Net other post-employment benefit liability	11,183,581	11,264,695
Long-term debt - net of current portion	160,155,391	166,800,781
Total noncurrent liabilities	194,404,774	201,432,075
Total Liabilities	207,716,869	215,605,307
Deferred Inflows of Resources		
Deferred amounts related to pensions	284,356	126,110
Deferred amounts related to OPEB	3,350	-
	287,706	126,110
Net Position		
Net investment in capital assets	75,359,394	71,738,818
Unrestricted	(4,084,372)	(8,442,542)
Total Net Position	\$ 71,275,022	\$ 63,296,276

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

SPARTANBURG WATER SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	Restated 2018
Operating Revenues		
Water sales	\$ 39,662,643	\$ 38,622,915
Private fire service rates	367,241	356,078
Cut-off service charges	419,314	360,354
Tap and meter sales	999,085	715,805
New account fees	191,640	191,040
Ice machine sales	410,229	405,520
Miscellaneous	221,878	203,639
	<u>42,272,030</u>	<u>40,855,351</u>
Operating Expenses		
Operating expenses before depreciation	26,494,111	25,633,608
Depreciation	8,333,554	7,915,554
	<u>34,827,665</u>	<u>33,549,162</u>
Operating Income	<u>7,444,365</u>	<u>7,306,189</u>
Nonoperating Revenues (Expenses)		
Capacity fees	313,346	294,775
Fishing and boating permits	383,483	410,378
Interest income	1,492,558	530,763
Miscellaneous	211,547	161,804
Intercompany services	3,475,522	3,189,295
Administrative income	321,733	285,805
Payments to other governmental units	(1,021,000)	(1,000,000)
Gain on sale of capital assets	61,463	108,241
Bond issuance costs	-	(467,731)
Interest and paying agent fees	(5,894,814)	(5,516,898)
	<u>(656,162)</u>	<u>(2,003,568)</u>
Increase in Net Position		
Before Capital Contributions	6,788,203	5,302,621
Capital Contributions	<u>1,190,543</u>	<u>676,992</u>
Increase in Net Position	7,978,746	5,979,613
Net Position - Beginning of Year - Restated	<u>63,296,276</u>	<u>57,316,663</u>
Net Position - End of Year	<u><u>\$ 71,275,022</u></u>	<u><u>\$ 63,296,276</u></u>

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

SPARTANBURG WATER SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	Restated 2018
Cash Flows Provided (Used) by Operating Activities		
Cash received from customers	\$ 43,278,075	\$ 43,166,754
Cash paid to suppliers for goods and services	(10,916,463)	(8,701,513)
Cash paid to or for the benefit of employees	(15,929,506)	(15,158,763)
	<u>16,432,106</u>	<u>19,306,478</u>
Cash Flows Provided (Used) by Noncapital Financing Activities		
Intercompany services	3,475,522	3,189,295
Payments to other governmental units	(1,021,000)	(1,000,000)
	<u>2,454,522</u>	<u>2,189,295</u>
Cash Flows Provided (Used) by Capital and Related Financing Activities		
Capital contributions	384,923	264,842
Capacity fees	313,346	294,775
Acquisition and construction of capital assets	(6,380,329)	(8,693,378)
Proceeds from sale of capital assets	74,163	108,916
Proceeds from issuance of revenue bonds	-	15,590,934
Payments to current and advanced refundings escrow	-	(4,269,003)
Bond issuance costs	-	(125,960)
Repayments of bonds payable - revenue bonds	(6,135,000)	(6,025,000)
Interest and paying agent fees	(5,847,071)	(5,451,479)
	<u>(17,589,968)</u>	<u>(8,305,353)</u>
Cash Flows Provided (Used) by Investing Activities		
Interest income	<u>1,492,558</u>	<u>530,763</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,789,218	13,721,183
Cash and Cash Equivalents - Beginning of Year	<u>62,507,269</u>	<u>48,786,086</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 65,296,487</u></u>	<u><u>\$ 62,507,269</u></u>

SPARTANBURG WATER SYSTEM
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	Restated 2018
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating income	\$ 7,444,365	\$ 7,306,189
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation	8,333,554	7,915,554
Pension expense	2,155,703	2,423,966
OPEB expense	877,783	1,006,475
Nonoperating income	916,763	857,987
(Increase) decrease in assets:		
Accounts receivable	424,489	1,390,488
Loans receivable	166	7,364
Other receivables	(47,987)	98,975
Inventories	(37,339)	393,233
Deferred outflows related to pensions	(1,644,754)	(1,344,340)
Deferred outflows related to OPEB	(1,014,500)	(1,059,184)
Increase (decrease) in liabilities:		
Accounts payable	(720,733)	191,045
Customer deposits	(194,454)	41,459
Accrued salaries and wages	(21,794)	131,377
Accrued employee benefits	45,520	81,814
Accrued interest expense	(8,621)	14,428
Other payables	(85,522)	(65,482)
Sewer and water collections payable to others	9,467	(84,870)
Net Cash Provided (Used) by Operating Activities	<u>\$ 16,432,106</u>	<u>\$ 19,306,478</u>
Noncash Investing, Capital and Financing Activities		
Contribution of capital assets	\$ 805,620	\$ 412,150
Amortization included in interest expense	\$ 47,743	\$ 65,419
Current refunding		
Proceeds from revenue bond issue	\$ -	\$ 31,510,000
Defeased revenue bonds	\$ -	\$ (38,115,000)
Deferred loss on refunding	\$ -	\$ (2,110,109)
Bond premium	\$ -	\$ 4,787,877
Bond issuance costs	\$ -	\$ (341,771)

SPARTANBURG WATER SYSTEM
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	Restated 2018
Reconciliation of Cash and Investments as Shown on the Statements of Net Position and Cash Flow Statements		
Statement of net position classifications		
Current assets		
Cash	\$ 1,746,979	\$ 3,027,686
Investments	24,472,868	18,572,157
	<u>26,219,847</u>	<u>21,599,843</u>
Noncurrent assets		
Restricted cash	1,727,742	1,921,170
Restricted investments	37,348,898	38,986,256
	<u>39,076,640</u>	<u>40,907,426</u>
	<u>\$ 65,296,487</u>	<u>\$ 62,507,269</u>
Cash flow classifications		
Petty cash	\$ 5,717	\$ 4,217
Cash on hand	546,117	322,557
Cash deposits	2,922,887	4,622,082
Investments - cash equivalents	61,821,766	57,558,413
	<u>65,296,487</u>	<u>62,507,269</u>
Total cash and cash equivalents	<u>\$ 65,296,487</u>	<u>\$ 62,507,269</u>

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

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Spartanburg Water System (the System) is presented to assist in understanding the financial statements. The financial statements and notes are representations of the System's management, which are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (US GAAP) and have been consistently applied in the preparation of the financial statements.

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

Reporting Entity

The System provides public water utility services to the residents and businesses of Spartanburg, South Carolina and surrounding communities. The System is a special purpose district created in the year 1908 by the General Assembly of the State of South Carolina. The System is a primary government with no component units. The System is governed by three elected commissioners of the Commission of Public Works of the City of Spartanburg.

Basis of Accounting

Under US GAAP, the System is considered to be a self-supporting enterprise, and these financial statements are presented accordingly. Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The basis of accounting employed is the accrual method whereby revenues are recognized when they are earned and expenses are recognized when they are incurred. Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting financial reporting principles.

Use of Restricted Resources

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

Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the System. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions and ancillary activities.

Cash and Cash Equivalents

For purposes of reporting cash flows, all investments with a maturity of three months or less at the time of purchase are considered to be cash equivalents.

Investments

Investments are stated at fair value.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts Receivable

Accounts receivable include fees for charges earned but not yet collected. Unbilled (i.e. cycle billings) receivables at year end are estimated to record revenues earned through year end. Receivables are reported net of applicable allowances for uncollectible accounts, which management determines based on historical collection trends and other factors.

Inventories

Inventories are valued at cost using the first-in, first-out method. Inventories consist of expendable supplies held for consumption.

Capital Assets

Capital assets are stated at cost. Donated capital assets are recorded at estimated acquisition value on the date donated. Assets are recorded as capital assets when valued at \$1,000 or more.

Prior to fiscal year 2019, major outlays for capital assets and improvements were capitalized as projects were constructed. These costs primarily included construction costs, engineering fees, legal fees and settlements related to acquisition. Effective for fiscal year 2019, the District discontinued capitalized interest on a prospective basis per GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of the Construction Period*.

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

	<u>Years</u>
Motor vehicles	5 - 10
Service and maintenance equipment	10
Office furniture and fixtures	3 - 10
Buildings and improvements	20 - 33
System infrastructure	10 - 40

Compensated Absences

The System provides eligible employees annual leave for each full calendar month of service. When an employee separates from employment, he is compensated for any unused annual leave.

Employees also accumulate sick leave based upon months of service. Sick leave does not vest and is lost upon termination of employment and thus is not accrued. A portion of accumulated sick leave, not to exceed forty-five days, may be redeemed for cash upon retirement. This redemption liability is not reasonably estimable in aggregate, nor accrued for financial statement purposes.

Long-Term Liabilities

Bond premiums and discounts are deferred and equally amortized over the life of the bonds.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred Outflows and Inflows of Resources

In the Statements of Net Position, in addition to assets and liabilities, separate sections for deferred outflows and deferred inflows of resources are reported. Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an expense until then. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as revenue until that time. The System's deferred outflows of resources are deferred amounts arising from debt refunding and amounts related to the System's defined benefit pension and OPEB plans. The System's deferred inflows of resources are amounts related to the System's defined benefit pension and OPEB plans.

Capital Contributions

The System frequently has contributions from developers and contractors. In addition, the System receives grant monies for construction of improvements or extensions to its system at various times. The contributions are recognized in the Statements of Revenues, Expenses and Changes in Net Position when earned.

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

Custodial credit risk - deposits - the risk that in the event of a bank failure, the deposits may not be returned to the System. The System's policy is to secure funds in accordance with Section 6-5-15 of the S.C. Code of Laws, and will include collateralization of deposits through appropriately pledged securities or other investments. As of June 30, 2019 and 2018, the System was not exposed to custodial credit risk.

Statutes authorized the System to invest in obligations of the United States and its agencies, general obligations (not revenue obligations) of the State of South Carolina and its subdivisions, savings and loan associations to the extent of federal insurance, certificates of deposit collaterally secured, repurchase agreements secured by the foregoing obligations, and the State Treasurer's Investment Pool (SC Pool). The SC Pool, established pursuant to Section 6-6-10 of the South Carolina Code, is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any governing body of a political subdivision of the State, may be deposited.

In addition to the state laws governing allowable investment instruments, the System adopted a formal deposit and investment policy in 2019. The System is to invest its funds based on the following objectives, in priority order: safety, liquidity, and yield.

Credit risk – The System's policy to minimize the risk of loss due to the failure of the security issuer or backer is to limit investments to the safest type of securities; pre-qualify the financial institutions; and diversify the investment portfolio so that potential losses on individual securities will be minimized.

Interest rate risk - the System's policy to minimize the risk that the fair value of securities in the portfolio will fall due to changes in general interest rates is to structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 2 - CASH DEPOSITS AND INVESTMENTS - CONTINUED

Investments measured and reported at fair value are classified according to the following hierarchy:

Level 1 - Investments reflect prices quoted in active markets.

Level 2 - Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include markets that are not considered active.

Level 3 - Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as a particular investment's risk. Assets classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

The SC Pool is a 2a7-like pool, which is not registered with the Securities and Exchange Commission (SEC), but has a policy that it will operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. In accordance with governmental accounting statements, investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the SC Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00. Funds may be deposited by SC Pool participants at any time and may be withdrawn up to 24 hours' notice. Financial statements for the SC Pool may be obtained by writing the Office of State Treasurer, Local Government Investment Pool, Post Office Box 11778, Columbia, South Carolina 29211-1950.

The System had the following investments, which are not applicable to the fair value hierarchy, as of June 30, 2019 and 2018:

Investment Type	Maturity	Value		Rating
		2019	2018	
State treasurer's investment pool	<60 days	\$ 53,780,274	\$ 49,247,429	Not rated
Dreyfus Government Prime	<90 days	8,041,492	8,310,984	Aaa-mf
		<u>\$ 61,821,766</u>	<u>\$ 57,558,413</u>	

The Spartanburg Water System is required under bond indenture agreements in connection with the issuance of bonds, to segregate certain assets. The following assets have been segregated and are restricted in use for the acquisition and construction of capital assets and debt service/debt service reserve funds.

Assets restricted in use to fulfill customer deposits have also been segregated. The assets listed below are shown in their respective categories in the accompanying statements of net position.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 2 - CASH DEPOSITS AND INVESTMENTS - CONTINUED

	2019	2018
Restricted Assets for Customer Deposits		
Cash	\$ 1,526,091	\$ 1,720,545
Restricted assets for the Acquisition and Construction of Capital assets		
Cash	201,652	200,625
Investments	29,307,405	30,675,272
	<u>29,509,057</u>	<u>30,875,897</u>
Restricted Assets for Debt Service Reserve and Debt Service Funds		
Investments	8,041,492	8,310,984
	<u>\$ 39,076,640</u>	<u>\$ 40,907,426</u>

NOTE 3 - LOANS RECEIVABLE

The System provides a program whereby it finances participation and capacity fees for new customers. The loan terms are bi-monthly payments of one to ten years at interest rates of nine to twelve percent. These loans are secured by a recorded lien against the homeowner's real property. The balance of loans receivable from customers was \$15,381 and \$15,547 at June 30, 2019 and 2018, respectively.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets follows:

	2019			
	Balance June 30, 2018	Additions	Removals/ Disposals	Balance June 30, 2019
Capital Assets				
Nondepreciable				
Land	\$ 1,120,734	\$ 834,255	\$ -	\$ 1,954,989
Construction in progress	5,573,834	4,745,168	2,643,384	7,675,618
Total nondepreciable	6,694,568	5,579,423	2,643,384	9,630,607
Depreciable				
Motor vehicles	4,880,496	225,193	135,115	4,970,574
Service and maintenance equipment	11,893,242	230,026	57,021	12,066,247
Office furniture and fixtures	5,033,848	161,011	123,705	5,071,154
Computer software	1,979,251	42,672	-	2,021,923
Office buildings	6,070,555	-	-	6,070,555
Transmission, distribution and treatment facilities	272,877,961	2,773,069	-	275,651,030
Joint maintenance facility	1,657,119	12,319	-	1,669,438
Joint lab building	882,354	-	-	882,354
Donated system facilities	14,857,222	805,620	-	15,662,842
Total depreciable	320,132,048	4,249,910	315,841	324,066,117
Total Capital Assets	326,826,616	9,829,333	2,959,225	333,696,724
Accumulated Depreciation				
Motor vehicles	3,387,977	644,276	135,115	3,897,138
Service maintenance and equipment	8,902,192	906,080	45,331	9,762,941
Office furniture and fixtures	4,302,732	267,019	122,695	4,447,056
Computer software	612,807	172,931	-	785,738
Office buildings	3,045,132	224,564	-	3,269,696
Transmission, distribution and treatment facilities	102,391,339	5,659,817	-	108,051,156
Joint maintenance facility	1,170,489	68,571	-	1,239,060
Joint lab building	357,640	25,827	-	383,467
Donated system facilities	4,989,324	364,469	-	5,353,793
	129,159,632	8,333,554	303,141	137,190,045
Capital Assets - Net of Accumulated Depreciation	<u>\$ 197,666,984</u>			<u>\$ 196,506,679</u>

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 4 - CAPITAL ASSETS - CONTINUED

	2018			
	Balance June 30, 2017	Additions	Removals/ Disposals	Balance June 30, 2018
Capital Assets				
Nondepreciable				
Land	\$ 1,120,734	\$ -	\$ -	\$ 1,120,734
Construction in progress	3,011,631	7,407,202	4,844,999	5,573,834
Total nondepreciable	<u>4,132,365</u>	<u>7,407,202</u>	<u>4,844,999</u>	<u>6,694,568</u>
Depreciable				
Motor vehicles	4,315,398	762,680	197,582	4,880,496
Service and maintenance equipment	11,314,341	637,651	58,750	11,893,242
Office furniture and fixtures	4,875,323	250,936	92,411	5,033,848
Computer software	1,800,194	179,057	-	1,979,251
Office buildings	5,772,416	298,139	-	6,070,555
Transmission, distribution and treatment facilities	268,932,819	3,945,142	-	272,877,961
Joint maintenance facility	1,599,550	57,569	-	1,657,119
Joint lab building	882,354	-	-	882,354
Donated system facilities	14,445,072	412,150	-	14,857,222
Total depreciable	<u>313,937,467</u>	<u>6,543,324</u>	<u>348,743</u>	<u>320,132,048</u>
Total Capital Assets	<u>318,069,832</u>	<u>13,950,526</u>	<u>5,193,742</u>	<u>326,826,616</u>
Accumulated Depreciation				
Motor vehicles	2,950,590	634,969	197,582	3,387,977
Service maintenance and equipment	8,066,321	894,621	58,750	8,902,192
Office furniture and fixtures	4,162,720	231,748	91,736	4,302,732
Computer software	451,917	160,890	-	612,807
Office buildings	2,826,428	218,704	-	3,045,132
Transmission, distribution and treatment facilities	97,055,602	5,335,737	-	102,391,339
Joint maintenance facility	1,110,774	59,715	-	1,170,489
Joint lab building	331,813	25,827	-	357,640
Donated system facilities	4,635,981	353,343	-	4,989,324
	<u>121,592,146</u>	<u>7,915,554</u>	<u>348,068</u>	<u>129,159,632</u>
Capital Assets - Net of Accumulated Depreciation	<u>\$ 196,477,686</u>			<u>\$ 197,666,984</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$8,333,554 and \$7,915,554, respectively.

Interest costs incurred during the years ended June 30, 2019 and 2018 were \$5,847,071 and \$5,543,606, respectively. Interest capitalized for the year ended June 30, 2018 was \$104,098.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 5 - LONG-TERM DEBT

2019						
	Balance June 30, 2018	Additions	Reductions	Refunded	Balance June 30, 2019	Due Within One Year
Bonds and Other Noncurrent Liabilities Payable						
Revenue bonds	\$ 163,725,000	\$ -	\$ (6,135,000)	\$ -	\$ 157,590,000	\$ 6,250,000
Bond premium	9,210,781	-	(395,390)	-	8,815,391	-
	<u>\$ 172,935,781</u>	<u>\$ -</u>	<u>\$ (6,530,390)</u>	<u>\$ -</u>	<u>\$ 166,405,391</u>	<u>\$ 6,250,000</u>
2018						
	Balance June 30, 2017	Additions	Reductions	Refunded	Balance June 30, 2018	Due Within One Year
Bonds and Other Noncurrent Liabilities Payable						
Revenue bonds	\$ 161,935,000	\$ 45,930,000	\$ (6,025,000)	\$ (38,115,000)	\$ 163,725,000	\$ 6,135,000
Bond premium	3,613,614	6,364,450	(361,643)	(405,640)	9,210,781	-
	<u>\$ 165,548,614</u>	<u>\$ 52,294,450</u>	<u>\$ (6,386,643)</u>	<u>\$ (38,520,640)</u>	<u>\$ 172,935,781</u>	<u>\$ 6,135,000</u>

Revenue Bonds

Bonds payable at June 30, 2019 and 2018 were comprised of the following issues:

	2019	2018
\$8,000,000 City of Spartanburg, South Carolina Water System Junior Lien Revenue Bonds, Series 2012, dated July 13, 2012. Annual maturities beginning in 2013 of \$450,000 to \$650,000 maturing in 2027 with semi-annual interest of 2.23%. Bonds issued to fund improvements to the System.	\$ 4,695,000	\$ 5,205,000
\$27,255,000 City of Spartanburg, South Carolina Water System Revenue Bonds, Series 2013, dated October 29, 2013. Annual maturities beginning in 2026 of \$380,000 to \$2,265,000 maturing in 2027 with semi-annual interest of 1.81% to 2.50%. Bonds issued to fund improvements to the System.	27,255,000	27,255,000
\$26,085,000 City of Spartanburg, South Carolina Water System Revenue Refunding Bonds, Series 2015A, dated June 23, 2015. Annual maturities beginning in 2028 of \$1,000,000 to \$3,860,000 maturing in 2035 with semi-annual interest of 1.22% to 5.00%. Bonds issued to refund the Series 2007B bonds.	26,085,000	26,085,000
\$6,255,000 City of Spartanburg, South Carolina Water System Revenue Refunding Bonds, Taxable Series 2015B, dated June 23, 2015. Annual maturities beginning in 2016 of \$375,000 to \$740,000 maturing in 2027 with semi-annual interest of 1.22% to 3.68%. Bonds issued to refund the Series 2010 bonds.	4,470,000	5,090,000

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 5 - LONG-TERM DEBT - CONTINUED

Revenue Bonds - Continued

	<u>2019</u>	<u>2018</u>
\$59,080,000 City of Spartanburg, South Carolina Water System Refunding Revenue Bonds, Series 2017A, dated June 1, 2017. Annual maturities beginning in 2018 of \$4,920,000 to \$5,850,000 maturing in 2028 with semi-annual interest of 1.75%. Bonds issued to refund the Series 2007A bonds.	49,155,000	54,160,000
\$45,930,000 City of Spartanburg, South Carolina Water System Refunding and Improvement Revenue Bonds, Series 2017B, dated August 24, 2017. Annual maturities beginning in 2022 of \$25,000 to \$7,425,000 maturing in 2047 with semi-annual interest of 3.25% to 5.00%. Bonds issued to refund the Series 2007B and 2009 bonds, fund improvements to the distribution and treatment facilities, and fund capitalized interest.	<u>45,930,000</u>	<u>45,930,000</u>
	157,590,000	163,725,000
Less: current portion	<u>(6,250,000)</u>	<u>(6,135,000)</u>
Total long-term revenue bonds payable	<u>\$ 151,340,000</u>	<u>\$ 157,590,000</u>

Debt service requirements to maturity including interest on all outstanding bonds as of June 30, 2019 are as follows:

Year Ending June 30	Principal	Interest	Total
2020	\$ 6,250,000	\$ 5,743,127	\$ 11,993,127
2021	6,375,000	5,625,024	12,000,024
2022	6,525,000	5,502,452	12,027,452
2023	6,970,000	5,374,645	12,344,645
2024	7,115,000	5,230,430	12,345,430
2025-2029	35,355,000	23,824,538	59,179,538
2030-2034	33,105,000	17,498,644	50,603,644
2035-2039	41,170,000	9,129,763	50,299,763
2040-2044	12,185,000	1,808,988	13,993,988
2045-2047	<u>2,540,000</u>	<u>173,306</u>	<u>2,713,306</u>
	<u>\$ 157,590,000</u>	<u>\$ 79,910,917</u>	<u>\$ 237,500,917</u>

There are a number of limitations and restrictions contained in the various debt instruments. The System is in compliance with all significant limitations and restrictions.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 6 - DEFEASANCE OF DEBT AND ADVANCED REFUNDINGS

On August 24, 2017, the System issued \$45,930,000 of Water System Refunding and Improvement Revenue Bonds, Series 2017B. These proceeds were used to currently refund \$4,180,000 of outstanding Water System Revenue Bonds, Series 2007B and advance refund \$33,935,000 of outstanding Water System Revenue Bonds, Series 2009. The net proceeds of \$36,361,746 along with System funds of \$4,310,443 were used to currently refund and advance refund and defease the outstanding 2007B and 2009 debt, respectively.

The current and advanced refunding resulted in a gross cash flow gain of \$13,136,683 and an economic cash flow gain of \$5,168,811 for the year ending June 30, 2018.

In current and prior years, advance refundings resulted in book losses that are being amortized over the original remaining life of the old bonds that were defeased or the life of the new debt, whichever is less. The unamortized losses at June 30, 2019 and 2018 are shown on the Statements of Net Position as deferred loss on refundings under deferred outflows of resources. Amortization has been included in interest expense and was \$443,133 and \$427,062 for the years ended June 30, 2019 and 2018, respectively.

The proceeds from current and previous bonds issued that defeased certain revenue bonds in current and prior years were placed in an irrevocable trust to provide for all future debt payments on the old bonds. Accordingly, the trust accounts' assets and the liability for the defeased bonds are not included in the System's financial statements. At June 30, 2019 and 2018, \$0 and \$33,935,000 of bonds outstanding are considered defeased from current and prior years.

NOTE 7 - CAPITAL CONTRIBUTIONS

Donated assets and/or grants provided to finance capital expenditures are accounted for as capital contributions. During the years ended June 30, 2019 and 2018, the System received the following as donated assets or to partially finance plant extensions or additions:

	2019	2018
Donated assets	\$ 805,620	\$ 412,150
Private industry and developers	2,500	-
Participation fees	382,423	264,842
	<u>\$ 1,190,543</u>	<u>\$ 676,992</u>

NOTE 8 - PENSION PLAN

Plan Description - The System, as the employer, participates in the South Carolina Retirement System (SCRS) Plan - a cost-sharing multiple-employer defined benefit pension plan administered and managed by the South Carolina Public Employee Benefit Authority (PEBA), a state agency. PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR 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.

Benefits Provided/Membership - SCRS provides retirement and other benefits for teachers and employees of the state, its public school districts, and political subdivisions. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 8 - PENSION PLAN - CONTINUED

Benefits Provided/Membership- Continued - 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. Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary.

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. 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.

An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member. 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.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of 1% or \$500 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. After June 30, 2027, if the most recent actuarial valuation of the SCRS for funding purposes shows a ratio of the actuarial value of the 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 the following July 1st, may decrease the current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 85%. The Retirement System Funding Administration Act establishes a ceiling on employee contribution rates at 9%. 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%. The amortization period is scheduled to be reduced one year for each of the next 10 years to a 20 year amortization period. Required employee (both Class II and III) contribution rates for the years ended June 30, 2019 and 2018 was 9%. The required employer contribution rate for the years ended June 30, 2019 and 2018 was 14.41% and 13.41%, respectively. Both required employee and employer contribution rates are calculated on earnable compensation as defined by Title 9 of the South Carolina Code of Laws. Employers also contribute an additional .15% of earnable compensation, if participating in the death benefit program.

Contributions to the Plan from the System were \$1,644,754 and \$1,344,341, for the years ended June 30, 2019 and 2018, respectively.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 8 - PENSION PLAN - CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2019, the System reported a net pension liability of \$23,065,802 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability, net pension liability and sensitivity information are based on an actuarial valuation performed as of July 1, 2017. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end June 30, 2018, using generally accepted actuarial procedures. The allocation of the District's proportionate shares of the collective net pension liability and pension expense were calculated on the basis of the District's contributions actually remitted to the plan relative to the total contributions remitted to the plan for all participating employers, less employer contributions that are not a representative of future contributions efforts, as of June 30, 2018. Based upon this information, the System's proportion of the collective net pension liability at June 30, 2019 and 2018 was .102940% and .103798%, respectively, a decrease of .00086% since June 30, 2017, the prior measurement date.

For the year ended June 30, 2019, the System recognized pension expense of \$2,258,102. The System also recognized revenue of \$102,399 as a result of a nonemployer contribution from the State of South Carolina. The funds, approved by the General Assembly to help offset a portion of the burden of increased employer contributions, were sent directly to PEBA for the SCRS trust fund and represented 1% of the SCRS employer contribution increase for the year ended June 30, 2018. For the year ended June 30, 2018, the District recognized pension expense of \$2,423,966. At June 30, 2019 and 2018, the System reported deferred outflows of resources and deferred inflows of resources related to the pension as follows:

2019		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 217,512	\$ 284,356
Changes in assumptions	915,122	-
Net difference between projected and actual earnings on pension plan investments	366,401	-
System contributions subsequent to the measurement date	1,644,754	-
Total	<u>\$ 3,143,789</u>	<u>\$ 284,356</u>
2018		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 432,798	\$ 126,110
Changes in assumptions	1,367,864	-
Net difference between projected and actual earnings on pension plan investments	652,286	-
System contributions subsequent to the measurement date	1,344,341	-
Total	<u>\$ 3,797,289</u>	<u>\$ 126,110</u>

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 8 - PENSION PLAN - CONTINUED

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

\$1,644,754 reported as deferred outflows of resources related to pensions in 2019 resulted from System contributions subsequent to the measurement date and will be recognized as a reduction of the net collective pension liability in the year ended June 30, 2020. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2020	\$ 995,836
2021	560,386
2022	(299,903)
2023	(41,640)
	<u>\$ 1,214,679</u>

Actuarial Assumptions – Actuarial valuations of the 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 to 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 System was most recently issued for the period ending July 1, 2015.

The June 30, 2018 total pension liability, net pension liability, and sensitivity information determined by the July 1, 2017 valuation, used the following actuarial assumptions and methods:

Actuarial cost method	Entry age normal
Inflation	2.25%
Salary increases	3.0% to 12.5% (varies by service and includes 2.25% inflation)
Benefit adjustments	lesser of 1% or \$500 annually
Investment rate of return	7.25% (includes 2.25% inflation)

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality Table (2016 PRSC), were developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

The long-term expected rate of return on pension plan investments is based upon the 30 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. Expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 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 following table. For actuarial purposes, the 7.25% assumed annual investment rate of return used in the calculation of the total pension liability includes 5.00% real rate of return and a 2.25% inflation component.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 8 - PENSION PLAN - CONTINUED

Actuarial Assumptions - Continued

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	47%	3.38%
Real Assets	10%	0.42%
Opportunistic	13%	0.48%
Diversified Credit	18%	0.65%
Conservative Fixed Income	12%	0.10%
Total Expected Real Return	100%	5.03%
Inflation for Actuarial Purposes		2.25%
Total Expected Nominal Return		7.28%

Discount Rate - The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on actuarially determined rates based on the provisions of the South Carolina State Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all 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 total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the System's proportionate share of the collective net pension liability calculated using the discount rate of 7.25%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
System's proportionate share of the collective net pension liability	\$ 29,473,812	\$ 23,065,802	\$ 18,484,689

Pension Plan Fiduciary Net Position - Detailed information regarding the fiduciary net position of the plan, administered by PEBA, is available in the Systems' audited financial statements for the fiscal year ended June 30, 2018 (including the unmodified opinion on the financial statements). Information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting. Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2018. The additional information is publicly available on PEBA's Retirement Benefits' website at www.peba.sc.gov.

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS

Plan Description

The System, through its substantive commitment to provide other post-employment benefits (OPEB), maintains an agent employer defined benefit plan to provide certain postretirement health care benefits. The plan provides health care and prescription drug coverage in the Group insurance plan; and upon becoming eligible for Medicare coverage, retirees are provided with Medicare supplement insurance which includes health care and prescription drug coverage. Participants must be eligible to retire under the SCRS with a minimum of 12 years of service to receive benefits.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Plan Description - Continued

The System explicitly provides a portion of the cost of coverage for retirees and the retirees are required to pay a portion of the premiums which is determined each year. Retirees may continue dependent coverage (and pay the full premium for this coverage) if enrolled in dependent coverage at the time of retirement. Spouses age 65 or older may continue coverage by paying the total cost of coverage. Spouses are not covered for pre or post-65 retirees.

The System, upon majority vote of the three member Commission, has the authority to establish and amend benefit provisions.

The Plan's assets are held in an irrevocable trust for the exclusive benefit of the Plan participants and are administered by the South Carolina Other Retirement Benefits Employer Trust (SCORBET). Each member shares in the SCORBET's administrative and investment related expenses. The SCORBET issues a publically available Comprehensive Annual Financial Report (CAFR). A copy of the CAFR may be obtained by submitting a request to Risk Management Services, Municipal Association of South Carolina, Post Office Box 12109, Columbia, SC 29211.

Plan Membership

Membership in the plan as of January 1, 2017, the date of the last actuarial valuation was :

Inactive plan members or beneficiaries receiving benefits	53
Active plan members	199
Total plan members	<u>252</u>

Contributions

The Plan is financed on a pay-as-you-go basis and through separate contributions to SCORBET based on the actuarially determined employer contribution. The SCORBET allows each member to choose a contribution amount into the trust based on the actuarially determined employer contribution. The System paid \$1,195,060 and \$1,193,816 in pay-as-you-go and SCORBET contributions for the years ended June 30, 2019 and 2018.

Net OPEB Liability

The System's net OPEB liability June 30, 2019 and 2018 of \$11,183,581 and \$11,264,695, respectively was measured as of December 31, 2018 and 2017, respectively, and the total OPEB liability used to calculate the net OPEB liability as of June 30, 2019 and 2018 was determined by an actuarial valuation date of January 1, 2017.

Actuarial assumptions and other inputs - the Total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Net OPEB Liability - Continued

Actuarial assumptions and other inputs - continued

Inflation	2.25%
Salary increases	3.00%-7.00%, including wage inflation of 3.00%
Investment rate of return	4.75%, net of OPEB plan investment expense, including price inflation
Municipal bond index rate	3.55%
Single equivalent interest rate	4.75%
Health care cost rates	
Pre-medicare	7.50% for 2017 decreasing to an ultimate rate of 5.00% by 2023
Medicare	5.50% for 2016 decreasing to an ultimate rate of 5.00% by 2020
Discount rate	Based upon the long-term expected rate of return

Mortality rates were based on the RP-2014 Mortality Table for Employees with a 95% 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 January 1, 2017 valuation were based on the 2016 experience study adopted by the SCRS pension plan. The experience report on the SCRS was most recently issued as of July 1, 2015, and are required to be completed at least once in each five-year period by S.C. state statute. The remaining actuarial assumptions (e.g., initial per capita costs, health care costs trends, rate of plan participation, rates of plan election, etc.) used in the January 1, 2017 valuation were based on a review of recent plan experience done concurrently with the January 1, 2017 valuation.

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) and 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 adjustment, or a fundamental change in the market that alters expected returns in future years. The target asset allocation for each major asset class, as provided by the plan, are summarized in the following table:

Fixed income	94.30%
Cash and cash equivalents	5.70%
	<u>100.00%</u>

Discount rate - the discount rate used to measure the total OPEB liability was 4.75%. The projection of cash flows used to determine the discount rate assumed that 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; active employees do not explicitly contribute to the plan; the System continues to contribute the full actuarially determined employer contribution through deposit to the SCORBET and direct payment of benefits to the plan members as the benefits come due; projected assets do not include employer contributions that fund estimated service costs of future employees; and cash flows occur mid-year. Based on those assumptions, the plan's fiduciary net position was projected to not be depleted.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Changes in the Net OPEB Liability

The total OPEB liability (TOL) is based upon the actuarial valuation performed as of the January 1, 2017 valuation date. An expected TOL as of December 31, 2018 for the year ending 2019 is determined using standard roll back techniques. An expected TOL is determined as of December 31, 2017 for the year ending 2018 using standard roll forward techniques. The roll forward calculation begins with the TOL, as of January 1, 2017, subtracts the expected benefit payments for the year, applies interest at the discount rate for the year, and then adds the annual normal cost (also called the service cost). The procedure used to determine the TOL, as of December 31, 2018 and 2017, is shown in the following table:

2019			
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c)
Balance as of December 31, 2017	\$ 15,718,563	\$ 4,453,868	\$ 11,264,695
Changes for the Year			
Service cost	541,715	-	541,715
Interest	737,040	-	737,040
Difference between expected and actual experience	(3,799)	-	(3,799)
Contributions - employer	-	1,295,588	(1,295,588)
Net investment income	-	60,482	(60,482)
Benefit payments	(408,588)	(408,588)	-
Net Changes	866,368	947,482	(81,114)
Balance as of December 31, 2018	<u>\$ 16,584,931</u>	<u>\$ 5,401,350</u>	<u>\$ 11,183,581</u>

2018			
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c)
Balance as of December 31, 2016	\$ 14,855,179	\$ 4,185,737	\$ 10,669,442
Changes for the Year			
Service cost	525,937	-	525,937
Interest	693,898	-	693,898
Difference between expected and actual experience	142,956	-	142,956
Contributions - employer	-	669,407	(669,407)
Net investment income	-	117,441	(117,441)
Benefit payments	(499,407)	(499,407)	-
Plan administrative expenses	-	(19,310)	19,310
Net Changes	863,384	268,131	595,253
Balance as of December 31, 2017	<u>\$ 15,718,563</u>	<u>\$ 4,453,868</u>	<u>\$ 11,264,695</u>

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Changes in the Net OPEB Liability - Continued

Sensitivity of the net OPEB liability to changes in the discount rate - the following presents the net OPEB liability of the System, as well as what the System's net OPEB liability would be if it were calculated using a discount rate 1.0% lower or 1.0% higher than the current discount rate:

	Discount Rate Sensitivity		
	1% Decrease	Discount Rate	1% Increase
	3.75%	4.75%	5.75%
Net OPEB Liability	\$ 14,179,902	\$ 11,183,581	\$ 8,799,508

Sensitivity of the net OPEB liability to changes in the health care cost trend rates - the following presents the net OPEB liability of the System, as well as what the System's net OPEB liability would be if it were calculated using health care cost trend rates that are 1.0% lower or 1.0% higher than the current health care cost trend rates:

	Health Care Cost Trend Rate Sensitivity		
	1%	Current	1%
	Decrease		Increase
Net OPEB Liability	\$ 8,270,344	\$ 11,183,581	\$ 14,994,717

OPEB plan fiduciary net position - detailed information about the OPEB plan's fiduciary net position is available in a separately issued SCORBET financial report prepared using the economic resources measurement focus and the accrual basis of accounting. The report may be obtained in writing to Risk Management Services, Municipal Association of South Carolina, Post Office Box 12109, Columbia, South Carolina 29211.

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

For the years ended June 30, 2019 and 2018, the System recognized OPEB expense of \$877,783 and \$1,006,475, respectively. At June 30, 2019 and 2018, the System reported deferred outflows or resources and deferred inflows of resources related to OPEB from the following sources:

	2019	
	Deferred Outflows Of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 109,160	\$ 3,350
Net difference between projected and actual earnings on plan investments	188,470	-
District contributions subsequent to the measurement date	1,014,500	-
	<u>\$ 1,312,130</u>	<u>\$ 3,350</u>

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

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

	2018	
	Deferred Outflows Of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 126,058	\$ -
Net difference between projected and actual earnings on plan investments	67,935	-
District contributions subsequent to the measurement date	1,059,184	-
	<u>\$ 1,253,177</u>	<u>\$ -</u>

\$1,014,500 reported as deferred outflows of resources related to OPEB in 2019, resulted from System contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Measurement Period Ended December 31:	
2019	\$ 67,813
2020	67,813
2021	67,812
2022	50,828
2023	16,449
Thereafter	23,565
	<u>\$ 294,280</u>

NOTE 10 - DEFERRED COMPENSATION PLANS

Two deferred compensation plans are available to System employees. The multiple-employer plans, created under Internal Revenue Code Sections 401(k) and 457 are administered and accounted for by the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate employment. With approval of the State's Deferred Compensation Commission, employees may also withdraw the current value of their contributions prior to termination of employment if they meet certain requirements. These requirements differ between the two plans. The plans, available to all System employees, permit them to defer a portion of their salary until future years. Participation in the plans is optional and participants elect how their salary deferrals are invested.

Compensation deferred under the Section 401(k) and 457 plans is placed in trust for the contributing employees. Neither the State nor the System has any liability for losses under the plan.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 11 - RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The System is insured under policies through the South Carolina Office of Insurance Services, South Carolina Reserve Fund (IRF), a public entity risk pool, which issues policies to assume those risks of loss, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses the System is exposed to, related to the following assets, activities, and/or events:

1. Real property, its contents, and other equipment.
2. Motor vehicles.
3. General tort claims.

The IRF purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. The IRF's rates are determined actuarially.

The System did not have settled claims that exceeded the System's insurance coverage in any of the past three years.

The System provides employee health care under a self-funded insurance program. Under this program, specific stop loss coverage for each claim in excess of \$95,000 and aggregate stop loss coverage, including Spartanburg Sanitary Sewer District, for claims in excess of \$4,437,858 is provided by a commercial insurance company. The following represents the change in unfilled, unpaid claims from July 1, 2018 to June 30, 2019 and July 1, 2017 to June 30, 2018:

	2019	2018
Beginning of the year liability	\$ 179,811	\$ 123,757
Claims	2,185,942	2,309,044
Claims payments	<u>(2,156,363)</u>	<u>(2,252,990)</u>
End of the year liability	<u>\$ 209,390</u>	<u>\$ 179,811</u>

The liability is included in accrued employee benefits on the Statements of Net Position.

NOTE 12 - PAYMENTS TO OTHER GOVERNMENTAL UNITS

On June 11, 1991, the System adopted a resolution to transfer a percentage of actual gross water revenue to the City of Spartanburg for services and return on investment beginning July 1, 1991. A new transfer agreement was adopted on June 10, 2013, providing that the System pay a flat fee of \$1,200,000 in 2014; \$1,100,000 in 2015; and \$1,000,000 each year from 2016 through 2018. Transfer amounts will henceforward increase for the years 2019 through 2028 by the Consumer Price Index of the preceding year. As part of the amended agreement, the System paid the City \$1,021,000 and \$1,000,000 for the years ended June 30, 2019 and 2018, as reported in the Statements of Revenues, Expenses and Changes in Net Position.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 13 - RELATED PARTY TRANSACTIONS

The System provides billing, collection and engineering services as well as other administrative functions for the Spartanburg Sanitary Sewer District. The System receives a fee for these services. These fees are presented on the Statements of Revenues, Expenses and Changes in Net Position as intercompany services.

The fees were as follows:

	2019	2018
Billing and collection fees	\$ 611,460	\$ 613,452
Administrative fees	1,019,832	987,636
Labor reimbursements	599,870	560,921
Water quality and maintenance fee	220,428	166,018
Fleet services fee	131,968	138,161
Engineering	755,413	528,899
Operations fee	136,551	194,208
	<u>\$ 3,475,522</u>	<u>\$ 3,189,295</u>

The following amounts were due from (to) the Spartanburg Sanitary Sewer District at June 30, 2019 and 2018 and included in sewer and water collections payable to others and other receivables on the Statements of Net Position:

	2019	2018
User charges collected	\$ (1,789,503)	\$ (1,781,973)
Other payables	(406,748)	(492,270)
Miscellaneous receipts	943,839	895,852
	<u>\$ (1,252,412)</u>	<u>\$ (1,378,391)</u>

The System with the Spartanburg Sanitary Sewer District jointly owns an office building on North Liberty Street in downtown Spartanburg, South Carolina. The facility provides offices for the engineering and other support service departments that serve both organizations. The System owns an undivided interest of the office building. At June 30, 2019 and 2018, the System's share is included in capital assets with a cost of \$572,381 and accumulated depreciation of \$458,657 and \$440,408, respectively.

The System also jointly owns with the Spartanburg Sanitary Sewer District approximately 42 acres on Highway 295 By-Pass in Spartanburg County for future additional space requirements and facilities to accommodate a maintenance shop and personnel involved in maintenance activities. At June 30, 2019 and 2018, the System's share is included in capital assets with a cost of \$1,669,438 and \$1,657,119 and accumulated depreciation of \$1,239,060 and \$1,170,489, respectively.

The System additionally with the Spartanburg Sanitary Sewer District jointly owns a laboratory building on Highway 295 By-pass in Spartanburg County. The facility provides office and laboratories for the industrial wastewater, backflow prevention and water quality services. At June 30, 2019 and 2018, the System's share is included in capital assets with a cost of \$882,354 and accumulated depreciation of \$383,467 and \$357,640, respectively.

NOTE 14 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES AND COMMITMENTS

Sick Pay

As described more fully in Note 1, no estimate of any potential liability has been made.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 14 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES AND COMMITMENTS - CONTINUED

Unemployment Compensation

The System is required to pay unemployment compensation on covered employees. It has chosen the alternative of paying claims as billed by the South Carolina Employment Security Commission. However, under this method of funding, no accurate estimate of any potential liability has been made.

Underground Storage Tanks

The System has underground storage tanks that are subject to federal and state regulations concerning cleanup costs and third party liability claims. The System has 24 hour a day monitoring systems installed on all storage tanks. However, the System is not insured in the event that a leak should occur, and no estimate of potential liability, if any, has been made in the accompanying financial statements.

Construction Commitments

Outstanding commitments on construction contracts totaled \$1,603,788 and \$1,554,863 at June 30, 2019 and 2018, respectively.

Arbitrage Rebate Liabilities

Arbitrage represents the difference or "spread" between lower interest rates on tax-exempt government securities and the higher interest on taxable investment securities. The Internal Revenue Code requires local governments to rebate arbitrage earnings to the federal government every five years for as long as the local government has tax-exempt bonds outstanding. The System does not believe an estimate of potential liability, if any, is required in the accompanying financial statements.

NOTE 15 - RECLASSIFICATIONS

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

NOTE 16 - PRIOR PERIOD ADJUSTMENT AND CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT

The System has restated its previously issued financial statements for the year ended June 30, 2018 for matters relating to the following previously reported items: capital assets – net of accumulated depreciation and depreciation expense due to calculation errors during software conversion. The accompanying financial statements for 2018 have been restated to reflect the correction that resulted in an increase in net position of \$288,546. The District also reclassified a portion of net position that is restricted for debt service reserves that was originally included in net investment in capital assets of \$6,455,113, which has no effect on total net position. The effect on the previously issued 2018 financial statements is summarized as follows:

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 16 - PRIOR PERIOD ADJUSTMENT AND CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT - CONTINUED

	Previously Reported	Increase (Decrease)	Restated
Statements of Net Position			
Capital assets - net of accumulated depreciation	\$ 190,683,870	\$ 288,546	\$ 190,972,416
Total noncurrent assets	238,285,864	288,546	238,574,410
Total assets	267,955,538	288,546	268,244,084
Net investment in capital assets	77,905,385	(6,166,567)	71,738,818
Total net position	(14,897,655)	6,455,113	(8,442,542)
Statements of Revenues, Expenses and Changes in Net Position			
Depreciation expense	8,204,100	(288,546)	7,915,554
Total operating expenses	33,837,708	(288,546)	33,549,162
Operating Income	7,017,643	288,546	7,306,189
Increase (decrease) in net position, before capital contributions	5,014,075	288,546	5,302,621
Increase in net position	5,691,067	288,546	5,979,613
Net Position - End of Year	63,007,730	288,546	63,296,276
Statements of Cash Flows			
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income	7,017,643	288,546	7,306,189
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	8,204,100	(288,546)	7,915,554

Furthermore, for the fiscal year ended June 30, 2018, The System adopted Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation required the System to record beginning net OPEB liability and contributions made subsequent to the measurement date as deferred outflows of resources and remove the net OPEB obligation as required by GASB Statement 45. Beginning net position was restated as follows:

	2018
Net Position - Beginning of Year	\$ 67,346,606
Removal of the Net OPEB Obligation (GASB 45)	34,284
Implementation of GASB Statement 75 - Net OPEB Liability	(10,669,442)
Implementation of GASB Statement 75 - Deferred Outflows Related to OPEB	605,215
Net Position - Beginning of Year - Restated	<u>\$ 57,316,663</u>

REQUIRED SUPPLEMENTARY INFORMATION

SPARTANBURG WATER SYSTEM
SCHEDULE OF THE SYSTEM'S PROPORTIONATE SHARE OF
THE COLLECTIVE NET PENSION LIABILITY
SOUTH CAROLINA RETIREMENT SYSTEM
LAST TEN FISCAL YEARS*

	2019	2018	2017	2016	2015
System's Proportion of the Collective Net Pension Liability	0.102940%	0.103798%	0.100366%	0.100390%	0.102614%
System's Proportionate Share of the Collective Net Pension Liability	\$ 23,065,802	\$ 23,366,599	\$ 22,142,905	\$ 19,039,448	\$ 17,666,729
System's Covered Payroll	\$ 10,669,170	\$ 10,472,856	\$ 10,038,663	\$ 9,412,769	\$ 9,316,040
System's Proportionate Share of the Collective Net Pension Liability as a Percentage of its Covered Payroll	216.19%	223.12%	220.58%	202.27%	189.64%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	54.10%	53.34%	52.91%	56.99%	59.92%

*The amounts presented were determined as of the prior fiscal years ending June 30.

SPARTANBURG WATER SYSTEM
SCHEDULE OF THE SYSTEM'S CONTRIBUTIONS
SOUTH CAROLINA RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

	2018	2018	2017	2016	2015
Statutorially Required Contributions	\$ 1,644,754	\$ 1,344,341	\$ 1,210,662	\$ 1,110,276	\$ 1,011,873
Contributions in Relation to the Statutorially Required Contributions	1,644,754	1,344,341	1,210,662	1,110,276	1,011,873
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
System's Covered Payroll	\$ 11,296,390	\$ 10,669,170	\$ 10,472,856	\$ 10,038,663	\$ 9,412,769
Contributions as a Percentage of Covered Payroll	14.56%	12.60%	11.56%	11.06%	10.75%

Notes to Schedules:

June 30, 2015 was the first year of GASB 68 implementation, therefore 10-year data is not yet available.

SPARTANBURG WATER SYSTEM
SCHEDULE OF CHANGES IN THE SYSTEM'S NET OPEB LIABILITY AND RELATED RATIOS
LAST TEN FISCAL YEARS ENDING JUNE 30

	2019	2018
Total OPEB Liability		
Service cost	\$ 541,715	\$ 525,937
Interest on total OPEB liability	737,040	693,898
Difference between expected and actual experience	(3,799)	142,956
Benefit payments	(408,588)	(499,407)
Net Change in Total OPEB Liability	866,368	863,384
Total OPEB Liability - Beginning of Year	15,718,563	14,855,179
Total OPEB Liability - End of Year (a)	<u>\$ 16,584,931</u>	<u>\$ 15,718,563</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 1,295,588	\$ 669,407
Net investment income	60,482	117,441
Benefit payments	(408,588)	(499,407)
Administrative expenses	-	(19,310)
Net Change in Plan Fiduciary Net Position	947,482	268,131
Plan Fiduciary Net Position - Beginning of Year	4,453,868	4,185,737
Plan Fiduciary Net Position - End of Year (b)	<u>\$ 5,401,350</u>	<u>\$ 4,453,868</u>
Net OPEB Liability - Ending (a-b)	<u>\$ 11,183,581</u>	<u>\$ 11,264,695</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	32.57%	28.34%
Covered Payroll	\$ 9,953,096	\$ 9,953,096
Net OPEB Liability as a Percentage of Covered Payroll	112.36%	113.18%

Notes to Schedule:

June 30, 2018 was the first year of GASB 75 implementation, therefore 10-year data is not yet available.

SPARTANBURG WATER SYSTEM
SCHEDULE OF THE SYSTEM'S CONTRIBUTIONS
LAST TEN FISCAL YEARS ENDING JUNE 30

	<u>2019</u>	<u>2018</u>
Actuarially Determined Contribution (ADC)	\$ 1,093,916	\$ 1,033,974
Contributions in Relation to the ADC	<u>1,195,060</u>	<u>1,193,816</u>
Annual Contribution Deficiency	<u>\$ (101,144)</u>	<u>\$ (159,842)</u>
Covered Payroll	\$ 9,953,096	\$ 9,953,096
Actual Contributions as a Percentage of Covered Payroll	12.01%	11.99%

Notes to Schedule:

Valuation Date January 1, 2017

Methods and Assumptions Used to Determine Contributions Rates:

Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of pay, closed
Amortization Period	21 years
Asset Valuation Method	5-year smoothed market value, 80%-120% corridor
Inflation	2.25%
Healthcare Cost Trend Rates	
Pre-medicare	7.50% for 2017 decreasing to an ultimate rate of 5.00% by 2023
Medicare	5.50% for 2016 decreasing to an ultimate rate of 5.00% by 2020
Salary Increases	3.00%-7.00%, including wage inflation of 3.00%
Investment Rate of Return	4.75%, net of OPEB plan investment expense, including price inflation
Participation Rates	The assumed annual rates of plan participation and spouse coverage were 90% and 15%, respectively.
Demographic Assumptions	Based on the 2016 experience study adopted for the SCRS pension plan.
Mortality	Based on the RP-2014 Mortality Table for Employees with a 95% multiplier to better reflect anticipated experience and provide a margin for future improvements.

June 30, 2018 was the first year of GASB 75 implementation, therefore 10-year data is not yet available.

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APPENDIX B

BOND ORDINANCE TOGETHER WITH AMENDMENTS

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AN ORDINANCE

**PROVIDING FOR THE ISSUANCE AND SALE OF JUNIOR LIEN WATER
SYSTEM REVENUE BONDS OF THE CITY OF SPARTANBURG, SOUTH
CAROLINA, AND OTHER MATTERS RELATING THERETO.**

(JUNIOR LIEN BOND ORDINANCE OF 1998)

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(This Table of Contents is not a part of the Junior Lien Bond Ordinance of 1998
and is for convenience of reference only.)

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Exhibit A	Escrowed Senior Lien Bonds
Exhibit B	Senior Lien Bonds

BE IT ORDAINED BY THE MAYOR AND THE COUNCIL MEMBERS OF THE CITY OF SPARTANBURG, SOUTH CAROLINA, IN MEETING DULY ASSEMBLED:

ARTICLE I
FINDINGS OF FACT

Section 1.01. Recitals and Statement of Purpose.

Incident to the adoption of this Ordinance and the issuance of the bonds provided for herein, the City Council of the City of Spartanburg, South Carolina (the "City Council"), the governing body of the City of Spartanburg, South Carolina (the "City") finds, as a fact, that each of the statements hereinafter set forth is in all respects true and correct.

(A) The City is a municipal corporation of the State of South Carolina (the "State"), and as such possesses all general powers granted by the Constitution and statutes of the State to municipal corporations, including the power to operate a waterworks system and to furnish water service for domestic and industrial use both within and without the corporate limits of the City.

(B) Pursuant to the favorable result of an election held in the City in 1907, the City acquired a water system (the "Water System"). Since acquisition of the Water System, it has been continuously operated by the City, through its Commissioners of Public Works (the "Commissioners").

(C) The revenues derived from the Water System are now hypothecated and pledged to the payment of those bonds listed on Exhibit A attached hereto and incorporated herein (hereinafter referred to as the "Escrowed Senior Lien Bonds") and also to the payment of those bonds listed on Exhibit B attached hereto and incorporated herein (hereinafter referred to as the "Senior Lien Bonds").

(i) The Escrowed Senior Lien Bonds were issued pursuant to proceedings which either (i) did not provide for the net defeasance of the Escrowed Senior Lien Bonds by the establishment of an escrow deposit fund as contemplated by Act 179 or (ii) required any such net defeasance to provide for redemption of the defeased bonds at the first call date thereof. Thus, although proceeds of the Series 1985 Bonds and other revenues of the Water System are invested in escrow accounts in obligations of the United States, the maturing principal of and interest on which are computed to be sufficient to pay the principal and interest on the Escrowed Senior Lien Bonds, the Escrowed Senior Lien Bonds have nevertheless only been economically defeased, and the liens securing each of the Escrowed Senior Lien Bonds remain outstanding until such time as such issues are actually paid. Two series of Escrowed Senior Lien Bonds, the Series 1977 Bonds and the Series 1979 Bonds, remain outstanding. As of June 1, 1998, the Series 1977 Bonds are outstanding in the aggregate principal amount of \$4,025,000, and the Series 1979 Bonds are outstanding in the aggregate principal amount of \$2,575,000.

(ii) The payment of the principal of and interest on the Senior Lien Bonds is secured by the provisions of an ordinance providing for the issuance and sale of water system revenue bonds adopted by the City Council on September 28, 1992 (the "Bond Ordinance of 1992") and ordinances supplemental thereto.

(D) The Commissioners have conducted an extensive investigation and find that, while the earnings tests and other covenants set forth in the Bond Ordinance of 1992 for the issuance of additional Water System improvement revenue bonds on a parity therewith are similar to those generally prevailing throughout the United States at the time of its adoption, in a large number of instances different earnings tests and covenants now prevail.

(E) Because the Commissioners and the City presently contemplate enlargements and improvements to the Water System both now and in the future, the Commissioners have recommended that the City Council adopt this ordinance which would authorize the issuance of additional bonds to provide for extensions and improvements to the Water System of the City on a more flexible basis than that established in the Bond Ordinance of 1992.

(F) The members of City Council (i) expressly recognize that until such time as the Senior Lien Bonds are no longer "Outstanding" under the Bond Ordinance of 1992, the bonds authorized hereunder shall be junior and subordinate to the Senior Lien Bonds and the Escrowed Senior Lien Bonds and shall be considered to be "Junior Lien Bonds" under the Bond Ordinance of 1992; (ii) have been advised by the Commissioners, Bond Counsel and the Managing Underwriter of the proposed initial series of bonds to be issued under this ordinance, that such status is necessary and that the issuance of junior and subordinate bonds by an entity such as the City is an accepted financing practice.

(G) In order to enhance the creditworthiness of the bonds authorized by this ordinance, the City Council will agree (i) not to issue any other Water System improvement revenue bonds pursuant to the authority set forth in the Bond Ordinance of 1992; and (ii) not to provide for the accession of any bonds authorized by this ordinance to the status of Senior Lien Bonds.

(H) The City Council has therefore determined to adopt this ordinance in order to achieve greater flexibility in its ability to issue water system improvement revenue bonds.

ARTICLE II

DEFINITIONS, CONSTRUCTION AND INTERPRETATIONS

Section 2.01. Definition of Ordinance.

This ordinance may be hereafter cited and is hereinafter sometimes referred to as the "Junior Lien Bond Ordinance of 1998;" such term shall include all ordinances supplemental to, or amendatory of, this ordinance.

Section 2.02. Defined Terms.

In this ordinance, terms defined in Article I shall have the meaning assigned therein, and unless a different meaning clearly appears from the context, the following terms shall have the following respective meanings:

"Accountant" shall mean an independent firm of certified public accountants of suitable standing who audit the books, records, and accounts of the Commissioners.

"Accreted Value" shall mean the amounts set forth in or the amounts determined in the manner set forth in, a Junior Lien Series Ordinance, authorizing the issuance of Junior Lien Bonds in the form of Capital Appreciation Junior Lien Bonds.

"Act 179" means Act No. 179 of the 1981 Acts and Joint Resolutions of the General Assembly of the State of South Carolina.

"Additional Bonds Test" shall mean those Net Earnings requirements set forth in Section 4.02(7) of this Junior Lien Bond Ordinance of 1998.

"Annual Budget" shall mean the annual budget or amended budget of the Commissioners in effect as provided in or adopted pursuant to the provisions of this ordinance.

"Annual Principal and Interest Requirement" shall mean, with respect to any particular Fiscal Year and to a Series of Junior Lien Bonds Outstanding, an amount (other than amounts paid from proceeds of Junior Lien Bonds) equal to the sum of (1) all interest payable on such Series of Junior Lien Bonds during such Fiscal Year plus (2) any Principal Installments of such Series of Junior Lien 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 Junior Lien Bonds which bear interest at a fixed rate, the rate of interest borne or to be borne by such Junior Lien Bonds, and (b) with respect to any Series of Variable Rate Junior Lien 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 Junior Lien Bonds are not yet Outstanding, the initial rate (if established and binding),

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

(iii) (1) if interest on the Variable Rate Junior Lien Bonds is intended by the Commissioners 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 test period, Variable Rate Junior Lien Bonds shall be deemed to bear interest at the actual rate per annum applicable during the test period.

"Authorized Investments" shall mean investments that are, at the time of investment, lawful for investment of the Commissioners' funds under Section 6-5-10, Code of Laws of South Carolina 1976, as amended from time to time, or any successor or other applicable provision of the Code of Laws of South Carolina 1976, as amended from time to time; provided, however, that the definition of "Authorized Investments" may be further specified in each Junior Lien Series Ordinance and Junior Lien Series Resolution.

"Beneficial Owners" shall mean, with respect to any Series of Junior Lien Bonds then in book-entry system form, those persons who have purchased Junior Lien Bonds through a Participant.

"Bond Counsel" shall mean 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 Commissioners.

"Bond Ordinance of 1992" shall mean that ordinance entitled, "An Ordinance Providing for the Issuance and Sale of Water System Revenue Bonds of the City of Spartanburg, South Carolina, and Other Matters Relating Thereto," adopted by the City Council on September 28, 1992.

"Business Day" shall mean any day other than a Saturday, a Sunday or a day on which banking institutions, in the State or in the State of New York or in the state in which the Paying Agent's principal corporate trust office is located, are required or authorized by law (including executive orders) to close.

"Capital Appreciation Junior Lien Bonds" shall mean Junior Lien 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 Junior Lien Series Ordinance authorizing the issuance of such Capital Appreciation Junior Lien Bonds.

"Capitalized Interest Account" shall mean, for a particular Series of Junior Lien Bonds, that account established within a Debt Service Fund for such Series of Junior Lien Bonds for the payment of interest on such Series of Junior Lien Bonds, and as established by the provisions of Section 7.09 hereof.

"Chair" shall mean the Chair of the Commissioners. The term shall include the Vice-Chair whenever, by reason of absence, illness or other reason, the person who is the Chair is unable to act.

"Chief Financial Officer" shall mean the individual to whom the Commissioners have delegated the responsibility of supervising and maintaining records and accounts relating to the collection and disbursement of the revenues derived from the operation and maintenance of the Water System.

"City" shall mean the City of Spartanburg, South Carolina. References to actions required of or permitted by the City shall mean actions taken by or under the authority of the City Council or of the Commissioners, whichever is the appropriate legal entity to take such action under the laws of the State at the time such action is to be taken.

"City Council" shall mean the City Council of the City of Spartanburg, South Carolina.

"Clerk" shall mean the Clerk of the City. The term shall include the Acting Clerk or the Assistant Clerk whenever, by reason of absence illness or other reason, the person who is the Clerk is unable to act.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and applicable Treasury Regulations from time to time in effect.

"Combined Annual Principal and Interest Requirement" shall mean, with respect to any Fiscal Year, the sum of the Annual Principal and Interest Requirements for all Series of Junior Lien Bonds to be Outstanding during that Fiscal Year.

"Commissioners" shall mean the Commissioners of Public Works of the City of Spartanburg, South Carolina, or any successor body.

"Consulting Engineers" shall mean any independent firm of consulting engineers having a national reputation for skill and experience in utility financing and rate design, and the design and operation of water facilities.

"Date of Issue" shall mean that date established in any Junior Lien Series Ordinance and Junior Lien Series Resolution from which interest shall accrue on the Junior Lien Bonds of the applicable Series.

"Debt Service Funds" shall mean the funds herein so designated and designed to provide for the payment of the principal of and interest on the respective Series of Junior Lien Bonds issued pursuant to this Junior Lien Bond Ordinance of 1998, as the same respectively fall due, and as established by the provisions of Section 7.03 hereof.

"Debt Service Reserve Funds" shall mean the funds so designated and designed (1) to secure the timely payment of the principal of and interest on the respective Series of Junior Lien Bonds Outstanding and issued pursuant to this Junior Lien Bond Ordinance of 1998, and (2) to provide for the redemption of such Series of Outstanding Junior Lien Bonds prior to their stated maturity, as established by the provisions of Section 7.04 hereof; provided, however, that any Junior Lien Series Ordinance or Junior Lien Series Resolution may designate the Debt Service Reserve Fund for the Series of Junior Lien Bonds authorized thereby to be consolidated with the Debt Service Reserve Fund for each other Series so designated, in which case all such designated Series shall be considered in the aggregate as a single Series for all purposes related to the consolidated Debt Service Reserve Fund.

"Defeasance Obligations", unless otherwise provided in a Junior Lien Series Ordinance or Junior Lien Series Resolution for a particular Series of Junior Lien Bonds, shall mean non-callable (i) Government Obligations or (ii) evidences of ownership of a proportionate interest in specified Government Obligations, which Government Obligations 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.

"Depository" means any bank or trust company or national banking association selected by the City as a depository of moneys or securities held under the provisions of this Junior Lien Bond Ordinance of 1998 and may include the Trustee.

"Depreciation and Contingent Fund" shall mean the fund herein so designated and designed to provide for contingencies, for the replacement of depreciated or obsolete parts of the Water System and for improvements, betterments and extensions of the Water System, as established by the provisions of Section 7.06 hereof.

"Enabling Act" shall mean Chapter 21 of Title 6, Code of Laws of South Carolina 1976, as amended from time to time, and all other statutory authorizations, authorizing and enabling the City Council to adopt this Junior Lien Bond Ordinance of 1998.

"Escrowed Senior Lien Bonds" shall mean the bonds listed in Exhibit A hereto.

"Events of Default" shall mean those events set forth in Section 13.01 of this Junior Lien Bond Ordinance of 1998.

"Feasibility Consultants" shall mean any independent firm of consultants, engineers or accountants having skill and experience in utility financing and rate design, or the design and operation of, water and/or sewer facilities.

"Fiduciary" or "Fiduciaries" shall mean, with respect to a Series of Junior Lien Bonds, the Trustee, as well as any Registrar or any Paying Agent and any other agent of the Commissioners for such Series of Junior Lien Bonds appointed pursuant to the authorizations of this Junior Lien Bond Ordinance of 1998 and any Junior Lien Series Ordinance or Junior Lien Series Resolution or any or all of them, as may be appropriate.

"Fiscal Year" shall mean the period of twelve (12) calendar months, beginning on July 1 of each year, and ending on June 30 of the next year, unless the same shall have been changed by the Commissioners pursuant to the authorization contained in Section 3.01 hereof.

"Fitch" shall mean Fitch IBCA, Inc. and its successors.

"General Revenue Fund" shall mean the account or accounts which shall be established and maintained by the Commissioners in such fashion as to reflect adequately all of the receipts and revenues derived from the operation of the Water System and all interest and other income earned by the Commissioners in connection with the operation of the Water System, as established by the provisions of Section 7.02 hereof.

"Government Obligations" shall mean direct general obligations of the United States of America or its agencies, the payment of which is fully and unconditionally guaranteed by the United States of America.

"Gross Revenues" or "Gross Revenues of the Water System" shall mean for the period in question:

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

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

(c) all interest and other income received by the Commissioners, directly or indirectly from the investment of any moneys or accounts relating to the Water 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 Commissioners, and

(d) all other unencumbered money to which the Commissioners may become entitled from any source whatsoever, but specifically excluding any government grants or aids-to-construction.

"Insurer", with respect to any Series of Junior Lien Bonds, shall mean an insurance company that has written a Municipal Bond Insurance Policy covering such Series of Junior Lien Bonds.

"Junior Lien Bond Ordinance of 1998" shall mean this ordinance, including all ordinances supplemental to or amendatory hereof.

"Junior Lien Bond Payment Date" shall mean the dates on which the principal of or interest on any of the Junior Lien Bonds shall be payable or on which both principal and interest shall be payable on any of the Junior Lien Bonds, all as set forth in the Junior Lien Series Ordinances and Junior Lien Series Resolutions authorizing the issuance of the respective Series of Junior Lien Bonds authorized under this ordinance.

"Junior Lien Bondholder" or "Holder," or any similar term, when used with reference to a registered Junior Lien Bond or Junior Lien Bonds, shall mean any person who shall be the registered owner of any Outstanding Junior Lien Bond, and in the case of Junior Lien Bonds consisting of contractual obligations not in the form of an instrument, the party entitled to enforce the Commissioners' payment obligation thereunder, provided, however, that for purposes of Articles XII, XIV and XV and Sections 16.04 and 17.02 of this Junior Lien Bond Ordinance of 1998, Junior Lien Bondholders shall mean "Beneficial Owners" of Junior Lien Bonds.

"Junior Lien Bonds" shall mean any indebtedness or obligations, including any obligations entered into under the provisions of long-term contracts payable from the revenues of the Water System, issued in accordance with the provisions of the Enabling Act, this Junior Lien Bond Ordinance of 1998, a Junior Lien Series Ordinance and a Junior Lien Series Resolution, excluding indebtedness incurred in accordance with Article VI hereof.

"Junior Lien Series Ordinance" shall mean an ordinance of City Council authorizing the issuance of a Series of Junior Lien Bonds pursuant to this Junior Lien Bond Ordinance of 1998 in accordance with the terms and provisions hereof, adopted by City Council in accordance with Article IV.

"Junior Lien Series Resolution" shall mean a resolution of the Commissioners authorizing the issuance of a Series of Junior Lien Bonds by the Commissioners pursuant to this Junior Lien Bond Ordinance of 1998 in accordance with the terms and provisions hereof, adopted by the Commissioners in accordance with Article IV hereof.

"Mayor" shall mean the Mayor of the City. The term shall include the Acting Mayor or the Mayor Pro Tempore whenever, by reason of absence, illness or other reason, the person who is the Mayor is unable to act.

"Moody's" shall mean Moody's Investors Service and its successors.

"Municipal Bond Insurance Policy" shall mean any municipal bond insurance policy insuring the payment, when due, of the principal of and interest on a Series of Junior Lien Bonds.

"Net Earnings" shall mean for the period in question the net income of the Commissioners, determined in accordance with generally accepted accounting principles. Whether or not generally accepted accounting principles so require, however, for purposes of the calculation made to determine Net Earnings, the following provisions shall apply.

- (a) Net Earnings shall include:
 - (i) Gross Revenues of the Water System (except as excluded in (b) below);
 - (ii) amounts transferred into the Operation and Maintenance Fund from a Rate Stabilization Fund, pursuant to Section 8.08 hereof; and
 - (iii) amount transferred to the City pursuant to service contracts.
- (b) Net Earnings shall not include:
 - (i) gains on the sale or other disposition of investments or fixed or capital assets, not resulting from the ordinary course of business of the Commissioners;
 - (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 Project Fund or account created with the proceeds of any borrowing of the Commissioners;
 - (iii) government grants and aids-to-construction; and
 - (iv) amounts transferred into the Rate Stabilization Fund pursuant to Section 8.08, to the extent that such transfers in do not exceed transfers out from that Fund to the Operation and Maintenance Fund pursuant to Section 8.08 in the then current Fiscal Year.
- (c) The following shall not be subtracted as expenses in determining Net Earnings:
 - (i) losses on the sale or other disposition of investments or fixed or capital assets, not resulting from the ordinary course of business of the Commissioners;
 - (ii) 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 Junior Lien Bonds; and
 - (iii) principal and interest paid on the Junior Lien Bonds, amounts paid into any debt service reserve fund established for any Junior Lien Bonds, and depreciation expense for such period.

"Operation and Maintenance Expenses" shall mean for the period in question all expenses incurred in connection with the administration and the operation of the Water System, including, without limiting the generality of the foregoing, such expenses as may be reasonably necessary to preserve the Water System in good repair and working order, the fees and charges of the Trustee(s) and the custodian or trustee of any fund, 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 this Junior Lien Bond Ordinance of 1998. Operation and Maintenance Expenses shall not include:

- (a) depreciation allowances;

- (b) amounts paid as interest on bonds, including the Senior Lien Bonds;
- (c) amounts expended for extraordinary repairs to the Water 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 Junior Lien Bonds; and
- (e) amounts paid as capital costs pursuant to the provisions of long-term contracts which the Commissioners has entered into in order to provide service to the areas included within its service area, such obligations being specifically included within the definitions of Junior Lien Bonds or Subordinate Lien Bonds depending upon the pledge given to secure the same.

"Operation and Maintenance Fund" shall mean the fund designed to provide for the payment of all Operation and Maintenance Expenses.

"Ordinance Elevation Date" shall mean that date on which no bonds issued under the authority of the Bond Ordinance of 1992 shall be "Outstanding," as such term is defined in the Bond Ordinance of 1992.

"Outstanding", when used with reference to any Junior Lien Bonds and subject to Section 17.01 hereof and except as may be modified for any Series of Junior Lien Bonds pursuant to the provisions of a Junior Lien Series Ordinance, shall mean, as of any date, all such Junior Lien Bonds theretofore or then being authenticated and delivered except:

- (a) Junior Lien Bonds cancelled at or prior to such date;
- (b) Junior Lien Bonds in lieu of or in substitution for which other Junior Lien Bonds shall have been executed and delivered;
- (c) Junior Lien Bonds deemed to have been paid as provided in Article XVI hereof; and
- (d) for purposes of any consent or other action to be taken by the Holders of a specified percentage of Junior Lien Bonds, Junior Lien Bonds held by, or for the account of the Commissioners, or by any person controlling, controlled by, or under common control with the Commissioners unless all Junior Lien Bonds are so held.

"Participant" shall mean those broker-dealers, banks and other financial institutions for which the Securities Depository for a particular Series of Junior Lien Bonds holds such Series of Junior Lien Bonds as securities depository.

"Paying Agent" for a particular Series of Junior Lien Bonds, shall mean the Trustee, or any bank, trust company, or national banking association which is designated by the Commissioners to make disbursements of principal, interest and redemption premium, if any, with regard to a particular Series of Junior Lien Bonds to the Holders of such Series of Junior Lien Bonds.

"Principal Installment" shall mean, as of any date of calculation, (i) the aggregate principal amount of Outstanding Junior Lien Bonds stated to mature on a certain date, reduced by the aggregate principal amount of such Junior Lien Bonds which 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 Junior Lien Bonds required to be paid on such certain date, the Accreted Value as of such certain date of such Capital Appreciation Junior Lien Bonds; and in this latter respect, any reference to "principal" of Junior Lien Bonds in this Junior Lien Bond Ordinance of 1998 shall mean, with respect to Capital Appreciation Junior Lien Bonds, the Accreted Value of such Capital Appreciation Junior Lien Bonds.

"Project Fund" shall mean, for a particular Series of Junior Lien Bonds, that fund established by a Junior Lien Series Ordinance or Junior Lien Series Resolution and into which proceeds of such Series of Junior Lien Bonds, which proceeds are intended to be used for the expansion or improvement of the Water System, are to be deposited.

"Rate Covenant" shall mean that covenant made in Section 5.04 of this Junior Lien Bond Ordinance of 1998.

"Rate Stabilization Funds" shall mean the funds designed to provide for the stabilization of rates by carrying forward surplus revenues, as established by the provisions of Section 7.07 hereof.

"Record Date" shall mean the fifteenth (15th) day of the month immediately preceding each Junior Lien Bond Payment Date (or such other time or times as shall be prescribed for any Series by the applicable Junior Lien Series Ordinance and Junior Lien Series Resolution).

"Redemption Price" shall mean, with respect to Junior Lien Bonds or a portion thereof, the principal amount of such Junior Lien Bonds or portion thereof plus the applicable premium, if any, payable upon redemption thereof in the manner contemplated in accordance with its terms, this Junior Lien Bond Ordinance of 1998 and the applicable Junior Lien Series Ordinance and Junior Lien Series Resolution.

"Registrar" for a particular Series of Junior Lien Bonds, shall mean the Trustee, or any bank, trust company, or national banking association which is authorized by the Commissioners to maintain an accurate list of those who from time to time shall be the Holders of Junior Lien Bonds of a particular Series and to effect the transfer of such Junior Lien Bonds in accordance with the provisions of this Junior Lien Bond Ordinance of 1998 and having the duties, responsibilities, and rights provided for in this Junior Lien Bond Ordinance of 1998 and any Junior Lien Series Ordinance and Junior Lien Series Resolution, and its successor or successors and any other corporation or association which at any time may be substituted in its place pursuant to this Junior Lien Bond Ordinance of 1998.

"Reserve Requirement" shall mean, with respect to any Series of Junior Lien Bonds and as of any date of calculation, the least of (a) the greatest remaining Annual Principal and Interest Requirement for the then-current and each future Fiscal Year with respect to that Series of Junior Lien Bonds or (b) 10% of the proceeds from the sale of that Series of Junior Lien Bonds at the time of issuance of such Series or (c) one hundred twenty-five percent (125%) of the average Annual Principal and Interest Requirements for the then-current and each future Fiscal Year with respect to that Series of Junior Lien Bonds Outstanding or (d) if interest on the Junior Lien Bonds is intended to be exempt from federal income

taxation, the maximum amount permitted by the Code to be funded with sales proceeds of an issue and to be invested without restriction, other than the obligation, if any, to pay arbitrage rebate to the United States Government; provided, however, that a Junior Lien Series Ordinance and Junior Lien Series Resolution authorizing a Series of Junior Lien Bonds may provide that there not be a Reserve Requirement for a Series of Junior Lien Bonds if one is determined not to be necessary; and further provided, that if the sum of the Reserve Requirements so determined for all Series of Junior Lien Bonds Outstanding exceeds the maximum Annual Principal and Interest Requirement for all Junior Lien Bonds Outstanding, then the Reserve Requirement for each Series of Junior Lien Bonds shall be that Series' proportionate amount of the maximum combined Annual Principal and Interest Requirement for all Junior Lien Bonds then Outstanding. For purposes of this definition, the "proportionate amount" of a Series shall be the proportion between (i) principal and interest coming due on that Series of Junior Lien Bonds in the next ensuing twelve (12) months and (ii) principal and interest coming due on all Series of Junior Lien Bonds in the next ensuing twelve (12) months.

"S&P" shall mean Standard & Poor's Ratings Group and its successors.

"Secretary" shall mean the Secretary of the Commissioners. The term shall include the Acting Secretary or the Assistant Secretary whenever, by reason of absence, illness or other reason, the person who is the Secretary is unable to act.

"Securities Depository" shall mean The Depository Trust Company, New York, New York, or other recognized securities depository selected by the Commissioners, which securities depository maintains a book-entry system in respect of the Junior Lien Bonds of any Series, and shall include any substitute for or successor to the securities depository initially acting as Securities Depository.

"Securities Depository Nominee" shall mean, as to any Securities Depository, such Securities Depository or the nominee of such Securities Depository in whose name there shall be registered on the registration books maintained by any Registrar, the Junior Lien Bond certificates to be delivered to and immobilized at such Securities Depository during the continuation with such Securities Depository of participation in its book-entry system.

"Senior Lien Bonds" shall mean the bonds listed in Exhibit B hereto.

"Serial Junior Lien Bonds" shall mean the Junior Lien Bonds of any Series which are stated to mature in installments and for which there are no mandatory sinking fund provisions.

"Series" shall mean all of the Junior Lien Bonds authenticated and delivered on original issuance in a simultaneous transaction and designated as a single Series by the authorizing Junior Lien Series Ordinance, and any Junior Lien Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Junior Lien Bonds as herein provided, regardless of variations in maturity, interest rate or other provisions.

"Series 1985 Bonds" shall mean the \$15,135,000 Water System Refunding and Improvement Revenue Bonds, Series 1985, of the City.

"Series 1992 Bonds" shall mean that series of bonds described in paragraph 1 of Exhibit B of this Junior Lien Bond Ordinance of 1998.

"Series 1996 Bonds" shall mean that series of bonds described in paragraph 2 of Exhibit B of this Junior Lien Bond Ordinance of 1998.

"Series 1997 Bonds" shall mean that series of bonds described in paragraph 3 of Exhibit B of this Junior Lien Bond Ordinance of 1998.

"South Carolina Code" shall mean the Code of Laws of South Carolina, 1976, as from time to time amended.

"Special Facilities" shall mean those facilities financed with the proceeds of Special Facilities Bonds as described in Section 6.02 hereof.

"Special Facilities Bonds" shall mean those obligations issued in accordance with Section 6.02 hereof.

"State" shall mean the State of South Carolina.

"Subordinate Lien Bonds" shall mean any revenue bonds issued by the Commissioners or other obligations entered into by the Commissioners including such obligations under the provisions of long-term contracts which are secured by pledges of and liens on the revenues of the Water System which are junior and subordinate in all respects to the pledges and liens made to secure the Junior Lien Bonds.

"System" or "Water System" shall mean the Water System of the City 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, provided, that during such time as any Special Facilities Bonds issued to finance Special Facilities are outstanding, the term "Water System" shall not include such Special Facilities.

"Term Junior Lien Bonds" shall mean the Junior Lien Bonds of any Series which are stated to mature in a single year and which are subject to mandatory sinking fund redemption prior to the stated maturity date.

"Trustee" shall mean the financial institution designated by the Commissioners to serve as Trustee for the Junior Lien Bonds and which shall have such other duties, privileges and functions as are set forth herein. Such term shall include 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 hereunder.

"Value" shall mean, with respect to any investment, the value calculated as follows:

(i) as to investments the bid and asked prices of which are published on a regular basis in *The Wall Street Journal* (or, if not there, then in *The New York Times*): the average of the bid and asked prices for such investments so published on or most recently prior to the time of determination;

(ii) as to investments the bid and asked prices of which are not published on a regular basis in *The Wall Street Journal* or *The New York Times*: the average bid price at the time of

determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee for the funds for which "value" is to be determined in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

(iii) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and

(iv) as to any investment not specified above: the value thereof established by prior agreement between the Commissioners and the Trustee for the funds for which "value" is to be determined and, with respect to any insured Series of Junior Lien Bonds, the Insurer.

"Variable Rate Junior Lien Bonds" shall mean, for any period of time, any Junior Lien Bonds which during such period bear interest at a variable rate; provided that Junior Lien Bonds the interest rate on which has been fixed for the remainder of the term thereof shall no longer be Variable Rate Junior Lien Bonds.

Section 2.03. Interpretations.

In this Junior Lien Bond Ordinance of 1998, unless the context otherwise requires:

(A) Articles, Sections and paragraphs referred to by number shall mean the corresponding Articles, Sections and paragraphs of this Junior Lien Bond Ordinance of 1998.

(B) Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Words importing the singular number shall include the plural number and vice versa; and words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations, or other legal entities, including public bodies, as well as natural persons.

(C) The terms "hereby", "hereof", "hereto", "herein", "hereunder", and any similar terms, as used in this ordinance refer to the Junior Lien Bond Ordinance of 1998 or sections or paragraphs of this Junior Lien Bond Ordinance of 1998 and the term "hereafter" shall mean any date after the date of adoption of this ordinance.

(D) References to the payment of principal of Junior Lien Bonds shall be deemed to include payment of principal both at maturity and by mandatory redemption pursuant to any sinking fund payment obligations.

(E) Any Fiduciary shall be deemed to hold an Authorized Investment in which money is invested pursuant to the provisions of this Junior Lien Bond Ordinance of 1998, even though such Authorized Investment is evidenced only by a book entry or similar record of investment.

ARTICLE III FISCAL YEAR

Section 3.01. Establishment and Modification of Fiscal Year.

The Water System shall continue to be operated on a Fiscal Year basis, which, until changed, shall commence on the first (1st) day of July of each year and shall end on the thirtieth (30th) day of June of the next year. The Commissioners, in their sole discretion, may from time to time, change the Fiscal Year from that now existing to a different twelve (12) month period.

ARTICLE IV THE JUNIOR LIEN BONDS

Section 4.01. Authorization for Junior Lien Bonds in Series.

(A) From time to time and for the purposes of:

(1) Obtaining funds for the expansion and improvement of the Water System, including the recoupment of funds already so expended;

(2) Providing funds for the payment of any bond anticipation note or notes issued in order to defray the cost of expansions and improvements to the Water System and that were issued in anticipation of the issuance and sale of Junior Lien Bonds;

(3) Refunding bonds or other obligations issued to provide land or facilities which are or are to become a part of the Water System or which are or were payable in whole or in part from revenues of the Water 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, and reimbursing amounts owed to any providers of a surety bond, line of credit, insurance policy or letter of credit established pursuant to Section 7.04(D) hereof; and

(5) Paying the costs of issuance of Junior Lien Bonds, including any credit enhancement therefor,

but subject to the terms, limitations and conditions herein, the City Council may authorize the issuance of a Series of Junior Lien Bonds by the adoption of a Junior Lien Series Ordinance, and the Junior Lien Bonds of any such Series may be issued and delivered upon compliance with the provisions of this Article. The Junior Lien Bonds of each Series shall be issued in fully registered form, without coupons.

In addition to the title, "City of Spartanburg, South Carolina, Junior Lien Water System Revenue Bonds" (unless the Senior Lien Bonds are no longer outstanding, in which case the term "Junior Lien" may be omitted), the Junior Lien Bonds shall bear a letter or number Series designation as may be necessary to distinguish them from the Junior Lien Bonds of every other Series and shall designate the year in which the Series is issued. Junior Lien Bonds of any Series may be authorized to be issued in the form of Serial Junior Lien Bonds or Term Junior Lien Bonds, with or without mandatory sinking fund

payments, or Capital Appreciation Junior Lien Bonds, or as any other type of debt instrument as detailed in a Junior Lien Series Ordinance or Junior Lien Series Resolution, or a combination of any of them, and may bear interest in whatever manner and payable at whatever frequency as shall be prescribed by the applicable Junior Lien Series Ordinance and Junior Lien Series Resolution.

(B) Each Junior Lien Series Ordinance shall include a determination by the City to the effect that the issuance of such Series of Junior Lien Bonds is necessary to provide funds to be used and expended for one or more of the purposes set out in Section 4.01(A) hereof. Each Junior Lien Series Ordinance may authorize the Commissioners to adopt a Junior Lien Series Resolution taking the action prescribed in Section 4.01(C) hereof. Each Junior Lien Series Ordinance shall specify and determine, or expressly delegate to the Commissioners, the authority to specify and determine the following details with respect to the Junior Lien Bonds.

(1) The Date of Issue of such Series of Junior Lien Bonds, or the officials authorized to make such determination;

(2) The maximum authorized principal amount of such Series of Junior Lien Bonds, and the manner of determining the precise principal amount and the officials authorized to make such determination;

(3) The Junior Lien Payment Dates for the Junior Lien Bonds in such Series and the Record Dates, and the date or dates of maturity and the amounts thereof, or the manner of determining such dates and amounts and the officials authorized to make such determinations, provided that the Junior Lien Series Resolution shall specify a date beyond which the final maturity of such Series shall not extend;

(4) The specific purposes for which such Series of Junior Lien Bonds is being issued;

(5) The title and designation of the Junior Lien Bonds of such Series;

(6) The manner in which Junior Lien Bonds of such Series are to be sold and provisions for the sale thereof or the officials authorized to make such determination; and

(7) Any other provisions or funds deemed advisable for the Junior Lien Bonds of such Series.

(C) Each Junior Lien Series Resolution shall express the approval of the Commissioners to the issuance of the particular Series of Junior Lien Bonds and shall express the agreement of the Commissioners to abide by and reaffirm each of the terms and provisions, as well as the covenants and agreements set forth in this Junior Lien Bond Ordinance of 1998 and the Junior Lien Series Ordinance. In addition, it may, if so permitted by the Junior Lien Series Ordinance, specify and determine, or expressly authorize certain officials to specify and determine, the following details:

(1) The precise principal amount of the Junior Lien Bonds of such Series, or the manner of determining such precise principal amount;

(2) The specific purposes for which such Series of Junior Lien Bonds is being issued;

- (3) The manner of numbering and lettering, and the denomination or denominations of the Junior Lien Bonds of such Series;
- (4) The date or dates of maturity and the amounts thereof and the issue date of the Junior Lien Bonds of such Series, or the officials authorized to make such determination;
- (5) The interest rate or rates, or the manner of determining such rate or rates, of the Junior Lien Bonds of such Series, including whether and on what terms there shall be entered by the Commissioners an agreement for any form of interest rate hedge or similar transaction with respect to such Series;
- (6) The time for the payment of interest on the Junior Lien Bonds in such Series and the Record Date;
- (7) The portion of such Series that are Serial Junior Lien Bonds or that are Term Junior Lien Bonds or that are Capital Appreciation Junior Lien Bonds or that are any other type of debt instrument, if any, including the amount and date of each mandatory redemption or sinking fund installment, if any, required by such Junior Lien Series Ordinance to be paid for the retirement of any such Junior Lien Bonds, or the manner of making such designations and the officials authorized to make such designations;
- (8) The redemption price or redemption prices and the redemption date or redemption dates and other terms of redemption (if any) applicable to any of the Junior Lien Bonds of such Series for such payments, or the manner of determining such dates and prices and the officials authorized to make such determinations;
- (9) The Registrar and Paying Agent for such Series of Junior Lien Bonds if it is determined that an institution other than the Trustee shall act in either capacity, and the escrow agent if such Junior Lien Bonds are advance refunding Junior Lien Bonds;
- (10) The manner in which Junior Lien Bonds of such Series are to be sold and provisions for the sale thereof;
- (11) The form or forms of the Junior Lien Bonds of such Series;
- (12) Whether the Junior Lien Bonds of such Series shall be issued in book-entry form pursuant to Section 4.19 hereof;
- (13) That the then applicable Reserve Requirements for all Series of Junior Lien Bonds Outstanding and for the proposed Series of Junior Lien Bonds, has been or will be met;
- (14) The disposition or application of the proceeds of the sale of such Series of Junior Lien Bonds;
- (15) That a Debt Service Fund and a Debt Service Reserve Fund shall be established for the Series of Junior Lien Bonds, and that a Project Fund be established if the proceeds of the Junior Lien Bonds of any Series are intended to be used for the expansion or improvement of the Water System, and that a capitalized interest account be established within any such Debt Service

Fund if interest for any period is to be paid from proceeds of such Series of Junior Lien Bonds; and

(16) Any other provisions or funds deemed advisable by the Commissioners for the Junior Lien Bonds and any other applicable redemption requirement for the Junior Lien Bonds of such Series and the method of satisfying the same and not in conflict with or in substitution for the provisions of this Junior Lien Bond Ordinance of 1998 and the Junior Lien Series Ordinance.

Section 4.02. Conditions to Issuance of Junior Lien Bonds of a Series.

All Junior Lien Bonds shall be issued in compliance with the following provisions of this Section 4.02:

(1) Junior Lien Bonds shall be stated to mature and/or have mandatory or sinking fund redemptions on the dates and in the amounts prescribed, or approved in the manner established, by the Junior Lien Series Ordinance or the Junior Lien Series Resolution.

(2) Junior Lien Bonds shall bear interest at the rates and on the occasions prescribed, or approved in the manner established, by the Junior Lien Series Ordinance or the Junior Lien Series Resolution.

(3) Junior Lien Bonds shall be issued for a purpose or purposes set forth in Section 4.01(A) hereof.

(4) There shall exist, on the occasion of the issuance of the Junior Lien Bonds, no default in the payment of the principal of or interest on any Junior Lien Bonds or Subordinate Lien Bonds then Outstanding.

(5) The Commissioners shall obtain an opinion of Bond Counsel to the effect that (a) this Junior Lien Bond Ordinance of 1998, the Junior Lien Series Ordinance and the Junior Lien Series Resolution have been duly and lawfully adopted and are in full force and effect; (b) the Junior Lien Bonds have been duly and lawfully authorized; executed and issued by the Commissioners and are valid and binding upon, and enforceable against, the Commissioners (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 Junior Lien Bonds, this Junior Lien Bond Ordinance of 1998 creates the valid pledge of the Gross Revenues subject to the application thereof to the purposes and on the conditions permitted by this Junior Lien Bond Ordinance of 1998.

(6) Unless on the date of delivery of such Series of Junior Lien Bonds there shall be on deposit in each Debt Service Reserve Fund an amount equal to the applicable Reserve Requirement immediately following the issuance of such Series of Junior Lien Bonds, or a qualified line of credit, surety bond, insurance policy or letter of credit shall be in effect in lieu thereof in accordance with Section 7.04(D) hereof, there shall be deposited in each Debt Service Reserve Fund such amount, or a qualified substitute in accordance with Section 7.04 hereof shall be provided, as is necessary to make the value of the moneys and securities in each Debt Service

Reserve Fund, including any such qualified substitute, equal to the respective Reserve Requirement.

(7) Except in the case of the initial Series of Junior Lien Bonds issued hereunder, for which there shall be no such requirement and except in the case of a Series or a portion of a Series of Junior Lien Bonds issued for the purpose of refunding any Junior Lien Bonds and which Series or portion meets the test prescribed in Section 4.02(8) hereof, and in any event subject to the provisions of Section 4.02(9) hereof, the following requirements must be met:

(i) Net Earnings, as forecast by the Accountant or by the Feasibility Consultants for each of the five (5) Fiscal Years following the issuance of the proposed Series of Junior Lien Bonds, shall be certified by the Accountant or by the Feasibility Consultants to be not less than one hundred ten percent (110%) of the sum of (a) the Combined Annual Principal and Interest Requirement for each such Fiscal Year during this five-year period on all Junior Lien Bonds Outstanding at the time of issuance (including such proposed Series of Junior Lien Bonds), and (b) the combined annual principal and interest requirement for each such Fiscal Year during that same five-year period on all Senior Lien Bonds outstanding; and.

(ii) Net Earnings during the most recent Fiscal Year for which audited financial statements of the Water System are complete or during any twelve (12) of the most recent eighteen (18) months, shall be certified by the Accountant or by the Feasibility Consultants on the basis of such information to be not less than one hundred percent (100%) of the sum of, for all fiscal years following the end of such five-year period (a) the maximum Combined Annual Principal and Interest Requirement on all such Junior Lien Bonds Outstanding (including such proposed Series of Junior Lien Bonds) and (b) the maximum combined annual principal and interest requirement on all Senior Lien Bonds outstanding for all Fiscal Years following the end of such five-year period.

For purposes of this Section 4.02(7), such Net Earnings shall be adjusted to reflect:

- (a) any rate increases currently adopted or expected by the Feasibility Consultants to be adopted during such five-year period referred to in (i) above, and determined *pro forma* as though such rate increases had been in continuous effect during such Fiscal Year for which such rate increase is expected to be implemented;
- (b) in the event proceeds of such proposed Series of Junior Lien Bonds will be used to acquire a water utility, system or enterprise that is in existence and operating and whose current customers will become customers of the Water System upon such acquisition, 100% of the estimated Net Earnings to be received by the Water System during the Fiscal Year following the date of issuance of the proposed Series of Junior Lien Bonds, as projected by the Accountant or the Feasibility Consultants, from the utility, system or enterprise to be acquired with the proceeds of such proposed Series of Junior Lien Bonds, taking into account for the estimation of such Net Earnings in this clause (b) only the then-existing customer base and population of the acquired utility, system or enterprise;

- (c) in the event proceeds of such proposed Series of Junior Lien Bonds will be used to construct or to acquire a newly-constructed water utility, system, enterprise, or component of the Water System which will serve a currently-populated area, 100% of the Net Earnings, estimated by the Feasibility Consultants, to be received by the Water System during the first Fiscal Year beginning after the earlier of (1) the date on which such project constructed or acquired with the proceeds of the proposed Series of Junior Lien Bonds is placed in service or (2) the third anniversary of the date of delivery of the proposed Series of Junior Lien Bonds, from the newly-constructed or to-be-constructed utility, system, enterprise, or component of the Water System, taking into account for the estimation of such Net Earnings in this clause (c) only the current population;
- (d) in the event proceeds of such proposed Series of Junior Lien Bonds will be used to pay interest on such proposed Series, 100% of the interest that will accrue on such Series of Junior Lien Bonds during the first twelve 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 clause (d) may not be used jointly with the adjustments allowed by clauses (b) and (c) with respect to the same proposed new Junior Lien Bonds;
- (e) in the event proceeds of such proposed Series of Junior Lien Bonds will be used to construct or to acquire an expansion to the Water System, 100% of estimated Net Earnings to be received by the Water System in the first Fiscal Year following the completion of such project, certified by the Feasibility Consultants, from customers under long-term contracts which extend for the life of such proposed Series of Junior Lien Bonds; and
- (f) any amount allowed by any of clauses (b) through (e) of this sentence as an adjustment with respect to a previously-issued Series of Junior Lien Bonds if the proposed Series of Junior Lien Bonds is being issued prior to the end of the Fiscal Year (1) for which incremental Net Earnings from the project financed by the previously-issued Series of Junior Lien Bonds were allowed to be projected under clauses (b), (c) or (e) or (2) in which capitalized interest on the previously-issued Series of Junior Lien Bonds is exhausted.

provided that in the instance of any Series of Junior Lien Bonds in the aggregate principal amount of \$3,000,000 or less, such calculations required by this paragraph 4.02(7), unless provided to the contrary in any Junior Lien Series Ordinance, may be made by the Chief Financial Officer; and provided further, that any Series of Junior Lien Bonds in the aggregate principal amount of \$3,000,000 or less, may be issued to complete a project authorized by a Junior Lien Series Ordinance without meeting the requirement of this Section 4.02(7).

(8) In lieu of compliance with Section 4.02(7) hereof, in the case of a Series or a portion of a Series of Junior Lien Bonds issued for the purpose of refunding any Junior Lien Bonds, (i) the Annual Principal and Interest Requirements of the refunding Junior Lien Bonds shall not exceed the Annual Principal and Interest Requirements of the refunded Junior Lien Bonds for any Fiscal Year until a time subsequent to the last maturity of Junior Lien Bonds issued

prior to the issuance of such refunding Junior Lien Bonds which are not refunded and which remain Outstanding following the issuance of the refunding Junior Lien Bonds; and (ii) the sum of (a) the Annual Principal and Interest Requirements on the refunding Junior Lien Bonds, (b) the Annual Principal and Interest Requirements of the nonrefunded Junior Lien Bonds, and (c) the annual principal and interest requirements of the Senior Lien Bonds, does not exceed the sum of the (x) Annual Principal and Interest Requirements on the refunded Junior Lien Bonds, (y) the Annual Principal and Interest Requirements of the nonrefunded Junior Lien Bonds, and (z) the annual principal and interest requirements of the Senior Lien Bonds.

(9) Any proceedings authorizing the issuance of Junior Lien Bonds or Subordinate Lien Bonds may prescribe, in addition to the requirements set forth in Sections 4.02 (7) and 4.02 (8) hereof, further requirements that must be met for the issuance of Junior Lien Bonds either on a parity with such Junior Lien Bonds or senior to such Subordinate Lien Bonds.

(10) If any Series of Junior Lien Bonds shall contain Variable Rate Junior Lien Bonds:

- (a) The Junior Lien Series Ordinance or Junior Lien Series Resolution shall provide for and specify a maximum interest rate on (i) such Junior Lien Bonds and (ii) any reimbursement obligation to a liquidity provider for such Junior Lien Bonds;
- (b) The liquidity provider for such Junior Lien Bonds shall be rated in the highest short term rating category by either Moody's or S&P or Fitch; and
- (c) Any accelerated principal payments or any interest computed at a rate in excess of that on such Junior Lien Bonds due to the liquidity provider for such Junior Lien Bonds pursuant to any reimbursement agreement with such liquidity provider shall be subordinate to the payment of debt service on all Junior Lien Bonds; provided, however, if the tests referred to in Section 4.02(7) and 4.02(8) of this Junior Lien Bond Ordinance of 1998 are calculated (and met) assuming such accelerated principal payment and such excess interest amount to the liquidity provider, then such accelerated principal payment and excess interest amount may be on a parity with the payment of debt service on all Junior Lien Bonds.

(11) 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 under Section 7.04(D) hereof shall have been paid.

Section 4.03. Reliance Upon Certificates.

The City, the Commissioners, the Trustee and any purchaser of any Junior Lien Bonds shall be entitled to rely upon reports of Accountant or certificates of the Feasibility Consultants, made in good faith, pursuant to any provision of this Article.

Section 4.04. Execution of Junior Lien Bonds.

(A) Unless otherwise prescribed by any Junior Lien Series Ordinance, the Junior Lien Bonds shall be executed in the name of and on behalf of the Commissioners by the Mayor, the corporate seal of the City shall be impressed or reproduced thereon and the same shall be attested by the Clerk. Such officers may employ facsimiles of their signatures.

(B) In case any officer whose signature or facsimile signature shall appear on the Junior Lien Bonds shall cease to be such officer before the delivery of any Junior Lien Bond, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes, the same as if such officer had remained in office.

Section 4.05. Authentication.

Except for Junior Lien Bonds consisting of contract obligations not in the form of an instrument, such Junior Lien Bonds as shall have endorsed thereon a certificate of authentication duly executed by the Trustee (or the Registrar for such Series of Junior Lien Bonds, if one shall have been appointed other than the Trustee) shall be entitled to any right or benefit under this Junior Lien Bond Ordinance of 1998. No such Junior Lien Bond shall be valid or obligatory for any purpose unless and until such certificate of authentication shall have been duly executed by the Trustee (or by the Registrar of such Series of Junior Lien Bonds, should one have been appointed), and such executed certificate upon any such Junior Lien Bond shall be conclusive evidence that such Junior Lien Bond has been authenticated and delivered under this Junior Lien Bond Ordinance of 1998. The certificate of authentication on any such Junior Lien Bond shall be deemed to have been duly executed by it if signed by any authorized officer of the Trustee (or of the Registrar for such Series of Junior Lien Bonds, should one have been appointed).

Section 4.06. Medium of Payment.

The Junior Lien Bonds shall be payable with respect to principal, interest, and premium, if any, in lawful money of the United States of America.

Section 4.07. Mutilated, Lost, Stolen or Destroyed Junior Lien Bonds.

In the event any Junior Lien Bond is mutilated, lost, stolen or destroyed, the City may execute and the Trustee (or Registrar for such Series of Junior Lien Bonds, should one have been appointed) may authenticate a new Junior Lien Bond of the same Series of like date, maturity and denomination as that mutilated, lost, stolen or destroyed; provided that, in the case of any mutilated Junior Lien Bond, such mutilated Junior Lien Bond shall first be surrendered to the Trustee (or Registrar for such Series of Junior Lien Bonds, should one have been appointed), and in the case of any lost, stolen or destroyed Junior Lien Bond, there shall be first furnished to the Commissioners and to the Trustee (or Registrar for such Series of Junior Lien Bonds, should one have been appointed) evidence of such loss, theft or destruction satisfactory to the Commissioners and the Trustee (or Registrar for such Series of Junior Lien Bonds, should one have been appointed), together with indemnity satisfactory to them. In the event any such Junior Lien Bond shall have matured, instead of issuing a duplicate Junior Lien Bond, the Commissioners may pay the same. The Commissioners and the Trustee (or Registrar for such Series of Junior Lien Bonds, should one have been appointed) may charge the Holder or owner of such Junior Lien Bond with their reasonable fees and expenses in connection with their activities hereunder.

Section 4.08. Transfer and Registry; Persons Treated as Owners.

(A) As long as any Junior Lien Bonds in registered form shall be Outstanding, the Commissioners shall cause books for the registration and for the transfer of such Junior Lien Bonds to be kept. Such books shall be kept by the Trustee (unless there shall have been appointed a Registrar for such Series of Junior Lien Bonds other than the Trustee) to keep the books of registration for any particular Series of Junior Lien Bonds. The transfer of each such Junior Lien Bond may be registered only upon the registration books of the Commissioners kept for that purpose by the registered owner 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 for such Series of Junior Lien Bonds, as the case may be, duly executed by the registered owner or his duly authorized attorney. Upon the registration or transfer of any registered Junior Lien Bond, the Commissioners shall cause to be issued, subject to the provisions of Section 4.11 hereof, in the name of the transferee a new Junior Lien Bond or Junior Lien Bonds of the same aggregate principal amount, maturity and interest rate as the surrendered Junior Lien Bond.

(B) Except as provided in Section 17.01 hereof, the Commissioners, the Trustee, and any Registrar or Paying Agent for a Series of Junior Lien Bonds may deem and treat the person in whose name any registered Junior Lien Bond of such Series shall be registered upon the registration books of the Commissioners as the absolute owner of such Junior Lien Bond, whether such Junior Lien Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of, premium (if any) and interest on such Junior Lien Bond and for all other purposes, and all such payments so made to any such registered owner or, upon his order, shall be valid and effectual to satisfy and discharge the liability upon such Junior Lien Bond to the extent of the sum or sums so paid; and none of the Commissioners, the Trustee and any Registrar or Paying Agent for such Series of Junior Lien Bonds shall be affected by any notice to the contrary.

(C) Notwithstanding anything in paragraphs (A) and (B) of this Section 4.08 to the contrary, Junior Lien Bonds may be issued in the form of contractual obligations which are not instruments, which may be transferred as provided in such contracts.

Section 4.09. Date and Payment Provisions.

Unless otherwise provided in any Junior Lien Series Ordinance or Junior Lien Series Resolution with respect to Junior Lien Bonds issued thereunder, each Junior Lien Bond of a Series shall be authenticated on such dates as they shall, in each case, be delivered. Each Junior Lien Bond shall bear interest from the Date of Issue if no interest has yet been paid; otherwise from the last date to which interest has been paid and which date is on or prior to the date of such Junior Lien Bond's authentication.

Owners of at least \$1,000,000 principal amount of a Series of Junior Lien Bonds may, by written notice containing wiring instructions filed with the Trustee or the Registrar for such Series of Junior Lien Bonds, as the case may be, at least 20 days prior to any Junior Lien Bond Payment Date, provide for the payment of the interest on or the redemption price of such Junior Lien Bonds by wire transfer to an account at a bank located in the continental United States.

Section 4.10. Transferability of Junior Lien Bonds.

Junior Lien Bonds of a Series, upon surrender thereof at the office of the Trustee or the Registrar for the Junior Lien Bonds of such Series, as the case may be, with a written instrument of transfer satisfactory to such Trustee or 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 Section 4.11 hereof, be exchanged for an equal aggregate principal amount of Junior Lien Bonds of such Series of like maturity and interest rate of any other authorized denominations.

Section 4.11. Regulations With Respect to Exchanges and Transfer.

In all cases in which the privilege of exchanging or transferring Junior Lien Bonds is exercised, the Commissioners shall execute and the Trustee or the Registrar of the particular Series, as the case may be, shall authenticate and deliver Junior Lien Bonds in accordance with the provisions of this Junior Lien Bond Ordinance of 1998. All Junior Lien Bonds surrendered in any such exchanges or transfers shall forthwith be cancelled and destroyed and shall not be reissued, and a counterpart of the certificate of destruction evidencing such destruction shall be furnished by the Trustee or the applicable Registrar, as the case may be, to the Commissioners. All Junior Lien Bonds so destroyed shall thereafter no longer be considered Outstanding for any purposes of this Junior Lien Bond Ordinance of 1998. There shall be no charge to the Holder for such exchange or transfer of Junior Lien Bonds except that the Trustee or the Registrar of the particular Series, as the case may be, may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or transfer. Neither the Commissioners nor the Trustee or the applicable Registrar, as the case may be, shall be required to register, transfer or exchange Junior Lien Bonds of a Series during the period between a Record Date and its related Junior Lien Bond Payment Date, or during the period beginning 15 days prior to any selection of Junior Lien Bonds for redemption and ending upon the mailing of any notice of redemption; nor shall either be required to register, transfer or exchange any Junior Lien Bonds called for redemption.

Section 4.12. Cancellation and Destruction of Mutilated, Paid or Surrendered Junior Lien Bonds.

Upon the surrender of mutilated Junior Lien Bonds pursuant to Section 4.07 hereof, or Junior Lien Bonds paid or surrendered, the same shall be cancelled and destroyed and shall not be reissued, and a counterpart of the certificate evidencing such destruction shall be furnished by the Trustee or the Registrar of the particular Series, as the case may be, to the Commissioners. All Junior Lien Bonds so destroyed shall thereafter no longer be considered Outstanding for any purposes of this Junior Lien Bond Ordinance of 1998.

Section 4.13. Notice of Redemption.

If any of the Junior Lien Bonds, or portions thereof, are called for redemption, the Trustee or Registrar for the particular Series of Junior Lien Bonds to be redeemed, as the case may be, shall give notice to the Holders of any Junior Lien Bonds to be redeemed, in the name of the Commissioners, of the redemption of such Junior Lien Bonds, or portions thereof. Notice of each redemption of bonds is required to be mailed by the Trustee or Registrar for the particular Series of Junior Lien Bonds, as the case may be, to be redeemed by first class mail, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date to each registered owner of Junior Lien Bonds to be redeemed, at the address

of such owner recorded on the bond register and to be otherwise given in accordance with, among others, the following requirements:

- (1) notices must contain, at a minimum, the complete official name of the Junior Lien Bonds, CUSIP number, Junior Lien Bond numbers, principal amount of each Junior Lien Bond to be redeemed (if less than all), publication date, redemption date, redemption price, redemption agent's name and address with contact person and phone number, the name and address of the Trustee and, if one has been appointed, the Registrar, date of the Junior Lien Bonds, interest rate, maturity date, the place or places where amounts due will be payable, and any other descriptive information deemed necessary by the Trustee;
- (2) notices must be sent to Junior Lien Bondholders of \$1,000,000 or more, to at least two national information services, and any Securities Depository by certified mail-return receipt requested. Notices sent to any Securities Depository must be sent so that such notice is received by such Securities Depository at least two days prior to the mailing of such notices to Junior Lien Bondholders. In addition, any Junior Lien Bondholder holding in excess of \$1,000,000 principal amount of Junior Lien Bonds may request the Trustee or, if one has been appointed, the Registrar to send notices to any additional addressee specified;
- (3) a second notice to registered owners of the Junior Lien Bonds must be mailed by the means specified above to any registered owner of Junior Lien Bonds who has not presented Junior Lien Bonds for redemption 60 days after the redemption date, unless the registered owner holds the Junior Lien Bonds as depository under a book-entry system;
- (4) notice of redemptions effected by advance refundings must also be given in accordance with the above requirements at least fifteen (15) days but no more than ninety (90) days prior to the actual redemption date;
- (5) CUSIP number identification with appropriate dollar amounts for each CUSIP number must accompany all redemption payments and interest payments, whether by check or by wire transfer; and
- (6) except with respect to mandatory sinking fund redemptions, no notice of redemption shall be sent unless (a) the notice explicitly states that the proposed redemption is conditioned on there being on deposit with the Trustee on the redemption date sufficient money to pay the full redemption price of the Junior Lien Bonds to be redeemed or (b) sufficient funds have previously been deposited with the Trustee to pay the full redemption price of the Junior Lien Bonds to be redeemed.

The failure of the Trustee or of the Registrar for a Series of Junior Lien Bonds, as the case may be, to give notice to a Junior Lien Bondholder or any defect in such notice shall not affect the validity of the redemption of any other Junior Lien Bonds for which notice is properly given. Any Junior Lien Bondholder may waive notice of redemption by delivery of a written waiver to the Trustee or, if one has been appointed, the Registrar for such Series of Junior Lien Bonds.

Any Junior Lien Series Ordinance providing for the issuance of Junior Lien Bonds consisting of contractual obligations not in the form of an instrument or providing for Junior Lien Bonds in bearer form may provide alternative methods for delivery of notice of redemption.

Provided sufficient funds for such redemption are on deposit with the Trustee, all Junior Lien Bonds of such Series so called for redemption shall cease to bear interest on the specified redemption date and shall no longer be deemed to be Outstanding hereunder. If said money shall not be so available on the redemption date, such Junior Lien Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Section 4.14. Cancellation of Junior Lien Bonds That Have Been Redeemed.

All Junior Lien Bonds that have been redeemed shall be cancelled and destroyed by the Trustee and shall not be reissued, and a counterpart of the certificate of destruction evidencing such destruction shall be furnished by the Trustee to the Commissioners. All Junior Lien Bonds so destroyed shall thereafter no longer be considered Outstanding for any purposes of this Junior Lien Bond Ordinance of 1998.

Section 4.15. Selection of Junior Lien Bonds To Be Redeemed.

In the event that less than all of the Junior Lien Bonds of any Series are to be redeemed at the option of the Commissioners, Junior Lien Bonds to be redeemed shall be in such order of maturity as selected by the Commissioners. In the event of redemption of less than all of the Junior Lien Bonds of a Series of any maturity, the Junior Lien Bonds or portions of Junior Lien Bonds to be redeemed, shall be selected by lot by the Trustee. The portion of any Junior Lien Bond of a denomination which is larger than the minimum denomination for the Junior Lien Bonds of such Series shall be in the principal amount of such minimum denomination or a multiple thereof, and that, in selecting portions of such Junior Lien Bonds for redemption, the Trustee shall treat each such Junior Lien Bond as representing that number of Junior Lien Bonds of minimum denomination which is obtained by dividing the principal amount of such Junior Lien Bond to be redeemed in part by the amount of the minimum denomination; provided further that, if less than all of the beneficial interests in a Junior Lien Bond of a single maturity registered in the name of a Securities Depository or a Securities Depository Nominee are to be redeemed, the beneficial interests to be redeemed shall be selected by lot by the Securities Depository. If there shall be drawn for redemption less than all of a Junior Lien Bond, the City shall execute and the Trustee or, if a Registrar has been appointed, the Registrar for such Series of Junior Lien Bonds shall authenticate and deliver, upon the surrender of such Junior Lien Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Junior Lien Bond so surrendered, Junior Lien Bonds of the same Series in any authorized denomination.

Section 4.16. Restriction on Optional Redemption.

Notwithstanding anything in this Junior Lien Bond Ordinance of 1998 to the contrary, no optional redemption of Junior Lien Bonds may occur unless all amounts payable by the City owing under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated under Section 7.04(D) hereof shall have been paid in full.

Section 4.17. Purchase of Junior Lien Bonds.

The Trustee shall, if and to the extent practicable, purchase Junior Lien Bonds at the written direction of the Commissioners at such time, in such manner and at such price as may be specified by the Commissioners. Such Trustee may so purchase Junior Lien Bonds for cancellation with any money then held by the Trustee which is available for the redemption or purchase of Junior Lien Bonds and in excess

of that set aside for the payment of such Junior Lien Bonds called for redemption; provided, that the Trustee is provided with an opinion of Bond Counsel to the effect that such redemption or purchase complies with any limitations or restrictions on such redemption or purchase contained in this Junior Lien Bond Ordinance of 1998.

Section 4.18. Security for Payment of Junior Lien Bonds; Priority of Lien.

The Junior Lien Bonds shall be payable solely from and shall be secured by a pledge of and a lien upon the Gross Revenues of the Water System. The Junior Lien Bonds shall be junior and subordinate in all respects to the Senior Lien Bonds and the Escrowed Senior Lien Bonds. Pursuant to Section 6-21-330 of the Code of Laws of South Carolina 1976, as amended, and as additional security for the payment of the Junior Lien Bonds, the City hereby grants the holders of the Junior Lien Bonds a statutory lien on the Water System. Such pledge and lien securing the Junior Lien Bonds at all times and in all respects shall be and remain superior to pledges and liens made to secure any other bonds or other obligations payable from the revenues of the Water System, except for those pledges and liens previously made to secure the Senior Lien Bonds and the Escrowed Senior Lien Bonds. The Junior Lien Bonds shall not constitute an indebtedness of the City within the meaning of any provision, limitation or restriction of the Constitution or the laws of the State, other than those provisions authorizing indebtedness payable solely from a revenue-producing project not involving revenues from any tax or license; and the faith, credit and taxing power of the City are expressly not pledged therefor. The City is not obligated to pay any of the Junior Lien Bonds or the interest thereon except from the Gross Revenues of the Water System.

Section 4.19. Junior Lien Bonds in Book-Entry Form.

Notwithstanding any other provision of this Junior Lien Bond Ordinance of 1998 with respect to the form of Junior Lien Bonds to the contrary, the City is hereby authorized to provide by Junior Lien Series Ordinance or Junior Lien Series Resolution for the issuance of one or more Series of Junior Lien Bonds solely in fully registered form registrable to a Securities Depository, a Securities Depository Nominee or the beneficial owner of the Junior Lien Bonds. The Commissioners are further authorized to provide by Junior Lien Series Resolution that such Series of Junior Lien Bonds shall be evidenced by one or more certificates or by a system of book entries in form satisfactory to the Chief Financial Officer and to provide for payment, redemption, notices and like provisions in a manner consistent with such system of registration.

Section 4.20. Waiver of Certain Provisions.

Notwithstanding anything in this Junior Lien Bond Ordinance of 1998 to the contrary, whenever all of the debt issued or all of the obligations incurred by the City under a Junior Lien Series Ordinance are acquired by and are held by a single entity or are insured by an Insurer, that single entity or Insurer, at its sole option, may waive any provision or requirement of this Junior Lien Bond Ordinance of 1998 that relates separately to the governance of such Series and is for the protection and benefit of such single entity only and not for the protection or benefit of any other Holder or Holders of Junior Lien Bonds; provided that if such Series of Junior Lien Bonds is held by a single entity and is insured by an Insurer, then any such waiver shall require the prior written approval of such Insurer.

Section 4.21. Junior Lien Bonds not in the Form of an Instrument.

In the event that the Commissioners issues any Series of Junior Lien Bonds which are contractual obligations not in the form of an instrument, the provisions regarding redemption or prepayment of such Junior Lien Bonds, notices to Junior Lien Bondholders and transfers of such Junior Lien Bonds contained herein may be altered or supplemented by the provisions of the Junior Lien Series Ordinance or Junior Lien Series Resolution pursuant to which such Junior Lien Bonds are issued or the contract pursuant to which such obligations are created.

Section 4.22. Tax-Exempt Status of Junior Lien Bonds.

Notwithstanding anything in this Junior Lien Bond Ordinance of 1998 to the contrary, the City may from time to time, pursuant to one or more Junior Lien Series Ordinances, provide for the issuance of Junior Lien Bonds the interest on which may be includable in gross income of the Holders of such Junior Lien Bonds for federal income taxation purposes. In such event, such Junior Lien Bonds may, at the option of the City, be issued as coupon bonds, payable to bearer, as provided in the applicable Junior Lien Series Ordinance. Such Junior Lien Series Ordinance shall provide such rules and regulations with respect to the ownership, transfer and substitution of such Junior Lien Bonds as are not inconsistent with the other provisions of this Junior Lien Bond Ordinance of 1998.

**ARTICLE V
BUDGET; RATES AND CHARGES**

Section 5.01. Annual Budget.

Prior to the beginning of each Fiscal Year, the Commissioners shall adopt an Annual Budget including rate schedules to be in effect for such Fiscal Year. Such Budget shall set forth in reasonable detail the estimated Gross Revenues and a schedule of estimated expenditures for such Fiscal Year and which shall include appropriations for the estimated operating expenses, the amount to be deposited during such Fiscal Year in the Depreciation and Contingent Fund and estimated payments of principal of and interest on the Senior Lien Bonds, Junior Lien Bonds and Subordinate Lien Bonds for such Fiscal Year. Proposed capital projects accompanied by a statement of the sources of payment for such proposed capital projects shall be prepared by the Commissioners on an annual basis. The Commissioners may at any time adopt an amended Annual Budget for the remainder of the then current Fiscal Year.

Section 5.02. Rate Covenant.

(A) It is hereby determined that the rates for services and facilities furnished by the Water System shall, until otherwise revised by the Commissioners, be as now established. Said rates and charges are determined to be sufficient to meet the requirements of this Junior Lien Bond Ordinance of 1998 but they shall be revised whenever necessary in order that they shall at all times be maintained on a basis sufficient to meet the requirements of this Junior Lien Bond Ordinance of 1998, and the Commissioners specifically covenant and agree to maintain rates and charges for all services furnished by the Water System which shall at all times be sufficient:

(1) To provide for the punctual payment of the principal of and interest on all Senior Lien Bonds, all Junior Lien Bonds and all Subordinate Lien Bonds that may from time to time hereafter be Outstanding;

(2) To maintain the Debt Service Funds and thus provide for the punctual payment of the principal of and interest on the Junior Lien Bonds;

(3) To maintain the Debt Service Reserve Funds in the manner herein prescribed;

(4) To provide for the payment of the Operation and Maintenance Expenses;

(5) To build and maintain a reserve for depreciation of the Water System, for contingencies and for improvements, betterments and extensions to the Water 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 under Section 7.04(D) hereof; and

(7) To discharge all obligations imposed by the Enabling Act and by this Junior Lien Bond Ordinance of 1998.

(B) The Commissioners covenant and agree that they will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the Water System which, together with other income, are reasonably expected to yield annual Net Earnings in a Fiscal Year equal to at least the sum of (i) one hundred ten percent (110%) of the Annual Principal and Interest Requirements for all Series of Junior Lien Bonds Outstanding in such Fiscal Year, plus (ii) one hundred percent (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 as contemplated under Section 7.04(D) hereof plus (iii) one hundred percent (100%) of the principal and interest on Subordinate Lien Bonds, plus (iv) one hundred percent (100%) of any required payment into a Debt Service Reserve Fund due in such Fiscal Year; and, 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, 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.

(C) Until the Ordinance Elevation Date, the covenants made in this Section 5.02 shall be supplemental to the covenants made with respect to rates and charges in Section 5.02 of the Bond Ordinance of 1992.

ARTICLE VI
SUBORDINATE LIEN BONDS
AND SPECIAL FACILITIES BONDS

Section 6.01. Right to Issue Subordinate Lien Bonds; Accession Thereof to Status of Junior Lien Bonds.

Notwithstanding that Junior Lien Bonds may be Outstanding, the City, acting through the Commissioners, may at any time, and without limitation and free of all conditions issue Subordinate Lien Junior Lien Bonds, in such amount as it may from time to time determine, payable from the revenues of the Water System, provided that the pledge of revenues and any lien upon the revenues of the Water System granted for the protection of said Subordinate Lien Bonds, shall at all times be and remain subordinate and inferior in all respects to the pledges of revenues and liens upon such revenues made or authorized for the Junior Lien Bonds; and provided, further, that the maturity of Subordinate Lien Bonds may not be accelerated and paid in full unless all of the Junior Lien Bonds shall have been paid or provision therefor has been made pursuant to Article XVI hereof.

By proceedings authorizing the issuance of Subordinate Lien Bonds, the City may provide for the elevation of such Subordinate Lien Bonds at a later date to the status of Junior Lien Bonds provided all of the following conditions are met at the time of such subsequent elevation.

(1) The Subordinate Lien Bonds were issued for a purpose or purposes set forth in Section 4.01(A) hereof;

(2) There shall exist on the date of accession (a) no default in the payment of the principal of or interest on any Junior Lien Bonds or any Subordinate Lien Bonds then Outstanding and (b) no default in the performance of any duties required under the provisions of this Junior Lien Bond Ordinance of 1998 and (c) no amount owed by the City with respect to the full funding of a Debt Service Reserve Fund, either by way of cash or reimbursement of any other funding mechanism;

(3) The City shall obtain an opinion of Bond Counsel to the effect that (a) this Junior Lien Bond Ordinance of 1998 and the proceedings authorizing such Subordinate Lien Bonds have been duly adopted and are in full force and effect; (b) the Subordinate Lien Bonds have been duly and lawfully authorized and executed by the City and are valid and binding upon, and enforceable against, the City (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) this Junior Lien Bond Ordinance of 1998 creates the valid pledge which it purports to create of the revenues and of moneys and securities on deposit in any of the funds established hereunder subject to the application thereof to the purposes and on the conditions permitted by this Junior Lien Bond Ordinance of 1998;

(4) There shall be on deposit on the date of accession in a Debt Service Reserve Fund an amount equal to the Reserve Requirement for such Subordinate Lien Bonds, considering such Subordinate Lien Bonds to be a Series of Junior Lien Bonds;

(5) There shall be deposited in the Debt Service Fund for such Series of newly-acceded Junior Lien Bonds the amounts which would have been required under the provisions of

Section 8.02 hereof to be accumulated therein on the date of accession if said Subordinate Lien Bonds had originally been issued as Junior Lien Bonds;

(6) On the date of accession, the earnings tests prescribed by subparagraphs 7(a) and 7(b) of Section 4.02 shall have been met; and

(7) In the event such Subordinate Lien Bonds were issued with variable rates, the provisions of subparagraph (10) of Section 4.02 shall have been met.

Section 6.02. Right to Issue Special Facilities Bonds.

The City, acting through the Commissioners, shall have at all times the right to enter into contracts, leases or other agreements pursuant to which it will agree to construct, operate and pay the costs of Special Facilities (as defined hereinbelow) to be financed by its issuance of Special Facilities Bonds, subject to the following conditions:

(a) It shall have been determined to the satisfaction of the Commissioners that the rents, revenues or receipts to be derived from the Special Facilities shall be at least equal to the principal, interest and any reserve requirements contained in the resolution authorizing such Special Facilities Bonds and to pay all operation, maintenance and other costs and expenses applicable to such Special Facilities; and

(b) 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 Water System revenues deposited in the General Revenue Fund except pursuant to Section 8.08 hereof.

For purposes of this Section 6.02, the term "Special Facilities" shall include all or a portion of water facilities and rights to all or a portion of the use of, or the capacity available from, any such facilities.

ARTICLE VII ESTABLISHMENT OF FUNDS

Section 7.01. Requirement for Special Funds.

For so long a time as any sum remains due and payable by way of principal or interest on Junior Lien Bonds, the following funds or accounts relating to the Gross Revenues of the Water System shall be established and maintained, and deposits shall be made therein in the manner herein required. Unless otherwise specifically stated, all funds and accounts established hereby shall be in the custody and control of the Commissioners.

Section 7.02. The General Revenue Fund.

(A) There shall be established and maintained a fund or account designated as the General Revenue Fund. This account shall be so maintained as to reflect accurately:

(1) the Gross Revenues of the Water System; and

(2) the Net Earnings.

(B) Except as otherwise specifically directed or permitted herein, all Gross Revenues of the Water System shall be deposited in accordance with and in the manner prescribed by Article VIII hereof into the General Revenue Fund. Money in the General Revenue Fund shall be withdrawn and made use of only in the manner and in the order of priority specified in Article VIII hereof. So long as the Commissioners establish, from an accounting standpoint, proper records of receipts and disbursements for the General Revenue Fund, the General Revenue Fund may be used for the purposes of the Operation and Maintenance Fund.

(C) Until the Ordinance Elevation Date, the "Gross Revenue Fund" established under the Bond Ordinance of 1992 shall also be the General Revenue Fund.

Section 7.03. The Debt Service Funds.

(A) There shall be established and maintained a Debt Service Fund for each Series of Junior Lien Bonds Outstanding. The respective Debt Service Funds are intended to provide for the ratable payment of the principal of, redemption premium, if any, and interest on the respective Series of Junior Lien Bonds as the same respectively fall due. Payments into such Debt Service Funds shall be made in the manner prescribed by this Junior Lien Bond Ordinance of 1998, including the applicable provisions of Article VIII, and, except as herein provided, all money in the respective Debt Service Funds shall be used solely to pay the principal of, redemption premium, if any, and interest on the respective Series of Junior Lien Bonds, and for no other purpose. Each Debt Service Fund shall bear a number Series designation as may be necessary to distinguish each Debt Service Fund.

(B) Each Debt Service Fund shall be kept in the complete custody and control of the Trustee, and withdrawals from a Debt Service Fund shall be made only by the Trustee who shall transmit to each Junior Lien Bondholder of a particular Series, 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 Junior Lien Bonds. Amounts held by the Trustee due to non-presentment of Junior Lien Bonds of a Series on any redemption date must be retained by the Trustee for a period of at least one year after the final maturity of such Junior Lien Bonds.

(C) Money in the Debt Service Funds shall be invested and reinvested at the direction of the Chief Financial Officer in Authorized Investments, maturing not later than the date on which such money is required to pay the principal of, premium, if any, and interest next maturing. All earnings from such investments shall be added to and become a part of the Debt Service Fund in which such investments are held, but shall be credited against payments that would otherwise be made to such Debt Service Fund pursuant to the provisions of Section 8.02 hereof.

Section 7.04. The Debt Service Reserve Funds.

(A) A Debt Service Reserve Fund shall be established for each Series of Junior Lien Bonds Outstanding and shall bear a number or Series designation as may be necessary to distinguish each Debt Service Reserve Fund and shall, subject to the other provisions of this Junior Lien Bond Ordinance of 1998, be maintained in an amount equal to the Reserve Requirement for the particular Series of Outstanding Junior Lien Bonds for which such Fund has been established, for as long as such Series of Junior Lien Bonds shall be Outstanding. Each such Debt Service Reserve Fund is intended to secure the

timely payment of the principal of and interest on such Series of Junior Lien Bonds, and to provide for the redemption of such Junior Lien Bonds prior to their stated maturities. Money in each Debt Service Reserve Fund shall be used for the following purposes, and for no other, viz.,

(1) To prevent a default in the payment of the principal of or interest on the applicable Series of Junior Lien Bonds, by reason of the fact that money in applicable Debt Service Fund is insufficient for such purposes;

(2) To pay the principal of, interest on, and redemption premium of the applicable Series of Junior Lien Bonds in the event that all Outstanding Junior Lien Bonds of such Series are to be redeemed as a whole; or

(3) To effect partial redemption of the applicable Series of Junior Lien Bonds; but subject to the restrictions of Section 4.16 hereof and provided that subsequent to said partial redemption, the market value of the cash and securities in such Debt Service Reserve Fund shall be not less than its Reserve Requirement.

The requirements for and provisions governing any Debt Service Reserve Fund in the remainder of this Junior Lien Bond Ordinance of 1998, in references to "the Debt Service Reserve Fund", "the Reserve Requirement", the "Debt Service Fund(s)" and "the Junior Lien Bonds", shall be deemed to refer to each such Debt Service Reserve Fund created by a Junior Lien Series Ordinance, and in each case to the respective Reserve Requirement and Debt Service Fund for the respective Series of Junior Lien Bonds; and to Junior Lien Bonds only of that respective Series and not to any other Junior Lien Bonds.

(B) Each Debt Service Reserve Fund shall be kept in the complete custody and control of the Trustee and withdrawals therefrom shall be made only by the Trustee who shall transmit to a Junior Lien Bondholder of such Series at such times as may be appropriate, the sums required to pay the principal of, redemption premium, if any, and interest on such Series of Junior Lien Bonds.

(C) Money in each Debt Service Reserve Fund shall be invested and reinvested by the Trustee at the direction of the Chief Financial Officer in Authorized Investments. Except with the written consent of the Insurer insuring such Series of Junior Lien Bonds, the term to maturity of Authorized Investments in any Debt Service Reserve Fund shall not be greater than five (5) years. Subject to the remaining provisions of this paragraph (C), the earnings from such investments in a particular Debt Service Reserve Fund shall be added to and become a part of that Debt Service Reserve Fund. Whenever, and as of any date of calculation, the Value of the securities and money in any Debt Service Reserve Fund shall exceed its Reserve Requirement, such excess shall, at the option of the Commissioners as determined by the Chief Financial Officer, either be used to effect partial redemption of such Series of Junior Lien Bonds, or transferred into the Debt Service Fund for such Series of Junior Lien Bonds, or transferred to the Project Fund, if any, established for such Series of Junior Lien Bonds. In the case of a consolidated Debt Service Reserve Fund for several Series of Junior Lien Bonds, the amount eligible to be transferred to a Project Fund shall be equal to the investment earnings that have accrued in the consolidated Debt Service Reserve Fund since the later of (i) the most recent transfer out of the consolidated Debt Service Reserve Fund and (ii) the creation of such Project Fund and that are attributable to a portion of the consolidated Debt Service Reserve Fund not greater than the maximum Annual Principal and Interest Requirement of the Series of Junior Lien Bonds authorized by the Junior Lien Series Ordinance that established such Project Fund. Any transfer of excess to the Debt Service Funds from a consolidated Debt Service Reserve Fund shall

be in proportion to the next monthly payments then scheduled to be made into such Debt Service Funds pursuant to Section 8.02 of this Junior Lien Bond Ordinance of 1998.

(D) Notwithstanding anything in this Junior Lien Bond Ordinance of 1998 to the contrary, the City, in lieu of the deposit of moneys into a Debt Service Reserve Fund for a particular Series of Junior Lien Bonds, may satisfy the applicable Reserve Requirement by causing to be credited to such Fund an irrevocable and unconditional surety bond, line of credit, letter of credit or insurance policy payable to the Trustee or the Paying Agent for such Series for the benefit of the Holders of the Junior Lien Bonds of such Series in an amount which together with other moneys on deposit in such Debt Service Reserve Fund is equal to the applicable Reserve Requirement. In the event the amount on deposit in, or credited to, a Debt Service Reserve Fund, in addition to the amount available under the surety bond, line of credit, insurance policy or letter of credit in question (the "Original Funding Instrument") includes amounts available under another surety bond, line of credit, insurance policy or letter of credit (the "Additional Funding Instrument"), draws on the Original Funding Instrument and the Additional Funding Instrument shall be made on a *pro rata* basis to fund any insufficiency in the applicable Debt Service Fund. In the event a Debt Service Reserve Fund is funded with both monies and a surety bond, line of credit, insurance policy or letter of credit, (1) any withdrawals from such Debt Service Reserve Fund shall be made first from such monies (or the liquidation of investments made therewith) and second from such surety bond, line of credit, insurance policy or letter of credit, and (2) deposits to such Debt Service Reserve Fund pursuant to Section 8.03 shall be used first to reinstate the surety bond, line of credit, insurance policy or letter of credit and second to restore the cash balance. The surety bond, line of credit, insurance policy or letter of credit shall be payable (upon the giving of notice as required thereunder) on any Junior Lien Bond Payment Date on which moneys will be required to be withdrawn from such Debt Service Reserve Fund and applied to the payment of the principal of or interest on the Outstanding Series of Junior Lien Bonds to which such surety bond, line of credit, insurance policy or letter of credit relates when such payments cannot be made by amounts otherwise credited to such Debt Service Reserve Fund.

- (E) (I) The company providing such surety bond, line of credit or insurance policy, or, in lieu thereof, the guarantor of such company's obligations under such surety bond, line of credit or insurance policy, shall be a company whose municipal bond insurance policies insuring the payment of the principal of and interest on municipal bond issues, or whose guarantee of such policies, results in such issues being rated (if rated at all) in the highest rating category by S&P and Moody's and Fitch or their respective successors and, if rated by A.M. Best & Company, such company must also be rated in the highest rating category by A.M. Best & Company. The letter of credit issuer shall be a bank or trust company which is rated not lower than the second highest rating category by S&P and Moody's and Fitch or their successors, and the letter of credit itself shall be rated in the highest category of either such rating agency. The insurance policy or surety bond must extend for the life of the Series of Junior Lien Bonds which receive the benefit of the same and must be unconditional and irrevocable. If a letter of credit or line of credit is provided under the provisions of this paragraph, then within sixty (60) days prior to the stated expiration date of any said letter of credit or line of credit which does not extend for the term of the Series of Junior Lien Bonds as to which the same applies, (i) the Commissioners shall, after giving written notice to the Trustee, obtain another letter of credit or line of credit, as the case may be; or (ii) the Trustee shall, at the written direction of the Commissioners, draw upon the letter of credit or line of credit, as the case may be, in order to fund the applicable Debt Service Reserve Fund with cash; or (iii) the Commissioners shall, after giving written notice to the Trustee, fully fund the applicable

Debt Service Reserve Fund with cash or Authorized Investments. If a disbursement is made pursuant to a surety bond, a line of credit, an insurance policy or a letter of credit provided pursuant to this paragraph, the Commissioners shall be obligated either (a) to reinstate the maximum limits of such surety bond, line of credit, insurance policy or letter of credit, or (b) to deposit into such Debt Service Reserve Fund cash in the amount of the disbursement made under such surety bond, line of credit, insurance policy or letter of credit, or a combination of such alternatives, as shall provide that the amount credited equals the Reserve Requirement on the respective Series of Junior Lien Bonds within a time period not longer than one (1) year. The Trustee shall receive such opinions, including legal opinions, certificates and other documentation, line of credit, as the Trustee shall request, prior to receipt of such surety bond, letter of credit, line of credit or insurance policy by the Trustee.

(2) If a surety bond, insurance policy, line of credit or letter of credit on deposit in a Debt Service Reserve Fund shall be terminated (other than on its stated expiration date), may not be drawn upon for any reason, or shall otherwise no longer be in compliance with the provisions of this Section 7.04(E), the Commissioners shall either (a) replace such surety bond, insurance policy, line of credit or letter of credit with a substitute which complies with the provisions of Section 7.04(D), or (b) commence making deposits of Gross Revenues to the Debt Service Reserve Fund over a period not longer than twelve (12) months after the date of such termination until the amount on deposit in such Debt Service Fund equals the applicable Reserve Requirement.

(F) Notwithstanding the requirement of Section 7.04(A) above, any Junior Lien Series Ordinance may designate the Debt Service Reserve Fund for the Series of Junior Lien Bonds authorized thereby to be consolidated with the Debt Service Reserve Fund for each other Series so designated, in which case all such designated Series shall be considered in the aggregate as a single Series for all purposes related to the consolidated Debt Service Reserve Fund.

Section 7.05. The Operation and Maintenance Fund.

(A) There shall be established and maintained an Operation and Maintenance Fund. The Operation and Maintenance Fund is intended to provide for the payment of Operation and Maintenance Expenses.

(B) Withdrawals from the Operation and Maintenance Fund shall be made by or on the order of the Chief Financial Officer in accordance, as nearly as may be practicable, with the Annual Budget then in effect.

(C) Until the Ordinance Elevation Date, the "Operation and Maintenance Fund" established under the Bond Ordinance of 1992 shall also be the Operation and Maintenance Fund.

Section 7.06. The Depreciation and Contingent Fund.

(A) There shall be established and maintained a Depreciation and Contingent Fund. This Fund shall be maintained in an amount to be established not less frequently than annually by the Commissioners on the advice of Feasibility Consultants in order to provide a reasonable reserve for depreciation of the Water System, for contingencies and for improvements, betterments and extensions of the Water System.

(B) Money in this fund shall be used solely:

- (1) For the purpose of restoring depreciated or obsolete items of the Water System;
- (2) For improvements, betterments and extensions to the Water System, other than for those things which are reasonably necessary to maintain the Water System in good repair and working order;
- (3) To defray the cost of unforeseen contingencies and extraordinary repairs;
- (4) To prevent payment or other defaults of Escrowed Senior Lien Bonds, Senior Lien Bonds, Junior Lien Bonds and Subordinate Lien Bonds; and
- (5) For optional redemption of Junior Lien Bonds or Subordinate Lien Bonds;

(C) Withdrawals from this Fund shall be made by or on order of the Commissioners.

(D) Until the Ordinance Elevation Date, the "Depreciation and Contingent Fund" established under the Bond Ordinance of 1992 shall also be the Depreciation and Contingent Fund.

Section 7.07. Rate Stabilization Funds.

The Commissioners may by resolution, from time to time, establish a Rate Stabilization Fund for a specified period of time.

Section 7.08. Investments of Funds.

Whenever, in the opinion of the Commissioners, it becomes desirable to invest money in any of the funds established by this Article (other than the Debt Service Reserve Funds and the Debt Service Funds for which provisions are made above), the Commissioners may make Authorized Investments. In the event the Commissioners directs the Trustee for a Series of Junior Lien Bonds to so invest, the Trustee shall act in compliance with such directions. Earnings resulting from the investment of money in a particular fund shall be deposited into the General Revenue Fund (i) except as provided in Sections 7.03 and 7.04 hereof and (ii) unless the Commissioners shall have determined pursuant to the Annual Budget that any such earnings on amounts in the Depreciation and Contingent Fund shall remain therein.

Section 7.09. Capitalized Interest Accounts in Debt Service Funds.

There may be established in the respective Debt Service Funds from time to time a Capitalized Interest Account to provide for the payment of interest on the Junior Lien Bonds of a particular Series. Any such account shall be created by the Junior Lien Series Ordinance or Junior Lien Series Resolution relating to the issuance of the Junior Lien Bonds of such Series. Any earnings from the investment of funds in the Capitalized Interest Account not required to pay interest on the Junior Lien Bonds of any Series during the period for which interest on the Junior Lien Bonds of such Series is capitalized shall be deposited in the Project Fund for such Series of Junior Lien Bonds or, if such Project Fund has been terminated, such earnings shall be retained in the Debt Service Fund.

ARTICLE VIII DISPOSITION OF REVENUES

Section 8.01. Deposits to General Revenue Fund; Dispositions Therefrom.

The Gross Revenues of the Water System, excluding that money the disposition of which is controlled by other provisions of the Junior Lien Bond Ordinance of 1998, are declared to be a part of the "General Revenue Fund" (previously established as the "Gross Revenue Fund" under the Bond Ordinance of 1992) and shall be, as received, deposited into such fund. The dispositions from the General Revenue Fund required by the remaining Sections of this Article shall be made on or before the Business Day which is five (5) Business Days prior to the end of each month following the delivery of the first Series of Junior Lien Bonds issued pursuant to this Junior Lien Bond Ordinance of 1998 and in the order of priority established by the sequence of the remaining Sections of this Article.

Section 8.02. Payments for Junior Lien Bonds.

(A) Until the Ordinance Elevation Date, provision first shall be made for the payment of the principal of and interest on the Escrowed Senior Lien Bonds, if necessary, and the Senior Lien Bonds and the funding to appropriate levels of the debt service fund; debt service reserve fund and operation and maintenance fund created under Article VIII of the Bond Ordinance of 1992 and series ordinances supplemental thereto.

(B) Provision then shall be made for the payment of the principal of and interest on all Junior Lien Bonds then Outstanding, all without priority of any Junior Lien Bonds over others but ratably as to each Series of Junior Lien Bonds. To that end:

(1) There shall be deposited into the respective Debt Service Funds the monthly fraction of the aggregate amount of interest to become due on the respective Series of Junior Lien Bonds on the next ensuing interest payment date; provided, however, that if provision has been made for the payment of all or part of the next installment of interest to become due on any particular Series of Junior Lien Bonds, pursuant to any other provision of this Junior Lien Bond Ordinance of 1998, or any Junior Lien Series Ordinance, or by reason of investment earnings, then, in such event, the deposits required by this paragraph may be omitted, or reduced accordingly.

(2) There shall be deposited into the respective Debt Service Funds the monthly fraction of the aggregate amount of principal of the respective Series of Junior Lien Bonds becoming due and payable on the next ensuing principal maturity date (whether at stated maturity or by sinking fund installments), so that on each principal maturity date, the amount of principal to be paid shall have been accumulated and be on hand. Provided, however, that if provision has been made for the payment of all or part of the next installment of principal to become due on a Series of Junior Lien Bonds, pursuant to any other provision of this Junior Lien Bond Ordinance of 1998, or any Junior Lien Series Ordinance, or by reason of investment earnings, then, in such event, the deposits required by this paragraph may be omitted, or reduced accordingly.

(3) If, on the occasion when the deposits required by paragraphs (1) and (2) of this section are to be made, the sum total of the deposits required thereby plus previous monthly deposits and the remaining deposits to be made prior to the next succeeding principal and interest

payment dates, will be less than the sum required to effect the payment of the next succeeding installment of either principal or interest, or both, as the case may be, a sum equal to such deficiency shall be added to the deposits so to be made.

(4) If any Junior Lien Bonds are called for optional redemption, there shall be deposited in either the Debt Service Fund or a trust fund established pursuant to Article XV hereof sufficient moneys to pay the principal of, premium, if any, and interest due on such Junior Lien Bonds on the applicable redemption date therefor.

Section 8.03. Deposits for the Debt Service Reserve Funds - Valuation.

Deposits shall next be made in the amounts required by this Section 8.03 into the respective Debt Service Reserve Funds. The Trustee shall calculate the Value of the cash and securities in each Debt Service Reserve Fund as of each June 30 and December 31, such calculation to be completed within forty-five (45) days after such date, and as of the date of delivery of each Series of Junior Lien Bonds on or prior to such date, and as of any other date determined by the Chief Financial Officer (not to exceed two (2) additional optional calculation dates in any twelve (12) month period), in order to determine if the Debt Service Reserve Fund contains the Reserve Requirement therefor, and the extent to which payments therefor or withdrawals therefrom must be made, and the timing thereof, pursuant to this Junior Lien Bond Ordinance of 1998 and the respective Junior Lien Series Ordinances. Unless a Debt Service Reserve Fund then contains in cash and securities (or a surety bond, insurance policy, line of credit or letter of credit as provided in Section 7.04, hereof) an amount at least equal to its Reserve Requirement, there shall be paid into such Debt Service Reserve Fund on the tenth (10th) Business Day of each of the eleven (11) months following a determination of a deficiency in such Debt Service Reserve Fund one-eleventh (1/11) of the amount necessary to re-establish in such Debt Service Reserve Fund its Reserve Requirement; provided, however, nothing herein shall preclude the Commissioners from fully re-establishing such Reserve Requirement in a more timely fashion than as so prescribed. 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 shall be valued at the amount still remaining to be drawn thereon; and in the event that any such surety bond, line of credit, insurance policy or letter of credit has been drawn upon, the amount necessary to restore the principal balance thereof shall be paid by the Commissioners in the same manner and on a parity with the payments described in this Section 8.03.

Section 8.04. Reimbursement of Interest on Amounts Advanced for Debt Service Reserve Fund.

Provision shall then be made for payment of interest on amounts advanced by the provider of any surety bond, line of credit, insurance policy or letter of credit as contemplated in Section 7.04(D) hereof.

Section 8.05. Deposits for Operation and Maintenance Fund.

There shall next be transferred to the Operation and Maintenance Fund, either from the General Revenue Fund or from the Rate Stabilization Fund as described in Section 8.08 hereof, the amount budgeted for Operation and Maintenance Expenses for the ensuing month; provided, however, that until the Ordinance Elevation Date, it is expressly recognized that deposits to this Fund generally shall be controlled by the Bond Ordinance of 1992.

Section 8.06. Payments for Subordinate Lien Bonds.

Provision shall then be made for the payment of any other indebtedness which is junior and subordinate to the Junior Lien Bonds in the order of priority contemplated by the proceedings authorizing their issuance.

Section 8.07. Deposits for the Depreciation and Contingent Fund.

There shall be deposited into the Depreciation and Contingent Fund that sum which is one-twelfth (1/12) of the sum which has been currently determined by the Commissioners to be the estimated requirements therefor for the then current Fiscal Year; provided, however, that until the Ordinance Elevation Date, it is expressly recognized that deposits to this Fund generally shall be controlled by the Bond Ordinance of 1992.

Section 8.08. Use of Surplus Money.

All money remaining after making the payments required by Sections 8.01 to 8.07 hereof, shall be used as determined from time to time by the Commissioners, for the maintenance or improvement, or payment of debt payable from the revenues, of the Water System or for the payment of Special Facilities Bonds, or for payment into a Rate Stabilization Fund, or for any other lawful purpose of the Commissioners. The Commissioners may determine by resolution at any time to deposit any percentage or any set amount of surplus money to the extent that it is realized, into a Rate Stabilization Fund; provided, however, that the amount on deposit in a Rate Stabilization Fund shall not exceed the amount budgeted for the Operation and Maintenance Fund for the then current Fiscal Year. Amounts on deposit in a Rate Stabilization Fund may, at the direction of the Chief Financial Officer, be used to make the deposits into the Operation and Maintenance Fund required by Section 8.05 hereof. Amounts on deposit in a Rate Stabilization Fund may, at the option of the Commissioners, be withdrawn and used for any other lawful purpose of the Commissioners, but in such event, such withdrawals for purposes other than Operation and Maintenance Expenses shall not be included in Net Earnings.

**ARTICLE IX
AGREEMENT TO FURNISH
INFORMATION WITH RESPECT TO WATER SYSTEM**

Section 9.01. Keeping Records.

The Commissioners recognize that those who may from time to time hereafter be Junior Lien Bondholders will, throughout the life of the Junior Lien Bonds, require full information with respect to the Water System, the fiscal affairs of the Water System, and all matters incident to each. To that end the Commissioners hereby covenant and agree that they will install and thereafter at all times maintain proper books of records and accounts, separate and distinct from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Water System, and all revenues and receipts derived therefrom, directly or indirectly. Such books and records shall be kept in such fashion as to reveal in detail:

- (A) The number of customers who may from time to time make use of the Water System;

- (B) The Gross Revenues of the Water System and the source from whence derived;
- (C) All expenses incurred in the operation of the Water System suitably identified as to purpose;
- (D) The Net Earnings of the Water System;
- (E) All expenditures made from the several funds established by this Junior Lien Bond Ordinance of 1998, and Junior Lien Series Ordinances authorizing the issuance of the Junior Lien Bonds; and
- (F) The rate schedules that may from time to time be in force.

Section 9.02. Audit Required.

The Commissioners further covenant and agree that so long as any Junior Lien Bonds are Outstanding, it will, not later than one hundred and twenty (120) days after the close of each Fiscal Year, cause to be made and completed by the Accountants, an audit of the records, books and accounts pertaining to the Water System, made in accordance with recognized accounting practices, showing, among other things, Gross Revenues and Net Earnings; and that it will furnish a copy of such audit to the Trustee. Such audit shall comment upon any violation of any provision of any ordinance authorizing the issuance of any Junior Lien Bonds or Subordinate Lien Bonds and any violation of any provision of this Junior Lien Bond Ordinance of 1998 noted by the auditing accountants, and such other matters as to them seem pertinent. The cost of such audit shall be treated as an Operation and Maintenance Expense of the Water System. Any copies so furnished need not be certified.

ARTICLE X INSURANCE

Section 10.01. Requirement of Insurance.

The Commissioners, acting on behalf of the City, covenant and agree that so long as any Junior Lien Bonds are Outstanding:

- (A) That they will insure and at all times keep the Water System insured against physical loss or damage with a responsible insurance company or companies, authorized and qualified under the laws of the State of South Carolina, to assume the risks insured against, in such amount as private corporations engaged in similar endeavors would customarily insure for;
- (B) That they will secure adequate fidelity bonds (blanket or individual) of a surety company doing business in the State, indemnifying the Commissioners against defalcation of all persons handling money derived from the Water System or signing checks on any bank accounts relating to the Water System, other than the Trustee or a Registrar or Paying Agent;
- (C) That all premiums on all bonds or insurance policies shall be deemed a part of the cost of operating and maintaining the Water System;

(D) That all insurance policies shall be open to the inspection of any Junior Lien Bondholder at any reasonable time;

(E) That all money received by the Commissioners as a consequence of any defalcation, covered by any fidelity bond, shall be used to restore the fund depleted by the defalcation. All sums received by the Commissioners from insurance policies covering the Water System may, to the extent necessary, be applied to the repair and replacement of the damaged or destroyed property, but, in the event that such money is not used for such purposes, then the same shall be deposited in the Depreciation and Contingent Fund; and

(F) That they will comply with the requirements of State law regarding the mandatory purchase of liability insurance contained in Section 15-78-140(b) of the South Carolina Code of Laws of 1976, as amended and as the same shall from time to time be amended.

ARTICLE XI ADDITIONAL COVENANTS

Section 11.01. Additional Covenants to Secure Junior Lien Bonds.

The Commissioners further covenant and agree:

(A) That neither the Water System, nor any part thereof, nor any of the revenues derived from the Water System, have been or will be hypothecated, mortgaged, otherwise pledged or encumbered, save and except in accordance with the provisions hereof;

(B) That they will permit no free service to be rendered, or use to be made of the services and facilities of the Water System, and for the services and facilities of the Water System used by the City, the reasonable cost and value of such services and facilities shall be paid as such services accrue, and that the revenue so received from the City shall be deemed revenue derived from the operation of the Water System, and shall be accounted for in the same manner as other revenues of the Water System; provided, however, that the provisions of this covenant and the covenants in Section 11.01(D) shall not apply to fire protection service afforded by the Water System;

(C) That, to the extent lawful, they will not permit competing water systems to operate within its boundaries;

(D) That they will permit no customer to be connected to the Water System, or to receive any service afforded by the Water System, unless a proper meter is installed and a proper account is established and charges are levied against such account for services rendered, and such customer shall become obligated to pay for the service rendered at the appropriate rate according to the rate schedule then in force;

(E) That so long as there are any Junior Lien Bonds Outstanding and unpaid, they will perform all duties with reference to the Water System required by the Constitution and statutes of the State;

(F) That they will not sell, lease or dispose of any portion of the Water System, necessary or useful (as determined by the Feasibility Consultants; provided, however, if the fair market value of any such portion does not exceed \$500,000, such determination may be made by the Commissioners) in the operation of the Water System, until all Junior Lien Bonds shall be paid in full, or unless and until provision shall have been made for the payment of all Junior Lien Bonds and the interest thereon in full, and the Commissioners further obligate themselves and covenant and agree with the Junior Lien Bondholders to maintain in good condition and to operate said Water System, and to collect and charge such rates for the services and facilities of the Water System so that the income and revenues of the Water System will be sufficient at all times to meet the requirements of this Junior Lien Bond Ordinance of 1998. If, pursuant to this Section, anything belonging to the Water System which is not deemed by the Commissioners to be necessary or useful therefor shall be sold or disposed of, the proceeds of such sale or disposition shall be deposited in the Depreciation and Contingent Fund or in the General Revenue Fund, as shall be determined by the Chief Financial Officer;

(G) That they will permit, so long as there are any Junior Lien Bonds Outstanding, any Junior Lien Bondholder to inspect the Water System and all records and accounts thereof under reasonable terms and conditions and after reasonable notice has been given;

(H) That they will not make any use, and it shall direct the Trustee and each Fiduciary not to make any use of the proceeds of any Series of Junior Lien Bonds which Junior Lien Bonds were intended upon the issuance thereof to be exempt from federal income taxation, which, if such use had been reasonably expected on the date of the issuance of the Junior Lien Bonds of such Series would have caused such Junior Lien Bonds or any other Junior Lien Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and will observe and not violate the requirements of Section 148 of the Code;

(I) That, as to any Series of Junior Lien Bonds that was intended at the time of their issuance to be exempt from federal income taxation, it will take all actions required of it under the Code that are necessary to preserve the tax-exempt status of such Series of Junior Lien Bonds, including without limitation, actions necessary to comply with all information reporting requirements and any obligation to rebate arbitrage earnings on the proceeds of such Junior Lien Bonds to the United States Government;

(J) That it will make all payments or deposits required under Articles VII and VIII of this Junior Lien Bond Ordinance of 1998 in a timely manner; and

(K) That they will, from time to time, forward to each Trustee, in writing, the name of the Chief Financial Officer, together with his or her specimen signature.

ARTICLE XII MODIFICATION OF ORDINANCE

Section 12.01. Modification Without Junior Lien Bondholder Approval.

(A) Provided always that the security of the Junior Lien Bonds shall not be lessened, or in any manner impaired, the City may for any one or more of the following purposes at any time; or from time

to time, and without the approval of the Junior Lien Bondholders of any Series (but always with the prior written consent of each Insurer, if any), except with respect to the issuance of a Series of Junior Lien Bonds under paragraph (1), adopt an ordinance, supplementing this Junior Lien Bond Ordinance of 1998, which supplemental ordinance shall be fully effective in accordance with its terms:

(1) To provide for the issuance of a Series of Junior Lien Bonds in accordance with Article IV of this Junior Lien Bond Ordinance of 1998;

(2) To add to the covenants and agreements of the City in this Junior Lien Bond Ordinance of 1998, such other covenants and agreements thereafter to be observed;

(3) To surrender any right, power or privilege reserved to or conferred upon the City by this Junior Lien Bond Ordinance of 1998;

(4) To cure, correct and remove any ambiguity or inconsistent provisions contained in this Junior Lien Bond Ordinance of 1998; and

(5) To provide for the consolidation of the Debt Service Reserve Fund.

(B) It is further provided that such supplemental ordinance shall not become effective until (1) a copy thereof, duly certified, shall have been filed in the office of the Clerk of Court for Spartanburg County and (2) the Commissioners shall have received an opinion of Bond Counsel to the effect that such supplemental ordinance has been lawfully adopted in accordance with the provisions hereof and is in full force and effect. The Trustee will promptly provide a full transcript of all proceedings relating to such supplemental ordinance made hereunder to any Insurer.

Section 12.02. Modification with Junior Lien Bondholder Approval or Insurer Consent.

The rights and duties of the City and the Junior Lien Bondholders and the terms and provisions of this Junior Lien Bond Ordinance of 1998 or any Junior Lien Series Ordinance, upon recommendation of the Commissioners, may be modified or altered in any respect by an ordinance adopted by the City Council with either (a) if there is not an Insurer for any Junior Lien Bonds, the consent of the Holders of sixty-six and two-thirds percent (66-2/3%) in principal amount of all Junior Lien Bonds of each Series which would be affected by such modification or alteration then Outstanding or (b) if there is an Insurer, the prior written consent of each Insurer, such consents to be evidenced by an instrument or instruments executed by such Holders and the Insurer and duly acknowledged or proved before a notary public or other public officer authorized to take oaths; provided that no such modification or alteration shall, without the prior written consent of the Insurer for such Series of Junior Lien Bonds or, if there is no Insurer, the consent of the Holders of all Junior Lien Bonds Outstanding of that Series:

(A) Extend the maturity of any payment of principal or interest due upon any Junior Lien Bond;

(B) Effect a reduction in the amount which the City is required to pay by way of principal, interest or redemption premium on any Junior Lien Bond;

(C) Effect a change as to the type of currency in which the City is obligated to effect payment of the principal, interest and redemption premium of any Junior Lien Bonds;

(D) Permit the creation of a pledge of or lien upon the revenues of the Water System prior to or equal to the Junior Lien Bonds except as may be permitted under the provisions of this Junior Lien Bond Ordinance of 1998;

(E) Permit preference or priority of any Junior Lien Bonds to others;

(F) Alter or modify the provisions of Section 4.02 or of Articles V, VII, and VIII; or

(G) Reduce the percentage required for the written consent to the modification or alteration of the provisions of this Junior Lien Bond Ordinance of 1998.

The Trustee will promptly provide a full transcript of all proceedings relating to such supplemental ordinance made hereunder to any Insurer.

Section 12.03. Procedure for Procuring Junior Lien Bondholder Approval.

The City, the Commissioners and the Trustee may rely upon the registry books maintained by the Registrar to determine who are the Holders of the Junior Lien Bonds of a particular Series. Any and all modifications made pursuant to Section 12.02 shall not become effective until (1) there has been filed with the Clerk of Court for Spartanburg County and with the Trustee a copy of such amendatory ordinance hereinabove provided for, duly certified, and (2) there shall have been filed with the Trustee proof of consent to such modification by either (a) if there is no Insurer, the Holders of sixty-six and two-thirds percent (66-2/3%) in principal amount of the Junior Lien Bonds then Outstanding or (b) if there is an Insurer, the Insurer. In the event that any Series of Junior Lien Bonds are held under a book-entry system pursuant to Section 4.19, the approvals of Junior Lien Bondholders may be obtained in the manner provided in the agreement with the Securities Depository.

Section 12.04. Notice to Rating Agencies and Bond Insurers.

Any rating agency rating a Series of Junior Lien Bonds shall be provided notice and a copy of any amendment to this Junior Lien Bond Ordinance of 1998 or to the applicable Junior Lien Series Ordinance or Junior Lien Series Resolution at least fifteen (15) days in advance of its execution or adoption.

ARTICLE XIII EVENTS OF DEFAULT

Section 13.01. Events of Default.

(A) Each of the following events is hereby declared to be an "Event of Default" with respect to all Junior Lien Bonds Outstanding under this Junior Lien Bond Ordinance of 1998:

(1) Payment of the principal of any of the Junior Lien Bonds shall not be made when the same shall become due and payable, either at maturity or by proceedings for redemption;

(2) Payment of any installment of interest on any Junior Lien Bonds shall not be made when the same becomes due and payable;

(3) Payment of any installment of either interest or principal on any Subordinate Lien Junior Lien Bonds shall not be made when the same becomes due and payable;

(4) The City or the Commissioners shall for any reason be rendered incapable of fulfilling its obligations hereunder;

(5) An order or decree shall be entered with the consent or acquiescence of the City or the Commissioners appointing a receiver, or receivers, of the Water System, or of the revenues thereof, or any proceedings shall be instituted with the consent or acquiescence of the City or the Commissioners for the purpose of effecting a composition between the City or the Commissioners and their creditors whose claims relate to the Water System, or for the purpose of adjusting claims of such creditors, pursuant to any federal or State statute now or hereafter enacted, or if such order or decree, having been entered without the consent or acquiescence of the City or the Commissioners, shall not be vacated or discharged or stayed on appeal within sixty (60) days after entry thereof, or if such proceeding having been instituted without the consent or acquiescence of the City or the Commissioners, shall not be withdrawn or any orders entered shall not be vacated, discharged, or stayed on appeal within sixty (60) days after the institution of such proceedings, or the entry of such orders;

(6) The Commissioners shall fail to operate the Water System in an efficient and businesslike fashion so as to materially impair the operations of the Water System or shall default in the due and punctual performance of any other of the covenants, conditions, agreements or provisions contained in Junior Lien Bonds Outstanding or in any Junior Lien Series Ordinance or in this Junior Lien Bond Ordinance of 1998 or any proceedings authorizing the issuance of any Subordinate Lien Bonds, and such default as to efficient operation or otherwise shall continue for thirty (30) days after written notice, specifying such default and requiring the same to be remedied, shall have been given to the Commissioners by any Junior Lien Bondholder, provided that in the case of default specified in this paragraph (6), if the default be such that it cannot be corrected within the said thirty (30) day period, it shall not constitute an event of default if corrective action is instituted by the Commissioners within said thirty (30) day period and diligently pursued until the default is corrected;

(7) The occurrence of an event of default on the part of the City under any reimbursement agreement between the Commissioners and a provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated under Section 7.04(D) hereof; and

(8) Such other events of default as may be specified in a Junior Lien Series Ordinance or Junior Lien Series Resolution.

In determining whether a default in payment has occurred under paragraphs (1), (2) or (3) of the preceding subsection (A) and in determining whether a payment on a Series of Junior Lien Bonds has been made under any other provision of this Junior Lien Bond Ordinance of 1998, no effect shall be given to payments made by an Insurer under a Municipal Bond Insurance Policy.

(B) The foregoing provisions of paragraph (6) of the preceding subsection (A) are subject to the following limitations: If by reason of force majeure the City or the Commissioners are unable in whole or in part to carry out their agreements herein contained (other than the obligations on the part of the City or the Commissioners contained in any of Section 4.02 or Articles V, VII and VIII as to which

this paragraph shall have no application), the City or the Commissioners shall not be deemed in default during the continuance of such inability. The term "force majeure" as used herein shall mean, without limitation, the following: 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; earthquake; 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 City or the Commissioners, it being agreed that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the City or the Commissioners, and the City or the Commissioners shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the City or the Commissioners unfavorable to the City or the Commissioners.

ARTICLE XIV REMEDIES

Section 14.01. Acceleration; Annulment of Acceleration.

(A) Subject to the provisions of Section 17.01 of this Junior Lien Bond Ordinance of 1998, upon the occurrence of an Event of Default with respect to a Series of Junior Lien Bonds, the Trustee (i) may, with the written consent of the Insurer, if any, insuring such Series of Junior Lien Bonds, and (ii) shall, upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of such Series of Junior Lien Bonds Outstanding (but only with the prior written consent of the Insurer, if any, insuring such Series of Junior Lien Bonds, provided that such Insurer has not failed to comply with its payment obligations under its Municipal Bond Insurance Policy), declare such Series of Junior Lien Bonds immediately due and payable; and such Series of Junior Lien Bonds shall become and be immediately due and payable, anything in such Series of Junior Lien Bonds or in this Junior Lien Bond Ordinance of 1998 to the contrary notwithstanding. Such declaration shall be accomplished by notice in writing to the City and the Commissioners and to the Paying Agent for such Series of Junior Lien Bonds. In such event, there shall be due and payable on such Series of Junior Lien Bonds an amount equal to the total principal amount of all such Junior Lien Bonds, plus all interest accrued thereon and which will accrue thereon to the date of payment.

(B) Subject to the provisions of Section 17.01 of this Junior Lien Bond Ordinance of 1998, at any time after the principal of a Series of Junior Lien Bonds shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under this Junior Lien Bond Ordinance of 1998, the Trustee may, with the prior written consent of the Insurer of such Series of Junior Lien Bonds (provided that such Insurer has not failed to comply with its payment obligations under its Municipal Bond Insurance Policy), annul such declaration and its consequences with respect to any Junior Lien Bonds not then due by their terms if:

(i) 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 Junior Lien 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 Commissioners hereunder 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 Junior Lien Bonds then due only because of such declaration) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Section 14.02. Additional Remedies and Enforcement of Remedies.

(A) Upon the occurrence and continuance of any Event of Default, subject to the provisions of Section 17.01 hereof, the Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of a particular Series of Junior Lien Bonds Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall proceed forthwith to protect and enforce its rights and the rights of the Junior Lien Bondholders of such Series under this Junior Lien Bond Ordinance of 1998 by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(1) Requiring the City and the Commissioners to carry out their duties and obligations under the terms of the Junior Lien Bond Ordinance of 1998 and under the Enabling Act;

(2) Suit upon all or any part of such Series of Junior Lien Bonds;

(3) Civil action to require the City and the Commissioners to account as if they were the trustees of an express trust for the Holders of such Series of Junior Lien Bonds;

(4) Civil action to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of such Series of Junior Lien Bonds; and

(5) Enforcement of any other right of the Holders of such Series of Junior Lien Bonds conferred by law or by this Junior Lien Bond Ordinance of 1998 including the right to make application for the appointment of a receiver to administer and operate the Water System.

(B) Regardless of the happening of an Event of Default, and subject to the provisions of Section 17.01 hereof, the Trustee, if requested in writing by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of a Series of Junior Lien Bonds then Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall institute and maintain such suits and proceedings as it may be advised by counsel shall be necessary or expedient:

(1) To prevent any impairment of the security under this Junior Lien Bond Ordinance of 1998 by any acts which may be unlawful or in violation of this Junior Lien Bond Ordinance of 1998; or

(2) To preserve or protect the interests of the Holders of the Junior Lien Bonds of such Series, provided that such request is in accordance with law and the provisions of this Junior

Lien Bond Ordinance of 1998 and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Holders of Junior Lien Bonds not making such request.

Section 14.03. Application of Revenues and Other Moneys After Default.

(A) The Commissioners covenant that if an Event of Default shall happen and shall not have been remedied, the Commissioners, upon demand of the Trustee, shall pay or cause to be paid over to such Trustee:

(1) Forthwith, all moneys and securities then held by the Commissioners which are credited to any fund under this Junior Lien Bond Ordinance of 1998 (specifically including any moneys and securities in any Project Fund created with proceeds of a Series of Junior Lien Bonds for the payment of principal of or interest on such Series of Bonds, but only for such Series of Bonds, if construction of the projects to be paid for thereby has been completed or terminated, but exclusive of any amounts remaining in such Project Fund that are in dispute between the Commissioners and any contractor); and

(2) As promptly as practicable after receipt thereof, all Gross Revenues.

(B) 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 the interest and principal (and redemption premium, if any) then due on that Series of Junior Lien Bonds, as follows:

(a) Unless the principal of all of such Junior Lien Bonds shall have become or have 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 shall not be 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;

(ii) Second: To the payment to the persons entitled thereto of the unpaid Principal Installments (and redemption premiums, if any) of any Junior Lien Bonds of such Series which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the Junior Lien Bonds of such Series 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 Junior Lien Bonds of that Series shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Junior Lien Bonds of such Series 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 Junior Lien Bond of such Series over any other Junior Lien Bond of that Series, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any differences as to the respective rates of interest specified in the Junior Lien Bonds of that Series;

(3) To the payment of the amounts required by Sections 8.03 and 8.04, ratably, according to the amounts due thereon to the persons entitled thereto;

(4) To the payment of all other Operation and Maintenance Expenses;

(5) To the payment of the amounts required by Section 8.07, ratably, according to the amounts due thereon to the persons entitled thereto.

Section 14.04. Remedies Not Exclusive.

No remedy by the terms of this Junior Lien Bond Ordinance of 1998 conferred upon or reserved to the Trustee or the Junior Lien Bondholders or any Insurer of any Series of Junior Lien Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Junior Lien Bond Ordinance of 1998 or existing at law or in equity or by statute (including the Enabling Act) on or after the date hereof.

Section 14.05. Remedies Vested in Trustee.

All rights of action (including the right to file proof of claims) under this Junior Lien Bond Ordinance of 1998 or under any of the Junior Lien Bonds may be enforced by the Trustee without the possession of any of the Junior Lien Bonds of that Series or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceedings instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Holders of the Junior Lien Bonds of that Series. Subject to the provisions of Section 14.03 hereof, any recovery of judgment shall be for the equal benefit of the Holders of the Outstanding Junior Lien Bonds of such Series.

Section 14.06. Majority of Junior Lien Bondholders Control Proceedings.

If an Event of Default shall have occurred and be continuing, notwithstanding anything in this Junior Lien Bond Ordinance of 1998 to the contrary, the Holders of at least a majority in aggregate principal amount of a Series of Junior Lien Bonds then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of this Junior Lien Bond Ordinance of 1998 or for the appointment of a receiver or any other proceedings hereunder, provided that such direction is in accordance with law and the provisions of this Junior Lien Bond Ordinance of 1998 (including indemnity to the Trustee) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Junior Lien Bondholders of such Series not joining in such direction and provided further that nothing in this Section 14.06 shall impair the right of the Trustee in

its discretion to take any other action under this Junior Lien Bond Ordinance of 1998 which it may deem proper and which is not inconsistent with such direction by Junior Lien Bondholders of such Series.

Section 14.07. Individual Junior Lien Bondholder Action Restricted.

(A) No Holder of any Junior Lien Bond of a particular Series shall have any right to institute any suit, action, or proceeding in equity or at law for the enforcement of this Junior Lien Bond Ordinance of 1998 or for the execution of any trust hereunder or for any remedy under this Junior Lien Bond Ordinance of 1998 unless:

(1) An Event of Default has occurred:

- (a) under paragraph (1) or (2) of subsection (A) of Section 13.01 hereof;
- (b) as to which the Trustee has actual notice; or
- (c) as to which the Trustee has been notified in writing; and

(2) The Holders of at least twenty-five percent (25%) in aggregate principal amount of that Series of Junior Lien Bonds shall have made written request to the Trustee to proceed to exercise the powers granted in this Junior Lien Bond Ordinance of 1998 or to institute such action, suit or proceeding in its own name; and

(3) Such Junior Lien Bondholders shall have offered the Trustee reasonable indemnity; and

(4) The Trustee shall have failed or refused to exercise the powers herein granted or to institute such action, suit or proceedings in its own name for a period of sixty (60) days after receipt by it of such request and offer of indemnity.

(B) No one or more Holders of Junior Lien Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the security of this Junior Lien Bond Ordinance of 1998 or to enforce any right hereunder except in the manner herein provided and for the equal benefit of the Holders of all Junior Lien Bonds Outstanding.

(C) Nothing contained in this Junior Lien Bond Ordinance of 1998 shall affect or impair, or be construed to affect or impair, the right of the Holder of any Junior Lien Bond.

(1) To receive payment of the principal of or interest on such Junior Lien Bond on the due date thereof; or

(2) To institute suit for the enforcement of any such payment on or after such due date in the manner presented by this Section 14.07.

Section 14.08. Termination of Proceedings.

In case any proceeding taken by the Trustee or a Holder of a Junior Lien Bond, on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined

adversely to the Trustee or such Junior Lien Bondholders, the City, the Commissioners, the Trustee and the Junior Lien Bondholders shall be restored to their former positions and rights hereunder, and all rights, remedies and powers of the Trustee and the Junior Lien Bondholders shall continue as if no such proceeding had been taken.

Section 14.09. Waiver and Nonwaiver of Event of Default.

(A) No delay or omission of the Trustee or of any Holder of the Junior Lien Bonds of a particular Series to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by this Article XIV to the Trustee and the Holders of the Junior Lien Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

(B) The Trustee may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Junior Lien Bond Ordinance of 1998, or before the completion of the enforcement of any other remedy under this Junior Lien Bond Ordinance of 1998.

(C) Notwithstanding anything contained in this Junior Lien Bond Ordinance of 1998 to the contrary but subject to the provisions of Section 17.01 hereof, the Trustee, upon the written request of the Holders of at least a majority of the aggregate principal amount of Junior Lien Bonds of such Series then Outstanding, shall waive any Event of Default hereunder and its consequences; provided, however, that except under the circumstances set forth in subsection (B) of Section 14.01 hereof or subsection (B) of this Section 14.09, a default in the payment of the principal of, premium, if any, or interest on, any Junior Lien Bond of a particular Series, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Junior Lien Bonds of such Series at the time Outstanding.

(D) In case of any waiver by the Trustee of an Event of Default hereunder, the City, the Commissioners, the Trustee, the Insurer and the Junior Lien Bondholders of such Series shall be restored to their former positions and rights under the Junior Lien Bond Ordinance of 1998, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon. The Trustee shall not be responsible to anyone for waiving or refraining from waiving any Event of Default in accordance with this Section 14.09.

Section 14.10. Notice of Defaults.

(A) Within thirty (30) days after:

(1) The receipt of notice of an Event of Default as provided in Section 14.07(A)(1)(b) or (c) hereof; or

(2) The occurrence of an Event of Default under paragraphs (1) or (2) of subsection (A) of Section 13.01 hereof, as to which the Trustee shall be deemed to have notice,

the Trustee shall, unless such Event of Default shall have theretofore been cured, give written notice thereof by first class mail to the Insurer of such Series of Junior Lien Bonds and to each Holder of Junior Lien Bonds of such Series then Outstanding, provided that, except in the case of a default in the payment

of principal of, together with premium, if any and interest on any of such Junior Lien 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 Junior Lien Bondholders of such Series.

(B) The Trustee shall immediately notify the Commissioners and the Insurer, if any, of such Series of Junior Lien Bonds, of any Event of Default known to the Trustee.

Section 14.11. Rights of Insurers.

Any Insurer insuring a Series of Junior Lien Bonds shall be subrogated to the rights to payment of the Holders of the Junior Lien Bonds of such Series with respect to which it pays any principal or interest on the Junior Lien Bonds owned by that Holder.

ARTICLE XV TRUSTEE AND ITS FUNCTIONS; OTHER FIDUCIARIES

Section 15.01. Appointment and Vesting of Powers in Trustee; Limitation of Rights of Junior Lien Bondholders to Appoint Trustee.

Prior to the delivery of a Series of Junior Lien Bonds pursuant to this Junior Lien Bond Ordinance of 1998, the Commissioners shall appoint the Trustee. The Trustee shall be and is hereby vested with all rights and powers necessary to enable it to discharge its duties hereunder but the right of the Junior Lien Bondholders of a Series of Junior Lien Bonds to appoint a Trustee hereunder is limited to the circumstances contemplated by Section 15.10 hereof.

Section 15.02. Functions of Trustee.

The Trustee shall have the following additional functions:

(A) To authenticate the Junior Lien Bonds (unless a separate Registrar is appointed for a Series of Junior Lien Bonds);

(B) To act as custodian of the Debt Service Fund;

(C) To act as custodian of the Debt Service Reserve Fund;

(D) To act as Paying Agent for the Junior Lien Bonds (unless a separate Paying Agent is appointed for a Series of Junior Lien Bonds);

(E) In the event a Series of Junior Lien Bonds is issued in registered form, to act as Registrar for such Series of Junior Lien Bonds, and to maintain a set of registration books therefor, which shall at all times accurately reflect the names and addresses of all those who may be Holders of such Junior Lien Bonds (unless otherwise so determined by the Commissioners);

(F) To make reports to the Commissioners on a monthly or such other basis as may be requested by the Commissioners, but not less often than semi-annually;

- (1) Establishing balances on hand;
- (2) Listing investments made for any fund handled by the Trustee;
- (3) Establishing the market value of each Debt Service Reserve Fund; and
- (4) Listing all securities, if any, pledged pursuant to Section 15.13 hereof.

Section 15.03. Duty of Trustee with Respect to Deficits in Debt Service Funds.

It shall be the further duty of the Trustee to give written notice to the Commissioners three (3) Business Days prior to each Junior Lien Bond Payment Date, if there is any deficiency in the Debt Service Fund for that Series of Junior Lien Bonds which would result in a need for further moneys to meet the payment of interest and/or principal falling due on the next ensuing Junior Lien Bond Payment Date, and the extent, if any, to which resort must be had to that Debt Service Reserve Fund to meet such deficiency.

Section 15.04. Acceptance by Trustee Required.

Prior to the delivery of a Series of Junior Lien Bonds, the Trustee shall signify its acceptance of the powers, duties and obligations conferred and imposed upon it by this Junior Lien Bond Ordinance of 1998, by executing and delivering to the City and the Commissioners a written acceptance thereof.

Section 15.05. Liability as to Recitals in Junior Lien Bond Ordinance of 1998 and Junior Lien Bonds.

The recitals of fact made in this Junior Lien Bond Ordinance of 1998 and in the Junior Lien Bonds of a particular Series shall be taken as statements of the City, and the Trustee shall not be deemed to have made any representation as to the correctness of the same. In addition, the Trustee (i) shall not be deemed to have made any representation whatsoever as to the validity or sufficiency of this Junior Lien Bond Ordinance of 1998 or of the Junior Lien Bonds issued hereunder except with respect to the authentication of the Junior Lien Bonds of that Series; (ii) shall not be under responsibility or duty with respect to the issuance of said Series of Junior Lien Bonds, or the application of the proceeds thereof, except to the extent provided for herein; and (iii) shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or default.

Section 15.06. Trustee May Rely on Notices, etc.

The Trustee shall at all times be protected in acting upon any notice, ordinance, request, consent, order, certificate, statement, opinion, bond, or other paper or document believed to be genuine and to have been signed by the proper party or parties.

Section 15.07: Trustee Permitted to Resign.

The Trustee may at any time resign and be discharged of its duties and obligations hereunder by giving to the Commissioners and the Holders and the Insurers, if any, of each Series of Junior Lien Bonds, written notice of such resignation, specifying a date (not less than sixty (60) days after such notice) when such resignation is intended to take effect. Such resignation shall take effect immediately upon but not before the appointment and qualification of such successor.

Section 15.08. Removal of Trustee.

(A) The Trustee may be removed at any time by the Holders of not less than fifty percent (50%) of the principal amount of all Junior Lien Bonds at such time Outstanding.

(B) The Trustee may likewise be removed at any time by the Commissioners with the consent and approval of the Holders of not less than fifty percent (50%) of the principal amount of all Junior Lien Bonds at such time Outstanding.

(C) Any such removal shall take effect immediately upon but not before the appointment and qualification of such successor.

Section 15.09. Appointment of Successor Trustee Upon Resignation or Removal of Trustee.

(A) In case at any time the Trustee shall resign, or be removed or become incapable of acting, or be adjudged a bankrupt or insolvent, or a receiver of its property shall be appointed, or any public officer shall take charge or control of its property or affairs, a successor thereto shall be promptly appointed by a resolution of the Commissioners duly adopted. Such successor shall in all instances 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 shall have a combined capital and surplus of not less than \$100,000,000.

(B) Immediately following such appointment the Commissioners shall give written notice of such appointment to the Holders of such Series of Junior Lien Bonds and the Registrar and Paying Agent of such Series of Junior Lien Bonds (if other than the Trustee).

Section 15.10. When Junior Lien Bondholder May Seek Successor Trustee.

If, in a proper case, no appointment of a successor Trustee shall be promptly made pursuant to Section 15.09, any Junior Lien Bondholder, the resigning or removed Trustee or the Insurers, if any, may make application to any court of competent jurisdiction for the appointment of a successor and said court may thereupon, after such notice, if any, as such court may prescribe, appoint a successor.

Section 15.11. Acceptance by Successor Trustee.

Any successor Trustee appointed hereunder shall execute and deliver to its predecessor and to the Commissioners a written acceptance of such appointment, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of its predecessor hereunder with like effect as if originally named as such Trustee and its predecessor shall be obligated to pay over, transfer, assign and deliver all moneys, securities and other property held by it to its successor, and on the written request of the Commissioners, or the successor, shall execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may be reasonably required for the vesting and confirming in such successor all the right, title and interest of the predecessor in and to any property held by it.

Section 15.12. Effect of Trustee Merging With Another Bank.

Any bank or trust company into which the Trustee may be merged, or with which it may be consolidated, or any bank or trust company resulting from any merger or consolidation to which it shall be a party, or any bank or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, shall become the successor without the execution or filing of any paper or the performance of any further act; provided, always, that if the Commissioners shall be dissatisfied with the institution resulting from the merger, consolidation or other action spoken of above, then the Commissioners may at any time within thirty (30) days after being notified in writing by the successor Trustee of such action, name a new Trustee (with the qualifications prescribed by Section 15.09 hereof) in lieu of the Trustee then acting.

Section 15.13. Trustee to Secure Funds and Securities Held in Trust.

(A) Unless the same be secured as trust funds in the manner provided by the regulations of the Comptroller of the Currency as from time to time in effect, all funds or securities in the custody of the Trustee, in excess of the amount of such deposit insured by the Federal Deposit Insurance Corporation, shall be secured and kept secured by direct obligations of the United States of a market value at least equal to the sum on deposit and not insured as aforesaid by the Federal Deposit Insurance Corporation.

(B) All securities which shall be given to secure any fund as required by the provisions of this Article, shall be placed in the custody of a duly chartered bank, other than that of the Trustee, which is a member of the Federal Deposit Insurance Corporation. Such other bank shall have a combined capital and surplus of not less than \$50 million.

Section 15.14. Disposition of Paid Junior Lien Bonds.

It shall be the duty of the Trustee to cancel all Junior Lien Bonds which shall have been paid, whether upon their maturity or redemption prior to maturity; such cancellation shall be done in such fashion as to render such Junior Lien Bonds incapable of further negotiation or hypothecation. In any event it shall furnish appropriate certificates to the Commissioners indicating the disposition of such Junior Lien Bonds. Upon effecting such cancellation, such Trustee shall furnish appropriate certificates to the Commissioners setting forth the disposition made of the Junior Lien Bonds so cancelled.

Section 15.15. Appointment of Substitute Registrar.

The Commissioners may, from time to time, appoint a Registrar or Registrars to act in the place and stead of the Trustee as Registrar of the Junior Lien Bonds of one or more Series. The Commissioners shall cause written notice of such appointment to be mailed to the Holders of all Junior Lien Bonds affected by such appointment thirty (30) days prior to the effective date of such appointment.

Section 15.16. Trustee Not to Consider Insurance.

Notwithstanding any other provision of this Junior Lien Bond Ordinance of 1988, in determining whether the rights of the Junior Lien Bondholders of a particular Series will be adversely affected by any action taken pursuant to the terms and provisions of this Junior Lien Bond Ordinance of 1998, the Trustee shall consider the effect on such Junior Lien Bondholders as if there were no Municipal Bond Insurance Policy in effect for such Series of Junior Lien Bonds.

ARTICLE XVI DEFEASANCE

Section 16.01. Defeasance Generally.

Subject to the provisions of any Junior Lien Series Ordinance, if all of the Junior Lien Bonds issued pursuant to this Junior Lien Bond Ordinance of 1998 and any other amounts required to be paid to a provider of a surety bond, line of credit, insurance policy or letter of credit hereunder shall have been paid and discharged, then the obligations of the City and the Commissioners under this Junior Lien Bond Ordinance of 1998, the pledge of Gross Revenues made hereby, and all other rights granted hereby shall cease and determine. Subject to the provisions of any Junior Lien Series Ordinance, Junior Lien Bonds shall be deemed to have been paid and discharged within the meaning of this Article under each of the following circumstances:

(A) The Trustee shall hold, at the stated maturities of such Junior Lien Bonds, in trust and irrevocably appropriated thereto, sufficient money for the payment thereof.

(B) If default in the payment of the principal of a Series of Junior Lien Bonds or the interest thereon shall have occurred and thereafter tender of such payment shall have been made, and the Trustee shall then hold in trust and irrevocably appropriated thereto, sufficient money for the payment thereof to the date of the tender of such payment.

(C) If there shall have been deposited with the Trustee, or any other bank which would otherwise meet the chartering and capital and surplus requirements contained in Section 15.09(A) hereof, in an irrevocable trust money or Defeasance Obligations, the principal of and interest on which when due (without reinvestment thereof) will, as certified in a verification report provided by an independent nationally recognized certified public accountant, provide money which, together with the money, if any, deposited at the same time, shall be 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 Commissioners has irrevocably elected to redeem such Series of Junior Lien Bonds, on and prior to the redemption date, of such Series of Junior Lien Bonds.

Section 16.02. Money to be Held in Trust - When Returnable to the Commissioners.

Any money which at any time shall be deposited with the Trustee or other escrow holder authorized under Section 16.01(C), by or on behalf of the City, for the purpose of paying and discharging any Junior Lien Bonds or the interest thereon, shall be and is hereby assigned, transferred and set over to the Trustee or such other escrow holder in trust for the respective Holders of such Junior Lien Bonds, and such money shall be and is hereby irrevocably appropriated to the payment and discharge thereof. But if, through lapse of time or otherwise, the Holders of said Junior Lien Bonds shall no longer be entitled to enforce payment of their obligations, then, in such event, it shall be the duty of the Trustee or such other escrow holder to forthwith return said funds to the Commissioners.

Section 16.03. Deposits With Trustee Subject to Conditions of Article XVI

The Commissioners covenant and agree that any money which it shall deposit with the Trustee shall be deemed to be deposited in accordance with, and subject to, the applicable provisions of this

Article, and that whenever it shall have elected to redeem a Series of Junior Lien Bonds it will irrevocably bind and obligate itself to give notice of redemption thereof, and will further authorize and empower the Trustee to cause the publication of such notice of redemption in its name and on its behalf.

Section 16.04. No Defeasance of Series of Junior Lien Bonds Paid by Insurer.

In the event that the principal and/or interest due on a Series of Junior Lien Bonds shall be paid by the Insurer for such Series of Junior Lien Bonds pursuant to a Municipal Bond Insurance Policy, such Series of Junior Lien Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Commissioners until the Insurer has been reimbursed in full therefor in accordance with the terms of the Municipal Bond Insurance Policy, and the assignment and pledge of the Gross Revenues of the Water System and all covenants, agreements and other obligations of the City to the registered Holders shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such registered Holders.

ARTICLE XVII MISCELLANEOUS

Section 17.01. Miscellaneous Insurer Rights.

(A) Notwithstanding any provision of this Junior Lien Bond Ordinance of 1998 to the contrary, each Insurer shall be deemed the exclusive Holder of all Junior Lien Bonds of a Series insured by that Insurer, for the purposes of all approvals, consents, waivers, institution of any action, and all provisions governing Events of Default (except for the giving of notice of default to affected Junior Lien Bondholders) and the direction of all remedies, including specifically any acceleration or any annulment of such acceleration of a particular Series of Junior Lien Bonds (each of which shall be subject to the prior written consent of the Insurer); provided, however, that for those matters which require the consent of each affected Junior Lien Bondholder specified in Section 12.02, subparts (A) through (C), of this Junior Lien Bond Ordinance of 1998, the consent of such Junior Lien Bondholders and the prior written consent of the Insurer of such Series of Junior Lien Bonds, if any, shall be required. No rights granted to an Insurer by this Paragraph 17.01(A) shall be effective at any time that (i) such Insurer is in breach of its obligations under the Municipal Bond Insurance Policy, (ii) the Insurer's Municipal Bond Insurance Policy does not confer on the insured Junior Lien Bonds one of the two highest ratings of each of Moody's and S&P and Fitch; or (iii) the Insurer is in bankruptcy or receivership proceedings.

(B) Any provision of this Junior Lien Bond Ordinance of 1998 expressly recognizing or granting rights in or to Insurers may not be amended in any manner which affects the rights of such Insurers hereunder without the prior written consent of each such Insurer.

(C) To the extent that an Insurer makes payment of the principal of or interest on any Junior Lien Bonds, it shall become the owner and Holder of such Junior Lien Bonds, appurtenant coupons or right to payment of such principal of or interest on such Junior Lien Bonds and shall be fully subrogated to all of the registered Holders' rights thereunder, including the registered Holders' rights to payment thereof. To evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee or Registrar for that Series of Junior Lien Bonds, as the case may be, shall note the Insurer's rights as subrogee on the registration books of the City maintained by the Trustee or Registrar upon receipt of proof from the Insurer as to payment of interest thereon to the registered Holders of such Junior

Lien Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee or Registrar, as the case may be, for that Series of Junior Lien Bonds shall note the Insurer's rights as subrogee on the registration books of the City maintained by the Trustee or Registrar upon surrender of the Junior Lien Bonds by the registered Holders thereof to the Insurer or its agent.

(D) In the event that the principal of and/or interest on any Junior Lien Bonds shall be paid by the Insurer pursuant to the terms of its Municipal Bond Insurance Policy, (i) such Junior Lien Bonds shall continue to be "Outstanding" under this Junior Lien Bond Ordinance of 1998 and (ii) the assignment and pledge of the Gross Revenues and all covenants, agreements and other obligations of the City to the registered Holders shall continue to exist, and the Insurer shall be fully subrogated to all of the rights of such registered Holders in accordance with the terms and conditions of subparagraph (C) above and the Insurer's Municipal Bond Insurance Policy.

(E) No rights granted to an Insurer by this Junior Lien Bond Ordinance of 1998 except rights of subrogation under Section 14.11 hereof shall be effective at any time that such Insurer is in breach of its obligations under the Municipal Bond Insurance Policy or is subject to bankruptcy or receivership proceedings.

(F) The terms and provisions of this Junior Lien Bond Ordinance of 1998 or of any applicable Junior Lien Series Ordinance or Junior Lien Series Resolution may not be terminated as long as there are any moneys owed to an Insurer under such terms and provisions of this Junior Lien Bond Ordinance of 1998 or the applicable Junior Lien Series Ordinance or Junior Lien Series Resolution or any agreement between such Insurer and the Commissioners, acting on behalf of the City.

Section 17.02. Purpose of Covenants in Junior Lien Bond Ordinance of 1998.

Every covenant, undertaking and agreement made on behalf of the City and the Commissioners, as set forth in this Junior Lien Bond Ordinance of 1998 is made, undertaken and agreed to, for the proper securing of the payment of the principal of and interest on the Junior Lien Bonds. Each shall be deemed to partake of the obligation of the contract between the City and the Junior Lien Bondholders and shall be enforceable accordingly. In this connection, any provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated under Section 7.04(D) hereof may enforce the terms, conditions and obligations under this Junior Lien Bond Ordinance of 1998 as a third-party beneficiary hereunder. Nothing in this Ordinance expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City and the Commissioners, the Insurers and the Trustee, the Paying Agent, if any, and the registered owners of the Junior Lien Bonds, any right, remedy or claim under or by reason of this Junior Lien Bond Ordinance of 1998 or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Junior Lien Bond Ordinance of 1998 contained by and on behalf of the Issuer shall be for the sole and exclusive benefit of the City and the Commissioners, the Insurers, the Trustee, the Paying Agent, if any, and the Junior Lien Bondholders.

Section 17.03. Effect of Invalidity of Provisions of Junior Lien Bond Ordinance of 1998.

If any Section, paragraph, clause or provision of this Junior Lien Bond Ordinance of 1998 shall be held invalid, the invalidity of such Section, paragraph, clause or provision shall not affect any of the remaining provisions of this Junior Lien Bond Ordinance of 1998.

Section 17.04. Repealing Clause.

All ordinances, or parts thereof, inconsistent herewith shall be and the same are hereby repealed to the extent of such inconsistencies.

Section 17.05. Closing of Bond Ordinance of 1992.

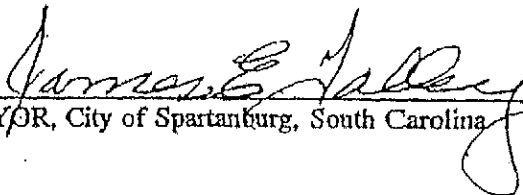
No additional bonds shall henceforth be issued under the provisions of the Bond Ordinance of 1992, nor shall any Junior Lien Bonds be entitled to the accession provisions set forth in Article VI of the Bond Ordinance of 1992.

Section 17.06. Direction to Index Junior Lien Bond Ordinance of 1998.

This ordinance shall be forthwith filed with the other City ordinances under the general heading "JUNIOR LIEN WATER SYSTEM REVENUE BONDS OF THE CITY OF SPARTANBURG, SOUTH CAROLINA," and shall be kept in a permanent binding in the Office of the City Clerk.

DONE, RATIFIED AND ADOPTED ON OCTOBER 26, 1998.

(SEAL)


MAYOR, City of Spartanburg, South Carolina

Attest:


CITY CLERK, City of Spartanburg, South Carolina

First Reading: October 12, 1998

Second Reading: October 26, 1998

This Ordinance has been reviewed by me and is hereby approved as to form and legality.


City Attorney, City of Spartanburg, South Carolina

Escrowed Senior Lien Bonds

1. Water System Revenue Bonds, Series 1977
Original Issue Amount: \$7,000,000
Date of Issue: March 1, 1977
Interest Payment Dates: June 1 and December 1
Principal Payment Dates: June 1, through 2006
Principal Amount Outstanding as of June 1, 1998: \$4,025,000

2. Water System Revenue Bonds, Series 1979
Original Issue Amount: \$5,000,000
Date of Issue: June 1, 1979
Interest Payment Dates: June 1 and December 1
Principal Payment Dates: June 1, through 2008
Principal Amount Outstanding as of June 1, 1998: \$2,575,000

Senior Lien Bonds

1. Water System Improvement and Refunding Revenue Bonds, Series 1992
Original Issue Amount: \$33,875,000
Date of Issue: October 15, 1992
Interest Payment Dates: June 1 and December 1
Principal Payment Dates: June 1, through 2015
Principal Amount Outstanding as of June 1, 1998: \$18,430,000
2. Water System Revenue Bonds, Series 1996
Original Issue Amount: \$45,500,000
Date of Issue: June 1, 1996
Interest Payment Dates: June 1 and December 1
Principal Payment Dates: June 1, through 2006
Principal Amount Outstanding as of June 1, 1998: \$2,615,000
3. Water System Refunding Revenue Bonds, Series 1997
Original Issue Amount: \$60,220,000
Date of Issue: July 15, 1997
Interest Payment Dates: June 1 and December 1
Principal Payment Dates: June 1, through 2027
Principal Amount Outstanding as of June 1, 1998: \$60,220,000

STATE OF SOUTH CAROLINA)
)
COUNTY OF SPARTANBURG)

CERTIFIED COPY OF ORDINANCE

I, the undersigned, Clerk of the City of Spartanburg, South Carolina (the "City"), DO HEREBY CERTIFY that attached hereto is a true, correct and verbatim copy of a an ordinance (the "Junior Lien Bond Ordinance of 1998") duly adopted by the City Council of the City (the "City Council"). The Junior Lien Bond Ordinance of 1998 was read at two public meetings of City Council on two separate days. An interval of at least six days occurred between each reading. At each meeting, a quorum of City Council was present and remained present through the meeting. The Junior Lien Bond Ordinance of 1998 has not been modified, amended or repealed and is in full force and effect on and as of the date hereof in the form attached hereto.

IN WITNESS WHEREOF, I have hereunto set my hand this 23rd day of November, 1998.

Norma Dunham
City Clerk, City of Spartanburg, South Carolina

ARTICLE VIII

AMENDMENTS TO JUNIOR LIEN BOND ORDINANCE OF 1998

Section 8.01 Amendment to Definition of "Net Earnings."

The definition of "Net Earnings" contained in Section 2.01 of the Junior Lien Bond Ordinance of 1998 shall include as a final paragraph the following:

For purposes (only) of Section 4.02(7) of the 1998 Bond Ordinance, all amounts paid by way of Annual Principal and Interest Requirements (as such are defined under the provisions of the Bond Ordinance of 1992) on all Senior Lien Bonds for the period under consideration shall be subtracted as expenses in determining Net Earnings.

Section 8.02 Amendment to Section 4.18.

The provisions of Section 4.18 of the Junior Lien Bond Ordinance of 1998 is hereby amended and restated in its entirety to read as follows:

The Junior Lien Bonds shall be payable solely from and shall be secured by a pledge of and a lien upon that portion of the Gross Revenues of the Water System as shall remain after payment of all Operation and Maintenance Expenses. The Junior Lien Bonds shall be junior and subordinate in all respects to the Senior Lien Bonds and the Escrowed Senior Lien Bonds. Pursuant to Section 6-21-330 of the Code of Laws of South Carolina 1976, as amended, and as additional security for the payment of the Junior Lien Bonds, the City hereby grants the holders of the Junior Lien Bonds a statutory lien on the Water System. Such pledge and lien securing the Junior Lien Bonds at all times and in all respects shall be and remain superior to pledges and liens made to secure any other bonds or other obligations payable from the revenues of the Water System, except for those pledges and liens previously made to secure the Senior Lien Bonds and the Escrowed Senior Lien Bonds. The Junior Lien Bonds shall not constitute an indebtedness of the City within the meaning of any provision, limitation or restriction of the Constitution or the laws of the State, other than those provisions authorizing indebtedness payable solely from a revenue-producing project not involving revenues from any tax or license; and the faith, credit and taxing power of the City are expressly not pledged therefor. The City is not obligated to pay any of the Junior Lien Bonds or the interest thereon except from that portion of the Gross Revenues of the Water System as herein stated.

Section 8.03 Amendment to Section 5.02(B).

The provisions of Section 5.02(B) of the Junior Lien Bond Ordinance of 1998 is hereby amended and restated in its entirety to read as follows:

(B) The Commissioners covenant and agree that they will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the Water System which, together with other income, are reasonably expected to yield annual Net Earnings in a Fiscal Year equal to at least the sum of (i) one hundred ten percent (110%) of the Annual Principal and Interest Requirements for all Series of Junior Lien Bonds Outstanding in such Fiscal Year plus (ii) one hundred percent (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 as contemplated under Section 7.04(D) hereof plus (iii) one hundred percent (100%) of the principal and interest on all Senior Lien Bonds and on all Subordinate Lien Bonds, plus (iv) one hundred percent (100%) of any required payment into a Debt Service Reserve Fund due in such Fiscal Year; and, 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, 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.

Section 8.04 Amendment to Section 14.03(B).

The provisions of Section 14.03(B) of the Junior Lien Bond Ordinance of 1998 is hereby amended and restated in its entirety to read as follows:

(B) 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 the necessary costs of operating and maintaining the Water System;

(3) To the payment of all amounts required to fund the debt service funds and debt service reserve funds established to provide for the payment of all Senior Lien Bonds;

(4) To the payment of the interest and principal (and redemption premium, if any) then due on that Series of Junior Lien Bonds, as follows:

(a) Unless the principal of all of such Junior Lien Bonds shall have become or have 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 shall not be 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;

(ii) Second: To the payment to the persons entitled thereto of the unpaid Principal Installments (and redemption premiums, if any) of any Junior Lien Bonds of such Series which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the Junior Lien Bonds of such Series 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 Junior Lien Bonds of that Series shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Junior Lien Bonds of such Series 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 Junior Lien Bond of such Series over any other Junior Lien Bond of that Series, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any differences as to the respective rates of interest specified in the Junior Lien Bonds of that Series;

(5) To the payment of the amounts required by Sections 8.03 and 8.04, ratably, according to the amounts due thereon to the persons entitled thereto;

(6) To the payment of the amounts required by Section 8.06, ratably, according to the amounts due thereon to the persons entitled thereto; and

(7) To the payment of the amounts required by Section 8.07.

[End of Article VIII]

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APPENDIX C

FORM OF BOND COUNSEL OPINION

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[Date of Delivery]

Commissioners of Public Works of the
City of Spartanburg
Spartanburg, South Carolina

Re: \$28,875,000 City of Spartanburg, South Carolina Taxable Water System Refunding Revenue Bonds, Series 2020

Ladies and Gentlemen:

We have acted as Bond Counsel to the City of Spartanburg, South Carolina (the “**City**”), in connection with the issuance by the City of its \$28,875,000 Taxable Water System Refunding Revenue Bonds, Series 2020 (the “**Series 2020 Bonds**”). The Series 2020 Bonds are issued by the City pursuant to a bond ordinance (the “**Bond Ordinance**”) duly enacted by the City Council of the City (the “**City Council**”), the governing body of the City, on October 26, 1998, as amended, and a series ordinance (the “**Series Ordinance**”) and together with the Bond Ordinance, the “**Ordinances**”) duly enacted by the City Council on February 24, 2020 and a series resolution (the “**Series Resolution**”) duly adopted on February 25, 2020 by the Commissioners of Public Works of the City of Spartanburg (the “**Commissioners**”), the governing body of the Spartanburg Water System (the “**System**”), and under and in full compliance with the Constitution and statutes of the State of South Carolina (the “**State**”), including particularly Title 6, Chapter 21 of the Code of Laws of South Carolina, 1976, as amended (the “**Enabling Act**”). The Series 2020 Bonds are being issued in order to obtain funds which will be used, together with other funds of the Commissioners, to defray the cost of (i) refunding the Series 2013 Bonds and (ii) paying costs of issuance of the Series 2020 Bonds.

In these regards, we have examined a certified copy of the transcript of proceedings (the “**Transcript**”) and other proofs submitted to us, including the Constitution and Statutes of the State. As to questions of fact material to our opinion, we have relied upon the Transcript and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Ordinances or in the Series Resolution.

The Series 2020 Bonds are issued in registered, book-entry form and are dated as of the date of original delivery thereof. The Series 2020 Bonds bear interest payable initially on December 1, 2020 and semiannually thereafter on the first days of June and December at the respective interest rates per annum set forth on the inside cover of the Official Statement dated April 23, 2020 (the “**Official Statement**”) for the Series 2020 Bonds. The Series 2020 Bonds mature on June 1 in the years and in the respective principal amounts as set forth on the inside cover of the Official Statement. Certain of the Series 2020 Bonds are subject to optional and mandatory redemption prior to maturity in the manner and upon the terms set forth in the Series 2020 Bonds, the Ordinances and the Series Resolution.

Further bonds (the “**Additional Bonds**”) on a parity with the Series 2020 Bonds and the City’s Series 2012 Bond, Series 2015A Bonds, Series 2015B Bonds, Series 2017A Bond and Series 2017B Bonds (collectively, the “**Parity Bonds**”), may be issued under the conditions prescribed in the Ordinances.

Based upon the foregoing, we are, as of the date hereof, of the opinion that:

(1) The City is a duly created and validly existing municipal corporation and political subdivision of the State.

(2) The City, through the Commissioners, has the right and power to operate the System. The City Council is duly authorized to enact the Ordinances, and the Commissioners are, likewise, duly authorized to adopt the Series Resolution. The Ordinances and the Series Resolution are in full force and effect and are valid, binding and enforceable in accordance with their terms, except to the extent that the enforceability thereof may be limited as described below.

(3) The Series 2020 Bonds have been duly authorized, executed and delivered and are enforceable in accordance with their terms and the terms of the Ordinances and the Series Resolution, and constitute valid and binding special obligations of the City, except to the extent that the enforceability of the Series 2020 Bonds may be limited as described below. The Series 2020 Bonds are secured in the manner and to the extent prescribed by the Ordinances and the Series Resolution and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements set forth therein.

(4) Both the principal of and interest on the Series 2020 Bonds are payable solely from that portion of the Gross Revenues of the System as shall remain after the payment of all Operation and Maintenance Expenses of the System, and are secured by a valid pledge of such portion of the Gross Revenues and by a statutory lien upon the System within the meaning of Section 6-21-330 of the Enabling Act.

(5) The pledge of the portion of the Gross Revenues of the System and the statutory lien on the System made and given to secure the Series 2020 Bonds as described above have priority over all pledges and liens heretofore or hereafter made and given, except:

(a) the pledge and lien (on a parity with the pledge and lien securing the Series 2020 Bonds) made and given to secure the Parity Bonds; and

(b) any subsequent pledges and liens (on a parity with the pledge securing the Series 2020 Bonds and the Parity Bonds and the statutory lien on the System) made and given to secure Additional Bonds, if such Additional Bonds are issued in the manner and under the conditions prescribed by the Ordinances.

(6) Neither the principal of nor the interest on the Series 2020 Bonds constitutes an indebtedness of the City within the meaning of any provision, limitation or restriction of the Constitution or Laws of the State, nor a charge, lien or encumbrance, legal or equitable, upon any property of the City or upon any income, receipts or revenues of the City save and except those revenues derived from the operation of the System and pledged to the payment of the principal of and interest on the Series 2020 Bonds and the statutory lien on the System, and neither the credit nor the taxing power of the City is pledged therefor.

(7) Interest on the Series 2020 Bonds will not be excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended.

(8) The Series 2020 Bonds and the interest thereon are exempt from all State, county, school district, municipal and all other taxes or assessments imposed within the State, direct or indirect, general or special, whether imposed for the purpose of general revenue or otherwise, except inheritance, estate, transfer and certain franchise taxes.

It is to be understood that the obligations of the City and the Commissioners under the Series 2020 Bonds, the Ordinances and the Series Resolution, and the enforceability thereof, may be subject to judicial discretion, the valid exercise of the sovereign police powers of the State and of the constitutional powers of the United States of America, and applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights.

As Bond Counsel to the City, we have been retained solely for the purpose of examining the validity and legality of the Series 2020 Bonds and of rendering certain specific opinions herein stated and for no other purpose. We have not verified the accuracy, completeness or fairness of any representations or information concerning the business or financial condition of the City, the Commissioners or the System in connection with the sale of the Series 2020 Bonds, including any information set forth as to the same in the Official Statement, or appendices thereto, pertaining to the Series 2020 Bonds. Accordingly, we express no opinion on the completeness, fairness or adequacy of any such representation or information.

We express no opinion herein regarding the accuracy, adequacy or completeness of the Official Statement or regarding the perfection of the pledge on the Gross Revenues or other funds created under the Ordinances or the Series Resolution (or any other document or instrument mentioned herein) or regarding the statutory lien on the System. 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. Our advice did not include financial or non-legal advice.

Very truly yours,

HAYNSWORTH SINKLER BOYD, P.A.

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APPENDIX D

**INFORMATION REGARDING THE CITY OF SPARTANBURG
AND SPARTANBURG COUNTY, SOUTH CAROLINA**

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APPENDIX D

INFORMATION REGARDING CITY OF SPARTANBURG, SOUTH CAROLINA AND SPARTANBURG COUNTY, SOUTH CAROLINA

This Appendix D contains demographic information on the City of Spartanburg, South Carolina (“City”), and Spartanburg County, South Carolina (“County”). The full faith, credit and taxing powers of the City and the County are not pledged to secure the Series 2020 Bonds.

Description of the City of Spartanburg

Population

The City, incorporated in 1831, serves as the county seat and has an area of 19.5 square miles. It is governed by the Council-Manager form of government. The City’s population according to the 2010 U.S. Census was 40,387. The City’s estimated population for the past five Fiscal Years is set forth below:

<u>Fiscal Year</u>	<u>Population</u>
2015	37,525
2016	37,867
2017	37,876
2018	37,498
2019	37,644

Source: City of Spartanburg Comprehensive Annual Financial Report for the Fiscal Year ending June 30, 2019.

Assessment Summary of the City

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Privately Owned Public Utilities</u>	<u>Total</u>
2015	\$113,122,699	\$21,036,812	\$7,373,620	\$141,533,131
2016	113,476,606	22,847,265	7,324,060	143,647,931
2017	111,225,265	21,681,758	8,000,230	140,907,253
2018	116,057,323	22,415,113	7,807,410	146,279,846
2019	126,985,041	20,773,514	8,097,060	155,855,615

Source: City of Spartanburg Comprehensive Annual Financial Report for the Fiscal Year ending June 30, 2019.

Principal Taxpayers of the City

<u>Taxpayers</u>	<u>2019 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Duke Energy Corp	\$ 3,796,254	2.6%
Suso 4 Dorman, LP	2,760,000	1.9
ERP Hillcrest, LLC	1,745,020	1.2
J.M. Smith Corp	1,485,780	1.0
SSK Land, LLC	1,263,560	0.9
East Main Redevelopment, LLC	1,173,600	0.8
HD Development of Maryland, Inc.	1,069,330	0.7
Bellsouth Telecommunications	1,021,950	0.7
White Oak Manor, Inc.	882,340	0.6
Denny's Corp	874,880	0.6
Total	\$16,072,714	11.0%

Source: City of Spartanburg Comprehensive Annual Financial Report for the Fiscal Year ending June 30, 2019.

Description of Spartanburg County

The County is located in the northwestern Piedmont section of the State of South Carolina (the “State”), approximately 175 miles northeast of Atlanta, Georgia, and 75 miles southwest of Charlotte, North Carolina. The County comprises the Spartanburg MSA. The County includes the City which is the county seat and the eighth largest city in the State.

Manufacturing is the major employment sector in the County. The County is heavily industrialized with a number of large textile mills, a large plumbing fixtures plant, textile finishing plants, a large textile machinery plant, a textile chemical plant, an automotive plant, and numerous other manufacturing plants.

Employment Information

The annual unemployment rates for the County and the State for the calendar years 2014 through 2019 were as follows:

<u>Year</u>	<u>Spartanburg County</u>	<u>South Carolina</u>
2014	6.3%	6.4%
2015	5.7	6.0
2016	4.6	4.8
2017	4.0	4.3
2018	3.1	3.4
2019	2.2	2.8

Source: U.S. Department of Labor, Bureau of Labor Statistics

The unemployment rates (not seasonally adjusted) in the County for the 12 months indicated are shown below:

<u>Date</u>	<u>Spartanburg County</u>
March 2020	2.7%
February 2020	2.8
January 2020	2.7
December 2019	2.1
November 2019	1.9
October 2019	1.9
September 2019	1.6
August 2019	2.5
July 2019	2.8
June 2019	3.1
May 2019	2.9
April 2019	2.6

Source: South Carolina Department of Employment & Workforce-Labor Market Information Division

Some of the major employers in the County as of June 30, 2019 are as follows:

<u>Employers</u>	<u>Industry</u>	<u>Average Number of Employees</u>
BMW Manufacturing Corporation	Automobiles	11,000
Spartanburg Regional Medical Center	Health Services	7,500
Milliken & Company	R&D on yarns and chemicals	4,007
Michelin Tire Company	Radial truck tires	3,435
Spartanburg County Schools	Public School System	7,093
State of South Carolina	State Government	3,159
Adidas	Apparel Distributor	2,520
Spartanburg County	Government	1,553
Draexlmaier Automotive of America LLC	Automotive Supplier	1,075
AFL Corporation	Fiber Optic Cable	858
Benore Logistics Systems	Transportation Services	800
Lear Corporation	Automotive Seating	800
SEW- Eurodrive, Inc	Drive Technology	750
Inman Mills	Manmade woven fabric	700
Spartanburg Steel	Fabricate structural metal products	618

Source: City of Spartanburg Comprehensive Annual Financial Report for the Year Ended June 30, 2019

Population Figures

The following table shows population information for the County for the last four decades for which census figures are available, as well as a population estimate for 2018:

<u>Year</u>	<u>Population</u>	<u>Percent Increase Prior Census</u>
1980	201,861	16.2%
1990	226,793	12.4
2000	253,791	11.9
2010	284,307	12.0
2018*	313,888	10.4

*Estimated

Source: U. S. Census Bureau

Per Capita Income

The per capita personal income for each of the last five years for which information is available is shown below:

<u>Year</u>	<u>County</u>	<u>South Carolina</u>
2014	\$38,173	\$37,622
2015	39,772	39,496
2016	40,785	40,404
2017	41,783	42,081
2018	43,148	43,702

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Retail Sales

The following table shows retail sales for businesses located in the County for the five years shown:

<u>Year</u>	<u>Total Retail Sales</u>
2015	\$10,118,783,829
2016	10,355,126,909
2017	10,487,903,498
2018	11,559,427,445
2019	13,954,242,730

Source: South Carolina Department of Revenue

Capital Investment

The following table sets forth the total capital investment for new and expanded industry in the County over the five calendar years shown.

<u>Year</u>	<u>Announced Jobs</u>	<u>Announced Investment</u>
2014	2,114	\$2,327,950,000
2015	1,999	479,467,360
2016	1,300	555,300,000
2017	1,789	885,310,000
2018	2,094	779,539,000

Source: Spartanburg Economic Futures Group

Construction Activity

The following table shows the number of residential and non-residential building permits issued by the County for the calendar years shown.

<u>Year</u>	<u>RESIDENTIAL</u>		<u>COMMERCIAL</u>	
	<u># of Permits</u>	<u>Cost</u>	<u># of Permits</u>	<u>Cost</u>
2014	1,040	\$179,673,160	274	\$117,939,699
2015	1,334	226,205,210	384	489,242,927
2016	1,741	295,991,116	371	231,838,570
2017	2,091	357,782,843	386	519,314,365
2018	2,442	397,807,362	384	455,284,920

Source: Spartanburg County Building Officials

Facilities Serving the County

Public Schools. The County is home to seven public school districts comprised of more than 44,000 students. The combined school districts consist of 44 elementary schools, 18 middle schools, five junior high school, nine high schools and four career centers or vocational schools. Approximately 17 fully accredited private and parochial schools also are located in the County. The school districts are independent political entities and receive no funding from County government.

The South Carolina School for the Deaf and the Blind offers programs for preschool, elementary, middle and high schools, sensory multidisabled vocational and postsecondary education students in addition to a vast array of outreach services. The Charles Lea Center, a comprehensive facility for evaluation, training, education and

rehabilitation of exceptional children, also assists the area schools through therapeutic programs for learning or emotional disorders.

Higher Education. The University of South Carolina-Upstate had a Fall 2019 enrollment of more than 6,000 students, and is one of the largest campuses of the University of South Carolina System. The four-year institution offers undergraduate degree programs in 11 fields of study in business administration and economics, education, humanities and sciences and nursing. Several graduate programs are also offered. Wofford College, a four-year liberal arts college with a Fall 2019 enrollment of approximately 1,672 students, and Converse College, a four-year liberal arts college for women with a Fall 2019 enrollment of approximately 918 undergraduate and graduate students, are also located in the County. Spartanburg Community College, a public two-year college offering associate degrees and certificates in a variety of fields, had a Fall 2019 enrollment of over 5,000 credit-seeking students. Sherman College of Straight Chiropractic had a Fall 2019 enrollment of approximately 97 students. Spartanburg Methodist College, a fully-accredited private junior college, had a Fall 2019 enrollment of approximately 837 students and offers associate degrees in liberal arts and science and several career tracks. The Edward Via College of Osteopathic Medicine (“VCOM”) is a private, nonprofit osteopathic medical school. VCOM established its Spartanburg campus in 2010 and had a Fall 2019 enrollment of approximately 1,900 students.

Medical Facilities. The County is served by numerous state-of-the-art healthcare facilities. The Spartanburg Regional Health Services District, Inc. (“Spartanburg Regional”) operates an integrated health care system offering a complete array of medical services and is the major healthcare provider in the three-county area of Spartanburg, Union and Cherokee Counties, South Carolina, and is presently undergoing a large capital expansion. Spartanburg Regional owns and operates four hospitals: Spartanburg Medical Center and Spartanburg Hospital for Restorative Care, each located in Spartanburg; South Carolina, Pelham Medical Center, located in Greer, South Carolina; and Union Medical Center in Union, South Carolina. Spartanburg Regional also operates three skilled nursing facilities: Spartanburg Hospital for Restorative Care Skilled Nursing Facility in Spartanburg, South Carolina, the Ellen Sagar Nursing Center in Union County, South Carolina and Woodruff Manor in Woodruff, South Carolina. Spartanburg Regional’s hospital facilities have undergone progressive change and expansion, growing to the present size of 575 licensed beds at Spartanburg Medical Center (with 464 beds operating), 97 long-term acute beds at Spartanburg Hospital for Restorative Care (with 66 beds operating), 48 licensed and operating beds at Pelham Medical Center, and 143 licensed beds at Union Medical Center (with 50 beds operating). The Spartanburg Regional’s system also includes the Medical Group of the Carolinas, a network of more than 300 physicians’ practices.

On December 31, 2018, Spartanburg Regional acquired Mary Black Health System, consisting of Mary Black Health System – Spartanburg, Mary Black Health System – Gaffney, Mary Black Physicians Group, and Mary Black Health Network. The acquired organization added 332 licensed beds to the capacity of Spartanburg Regional. Following the acquisition, Spartanburg Regional employs 400 physicians, encompasses 100 doctor offices, employs almost 9,000 people, and manages six hospitals in Spartanburg, Cherokee and Union counties.

Ernest Health, Inc. constructed a 40-bed rehabilitation hospital, the Spartanburg Rehabilitation Institute (“SRI”), which is the only freestanding acute rehabilitation hospital in the County. SRI provides comprehensive physical medicine and rehabilitation services to patients with functional deficits resulting from injury or illness. Inpatient services include acute rehabilitation, nursing care and medical management for patients suffering from stroke, spinal cord injury, brain injury, and amputation to name a few.

Also within the County is the Carolina Center for Behavioral Health, a 138-bed private behavioral health system which specializes in psychiatric and chemical dependency treatment and provides inpatient, partial hospitalization and intensive outpatient programs.

Air. The Greenville-Spartanburg International Airport (“GSP”), which is located approximately 20 miles from the City of Spartanburg, serves more than two million passengers per year by six major airlines offering an average of 50 nonstop daily departures to 20 designations across the United States. The GSP terminal building has more than 322,446 square feet and 13 departure gates. At 11,001 feet long, GSP can accommodate any aircraft currently in operation today. A 120,000 square-foot Federal Express facility and rental car service facilities are adjacent to GSP. GSP completed a major terminal expansion with a project budget of \$128 million in the second quarter of 2017. The so-called Wingspan Project consisted of moving the rental car customer care center, extensive

concourse renovations, installing new baggage carousels and equipment, and consolidating security areas. On November 19, 2018, the GSP commission announced plans for a \$456.1 million master plan to be implemented over the next 20 years. The plan provides for runway rehabilitation, additional structured parking, additions to air cargo facilities, and other improvements.

In addition, the County has access to general aviation services through the Spartanburg Downtown Memorial Airport which hosts business executives, government officials and tourists traveling by private aircraft and charter services. The Spartanburg Downtown Airport recently completed a significant \$25 million capital project related to the rebuilding and extending of its runway and upgrading airport navigational and lighting systems. The Spartanburg Downtown Memorial Airport has nearly 80,000 operations annually and serves more than 100 local aircraft with a 6,000 foot by 100-foot runway.

Mass Transit. Spartanburg Area Regional Transit Agency (“SPARTA”) provides public transit in and around the City. The bus system has eight fixed routes which serve employment sites, education centers, medical facilities and retail areas. All SPARTA buses are handicapped accessible. Intercity bus service is provided by Greyhound Bus Lines. As the hub of a modern highway system and served by interstate highways I-85, I-26, and three U.S. highways, the County is easily accessible to major metropolitan areas by car, truck and bus.

Railway and Trucking. CSX Transportation Company and Norfolk-Southern Corporation offer rail service within the County. Piggyback service is available through Norfolk-Southern Corporation. Trucking facilities in the County include 25 major common carrier terminals and over 50 freight lines.

Inland Port. The South Carolina Inland Port Greer (the “SCIP”), owned and operated by the South Carolina Ports Authority, opened in October 2013 as a 91-acre intermodal facility located near GSP in the County. Rail service between Charleston, South Carolina and Inland Port Greer runs six days per week allowing for the flow of cargo between the Port of Charleston and many manufacturing and distribution facilities located in Spartanburg, Greenville, and other counties in the upstate of South Carolina. The SCIP boosts efficiency for international freight movements between the Port of Charleston and companies located across the Southeast. In Fiscal Year 2019, SCIP had 143,204 rail moves. Norfolk Southern serves SCIP through its main rail line, and the facility is positioned along the Interstate 85 corridor between Charlotte and Atlanta, where Norfolk Southern operates additional rail yards.

Utilities. Electric power is provided by Duke Energy, which serves most of the County. Broad River Electric Cooperative, Laurens Electric Cooperative, Lockhart Power Company and the Greer Commission of Public Works also serve consumers in the County. Natural gas is supplied and distributed by Piedmont Natural Gas Company and the Greer Commission of Public Works. In addition to the Spartanburg Water System that supplies water to approximately 80% of the County’s population, other waterworks service is provided by Woodruff-Roebuck Water District, Startex-Jackson-Wellford-Duncan Water District, Inman-Campobello Water District and the Greer Commission of Public Works. Several not-for-profit water companies also provide water service in the County. The Spartanburg Sanitary Sewer District owns and operates several sewage treatment facilities which serve the County. The Greer Commission of Public Works and the Town of Lyman also provide sewage treatment facilities.

Recreation. The County oversees 26 County parks along with numerous organized team sports. One of these parks is the Tyger River Park which is a 137-acre youth baseball and softball regional sports complex which includes 12 lighted fields, a lighted championship stadium, meeting space, concession stands, multiple restrooms, a playground and an observation tower.

Tourists and residents also are drawn to the Zentrum, a visitor’s center operated by BMW Manufacturing Corp. The Zentrum houses a museum, an auditorium and other special attractions and draws approximately 60,000 visitors annually. Located in the County are Cowpens National Battlefield, which is the site of a major battle of the Revolutionary War, and Walnut Grove Plantation, which is a restored estate with authentic furnishings and a number of restored outbuildings. Also located in the County is the Upward Star Center, which is a private, nonprofit sports complex owned and operated by Upward Sports. It features six full-sized basketball courts, twelve regulation indoor volleyball courts, four batting cages, a running track, a strength and conditioning area with trainers, weights and cardio machines, a speed and agility area, team rooms, players’ lounge, meeting rooms, a café, a retail shop, four lighted sand volleyball courts, two lighted artificial turf and four grass fields.

APPENDIX E

FORM OF DISCLOSURE DISSEMINATION AGENT AGREEMENT

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DISCLOSURE DISSEMINATION AGENT AGREEMENT

This Disclosure Dissemination Agent Agreement (the “Disclosure Agreement”), dated as of May 28, 2020, is executed and delivered by the Commissioners of Public Works of the City of Spartanburg, South Carolina (the “Commissioners”), the governing body of the Spartanburg Water System (the “System”) and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the “Disclosure Dissemination Agent” or “DAC”) for the benefit of the Holders (defined below) of the Bonds (defined below) and in order to assist the Commissioners in processing certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”).

The services provided under this Disclosure Agreement solely relate to the execution of instructions received from the Commissioners through use of the DAC system and do not constitute “advice” within the meaning of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”). DAC will not provide any advice or recommendation to the Commissioners or anyone on the Commissioners’ behalf regarding the “issuance of municipal securities” or any “municipal financial product” as defined in the Act and nothing in this Disclosure Agreement shall be interpreted to the contrary. DAC is not a “Municipal Advisor” as such term is defined in Section 15B of the Securities Exchange Act of 1934, as amended, and related rules.

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (defined below). The capitalized terms shall have the following meanings:

“Annual Filing Date” means the date, set in Sections 2(a) and 2(f) hereof, by which the Annual Report is to be filed with the MSRB.

“Annual Financial Information” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

“Annual Report” means an Annual Report containing Annual Financial Information described in and consistent with Section 3 of this Disclosure Agreement.

“Audited Financial Statements” means the annual financial statements of the Commissioners for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i)(B) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

“Bonds” means the bonds as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

“Certification” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure required to be submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Commissioners and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“Disclosure Dissemination Agent” means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Commissioners pursuant to Section 9 hereof.

“Disclosure Representative” means the Chief Financial Officer or his or her designee, or such other person as the Commissioners shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“Failure to File Event” means the Commissioners’ failure to file an Annual Report on or before the Annual Filing Date.

“Financial Obligation” means (i) a debt obligation; (ii) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of either (i) or (ii). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Force Majeure Event” means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent’s reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

“Holder” means any person (a) having 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) treated as the owner of any Bonds for federal income tax purposes.

“Information” means, collectively, the Annual Reports, the Audited Financial Statements, the Notice Event notices, the Failure to File Event notices, the Voluntary Event Disclosures and the Voluntary Financial Disclosures.

“Issuer” means the City of Spartanburg, South Carolina.

“MSRB” means the Municipal Securities Rulemaking Board, or any successor thereto, established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

“Notice Event” means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Agreement.

“Obligated Person” means any person, including the Issuer and the Commissioners, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities), as shown on Exhibit A.

“Official Statement” means that Official Statement prepared by the Commissioners in connection with the Series 2020 Bonds, as listed in Exhibit A.

“Trustee” means the institution, if any, identified as such in the document under which the Series 2020 Bonds were issued.

“Voluntary Event Disclosure” means information of the category specified in any of subsections (e)(vi)(1) through (e)(vi)(11) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(a) of this Disclosure Agreement.

“Voluntary Financial Disclosure” means information of the category specified in any of subsections (e)(vii)(1) through (e)(vii)(9) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(b) of this Disclosure Agreement.

SECTION 2. Provision of Annual Reports.

(a) The Commissioners shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent not later than the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to the MSRB not later than the end of the seventh month following the end of each fiscal year of the

System (currently, June 30), commencing with the fiscal year ending June 30, 2020. Such date and each anniversary thereof is the Annual Filing Date. 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 3 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Commissioners of their undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Commissioners will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 10:00 a.m. Eastern time on Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the Commissioners irrevocably direct the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B without reference to the anticipated filing date for the Annual Report, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(d) If Audited Financial Statements of the System are prepared but not available prior to the Annual Filing Date, the Commissioners shall, when the Audited Financial Statements are available, provide at such time an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, if any, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

- (i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;
- (ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) hereof with the MSRB;
- (iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) hereof with the MSRB;
- (iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) hereof with the MSRB, identifying the Notice Event as instructed by the Commissioners pursuant to Section 4(a) or 4(b)(ii) hereof (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Agreement:

- 1. "Principal and interest payment delinquencies;"
- 2. "Non-Payment related defaults, if material;"
- 3. "Unscheduled draws on debt service reserves reflecting financial difficulties;"
- 4. "Unscheduled draws on credit enhancements reflecting financial difficulties;"
- 5. "Substitution of credit or liquidity providers, or their failure to perform;"
- 6. "Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;"
- 7. "Modifications to rights of securities holders, if material;"
- 8. "Bond calls, if material, and tender offers;"
- 9. "Defeasances;"
- 10. "Release, substitution, or sale of property securing repayment of the Bonds, if material;"

11. "Rating changes;"
12. "Bankruptcy, insolvency, receivership or similar event of the obligated person;"
13. "Consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the 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;"
14. "Appointment of a successor or additional trustee, or the change of name of a trustee, if material;"
15. Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material;" or
16. "Default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties."

(v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Agreement, as applicable), promptly file a completed copy of Exhibit B to this Disclosure Agreement with the MSRB, identifying the filing as "Failure to provide annual financial information as required" when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement;

(vi) upon receipt, promptly file the text of each Voluntary Event Disclosure received under Section 7(a) hereof with the MSRB, identifying the Voluntary Event Disclosure as instructed by the Commissioners pursuant to Section 7(a) (being any of the categories set forth below) when filing pursuant to Section 7(a) of this Disclosure Agreement:

1. "amendment to continuing disclosure undertaking;"
2. "change in obligated person;"
3. "notice to investors pursuant to bond documents;"
4. "certain communications from the Internal Revenue Service;" other than those communications included in the Rule;
5. "secondary market purchases;"
6. "bid for auction rate or other securities;"
7. "capital or other financing plan;"
8. "litigation/enforcement action;"
9. "change of tender agent, remarketing agent, or other on-going party;"
10. "derivative or other similar transaction;" and
11. "other event-based disclosures;"

(vii) upon receipt, promptly file the text of each Voluntary Financial Disclosure received under Section 7(b) hereof with the MSRB, identifying the Voluntary Financial Disclosure as instructed by the Commissioners pursuant to Section 7(b) (being any of the categories set forth below) when filing pursuant to Section 7(b) of this Disclosure Agreement:

1. "quarterly/monthly financial information;"
2. "Timing of annual disclosure (120/150 days);"
3. "change in fiscal year/timing of annual disclosure;"
4. "change in accounting standard;"
5. "interim/additional financial information/operating data;"
6. "budget;"
7. "investment/debt/financial policy;"
8. "information provided to rating agency, credit/liquidity provider or other third party;"
9. "consultant reports;" and
10. "other financial/operating data."

(viii) provide the Commissioners evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Commissioners may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Anything in this Disclosure Agreement to the contrary notwithstanding, any Information received by the Disclosure Dissemination Agent before 10:00 a.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

SECTION 3. Content of Annual Reports.

Each Annual Report shall contain Annual Financial Information with respect to the System, including:

(a) The Audited Financial Statements for the preceding fiscal year (commencing with the fiscal year ending June 30, 2020), prepared in accordance with generally accepted accounting principles (“GAAP”) or alternate accounting principles, as described in the Official Statement. If the Audited Financial Statements are not available by the Annual Filing Date, the Annual Report shall include unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent such items are not included in the Audited Financial Statements referred to in subsection (a) above, the financial and statistical data of the System for the preceding fiscal year, which information is consistent with the information included in the Official Statement under the following headings:

(i) Information relating to the System’s Wholesale Customers, the billable consumption, total charges and the percentage annual revenue for the preceding fiscal year, prepared substantially in the form of and updating the table under the heading, “THE WATER SYSTEM- SERVICE AREA-*Wholesale Customers*”;

(ii) Information relating to the System’s Ten Largest Retail Customers (by revenue), the annual consumption, annual revenue, and percentage of annual revenue, prepared substantially in the form of and updating the table under the heading, “THE WATER SYSTEM-SERVICE AREA-*Retail Customers*”;

(iii) The number of customers prepared substantially in the form of and updating the table under the heading, “THE WATER SYSTEM- SERVICE AREA-*Customer Base*”;

(iv) The then-current Base Charge rate structure and the then-current Volume Charge Schedule, prepared substantially in the form of and updating the tables under the headings, “THE WATER SYSTEM-COST OF SERVICE-WATER RATES-*Base Charge*” and “- *Volume Charge*”; and

(v) The then-current Capacity Fee Schedule, prepared substantially in the form of and updating the table under the heading, “THE WATER SYSTEM-COST OF SERVICE-WATER RATES-*Capacity Fees*.”

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Issuer or the Commissioners is an “obligated person” (as defined by the Rule), which have been previously filed with the Securities and Exchange Commission or available on the MSRB Internet Website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Commissioners will clearly identify each such document so incorporated by reference.

If the Annual Financial Information contains modified operating data or financial information different from the Annual Financial Information agreed to in the continuing disclosure undertaking related to the Bonds, the Commissioners are required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. Modifications to rights of Bond holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

Note to subsection (a)(12) of this Section 4: For the purposes of the event described in subsection (a)(12) of this Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the 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;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
15. Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; or
16. Default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

The Commissioners shall, in a timely manner not later than nine (9) business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Commissioners desire to make, contain the written authorization of the Commissioners for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Commissioners desire for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the Commissioners or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt

of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the Commissioners determine that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that either (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Commissioners desire to make, contain the written authorization of the Commissioners for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Commissioners desire for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the Commissioners as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with MSRB in accordance with Section 2 (e)(iv) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

SECTION 5. CUSIP Numbers. The Commissioners will provide the Dissemination Agent with the CUSIP numbers for (i) new bonds at such time as they are issued or become subject to the Rule and (ii) any Bonds to which new CUSIP numbers are assigned in substitution for the CUSIP numbers previously assigned to such Bonds.

SECTION 6. Additional Disclosure Obligations. The Commissioners acknowledge and understand that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Commissioners, and that the duties and responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement do not extend to providing legal advice regarding such laws. The Commissioners acknowledge and understand that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Filing.

(a) The Commissioners may instruct the Disclosure Dissemination Agent to file a Voluntary Event Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Event Disclosure (which shall be any of the categories set forth in Section 2(e)(vi) of this Disclosure Agreement), include the text of the disclosure that the Commissioners desire to make, contain the written authorization of the Commissioners for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Commissioners desire for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Commissioners as prescribed in this Section 7(a) to file a Voluntary Event Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Event Disclosure with the MSRB in accordance with Section 2(e)(vi) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The Commissioners, in their discretion, may instruct the Disclosure Dissemination Agent to file a Voluntary Financial Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Financial Disclosure (which shall be any of the categories set forth in Section 2(e)(vii) of this Disclosure Agreement), include the text of the disclosure that the Commissioners desire to make, contain the written authorization of the Commissioners for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Commissioners desire for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Commissioners as prescribed in this Section 7(b) hereof to file a Voluntary Financial Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Financial Disclosure with the MSRB in accordance with Section 2(e)(vii) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-3.

The parties hereto acknowledge that the Commissioners are not obligated pursuant to the terms of this Disclosure Agreement to file any Voluntary Event Disclosure pursuant to Section 7(a) hereof or any Voluntary Financial Disclosure pursuant to Section 7(b) hereof.

Nothing in this Disclosure Agreement shall be deemed to prevent the Commissioners from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure, in addition to that required by this Disclosure Agreement. If the Commissioners choose to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure in addition to that which is specifically required by this Disclosure Agreement, the Commissioners shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure.

SECTION 8. Termination of Reporting Obligation. The obligations of the Commissioners and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Commissioners are no longer an obligated person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of counsel expert in federal securities laws to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent. The Commissioners have appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Commissioners may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Commissioners or DAC, the Commissioners agree to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Commissioners shall remain liable to the Disclosure Dissemination Agent until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Commissioners.

SECTION 10. Remedies in Event of Default. In the event of a failure of the Commissioners or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Commissioners have provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Commissioners and shall not be deemed to be acting in any fiduciary capacity for the Commissioners, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Commissioners' failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Commissioner have complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon Certifications of the Commissioners at all times.

The obligations of the Commissioners under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the

construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the Commissioners.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Commissioners and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Commissioners and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Commissioners or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Commissioners. No such amendment shall become effective if the Commissioners shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Commissioners, the Trustee, if any, for the Bonds, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of South Carolina (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure Agreement 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.

The Disclosure Dissemination Agent and the Commissioners have caused this Continuing Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C., as
Disclosure Dissemination Agent

By: _____

Name: _____

Title: _____

**COMMISSIONERS OF PUBLIC WORKS OF THE
CITY OF SPARTANBURG, SOUTH CAROLINA**, as
Obligated Person

By: _____

Name: _____

Title: _____

EXHIBIT A

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer: City of Spartanburg, South Carolina

Obligated Person(s): Commissioners of Public Works of the City of Spartanburg, South Carolina

Name of Bond Issue: \$28,875,000 Taxable Water System Refunding Revenue Bonds, Series 2020

Date of Issuance: May 28, 2020

Date of Official Statement: April 23, 2020

CUSIP Numbers:

<u>Due</u> <u>June 1</u>	<u>CUSIP</u>
2021	847184 VD7
2022	847184 VE5
2023	847184 VF2
2024	847184 VG0
2025	847184 VH8
2026	847184 VJ4
2027	847184 VK1
2028	847184 VL9
2029	847184 VM7
2030	847184 VN5
2031	847184 VP0
2032	847184 VQ8
2033	847184 VR6
2034	847184 VS4
2035	847184 VT2
2039	847184 VU9
2043	847184 VV7

EXHIBIT B

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Spartanburg, South Carolina
Obligated Person(s): Commissioners of Public Works of the City of Spartanburg, South Carolina
Name of Bond Issue: \$28,875,000 Taxable Water System Refunding Revenue Bonds, Series 2020
Date of Issuance: May 28, 2020
Date of Official Statement: April 23, 2020

CUSIP Numbers:

<u>Due</u> <u>June 1</u>	<u>CUSIP</u>
2021	847184 VD7
2022	847184 VE5
2023	847184 VF2
2024	847184 VG0
2025	847184 VH8
2026	847184 VJ4
2027	847184 VK1
2028	847184 VL9
2029	847184 VM7
2030	847184 VN5
2031	847184 VP0
2032	847184 VQ8
2033	847184 VR6
2034	847184 VS4
2035	847184 VT2
2039	847184 VU9
2043	847184 VV7

NOTICE IS HEREBY GIVEN that the Obligated Person has not provided an Annual Report with respect to the above-named Bonds as required by the Disclosure Agreement between the Obligated Person and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. [The Obligated Person has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by _____].

Dated: _____

Digital Assurance Certification, L.L.C., as Disclosure
Dissemination Agent, on behalf of the Obligated Person

cc:

EXHIBIT C-1

EVENT NOTICE COVER SHEET

This cover sheet and accompanying "event notice" may be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name: Commissioners of Public Works of the City of Spartanburg, South Carolina

Issuer's Six-Digit CUSIP Number:

or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates:

Number of pages attached: _____

____ Description of Notice Events (Check One):

1. _____ "Principal and interest payment delinquencies;"
2. _____ "Non-Payment related defaults, if material;"
3. _____ "Unscheduled draws on debt service reserves reflecting financial difficulties;"
4. _____ "Unscheduled draws on credit enhancements reflecting financial difficulties;"
5. _____ "Substitution of credit or liquidity providers, or their failure to perform;"
6. _____ "Adverse tax opinions, IRS notices or events affecting the tax status of the security;"
7. _____ "Modifications to rights of securities holders, if material;"
8. _____ "Bond calls, if material;"
9. _____ "Defeasances;"
10. _____ "Release, substitution, or sale of property securing repayment of the securities, if material;"
11. _____ "Rating changes;"
12. _____ "Tender offers;"
13. _____ "Bankruptcy, insolvency, receivership or similar event of the obligated person;"
14. _____ "Merger, consolidation, or acquisition of the obligated person, if material;"
15. _____ "Appointment of a successor or additional trustee, or the change of name of a trustee, if material."
16. _____ "Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material;" or
17. _____ "Default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties."

____ Failure to provide annual financial information as required.

I hereby represent that I am authorized by the obligated person or its agent to distribute this information publicly:

Signature:

Name: _____ Title: _____

Digital Assurance Certification, L.L.C.

315 East Robinson Street, Suite 300
Orlando, FL 32801
407-515-1100

Date: _____

EXHIBIT C-2
VOLUNTARY EVENT DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary event disclosure" may be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of May 28, 2020 between the Obligated Person and DAC.

Issuer's and/or Other Obligated Person's Name: Commissioners of Public Works of the City of Spartanburg, South Carolina

Issuer's Six-Digit CUSIP Number:

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

Number of pages attached: _____

_____ Description of Voluntary Event Disclosure (Check One):

1. _____ "amendment to continuing disclosure undertaking;"
2. _____ "change in obligated person;"
3. _____ "notice to investors pursuant to bond documents;"
4. _____ "certain communications from the Internal Revenue Service;"
5. _____ "secondary market purchases;"
6. _____ "bid for auction rate or other securities;"
7. _____ "capital or other financing plan;"
8. _____ "litigation/enforcement action;"
9. _____ "change of tender agent, remarketing agent, or other on-going party;"
10. _____ "derivative or other similar transaction;" and
11. _____ "other event-based disclosures."

I hereby represent that I am authorized by the obligated person or its agent to distribute this information publicly:

Signature:

Name: _____ Title: _____

Digital Assurance Certification, L.L.C.
315 East Robinson Street, Suite 300
Orlando, FL 32801
407-515-1100

Date: _____

EXHIBIT C-3

VOLUNTARY FINANCIAL DISCLOSURE COVER SHEET

This cover sheet and accompanying “voluntary financial disclosure” may be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of May 28, 2020 between the Obligated Person and DAC.

Issuer’s and/or Other Obligated Person’s Name: Commissioners of Public Works of the City of Spartanburg, South Carolina

Issuer’s Six-Digit CUSIP Number:

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

Number of pages attached: _____

_____ Description of Voluntary Financial Disclosure (Check One):

1. _____ “quarterly/monthly financial information;”
2. _____ “change in fiscal year/timing of annual disclosure;”
3. _____ “change in accounting standard;”
4. _____ “interim/additional financial information/operating data;”
5. _____ “budget;”
6. _____ “investment/debt/financial policy;”
7. _____ “information provided to rating agency, credit/liquidity provider or other third party;”
8. _____ “consultant reports;” and
9. _____ “other financial/operating data.”

I hereby represent that I am authorized by the obligated person or its agent to distribute this information publicly:

Signature:

Name: _____ Title: _____

Digital Assurance Certification, L.L.C.
315 East Robinson Street, Suite 300
Orlando, FL 32801
407-515-1100

Date: _____

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